

# A SKILFUL EXIT

WHAT SMALL FIRMS WANT  
FROM BREXIT



FSB BREXIT RESEARCH SERIES  
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# A SKILFUL EXIT

## WHAT SMALL FIRMS WANT FROM BREXIT

One in five small business employers have **EU staff**



Almost **one third** of small firms do business with or within the **EU**



**Type of workers** small businesses with **EU staff** mainly employ



21%

Low-skilled



47%

Mid-skilled



32%

High-skilled

**72%** of small businesses **recruited** all their EU staff when they were **living in the UK**

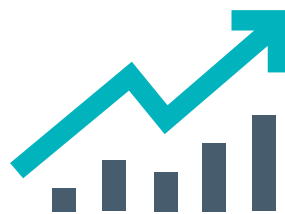


**Key concerns for small businesses with EU workers post-Brexit**



59%

accessing the **skills** they need



54%

ability to **grow** their business



56%

enforcing new **immigration** rules

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# FOREWORD

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FSB exists to help deliver change that supports smaller businesses and the self-employed to grow, succeed and realise their ambitions. One of the biggest changes small firms currently face is the UK leaving the European Union (EU). Arguably, the most profound shift that will challenge small business owners is the end of free movement to the UK from EU countries (which has been signalled as a clear red line in our exit negotiations with the EU), and the introduction of new forms of immigration arrangements for EU citizens seeking to work in the UK, and vice versa.

Our research shows that small businesses have benefited significantly from the contribution of EU workers to the UK labour force. A fifth of our members who employ staff currently have at least one employee from the EU, and 72 per cent of these businesses recruited all of their EU workers from the UK labour market. We also know that businesses with EU workers are highly reliant on mid-skilled staff, such as care, construction or production workers, who require specialist, sometimes technical education or training. There is also a significant reliance on highly-skilled workers, like engineers, software developers and managers. It is clear from our research that EU workers play an important role in helping to plug chronic skills gaps in key occupations and sectors.

As this report strongly demonstrates, the ability to hire people with the right skills, and to do business across UK-EU borders, is fundamental to small firms' survival and growth. If the UK was to face a sudden restriction on its ability to access EU workers at the point at which, or even before, the UK has formally left the EU, it would have far-reaching implications for the economy and a disproportionate effect on small businesses.

Our members need a transition period – wherein the existing immigration arrangements continue following our departure from the EU until a new system is in place – not a cliff-edge at the point at which we leave the EU. In addition, when a new immigration policy is implemented it will need to be phased in over time to give small businesses sufficient time to prepare. The first step is giving certainty to EU citizens already working in the UK that they have the right to remain.

However, in the medium to longer-term, it is crucial that small firms will be able to take on employees from the EU easily and with as few financial costs, administrative burdens and risks as possible. The same principle applies to the self-employed and small businesses looking to complete projects and do business in the EU, of which there are many.

Small businesses are often not equipped with HR departments to manage a complicated or costly process – nor should they be responsible for enforcing immigration policy. Indeed, Government must remember this, not only as it designs and implements post-Brexit immigration policy, but as it contemplates the role of employers in the right to remain process. The burden of proof for documenting the status of EU citizens residing in the UK cannot rest on small businesses.

Brexit provides us with a unique opportunity to reshape our education and skills sector. We face a watershed in our approach to immigration that should not be taken lightly. We must, therefore, prioritise the transition to, and implementation of, any new immigration system for EU workers that supports – not inhibits – small businesses to access the skills and workers they need to survive, build and grow.



**Martin McTague**  
FSB Policy Director

# EXECUTIVE SUMMARY

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There's a saying – 'a company is only as good as its people'. To be a successful business with a bright future, business owners need to be able to access the right people, with the right skills, in the right place and at the right time. However, the UK, like many other countries, has struggled to get this right, and it's a problem that threatens our productivity, economic resilience and international competitiveness. Until now, business owners have been able to overcome some of the issues affecting our education and skills system to meet their labour and skills needs<sup>1</sup> by taking advantage of the UK's access to workers from other parts of the world, in particular the EU.

The UK's decision to leave the EU has called into question the viability of this arrangement in a post-Brexit world. The Government has been clear that the UK will leave the European Single Market and, with it, our observance of the free movement of people – one of the 'four freedoms' – in an effort to reduce net migration and open up opportunities for UK workers. With this now a reality, UK businesses employing people from other EU countries – many of whom already resided in the UK when they were recruited – face an uncertain future, both in the short-term as we believe the UK should pursue transitional arrangements, and in the medium to longer-term as a post-Brexit immigration policy is agreed and implemented. FSB has already highlighted the precarious situation small firms face as they await clarification over the status of their current EU employees and their right to remain and work in the UK after Brexit.

In addition, as the free movement of people, as well as that of goods, services and capital, is a reciprocal arrangement between EU member states, there will not only be implications for EU citizens currently working or looking to work in the UK: the ability of UK nationals to travel easily and freely, to complete projects or to do business in the EU is as yet undetermined. FSB members have come forward with stories of how their businesses rely on easy access to other EU markets, often with these members providing their services across national borders. EU citizens also make a significant contribution to entrepreneurship by starting businesses in the UK. Therefore, any future changes to immigration arrangements will reshape the existing profile of business ownership in the UK.

The devolved nations – each with their own unique skills and labour priorities, both sectoral and occupational – are looking to the Government to ensure that their particular needs are reflected in the Brexit negotiations. For example, for small businesses in Northern Ireland, the importance of accounting for these national variations transcends limiting business disruption, where maintaining the Common Travel Area is a matter of historical and political significance.

In this report, we share insights gathered through in-depth survey work and interviews with FSB members which show how small businesses and the solo self-employed would be affected by, and respond to, restrictions to the free movement of people as a result of Brexit. We also examine how changes to current immigration policy would impact upon UK business owners' ability to lend their skills to projects or complete business trips in the EU, and consider the impact of Brexit on the community of entrepreneurs who originate from outside the UK. Finally, we make a series of recommendations for policymakers, aimed principally at mitigating the impact of Brexit on small businesses' ability to access the crucial labour and skills they need at home and abroad.

For the purposes of this report, reference to EU workers or entrepreneurs does not include those from the UK. Reference to non-EU workers or entrepreneurs also excludes those from the UK. In addition, for the purposes of this report, students are not in scope.

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<sup>1</sup> For the purposes of this survey, 'labour' refers to the number of people needed by a business, while 'skills' is the knowledge and ability to undertake a particular task.

## KEY FINDINGS:

### Small businesses and EU workers

- One in five (21%) small firms with staff have at least one employee from a country in the EU. Seventy-two per cent of small businesses with EU staff recruited all their workers when they were already living in the UK, increasing to 85 per cent for small businesses that employed at least some of their EU workers from the UK.
- ‘They were the best candidate for the role’ is a key reason (42%) for recruiting EU citizens.
- Forty-seven per cent of small businesses with EU workers employ people in mainly mid-skilled roles, like care and construction workers or mechanics, requiring specialist, sometimes technical, skills and training. A third (32%) of small businesses with EU workers have mostly high-skilled jobs, such as managers, engineers, IT professionals.
- Small businesses with EU workers are more likely to employ people in low-skilled work, such as cleaning, farm work or food preparation, than businesses that only have UK workers (21% versus 14%, respectively).
- Over a quarter (29%) of small businesses reliant on mainly low-skilled workers report being unable to meet their labour needs without their EU workers, whereas ‘finding individuals with the right skills’ is a struggle for one in five (23%) small firms who mainly rely on highly-skilled employees from the EU.

### Brexit and the labour and skills concerns of small businesses

- Over half (59%) of small businesses with EU workers are concerned about accessing people with the skills they need post-Brexit, and 57 per cent are worried about satisfying their demand for labour.
- The ability to grow their business once the UK has left the EU is a concern for 40 per cent of small firms, rising to 54 per cent for small firms with EU workers.
- Roughly a third (29%) of small businesses with EU workers believe that their growth prospects would be affected if these workers were required to leave the UK as a result of Brexit. Employers with mainly low-skilled staff believe they will be hardest hit.

### Response of small businesses with EU workers to additional barriers to recruitment<sup>2</sup>

- Small businesses would consider either moving their business abroad (13%), reducing operations (13%), or closing the business (8%) if there were additional barriers to recruiting EU workers.
- Forty per cent of businesses with EU workers intend to continue to recruit EU citizens and accept some additional costs.
- Fewer than one in 10 small employers would automate business processes previously completed by workers. Small businesses with mainly low-skilled workers are twice as likely to consider doing this.
- Small employers with EU workers would also consider investing in UK workers by training their existing workforce (9%), offering new opportunities like apprenticeships (16%) and recruiting British employees with the same skills (35%); respondents from businesses with mainly mid-skilled workers would be most open to this if there were additional barriers to recruiting EU citizens.

<sup>2</sup> These options were not mutually exclusive.

## The role of employers in the new immigration system

- Ninety-five per cent of small employers had never made use of the UK's points-based immigration system to meet their business' labour and skills needs.
- Twenty-nine per cent of small businesses are worried about being expected to enforce new immigration rules in a post-Brexit environment; this total rises to 56 per cent for current employers of EU citizens.
- Seventy-five per cent of employers with non-UK staff would be unwilling to pay any additional one-off cost to recruit workers from the EU (41%) or do not know how much they would be willing to pay (34%). For the remaining 25 per cent, the average small employer with non-UK staff would be willing to pay about £250 extra in a one-off cost to recruit each EU worker.
- Excluding respondents that do not know, a majority of employers with non-UK workers said that they require a transition period after the UK has left the EU, with an average transition period of about 3.25 years following the UK's exit from the EU.

## Travelling and doing business with, and within, the EU

- Almost one in three FSB members say that they, or an employee, have completed work that crosses UK-EU borders in the last 12 months.
- Over a third (35%) of small businesses say they are concerned about the impact of the Brexit process on their ability to carry out assignments and projects in the EU.

## RECOMMENDATIONS

### Immediate to short-term:

- 1. Guarantee the right to remain for EU citizens in the UK workforce – with no early cut-off date, including those that arrive during EU exit negotiations.** FSB has called for a blanket right to remain for all EU citizens who already reside in the UK, and who will reside in the UK during EU exit negotiations, until the UK has exited the EU. The status of these individuals needs to be clarified as soon as possible and they should be granted the right to remain and work within the UK after Brexit. This includes confirmation of the rights of self-employed EU citizens.
- 2. Review the collection and recording of migration data so that it underpins effective policymaking.** Significant weaknesses exist in the UK's migration data, signalling a clear need to conduct a thorough review of the way it is collected and recorded. An alternative to the International Passenger Survey (IPS) should be sought in order to obtain net migration statistics which reflect and measure the wide range of aspects of migration, and policymakers should explore ways to overcome barriers to linking-up data already held within Government by DWP, Home Office and HMRC.
- 3. Ensure that small businesses do not face additional administrative burdens or costs.** Any new system of documenting EU citizens cannot place additional burdens or costs on small employers, nor should businesses be forced to disclose the number of non-UK workers they employ. Instead, a simple form of evidence should be created that businesses can use to confirm that their EU workers have the right to work in the UK.

### Medium to longer-term:

- 4. Small businesses need an immigration system which gives them access to the best talent – without the red tape.** In the event that the UK moves away from free movement of people with the EU, policymakers could consider introducing a work permits-based immigration system, similar to the Swedish system, where non-EU citizens must have received an offer of employment to work in Sweden. This employer-driven arrangement would ensure that



businesses can meet their rapidly-developing skills needs and allow employers to obtain permits for almost any occupation, irrespective of the nature of that occupation, skill level or salary attached to the vacancy. The new immigration system for EU citizens should also allow for easy transfers between employers once an EU worker is in the UK in order to help address the varying skills and labour needs of nations, regions and towns across the UK.

5. **Provide businesses with a transition period after the UK has left the EU.** Small businesses who employ non-UK workers said that, on average, they need a transition period of more than three years after the UK exits the EU to be able to meet their labour and skills needs. Government should plan for an extended transition period that would reduce short-term uncertainty, and ensure that the Industrial Strategy and each of the devolved administrations' respective economic development strategies can begin to address skills gaps.
6. **Create a system that allows EU entrepreneurs into the UK after Brexit.** The UK needs to continue capturing entrepreneurial talent in the future, but, if the Government were to introduce an employer-driven work permit system, it would not include future EU entrepreneurs who wish to come to the UK. Therefore, policymakers should consider providing self-employed EU citizens with a visa that would require minimum assets or support from angel investors, similar to the current Tier 1 Entrepreneur visa, to act as a test of entrepreneurial propensity. Government should also review the minimum assets required by these entrepreneurs to gain access to the UK.
7. **Ensure that the Immigration Skills Charge is not extended to include EU workers.** FSB was encouraged to see that the new Immigration Skills Charge that applies to Tier 2 skilled visas (£1,000 from April 2017) has been set at a lower rate for small businesses of £364 per employee per year. However, we seek assurance that the Immigration Skills Charge will not be extended to include EU workers post-Brexit. Many small businesses would be unable to cope with the significant additional costs imposed by the surcharge.
8. **Prioritise visa-free travel between the EU and UK in negotiations. If this is not possible, develop a simple visa system for EU-UK travel and work towards a comprehensive free trade agreement (FTA) that includes services and mobility rights.** Similar to the American Electronic System for Travel Authorization (ESTA)<sup>3</sup> program, the EU is planning to launch the European Travel Information and Authorisation System (ETIAS)<sup>4</sup> to facilitate easy travel of non-EU citizens into the EU. It will be important for the UK to influence the development of the ETIAS program, and, ideally, reach a special arrangement through a comprehensive FTA between the UK and EU that would allow self-employed people and small businesses to continue to operate across borders.
9. **Support and incentivise small businesses to invest in training employees.** The prospect of a reduction in the availability of skilled workers from the EU could see some small businesses increase training; however, time and cost remain significant barriers. Government should prioritise developing solutions and support to help these businesses find and fund training which addresses any gaps in their workforce that the post-Brexit immigration system may cause, now or in the future.
10. **Build a responsive skills system fit for the post-Brexit future.** The vote to leave the EU has emphasised the need to ensure that these skills strategies are future-proof. Young people need access to high-quality, technical and vocational pathways into each sector, and to be supported by high-quality careers information, advice and guidance. Policymakers should prioritise policies that provide young people with the education, direction and ambition to create skilled and adaptive local labour markets, and emphasise the tangible benefits of taking on apprentices to achieve real investment and commitment from small firms.

<sup>3</sup> U.S Customs and Border Protection, official ESTA Application Website, <https://esta.cbp.dhs.gov/esta/>, accessed March 2017.

<sup>4</sup> European Commission, press release database [http://europa.eu/rapid/press-release\\_IP-16-3674\\_en.htm](http://europa.eu/rapid/press-release_IP-16-3674_en.htm), accessed March 2017.

# IMMIGRATION AND THE UK

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At present, EU citizens may exercise their right to enter the UK to search for or take up work. There are also no limitations placed on UK employers with regard to hiring individuals from the EU, in that they are treated equally to a UK citizen during the hiring process.<sup>5</sup>

For non-EU workers coming to the UK, a tiered points-based system exists to manage their entry.<sup>6</sup> The system was intended to consist of five separate tiers.

- Tier 1 allows for entrepreneurs, investors and exceptional talent to enter from outside the EU.
- Tier 2 is for skilled workers with a job offer from a UK-based employer, and there are a range of categories under this tier, such as General and Intra-Company Transfer. Each of these categories include administration, such as the Resident Labour Market Test which is required of businesses looking to sponsor workers under Tier 2 and/or Tier 5 of the UK's points-based system to establish that there are no suitable workers already living permanently in the UK. In addition, employers are required to hold a licence to sponsor workers, as well as a sponsorship certificate for each foreign worker.

## Immigration Skills Charge

The Immigration Skills Charge was introduced in April 2017. This is to be paid by UK employers who recruit skilled workers from outside the European Economic Area through the Tier 2 (General) and Tier 2 (Intra-company Transfer) routes. This costs £1,000 per employee per year, or £364 per employee per year if the employer has fewer than 50 employees and a turnover of equal to, or lower than, £10.2 million.

- Tier 3 was intended to allow low-skilled workers – such as seasonal labour – to enter the country, but was never implemented as it was thought that demand for this labour was being sufficiently served by EU citizens taking up work in the UK.
- Tier 4 admits international students to the UK.
- Tier 5 provides temporary worker visas for a number of sectors (e.g. charity and religious workers), as well as the Youth Mobility Scheme for temporary migrants under the age of 30.

The Prime Minister has effectively ruled out a points-based system for EU citizens who wish to work in the UK after Brexit<sup>7</sup>, and, therefore, we believe there is likely to be some form of work permit system that could allow for preferential treatment for EU citizens.

Although one in four (24%) small employers have at least one non-UK worker, the use of the tier points-based visa system is low. Ninety-five per cent of small employers have never made use of the UK's points-based immigration system to meet their business' labour and skills needs. Where small businesses have used visas, the most commonly used visas are the Tier 2, at three per cent, and the Tier 1, at two per cent. When respondents were asked why they had not engaged with the points-based immigration system, the most common response was that their labour and skill needs were met through the UK and EU labour markets (70%).

The Office for National Statistics (ONS) Migration Statistics Quarterly Report provides a breakdown of current long-term immigration into the UK. The ONS uses the United Nations' definition of a long-term migrant, defined as "a person who moves to a country other than that of his or her usual residence for a period of at least a year (12 months), so that the country of destination effectively becomes his or her new country of usual residence".<sup>8</sup> The most recent migration statistics report shows that almost half (49%) of all migration to the UK is for work-related purposes.<sup>9</sup> The second largest category, representing 22 per cent of immigration, is for the purpose of formal study.

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5 GOV.UK <https://www.gov.uk/browse/visas-immigration/eu-eea-commonwealth>, accessed March 2017.

6 GOV.UK <https://www.gov.uk/browse/visas-immigration/work-visas>, accessed March 2017.

7 BBC, "Immigration: May rejects points-based system for EU nationals", <http://www.bbc.co.uk/news/uk-politics-37271420>, accessed March 2017.

8 United Nations, <https://unstats.un.org/unsd/demographic/sconcerns/migration/migrmethods.htm>, accessed March 2017.

9 ONS Migration Statistics Report, February 2017, <https://www.ons.gov.uk/releases/migrationintheukfeb2017>

Figure 1: Reasons for immigration to the UK  
 Source: ONS, International Passenger Survey (year ending September 2016)

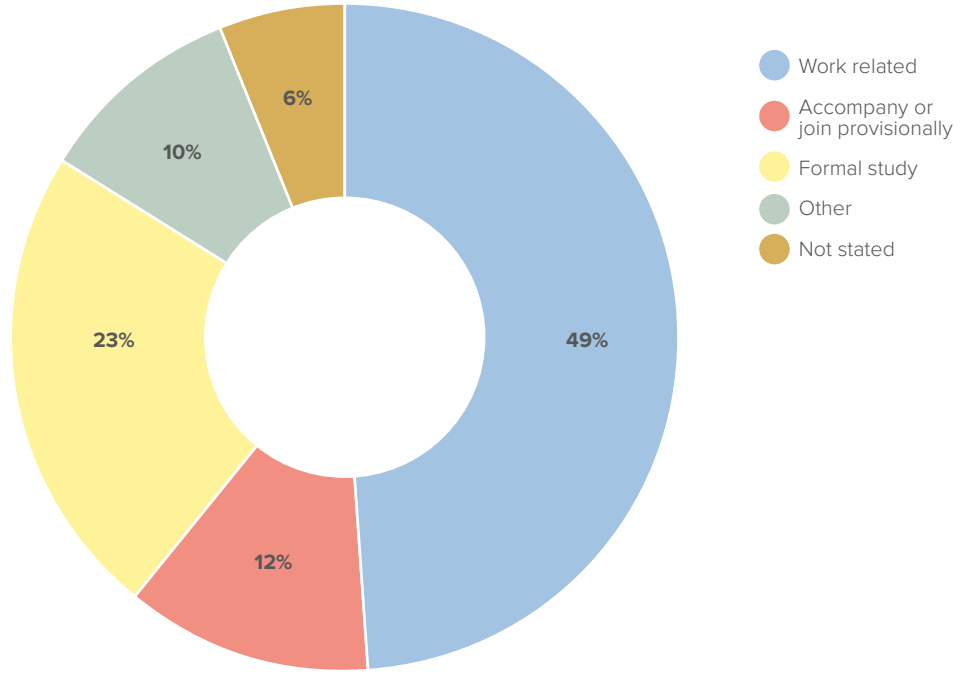
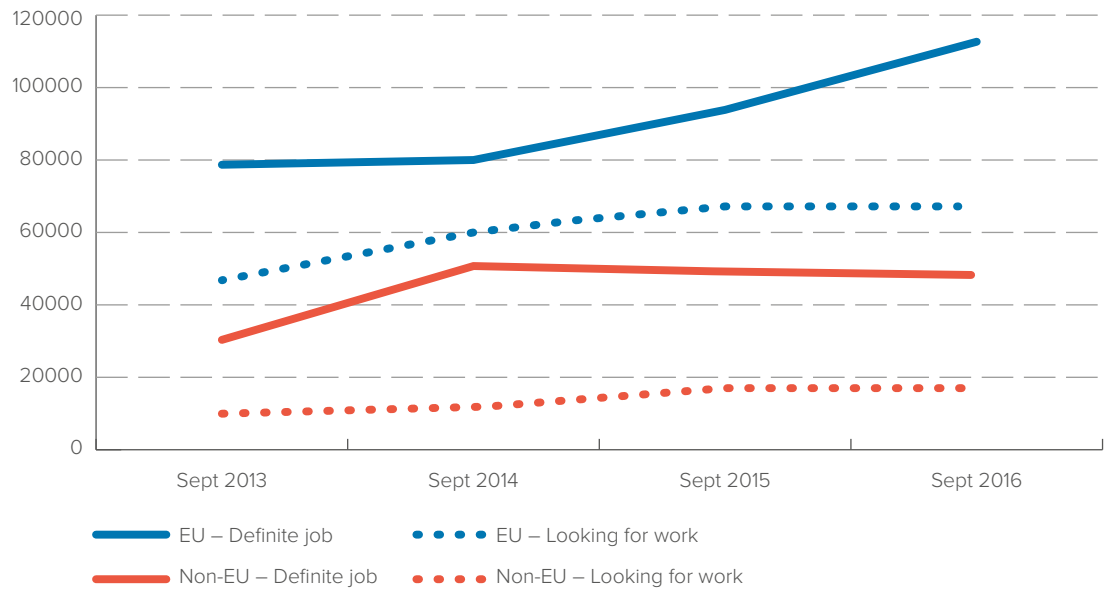


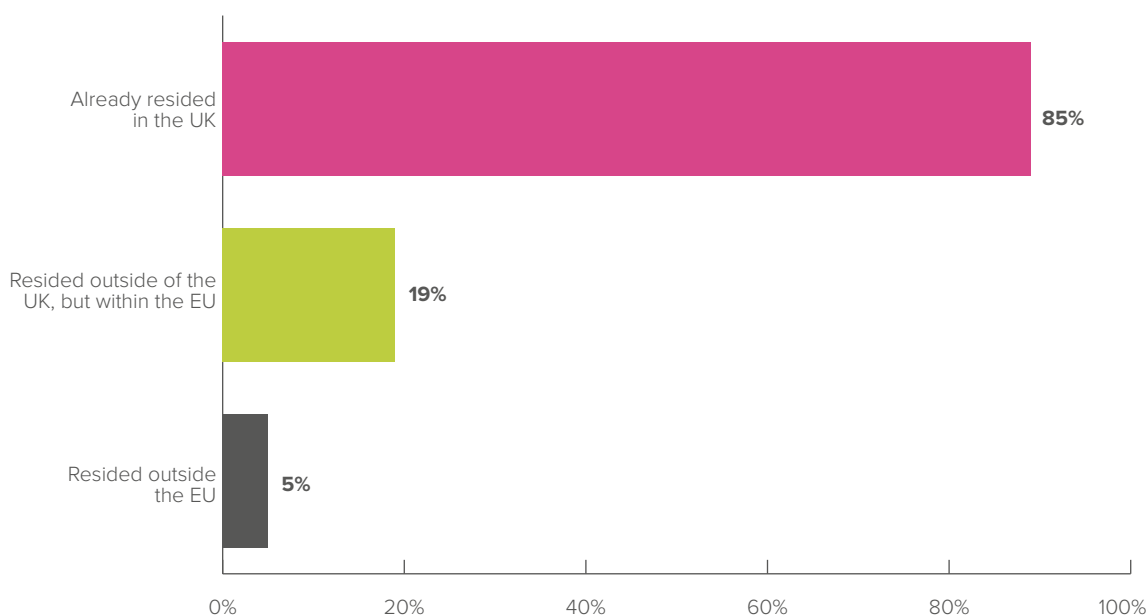
Figure 1 aggregates EU and non-EU citizens to produce a total gross immigration figure. Breaking down ‘work-related’ reasons for migrating to the UK, it is clear that the number of non-EU and EU citizens who arrive looking for work has stagnated, while the number of EU citizens arriving with a definite job continues to rise.

Figure 2: Breakdown of work-related reasons for migration  
 Source: ONS, International Passenger Survey (year ending September 2016)



For smaller employers, the UK labour market is very important in meeting their labour and skill needs. Even for those businesses which employ EU citizens, 72 per cent recruited all their EU staff when they were already residing in the UK. Subsequently, there is an important distinction to be made between the minority of small employers who actively recruit people from outside of the UK and those that employ EU citizens who already reside in the UK.

**Figure 3: Location of EU citizens at the time of recruitment**  
 Source: FSB access to labour and skills after Brexit survey 2016



Seventy-two per cent of small employers with EU workers hired all their staff from the UK labour market. 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. Any future immigration system needs to account for the fact that small businesses, particularly low-skill dominated businesses, recruit non-UK citizens when they already reside in the UK.

### Right to Remain

It is estimated that there are around 3 million EU citizens living in the UK. Of these 3 million, about 2.15 million are estimated to be in work.<sup>10</sup> One in five small employers has at least one EU worker and need immediate certainty on the status of their workforce to be able to plan for the future.

*"I need to know how it [Brexit] will affect the EU workers I already employ - will they be allowed to stay and work in UK if they are already employed?"*

FSB Member, manufacturer, Devon

Small employers are facing a tight labour market. The ONS predicted almost 760,000 unfilled vacancies across the UK for the period of December 2016 to February 2017.<sup>11</sup> There are particularly high numbers of vacancies in the retail (100,000 vacancies) and health and social care sectors (120,000 vacancies), which our research confirms are sectors that are also reliant on EU workers. In addition, the Chartered Institute of Personnel and Development (CIPD) recently released its 2016-17 Labour Market Outlook, which shows that almost one in three (29%) employers said that they had evidence that their EU workers were looking to leave their organisations, with 27 per cent saying

<sup>10</sup> ONS, Labour Market Statistics March 2017, <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/datasets/vacanciesbyindustryvacs02>

<sup>11</sup> Ibid.

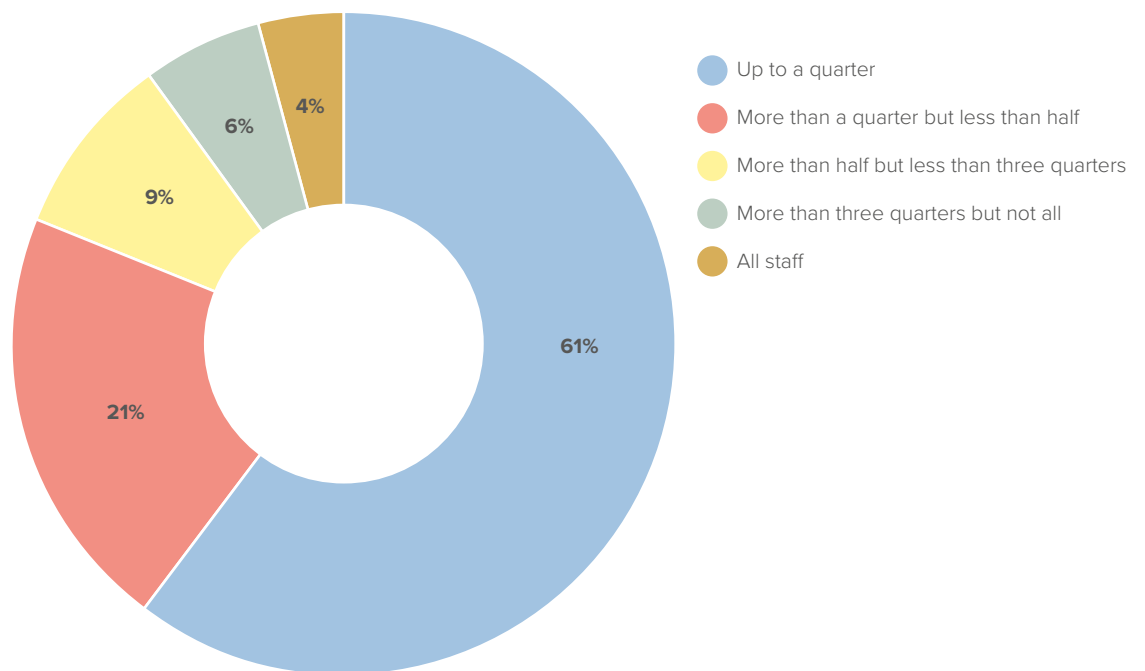
their EU employees planned to leave the organisation and/or the UK.<sup>12</sup> The UK labour market is experiencing record breaking rates of employment, with high vacancy counts. Curbing the potential loss of EU talent from UK small businesses will require certainty for employers and EU employees as soon as possible.

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

FSB Member, software, Edinburgh

Alongside the need for certainty, the permanent residency process for EU citizens who have resided in the UK for at least five years needs to be significantly simplified. The Migration Observatory estimates that, in the first quarter of 2016, there were almost 1 million EEA nationals<sup>13</sup> in the UK who have been resident for less than five years. The Migration Observatory also estimated that it would take the Home Office 140 years to complete the permanent residence applications for all EEA citizens currently residing in the UK. Clearly, the system needs to be significantly streamlined to reduce administrative burdens and provide certainty for businesses and EU citizens residing in the UK.

**Figure 4: Percentage of small firms’ workforce from outside the UK**  
 Source: FSB access to labour and skills after Brexit survey 2016



Our survey finds that seven per cent of the average small employer’s workforce is made up of non-UK citizens. This figure includes firms that employ no foreign workers. Limiting the population to employers with non-UK employees raises the average percentage to 27 per cent of the total workforce.

A further breakdown of small employers’ labour force shows that, for the majority (61%) of employers with non-UK staff, non-UK workers make up less than 25 per cent of their total workforce. One in ten employers with non-UK staff have a workforce where more than 75 per cent of their staff are non-UK citizens. These businesses are particularly at risk from the uncertainty created by the lack of a blanket right to remain in the UK.

<sup>12</sup> CIPD, Labour Market Outlook 2016-17. Retrieved from [https://www.cipd.co.uk/Images/labour-market-outlook\\_2017-winter-2016-17\\_tcm18-18238.pdf](https://www.cipd.co.uk/Images/labour-market-outlook_2017-winter-2016-17_tcm18-18238.pdf)

<sup>13</sup> This statistic includes citizens of EEA member countries and Switzerland.

Until a new UK immigration system for EU citizens comes into effect, there will continue to be uncertainty for small businesses that have employed EU citizens after June 2016 or March 2017. EU citizens entering into employment and exercising their treaty rights during the Brexit negotiations should also be given a right to remain indefinitely. Small employers need certainty on the status of their EU workers – including those taken on or after the triggering of Article 50 and up to the point that the UK formally ceases to be an EU member state.

*"I have some workers who have been with me for years but not as many as five - which I believe is the amount of time that our Government says that they have to have been living/working here to be able to stay. One of them, at least, has married her husband (from the EU) and they have had a baby here, have always paid their tax and national insurance and are saving for a mortgage and are very concerned that they will be made to return to Romania. A lot of them are worried and I certainly do not get the same number of foreign applicants for jobs and, for the most part, these workers are so keen and willing to work hard to get a better life... I am seriously concerned [about being] able to get workers to carry my business forward and grow."*

FSB Member, cleaning business, East Anglia

Small businesses are working to understand the extent to which their workforce could be affected by the UK leaving the EU. It will be important for the Government to make identifying EU citizens currently exercising their treaty rights in the UK as easy as possible for small employers. The burden of proof for documenting the status of EU citizens residing in the UK cannot rest with small businesses and any changes to 'right to work' checks for EU citizens should not increase the administrative burdens placed on small employers.

# THE UK SKILLS CHALLENGE

For EU citizens, the most common driver for migration to the UK is work.<sup>14</sup> The UK economy has benefited significantly from this movement of people, with individuals from the EU, on average, more educated, younger and more likely to be in work than the UK-born,<sup>15</sup> and the highly-skilled in particular helping to boost the UK's productivity.<sup>16</sup> UK businesses are taking advantage of the influx of skilled labour at a time when certain industries, sectors and occupations are finding it hard to cope with a skills system that is struggling to deliver what employers need.

The UK faces a number of challenges that the skills of non-UK workers help to alleviate, including a chronic shortage of technical skills. The UK's difficulty in meeting the demand for technical skills – specialist or 'practical' skills and knowledge often acquired through vocational training and work experience – is a result of years of underinvestment, frequent policy change and lack of a coherent and holistic skills system which prioritises pathways into these jobs. Without significant improvement, the OECD predicts that we will fall to 28th place within 33 OECD countries for intermediate skills by 2020, being overtaken by Ireland, Australia, Israel and Belgium.<sup>17</sup>

Businesses are feeling the impact of this lack of technical skills pipeline. UK Commission for Employment and Skills (UKCES) data shows that employers are increasingly failing to recruit the people they need, with six per cent of all employers in 2015 reporting at least one skill-shortage vacancy, up from four per cent of employers in 2013 – a 50 per cent increase in two years.<sup>18</sup> Furthermore, in two thirds (64%) of cases reported, this shortage was down to a lack of specialist skills or knowledge needed to perform the job role.<sup>19</sup> This deficit is clearly playing-out in sectors like engineering that have seen a significant increase in vacancies requiring a particular level of technical proficiency, such as machine operatives (up from 25% of all vacancies in 2013 to 32% in 2015).<sup>20</sup> STEM (science, technology, engineering and maths) skills are widely accepted to be of critical importance to the future international competitiveness of the UK and play a key role in driving productivity, growth and higher living standards.<sup>21</sup> In addition, as a sector, engineering faces the additional challenge of an ageing workforce; it is estimated that, over the next eight years, the economy will require 830,000 new engineers purely to replace workers reaching retirement.<sup>22</sup> With companies reliant on traditional technical ability, many of whom are smaller enterprises, contributing to about £280 billion (20% of the total) in gross added value to the UK,<sup>23</sup> it is vital that the sector has access to the skills it needs to thrive.

STEM skills aren't only needed in engineering and manufacturing. Occupations that require high-level skills are estimated to contribute total employment of 2.8 million jobs, with IT professionals' making-up the largest share, accounting for close to 1 million vacancies).<sup>24</sup> However, 43 per cent of vacancies for professionals working in science, research, engineering and technology are deemed hard to fill due to skills shortages.<sup>25</sup>

Interestingly, 27 per cent of UK-born professionals are found in strategically important sectors, compared to 39 per cent of both EEA-born and non-EEA-born employees.<sup>26</sup>

Another significant challenge facing the UK is the prevalence of poor basic skills. For example, more than a quarter of adults in England aged 16-65 have low literacy or numeracy skills, or both.<sup>27</sup> In

14 Metcalf, D., Work immigration and the labour market: Incorporating the role of the Migration Advisory Committee, London School of Economics and Political Science (LSE), June 2016, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/547697/MAC\\_report\\_immigration\\_and\\_the\\_labour\\_market.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/547697/MAC_report_immigration_and_the_labour_market.pdf)

15 Ibid.

16 Ibid.

17 UKCES, UK Skills Levels and International Competitiveness 2013, August 2014, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/470017/skill\\_levels\\_2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/470017/skill_levels_2014.pdf)

18 UKCES, Employer Skills Survey 2015: UK Results, Evidence Report 97, May 2016, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/525444/UKCESS\\_2015\\_Report\\_for\\_web\\_May\\_.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525444/UKCESS_2015_Report_for_web_May_.pdf) Accessed January 2017. This UK-wide skills survey is based on 91,000 interviews with employers.

19 Ibid.

20 Ibid.

21 UKCES, Reviewing the requirement for high level STEM skills, Evidence Report 94, July 2015. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/444052/stem\\_review\\_evidence\\_report\\_final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/444052/stem_review_evidence_report_final.pdf)

22 The Skills Commission, Guide to the Skills System: Policy Review 2010-2015, 2015, [http://www.policyconnect.org.uk/sites/site\\_pc/files/report/625/fieldreportdownload/guidetotheskillsystem.pdf](http://www.policyconnect.org.uk/sites/site_pc/files/report/625/fieldreportdownload/guidetotheskillsystem.pdf)

23 Royal Academy of Engineering, Engineering a future outside the UK, October 2017, <http://www.raeng.org.uk/publications/reports/engineering-a-future-outside-the-eu>

24 Ibid.

25 Ibid.

26 National Institute of Economic and Social Research (NIESR), Skilled immigration and strategically important skills in the UK economy, Final report to the Migration Advisory Committee (MAC), February 2012, [http://www.niesr.ac.uk/sites/default/files/publications/290212\\_151752\\_0.pdf](http://www.niesr.ac.uk/sites/default/files/publications/290212_151752_0.pdf)

27 Ibid.

particular, by international standards, England's overall performance in numeracy is well below the average relative to other OECD countries.<sup>28</sup> However, there is also considerable concern for England's future adult population, with young adults performing no better in terms of literacy and numeracy than older generations, unlike in other countries where the reverse is true.<sup>29</sup> Compared to the best-performing countries, like Finland, Japan, Korea and the Netherlands, England has three times the number of people with low numeracy and literacy between the ages of 16-19.<sup>30</sup> However, it is also estimated that, within the next two decades, 90 per cent of jobs will require some digital proficiency, yet, as it stands, a quarter (23%) of adults lack basic digital skills.<sup>31</sup> Therefore, we face the challenge of upskilling, both for the current, and crucially, the future labour market.

Finally, it is widely recognised that the education system alone cannot give people the skills they need for their entire working life. Employers are important actors in facilitating skills development, yet approximately 1.4 million staff lack proficiency in their current role. Views vary on whether employers are increasingly failing to take effective steps to improve the skills of their workforce; for instance, UKCES survey data found that employer investment per person trained and per employee remained similar in 2015 to 2013 and 2011.<sup>32</sup> However, the Institute for Fiscal Studies recently asserted that there has, in fact, been no collapse in training by employers, but rather a shift from off-the job towards on-the-job training.<sup>33</sup>

Despite this, FSB research has evidence that small businesses are struggling to train their employees. While almost all (91%) business owners say they recognise the value of investing in staff training and development, less than half (43%) said they did so.<sup>34</sup> The challenge may be financial, with 43 per cent of smaller businesses saying that the cost of training poses a barrier to investing. Indeed, evidence shows that, while the smallest businesses provided twice as many training days per person trained than larger establishments in 2015, they paid three and a half times more per person trained, losing out on economies of scale.<sup>35</sup>

There are a great many more challenges currently facing the skills system. Meeting the needs of many poses great difficulty and there are significant national and regional variations, many of which are innately place-based and ingrained, that cannot be addressed by one overarching policy solution. Highlighting these issues is essential in understanding the UK's relationship with talent from the EU, which has, to some degree, helped the UK to circumvent a skills crisis. Employers have looked to the EU and beyond to satisfy their demand for skills. However, with Brexit casting doubt on whether businesses will enjoy the same access to the high-quality skills and technical knowledge of individuals from the EU, policymakers will be compelled to face the uncomfortable truth that the skills system does not meet the demands of a modern, knowledge-based economy.

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28 National Institute of Economic and Social Research (NIESR), *Skilled immigration and strategically important skills in the UK economy*, Final report to the Migration Advisory Committee (MAC), February 2012, [http://www.niesr.ac.uk/sites/default/files/publications/290212\\_151752\\_0.pdf](http://www.niesr.ac.uk/sites/default/files/publications/290212_151752_0.pdf)

29 Ibid.

30 Ibid.

31 House of Commons Science and Technology Committee, *Digital Skills Crisis*. Second report of session 2016-17, June 2016. <https://www.publications.parliament.uk/pa/cm201617/cmselect/cmsctech/270/270.pdf>

32 UKCES, *Employer Skills Survey 2015: UK Results*, Evidence Report 97, May 2016, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/525444/UKCESS\\_2015\\_Report\\_for\\_web\\_\\_May\\_.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525444/UKCESS_2015_Report_for_web__May_.pdf)

33 Institute for Fiscal Studies (IFS), *IFS Green Budget 2017*, January 2017, <https://www.ifs.org.uk/events/1385>

34 FSB, *Leading the Way: Leadership and management in small firms*, March 2016. <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/leading-the-way-boosting-leadership-and-management-in-small-firms.pdf?sfvrsn=1>

35 UKCES, *Employer Skills Survey 2015: UK Results*, Evidence Report 97, May 2016, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/525444/UKCESS\\_2015\\_Report\\_for\\_web\\_\\_May\\_.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525444/UKCESS_2015_Report_for_web__May_.pdf)



# SMALL BUSINESSES' USE OF SKILLS FROM OUTSIDE THE UK

## Skill levels of employees in small businesses

Small business owners with staff were asked to select the occupations that most accurately reflect what the majority of their employees do in order to attempt to identify an approximate level of skill on which the business is most reliant. The occupations provided to survey participants to select were based on Standard Occupational Classification (or SOC) codes, which have been grouped together into a corresponding skill-level; high, mid and low-skilled.

For the purposes of this report, when we discuss high-skilled businesses we are referring to those with employees mostly doing jobs that require post-compulsory education, such as Information Communications Technology (ICT) or health professionals. In contrast, in businesses where most employees work in mid-skilled jobs, such as care or construction, workers are often employed for their technical knowledge or understanding of a particular field, usually acquired through on-the-job vocational or technical training such as an apprenticeship, and significant work experience. Businesses with mostly low-skilled workers have employees doing work that does not require post compulsory education, but may require short periods of on the job training, such as farm workers or cleaners, as Figure 5 shows.

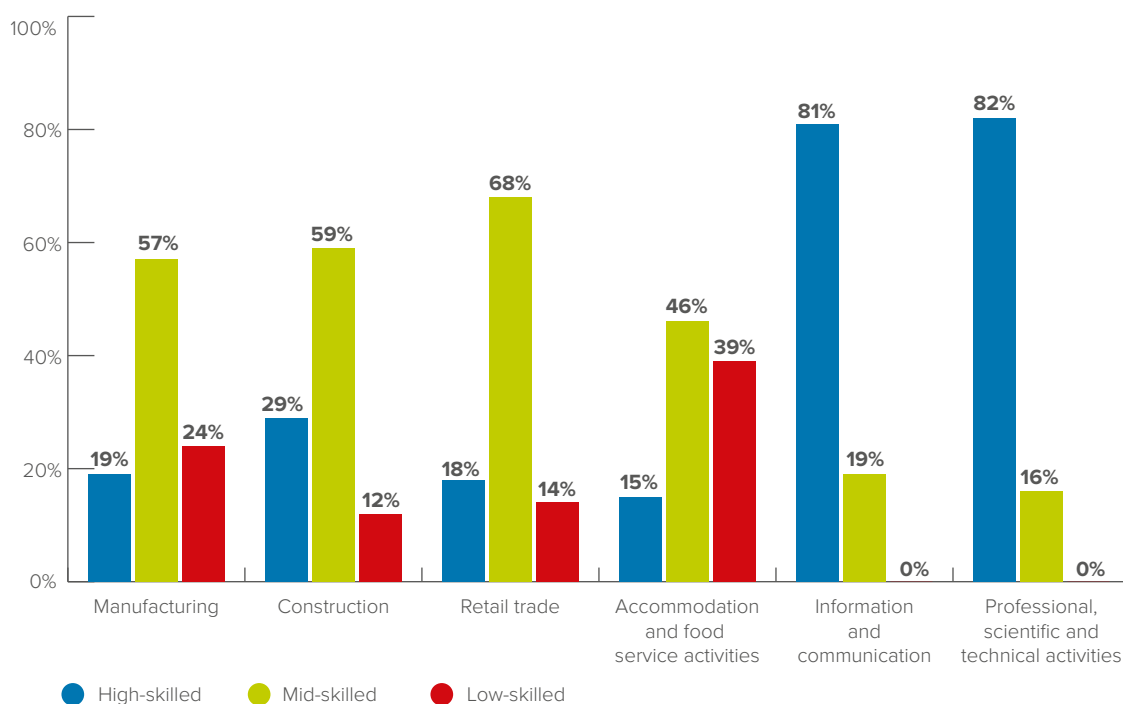
Table 1: ONS SOC Skill Levels

Source: Migration Advisory Committee (MAC), 2014<sup>36</sup>

<p><b>High-skilled</b> (SOC skill level 3+4)</p>	<p><b>Description:</b> Occupations at this level normally require a degree or equivalent period of relevant work experience. However, some jobs do not necessarily need a degree, but generally require knowledge associated with post-compulsory education.</p> <p><b>Example occupations provided to respondents:</b> Engineers, IT and telecommunications professionals, healthcare professionals, teachers, accountants, architects, graphic designers.</p>
<p><b>Mid-skilled</b> (SOC skill level 2+3)</p>	<p><b>Description:</b> Like some high-skilled roles, many of these occupations require knowledge associated with post-compulsory education, but not always a degree. Some jobs at this level will not require formal qualifications or vocational training, but will instead require a significant period of work experience. Some jobs require competence associated with general education, but typically require a longer period of on the job training and/or work experience.</p> <p><b>Example occupations provided to respondents:</b> Bookkeepers, farmers, mechanics, construction workers, care workers, hairdressers, customer service managers.</p>
<p><b>Low-skilled</b> (SOC skill level 1+2)</p>	<p><b>Description:</b> Competence associated with a general education, usually acquired by the time compulsory education is completed (aged 16). Jobs at this skill level may require a short period of on the job training and knowledge of health and safety regulations.</p> <p><b>Example occupations provided to respondents:</b> Farm workers, packers and bottlers, cleaners, security guards, catering assistants, waiters.</p>

<sup>36</sup> Migration Advisory Committee, Migrants in low-skilled work – The growth of EU and non-EU labour in low-skilled jobs and its impact on the UK, July 2014, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/333083/MAC-Migrants\\_in\\_low-skilled\\_work\\_Full\\_report\\_2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/333083/MAC-Migrants_in_low-skilled_work_Full_report_2014.pdf)

Figure 5: Predominant skill level of workers in small businesses, broken-down by sector  
 Source: FSB access to labour and skills after Brexit survey 2016



In terms of sector, there is a high proportion of small firms in information and communication (81%) and professional, scientific and technical activities (82%) that employ individuals for jobs that require education to degree-level or, in some cases, higher, such as engineers, scientists and researchers. By contrast, there are no small businesses in these sectors that employ workers in low-skilled roles.

Industries where there is a long established tradition of strong technical and vocational training have a higher share of employees in mainly mid-skilled roles, such as those that require technical education, training or expertise, like apprenticeships. For example, 59 per cent of small firms in the construction sector and 57 per cent in the manufacturing sector are mainly employing mid-skilled workers, such as electricians, mechanics and skilled-tradespeople, which is expected given the tasks they typically carry out.

Interestingly, construction and manufacturing are the most balanced sectors with a fairly even spread of small businesses with high, mid and low-skilled jobs. This is not only a reflection of the range of occupations and type of businesses in these sectors, but the sectors' positive attitude to skills development at all levels. In contrast, the information and communication and professional, scientific and technical activities sectors are the most significantly polarised.

The highest concentration of workplaces with low-skilled roles that do not require any post-compulsory education or training are found in accommodation and food services (39%) and manufacturing (24%). Typically, people employed in these sectors will be doing jobs like cleaning and food preparation, packing and working in hospitality or on farms at various points in the year.

**Case study: Jonathan Denby, South Lakes Hotel, Lake District**

Jonathan Denby has run South Lakes Hotels, a small business consisting of five separate hotels, for 25 years. More than a third of his hospitality workforce is from outside the UK:

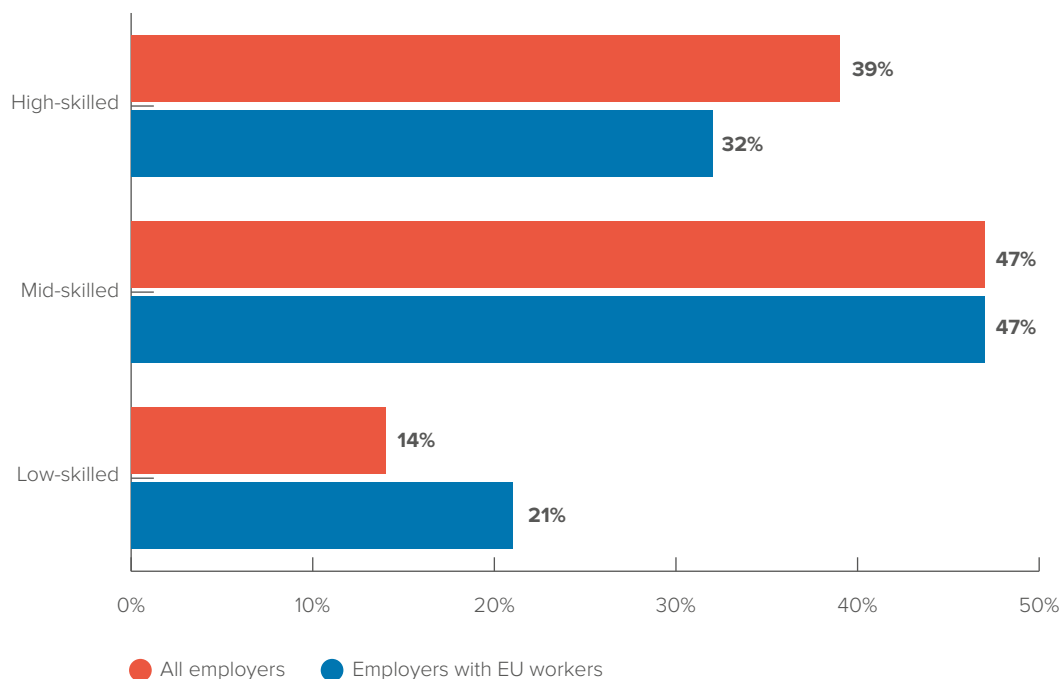
*“Across our hotels we have 122 employees; 72 are UK citizens and 50 come from 14 nations both within and from outside the EU. In one of our hotels, eastern Europeans are in the majority. Some of my employees have been with me for 10 years or more, as housekeepers, waiters, receptionists and chefs. We’ve been employing non-UK workers since starting the business. At first, our main sources of non-UK employees were Canada and Australasia and South Africa, then we began to employ people from all over the world. More recently, we are hiring more workers from Eastern Europe.*”

*“The problem is that there are only around 300 people in the whole of our area who are registered unemployed, and most of them are unsuited to the hotel trade. If we go to the Jobcentre, there is often no-one they can suggest who is registered to work in hospitality as a chef in the UK, for example. We are completely reliant on labour and skills from outside the UK.*”

*“We did try to bring in someone who worked for us previously on a visa scheme, but he couldn’t accrue enough points so, unfortunately, his application failed. It was costly too – we had to register with the Home Office, which costs about £1,000 per hotel, then pay something like £1,500 per worker to try and get his visa. A points system is no good for hotels because it’s aimed at high earners and we don’t employ any high earners. I would be very happy to pay an additional cost to recruit workers on a visa scheme like that if they are properly vetted and you could be certain that they would return back at the end of the period.*”

*“The thought that we won’t be able to recruit from overseas is pretty daunting. It would be very difficult to grow the business because we would not have the staff available. We have grown in 25 years from 10 rooms to 168, and we want to continue growing in the future.”*

Figure 6: Predominant skill level of workers in small businesses  
Source: FSB access to labour and skills after Brexit survey 2016



Most work undertaken in small businesses, both with, and without, EU workers is high or mid-skilled (86% and 79%, respectively), with a slightly larger proportion of firms with a UK only workforce offering high-skilled jobs, such as directors and managers and occupations requiring professional and technical expertise. Jobs at this skill level are important to the UK's productivity and the economy in the long-term, and our results show that EU citizens are playing an important role in addressing gaps in sectors that are dependent on high and mid-skilled workers. Indeed, EU-14<sup>37</sup> workers are more likely to be in skilled occupations than people born in the UK, with 69 per cent of workers from these countries occupying roles skilled to SOC Level 3 or 4 - occupations that normally require a degree or equivalent period of relevant work experience.<sup>38</sup>

By contrast, there are more employers with EU workers mostly reliant on low-skilled workers than businesses that only have workers from the UK (21% versus 14%, respectively).

Although we are unable to say definitively whether these businesses hire these EU workers to carry out low-skilled tasks, it is likely that people from the EU are being recruited to satisfy demand for labour to complete basic tasks. Further analysis from The Migration Observatory finds that, although foreign-born workers have been and remain employed in a wide range of jobs, the growth in employment shares of foreign-born workers in recent years has been fastest among lower-skilled occupations and sectors. They find that, in 2015, the industry with the highest share of foreign-born workers in its workforce was food products manufacturing, wherein about 41 per cent of the workforce was foreign-born.<sup>39</sup>

37 EU-14 countries include Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, and Sweden.

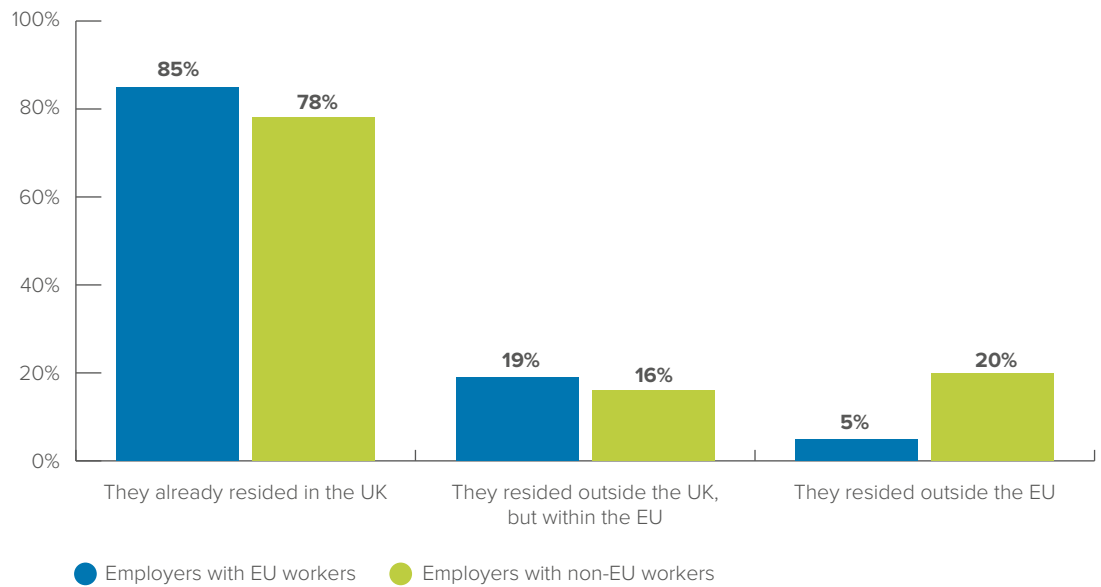
38 Migration Advisory Committee, Migrants in low-skilled work – The growth of EU and non-EU labour in low-skilled jobs and its impact on the UK, July 2014, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/333083/MAC-Migrants\\_in\\_low-skilled\\_work\\_Full\\_report\\_2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/333083/MAC-Migrants_in_low-skilled_work_Full_report_2014.pdf)

39 The Migration Observatory, Migrants in the UK Labour Market: An Overview, 1 December 2016, <http://www.migrationobservatory.ox.ac.uk/resources/briefings/migrants-in-the-uk-labour-market-an-overview/>

### Recruitment of EU and non-UK citizens by small businesses

Small businesses with non-UK workers were asked where their employees were located at the time they were recruited.<sup>40</sup> Our findings show that the vast majority of small firms with workers from the EU recruited at least some of their EU workers when they were already living in the UK (85%). The UK, therefore, has increased the availability of talent and skills in the labour market by allowing people from the EU to access employment opportunities. It is clear that small businesses are taking advantage of this diversity by recruiting both UK and, crucially, non-UK workers through normal recruitment methods and routes.

Figure 7: Living status of non-UK workers recruited by small businesses  
 Source: FSB access to labour and skills after Brexit survey 2016



The EU also has an important role in attracting workers from countries outside the EU, allowing businesses of all sizes easy access to the brightest and best from across the world; 16 per cent of businesses with non-EU workers recruited them from the European labour market.

In addition, almost a fifth (19%) of small firms source their EU workers directly from the EU. Small firms are, therefore, not only active in recruiting EU and non-EU workers from the UK, but are venturing further afield to secure the skills their business needs, although to a lower extent. Twenty per cent of businesses with non-EU workers employed them when they resided in countries outside the EU, suggesting that small business owners are willing to endure a more complicated recruitment process to access talent they may have been unable to source in the UK, but not as costly or complicated at the points-based system for non-EU workers.

40 Businesses with both workers from the EU and from outside the EU had the option to select all that applied.

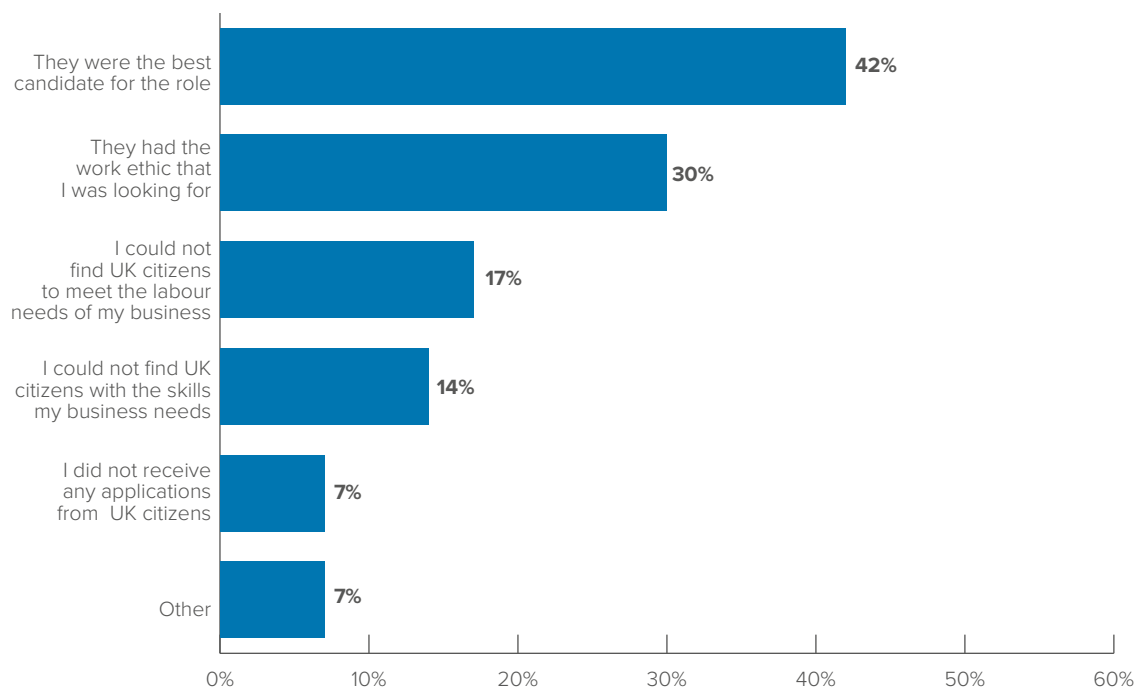
**Case study: David Lenehan, Northern Industrial Electronics, Lancashire**

Northern Industrial Electronics supplies and repairs equipment used for manufacturing and robotics. David has been operating since 1978 and currently employs 64 staff – 15 are EU citizens and three are non-EU citizens.

*“In the last three years we have grown a diverse workforce, with French and German staff to Polish, Serbian, Lithuanian, Slovakian, Italian, Venezuelan and Russian citizens. Their language skills are the main driver for our business (in the next 18 months we want people who speak Swedish, Norwegian and Dutch) as an ability to speak the language is integral to effective exporting. When a manufacturing plant is down they want the fix right away. For example, we work with a major car manufacturer in Italy. If they have a problem, they want a fix within 12 to 14 hours. We need someone to communicate to the person in the factory, who likely does not speak English, to be able to identify the problem and organise shipping. This is one of our key strengths.*

*“However, I am very worried that, if they are not coming over, then it will be harder to source them in our labour market. It’s more difficult to source people from abroad and bring them to Blackburn. This way, many of these individuals start in London, move to Manchester and then find us in Blackburn. We need the right people to come and settle in the UK.”*

**Figure 8: Reasons for employing EU citizens**  
 Source: FSB access to labour and skills after Brexit survey 2016



Survey respondents were asked to select from a list of reasons why they employed EU citizens. Each respondent could select as many options as applicable.

*“Our Bulgarian employee has been with the business for eight months. She was working in the warehouse but is now a junior buyer. She is exceptional with career progression in front of her. We employ people who are the best fit for the job. It is wholly irrelevant where they are from.”*

FSB member, retail, Oxford

*"I come across a lot of skilled people here in Leicester from various bits of the EU but particularly from the former Eastern bloc, and they are skilled and great people to work with, they work hard, and I have no problem with them whatsoever. They contribute in a big way from my point of view."*

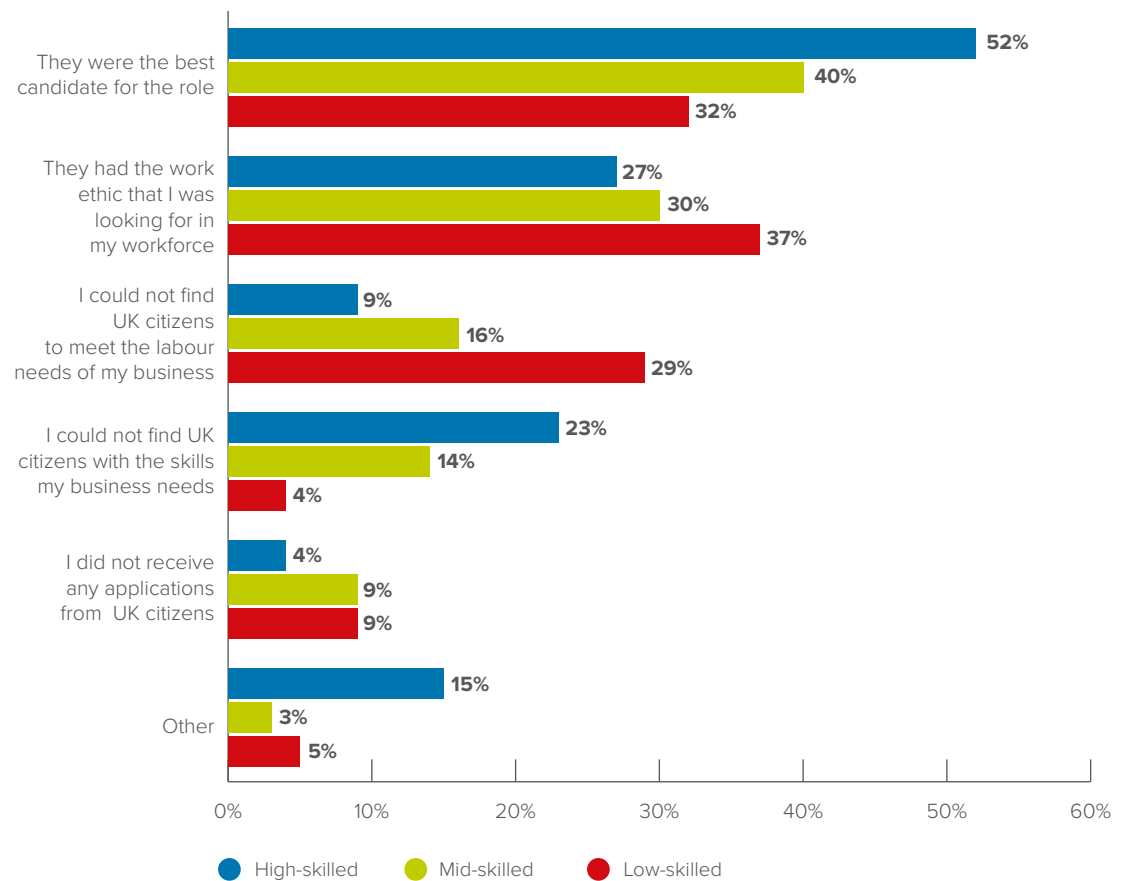
FSB Member, commercial photography, Leicestershire

A similar proportion of firms with EU staff (42%) said that they based their decision on their belief that the candidate was the most appropriate for the role, and almost a third (30%) of respondents attributed their decision to the individual's 'work ethic'.

When responses are analysed by the predominant skill level of roles inside the business, distinctions emerge, as Figure 9 shows.

Figure 9: Reasons for employing EU citizens, broken-down by skill level of workers

Source: FSB access to labour and skills after Brexit survey 2016



For example, small firms that employ workers to do mainly low-skilled tasks place greater emphasis on the need for a particular work ethic or attitude than businesses that have mainly high-skill or mid-skilled occupations. Examples of such businesses can be found in the agri-food, manufacturing and construction sector. In addition, 29 per cent of businesses reliant on low-skilled labour report being unable to meet their labour needs by hiring UK workers alone, compared with 16 per cent of mid-skill businesses and just nine per cent of high-skill firms.

*"My major concern as a small business owner, going forward, would be the availability of a good labour supply. My business takes on eight full-time seasonal staff from March or June until November. I hire staff this way because we tried employing local people and it didn't work. Two years ago, we employed some people from the area to come and harvest vegetables. One lasted one day and they didn't show up after that."*

FSB Member, agriculture and horticultural, Lincolnshire

While access to labour is less of a challenge for businesses with predominantly highly-skilled workers from the UK and EU, such as civil engineers, web design and development professionals or scientists, they face greater difficulty finding workers with the right skills, leading many to look further afield to meet business demand. This is true of just under a quarter (23%) of firms with jobs of this nature, compared to 14 per cent and four per cent of businesses that require mid-skilled workers with technical training and expertise, and employers of low-skilled workers, respectively.

The impact of this challenge can be seen in the digital and technology sector. In February 2015, four technology jobs in the digital technology sector were added to the Shortage Occupation List for the first time (including project manager, senior developer, data scientist and cyber security specialists), reflecting the need to fill the labour shortage with talent from outside the European Economic Area (EEA).<sup>41</sup>

#### **Case study: Daniel Turner, Quirkos, Edinburgh**

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

*"Our sales manager, a German, has been living in the UK since she was 12 years old and I employed our Polish software developer because she is one of the few people who know how to use the programming language. To find a software developer with the right skills, I had to search the internet – there were only four suitable people and the Polish employee I hired was already living in Scotland\*. There is a huge shortage of experienced software development skills in the UK.*

*"Taking on a junior level employee and training them in Qt would take many months of training. I have also looked at an organisation called Code Clan in Scotland, which provides intensive training programmes to retrain in computer science over a period of 16 weeks. However, many of the people on Code Clan courses are from EU countries, particularly Portugal and Spain. It weighs heavily on my mind that the best future junior software developer we could get would probably be an EU national.*

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

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

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

Finally, a number of small businesses highlighted the important role EU workers play in sectors that require particular language skills, as these comments from business owners demonstrate:

*"I teach French and my slogan is 'learn French with the French', so I only employ French nationals, and I am myself of dual nationality."*

FSB Member, French language teacher, Gloucestershire

<sup>41</sup> GOV.UK, <https://www.gov.uk/government/publications/partial-review-of-the-shortage-occupation-lists>, accessed March 2017.



*"Brits don't study languages. We need very fluent Russian speakers...we would suffer if hiring them became even more difficult."*

FSB Member, fine art auction house, London

Small businesses are employing EU citizens because of their suitability for the job and attitude toward employment. For these business owners, their EU workers represent a sound investment in their future in terms of securing the talent and skills they need. With almost a third (31%) of small business owners saying that their reason for employing non-UK workers was due to a lack of British-born workers in the labour market who could meet their labour and skills needs, ensuring small firms continue to have access to EU workers is critical.

#### **Case study: Steve Warren, Warren Construction Ltd, North East Scotland**

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

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

*"I often see in the newspapers about how bad it is that companies are taking on European workers and paying them a pittance, but this is nothing like that. My workers are paid very well and are very skilled, educated and very reliable. It doesn't bother me where they come from in the world, but I need really skilled people to do what we do."*

*"I think we need migrants, EU and non-EU. We have an ageing population, masses of work to do and not enough people to do it. I don't want anything to change."*

# SMALL BUSINESSES' USE OF NON-UK LABOUR

The UK's labour market is performing well. As of the end of 2016, there were almost 32 million people in work, unemployment was down to 4.8 per cent and the labour participation rate was hovering around an all-time high of 74.6 per cent.<sup>42</sup> Some commentators have suggested that the UK labour market is approaching full employment, leading to a tight labour market for employers where it can be difficult to satisfy businesses' demand for labour.

To help address this problem, many small employers have made use of EU workers to meet their business needs – with our survey showing that one in five small businesses (21%) employ EU workers, and a further one in four (24%) small businesses employ at least one non-UK worker.

At the same time, it is important to acknowledge regional variations in the UK labour market. Although the unemployment rate across the UK has fallen to a record-low 4.8 per cent, there are still regions like the North East where the unemployment rate remains as high as seven per cent.<sup>43</sup> All of the devolved nations have economic inactivity rates above the UK average.<sup>44</sup> These regional variations are a reminder that a UK-wide immigration policy needs to be flexible enough to accommodate the significant variation in the labour market that exists across the UK. Of the small employers that were unable to source the labour they need, 32 per cent of them said that the location of their business limits their access to the labour they need. A UK-wide immigration system, which limits access to certain occupations or types of workers, will, therefore, be unable to address the regional and national variation in how small businesses are able to access labour and skills.

Having greater control of our immigration system gives us an opportunity to reshape the labour market in the UK. Productivity growth has been almost flat since the 2009 recession. As a primary driver of wage growth and higher living standards, it is vital that the UK kick-starts productivity growth. A tightening of the labour supply, in conjunction with policies like the apprenticeship levy, could help to drive employers to invest more in their workforce to achieve much-needed productivity growth. Unfortunately, early signs from employers suggest that Brexit will not encourage large-scale investment in the UK workforce. The CIPD Labour Market Outlook shows that only 10 per cent of employers would respond to Brexit-induced contractions in the labour market by increasing the training provided to the labour market.<sup>45</sup>

Tightening the labour supply could also fundamentally shift business processes towards automation. When asked what small businesses with EU workers would do if their ability to hire from the EU was restricted, less than one in ten small employers with EU citizens (8%) said they would automate business processes that were previously completed by workers. Extrapolated out to all smaller businesses, this suggests that over 20,000 firms<sup>46</sup> would look to automate some of their business to meet the reduction in the labour supply. However, it is interesting to note that small businesses with EU workers that predominately rely on low-skill workers were twice as likely to consider automation (16%) than the average EU employer. Over 90 per cent of employers electing to automate are either predominately low or mid-skill employers – though the sample for this subset is not large enough to be statistically significant and is only indicative.

*"Finding UK-based employees happy to work unsocial hours for the living wage – any increase in hourly rate will close the business."*

FSB member, accommodation and food services business, Portsmouth & South East Hampshire

The average small business is not concerned about meeting their labour needs in a post-Brexit environment.<sup>47</sup> This broadly reflects the fact that only one in five small employers has at least one EU worker. Unsurprisingly, this lack of concern does not hold for employers with EU workers. Most

42 ONS, Labour Market Statistics, February 2017 <https://www.ons.gov.uk/releases/migrationintheukfeb2017>

43 ONS, Regional labour market statistics in the UK: February 2017, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/feb2017#summary-of-latest-regional-labour-market-statistics>

44 Ibid. Scotland (22.4%); Wales (23.8%) and Northern Ireland (25.9%) compared to the UK-wide average (21.6%).

45 CIPD, Labour Market Outlook, <https://www.cipd.co.uk/knowledge/work/trends/labour-market-outlook>, accessed March 2017.

46 Department for Business, Energy and Industrial Strategy, 2016 Business Population Statistics, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/559219/bpe\\_2016\\_statistical\\_release.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/559219/bpe_2016_statistical_release.pdf), accessed March 2017.

47 72 per cent of FSB members reported that they were not concerned about meeting their labour needs in a post-Brexit environment.

employers with EU citizens (57%) are concerned about meeting their labour needs after the UK has left the EU. Extrapolating out to all small employers with EU workers, our results suggest that about 160,000 UK small businesses are concerned about meeting their labour needs after Brexit.<sup>48</sup>

Focusing on the members that are concerned about labour restrictions, in particular respondents that are currently unable to source the labour they need, we find that 62 per cent say that the labour market is limited because UK citizens are not willing to do the work. This has created labour shortages in certain sectors – such as social care and agri-food. These forms of work are likely less appealing as they tend to be lower paid, involve anti-social hours and have limited progression opportunities.

#### Case study: David Hoyles, G H Hoyles Ltd, Lincolnshire

G H Hoyles Ltd is an agricultural and horticultural family business growing crops for animal and human consumption. Based on the county border between Lincolnshire, Cambridgeshire and Norfolk, David is the fifth generation to farm on the land. The business became a limited company in 1952 and their customers include major retailers, such as Morrisons, Waitrose, Sainsbury's and Marks and Spencer, and manufacturers such as Colman's and Birds Eye.

*"Our three full-time staff and I are English, but my eight seasonal staff are all Polish. Of those eight, two have been with us for nine years – they come back every year. They've had language training, driving courses and they use the high-value, high-tech machinery. The other six are mainly hand-harvesting and hand-grading crops, then getting them ready to send to our customers.... We try and look after them in a way we want to be looked after ourselves. In return they are loyal to us and keep asking to come back.*

*"The two who have been with us the longest and I discuss what crops we think will be ready to harvest and grade and we decide on the workers we need for June. We find out if our usual staff want to come back, and we employ them directly. If we need additional labour, then we need to go to a local, licensed labour supplier, but 95 per cent of the time we can manage.*

*"My business has already been impacted by Brexit. My Polish workers were concerned and upset when the UK voted – particularly in our region, which was one of the strongest areas to vote out. They asked if we would still want them working on the farm, and I said definitely. Their concerns immediately give me concerns about the security of skilled and knowledgeable labour.*

*"Also, some of my crops go to wash houses to be cleaned and bagged, and I know they employ a few hundred Eastern Europeans. If they haven't got that labour at that price and with that dedication, then will they be able to secure what that customer at the end of the process wants? Does that threaten their business, which, in turn, threatens my supply?"*

*"I don't have a written contingency plan. I have said I would fight their case to guarantee those two skilled workers stay with me. However, if I lost the other workers it would be a huge dent to my business."*

#### Other pressures on small business labour costs

Very few small businesses plan to respond to a restriction in their ability to hire EU workers with an increase in wages or benefits. The survey found that only six per cent of small businesses with EU workers would increase wages or benefits to attract similar quality staff if their access to EU workers were limited.

To understand this response, it is necessary to take into account the broader policy changes that are impacting the costs of labour for small businesses. The National Living Wage (NLW) is set to increase to 60 per cent of median earnings, which could bring the wage floor above £9 per hour by 2020. According to the Low Pay Commission, this increase will mean that 14 per cent of the UK labour force will be paid the NLW in 2020, compared to only about five per cent in 2015.<sup>49</sup> The majority of small employers already paid all of their workers more than the National Living Wage before the

<sup>48</sup> Department for Business, Energy and Industrial Strategy, 2016 Business Population Statistics, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/559219/bpe\\_2016\\_statistical\\_release.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/559219/bpe_2016_statistical_release.pdf), accessed March 2017.

<sup>49</sup> Low Pay Commission, National Minimum Wage: Low Pay Commission Report Spring 2016, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/571631/LPC\\_spring\\_report\\_2016.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/571631/LPC_spring_report_2016.pdf), accessed March 2017.

increase took effect in April 2016; FSB research has shown that the impact of the NLW has been most pronounced in sectors where margins are tight and where low pay is common, such as retail, care and hospitality.<sup>50</sup> For example, 73 per cent of businesses in the accommodation and hospitality sector said that the introduction of the NLW had increased their wage bills to either 'some extent' or 'a large extent', compared to 51 per cent for all affected businesses.

Alongside the NLW, workplace pension auto enrolment is currently rolling out to the smallest employers. Employer minimum contribution requirements will also increase every year, until they reach three per cent in 2020. The Government's current review of pension auto enrolment is considering whether the current policy is adequate and could suggest a further increase in the minimum pension contributions.

Therefore, it is unsurprising that increasing labour costs is the most cited cause of changing business costs in FSB's quarterly small business index, with 41 per cent of respondents citing this.<sup>51</sup> Further analysis showed that the average small employer will face an additional £2,600 in labour costs in 2017/18 from Government policies, including: pension auto enrolment, the NLW, and the resulting increase in employer National Insurance contributions from higher earners.<sup>52</sup> This average increase in labour cost is significantly higher than the £1,000 increase in the Employment Allowance, which was implemented in the 2016/17 tax year.

This policy environment makes it very difficult for small businesses, particularly those operating in highly competitive sectors with very tight margins, to consider further wage increases in response to potential labour restrictions from exiting the EU.

*"If I put my wages up to try to attract more UK citizens to fill roles previously undertaken by non-UK citizens, I will have to put my prices up. I have already put my prices up quite a bit to meet Living Wage requirements and this will be an added cost."*

FSB member, social care, Bournemouth

### Considering a transition period for hiring EU citizens

The recent House of Lords European Union Committee report on UK-EU movement of people effectively distinguishes between an implementation and transition period: "We note that there is a difference between a phased process of implementation for an agreement that has already been struck, and transitional arrangements intended to bridge the gap between free movement as it exists today and new arrangements yet to be agreed." The committee goes on to say that "Transitional arrangements could therefore be required if the UK were to leave the EU while negotiations on an FTA are still underway, or yet to begin".<sup>53</sup>

To better understand the needs of FSB members, employers with EU citizens were asked how long the transition period should be after the UK has left the EU, in which they could still easily recruit from the EU. About 36 per cent of respondents say that they require no transition period. Excluding respondents that do not yet know how long an appropriate transition period would be, we find that a majority of the remaining respondents say they would benefit from a transition period ranging from less than a year to more than five years. The average transition period suggested by respondents requiring a transition was about 3.25 years following the UK's exit from the EU.

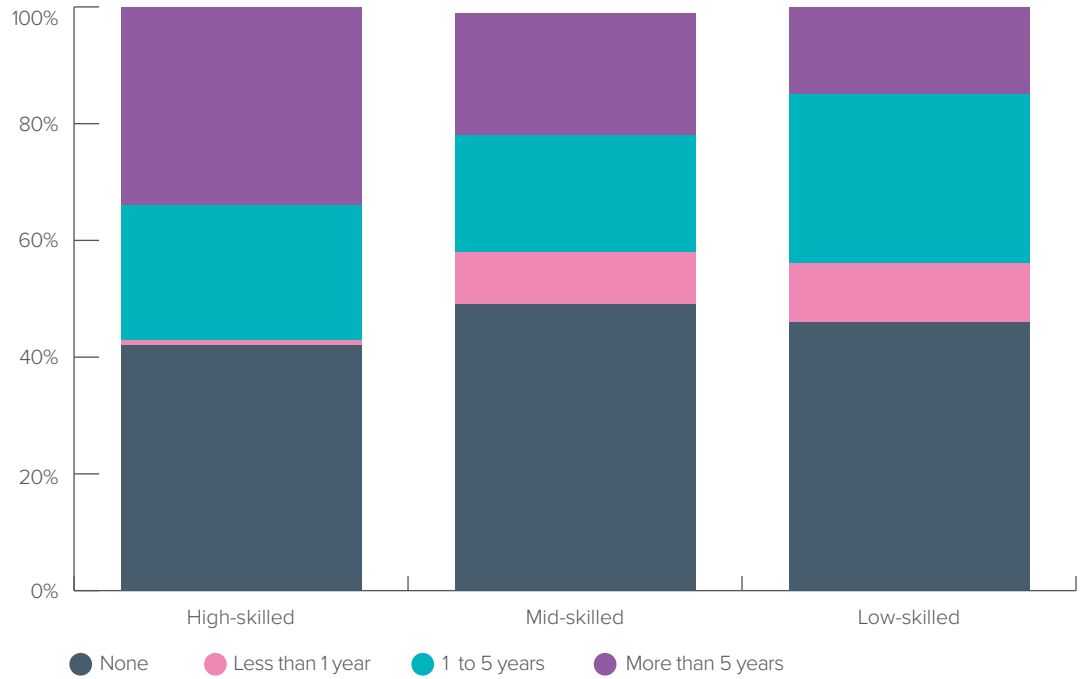
50 Federation of Small Businesses, FSB Response to the Low Pay Commission's Consultation on the National Minimum Wage Rates (including National Living Wage) to apply from April 2017, <https://www.fsb.org.uk/docs/default-source/Publications/consultation-responses/fsb-low-pay-commission-submission---july-2016.pdf?sfvrsn=1>, accessed March 2017.

51 FSB, Small Business Index 2016 Q4, <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-sbi-q4-2016---jan-11-2017.pdf?sfvrsn=1> accessed March 2017.

52 FSB, Budget Submission 2017, <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/budget-2017-final.pdf?sfvrsn=0> accessed March 2017.

53 House of Lords, Brexit: UK-EU movement of people, European Union Committee, 14th Report of Session 2016-17, 6 March 2017, <https://www.publications.parliament.uk/pa/ld201617/ldselect/ldcom/121/121.pdf>

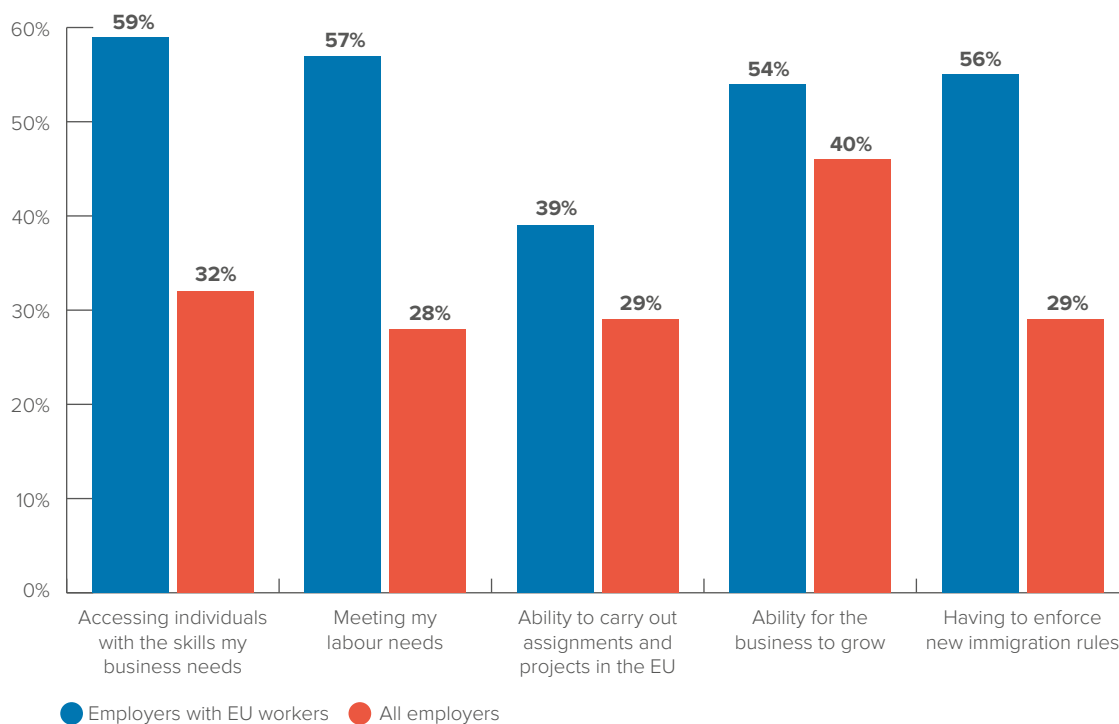
Figure 10: Transition period required by employers with non-UK staff, by skill level of business  
Source: FSB access to labour and skills after Brexit survey 2016



There is an interesting variation in the length of transition period that respondents feel would be most helpful for their small businesses, relative to the predominant skill level of their workforce. Predominately high-skill businesses were the most likely to suggest more than five years as the most helpful transition period for their business (34%), compared to businesses that predominately rely on mid-skill (21%) or low-skill workers (15%). Negotiating the future relationship of the UK and EU could take significantly longer than agreeing on terms of withdrawal and, therefore, the Government should take account of the transition period sought by small business owners.

# CONCERNS AROUND THE IMPACT OF RESTRICTIONS ON FREE MOVEMENT ON SMALL FIRMS

Figure 11: Small businesses' concerns around impact of Brexit  
Source: FSB access to labour and skills after Brexit survey 2016<sup>54</sup>



At this stage, little is known about the short, medium and longer-term impact Brexit will have on the UK's small businesses. However, as Figure 11 shows, there is clear concern from the small business community about the impact of restricting free movement across a range of business-related areas. Perhaps unsurprisingly, small firms that currently employ EU workers consistently demonstrate greater levels of concern than businesses with only UK staff.

For example, as Figure 11 shows, almost double the number of firms with EU workers compared to businesses without these employees are concerned about accessing individuals with the skills their business requires in the future (59% versus just 32%). In addition, a similar proportion of small businesses who employ EU workers (57%) say they are worried about their ability to meet their firms' labour needs post-Brexit, versus 28 per cent of businesses who do not use EU labour. Overall, most businesses that do not employ EU workers are not concerned about accessing labour or skilled individuals following Brexit, whilst for over half (56%) of the small businesses with EU workers, the possibility of becoming responsible for enforcing immigration rules post-Brexit is a significant concern.

However, our survey also shows that businesses with EU employees are more likely to be concerned at the possible impact of Brexit on their overall ability to grow their business (54% and 40%, respectively) either as a result of their reliance on EU labour and skills or supplementary factors, such as wider economic instability.

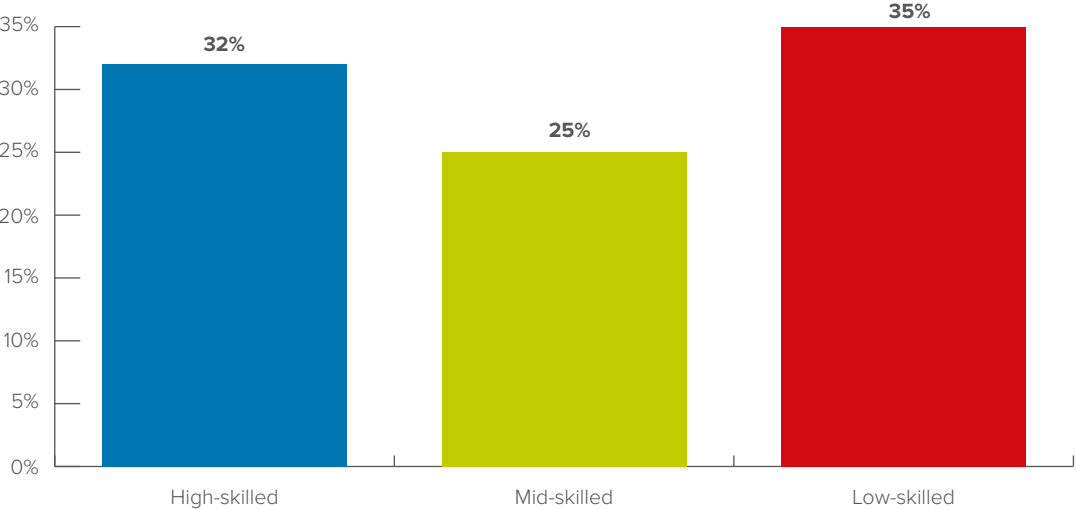
<sup>54</sup> Percentages in each category do not add to 100% because the remainder of respondents selected 'I don't know'.

*“What I see as potentially problematic is whether changes to immigration rules will affect the wider economy, which will affect my business. Also, we sell luxury leather goods, and, if we lose high-earning people, that could also have an impact on our business.”*

FSB member, retail, Oxford

In addition, survey respondents with EU citizens were asked about the impact of workers being required to leave the UK as a result of Brexit. Nearly a third (29%) of small businesses with employees from the EU said that their growth prospects would be affected by this. Business with mostly low-skilled, basic manual tasks to complete believe they would experience the greatest impact, as Figure 12 shows.

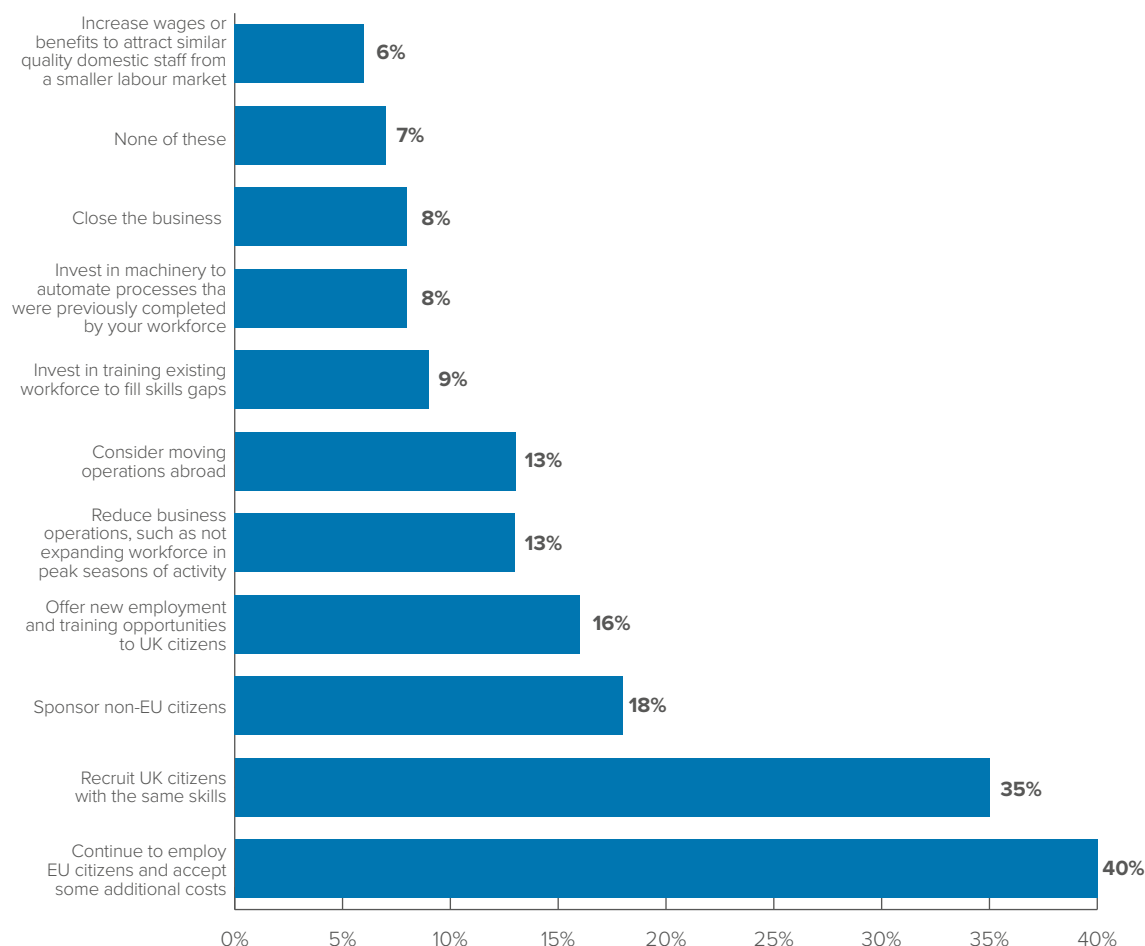
**Figure 12: Break-down of small employers' concerns over growth prospects should their EU workers be required to leave the UK as a result of Brexit**  
Source: FSB access to labour and skills after Brexit survey 2016



## Responses to restrictions on free movement on small firms

Figure 13: Options small firms with EU workers would consider if there were more barriers to recruitment

Source: FSB access to labour and skills after Brexit survey 2016



Small businesses would consider a diverse set of strategies to continue meeting their labour and skills needs. Over a third (40%) of business owners say that, even if there were more barriers to recruiting non-UK workers, they would continue to employ EU workers and accept some additional cost, and 18 per cent of firms would consider sponsoring non-EU citizens to meet their skills and labour needs.

Some small business owners would also consider investing in the skills of UK workers if they were unable to guarantee their supply of EU employees; a third (35%) of small business owners say they would recruit UK citizens with the same skills, 16 per cent would consider offering new employment and training opportunities to UK workers and nine per cent would invest in training their existing workforce to fill skills gaps.

Interestingly, when this data is broken down by the skill-level (Figure 14), it is evident that employers of EU citizens with predominantly mid-skilled jobs, often requiring practical or vocational elements, are most open to training, workforce development and using UK workers, which could reflect the traditional approach of particularly technical sectors towards skills investment. Whereas, employers of EU workers with mostly low-skilled work available are least likely to invest in training their existing employees or offering training opportunities. Small businesses with employees from the EU in roles that require at least a degree-level qualification and significant experience are least likely to recruit UK citizens with the same skills, instead, favouring other routes such as continuing to source talent from abroad that the availability of particular skills in the UK labour market cannot satisfy.



Figure 14: EU employers' intention to invest in training in response to barriers to recruitment  
Source: FSB access to labour and skills after Brexit survey 2016



A core group of businesses with EU workers would consider making significant changes to the way the business functions and operates if there were more barriers to recruiting these workers; 13 per cent of firms would consider moving operations abroad, 13 per cent would consider reducing their operations and eight per cent say they would consider closing the business.

*“My concern is that the business would be restricted in terms of access to the labour and skills, including language skills, to address the EU market. Rather than saying ‘We’ll look for visas, we’ll hope to get around it’, what we’re doing is moving our headquarters to Ireland because we want to bring on people from all over Europe, access the European market, trade within the EU and employ EU citizens. It’s annoying, because all of our plans were based around the UK in the future, and, in my opinion, this has just made it a bad place to do business.”*

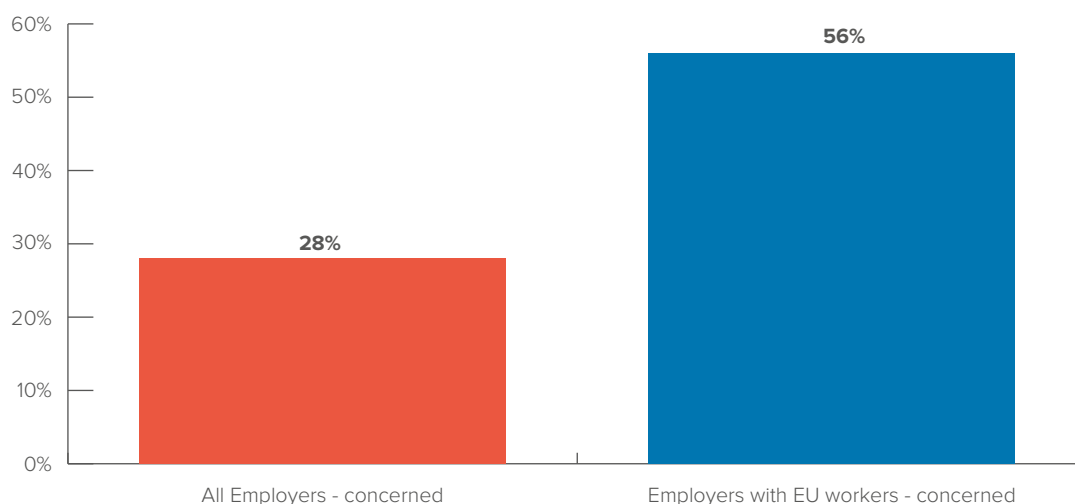
FSB member, telecommunications, London

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

FSB member, construction, Scotland

# ROLE OF BUSINESS IN THE POST-BREXIT IMMIGRATION SYSTEM

Figure 15: Concern around enforcing new immigration rules  
Source: FSB access to labour and skills after Brexit survey 2016



As stated previously, 21 per cent of our members with staff employ EU citizens and 72 per cent said that all of their EU workers already resided in the UK at the time of their recruitment. Therefore, the future treatment of EU citizens in the UK is an important issue for many of our members.

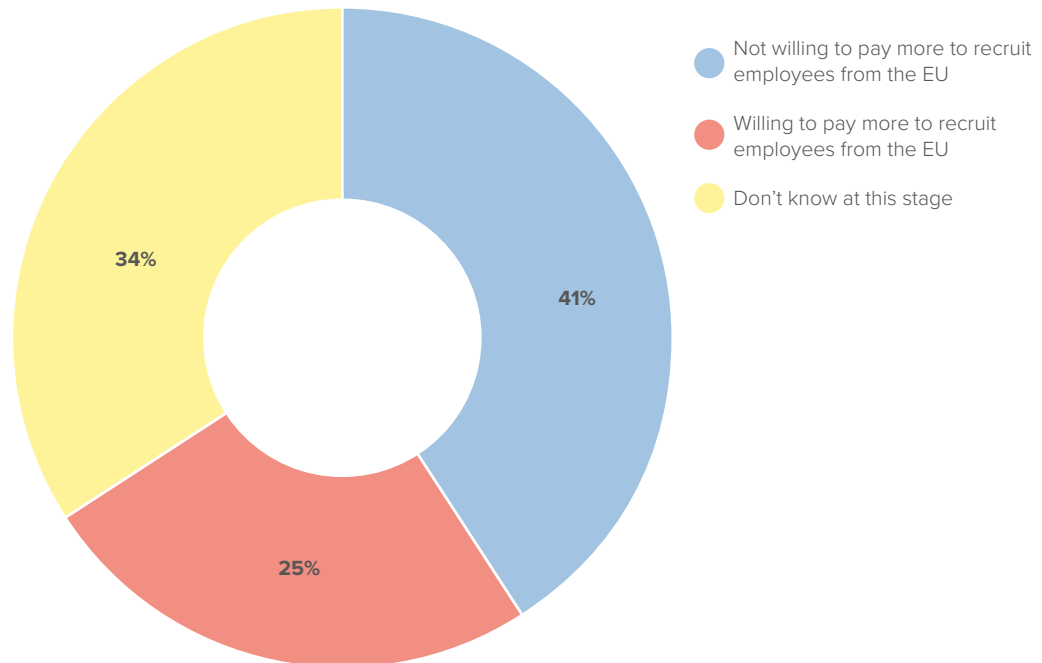
Our survey asked to what extent small firms were concerned about having to enforce new immigration rules in a post-Brexit environment. Twenty-eight per cent of members say they are concerned about having to enforce new rules; however, this number increases to 56 per cent when looking at businesses that employ EU citizens.

*“We used to use the Seasonal Agricultural Workers Scheme until that changed. I had to do that for the first three to four years that I was employing my Polish staff. We are on a relatively small scale, so there weren’t many of them. The first year, there was a lot more paperwork involved, so you had to fill an application form, then hear back whether you have been successful or not. Then, if you were, you would need to go to the Jobcentre for an interview about the staff you intended to employ and get a National Insurance number for them. Then, you had to send off copies of contracts of employment. Then, all you needed to do was to reapply for that person each year rather than go through the process again. If it was a new starter, though there was a bit of hassle involved, I didn’t find it particularly onerous, but I think if you employed 50 or 100 people it could be a different story.”*

FSB member, agriculture, Lincolnshire

In juxtaposition to this need, uncertainty around the right for EU citizens to remain in the UK is major concern. Eight per cent of our members with EU workers say that their business would have to close if EU citizens were required to leave the UK. In addition, almost 20 per cent of employers with EU citizens believe that their business will be less profitable, and 30 per cent believe that it will be more difficult to grow their business. These responses align with the findings from our question on small businesses’ growth prospects, where a majority (54%) of respondents say they are concerned that the UK’s exit from the EU would limit their ability to grow the business.

Figure 16: Willingness of employers with non-UK staff to pay additional one-off costs to recruit EU employees  
Source: FSB access to labour and skills after Brexit survey 2016



Our survey shows that 41 per cent of small employers of non-UK workers would be unwilling to pay more to recruit an employee from the EU. A further 34 per cent did not know at the time of the survey whether they would be willing to pay more to hire EU workers. On average, small employers with non-UK workers say they would be willing to pay about £250 per EU employee as a one-off charge (excluding those that did not know their willingness to pay at the time of the survey). This average hides a wide distribution of preferences by small employers. As expected, predominately high- and mid-skilled businesses are willing to pay relatively more per EU employee (£420 and £250 respectively) than predominately low-skilled businesses (£150).

### The Immigration Act, 2016

The tone of Government policy towards immigration is concerning for many smaller employers. Where enforcement at the border is not possible, banks, landlords and employers are being required to take up the slack. The priority for small firms is being able to access the labour and skills they need easily – with few financial costs, administrative burdens and risks. Most small businesses do not have an HR department to manage the process of right to work checks and need to fit these obligations into the management of all aspects of their business.

Government should focus on educating and enabling small employers about their obligations, instead of applying punishments to businesses incorrectly employing workers from abroad. Criminal prosecution should be limited to malicious cases and not brought against small employers that are simply unaware of their administrative obligations (e.g. keeping proper records of right to work checks). Small businesses are not immigration officers and the enforcement of the immigration system should always be focused on the border, not in the workplace.

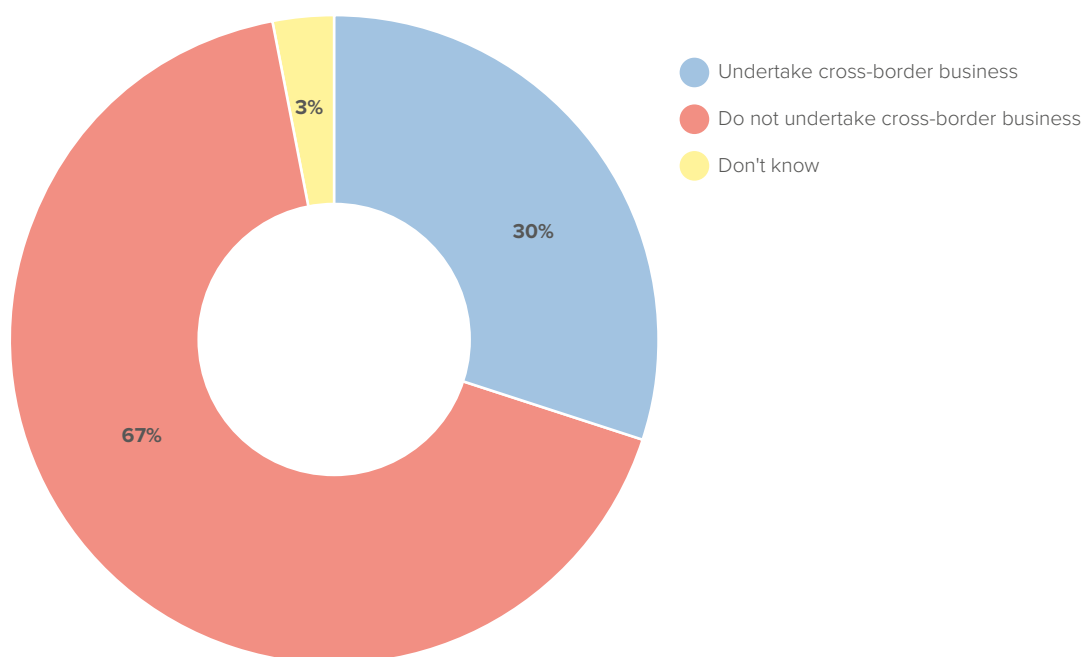
Finally, there is additional concern for small employers looking to take on new EU staff. The Government will need to create documentation to demonstrate that a potential EU employee has been given a right to remain in the UK. At present, small employers will be unable to distinguish between newly-arrived EU citizens after Brexit, and EU citizens who have been granted a right to remain in the UK. There needs to be a simple set of documentation that will allow small employers to confirm that new EU staff have the right to work in the country.

# TRAVELLING AND DOING BUSINESS WITH, AND WITHIN, THE EU

The Government is committed to leaving the Single Market. This report largely deals with the implications of ending the free movement of persons, which is one of the four freedoms that form the Single Market.<sup>55</sup> At the same time, the loss of other core freedoms of the Single Market – including the freedom to provide and receive services – will impact small businesses. As such, it will be necessary to consider how to best accommodate businesses that operate across the borders of our European partners after the UK has left the EU.

Our research found that many of our members capitalise on the ability to easily move themselves and their staff across the borders of EU member states in order to complete business in continental Europe and in Ireland. Almost one in three (30%) FSB members say that they, or an employee, have made use of cross-border travel for their business. Unsurprisingly, our survey shows that the ability to move freely for the purposes of business is less important for small businesses without employees – with only about 23 per cent of solo self-employed people reporting that they engaged in cross-border travel in the last 12 months.

Figure 17: Small firms that undertake cross-border business  
Source: FSB access to labour and skills after Brexit survey 2016

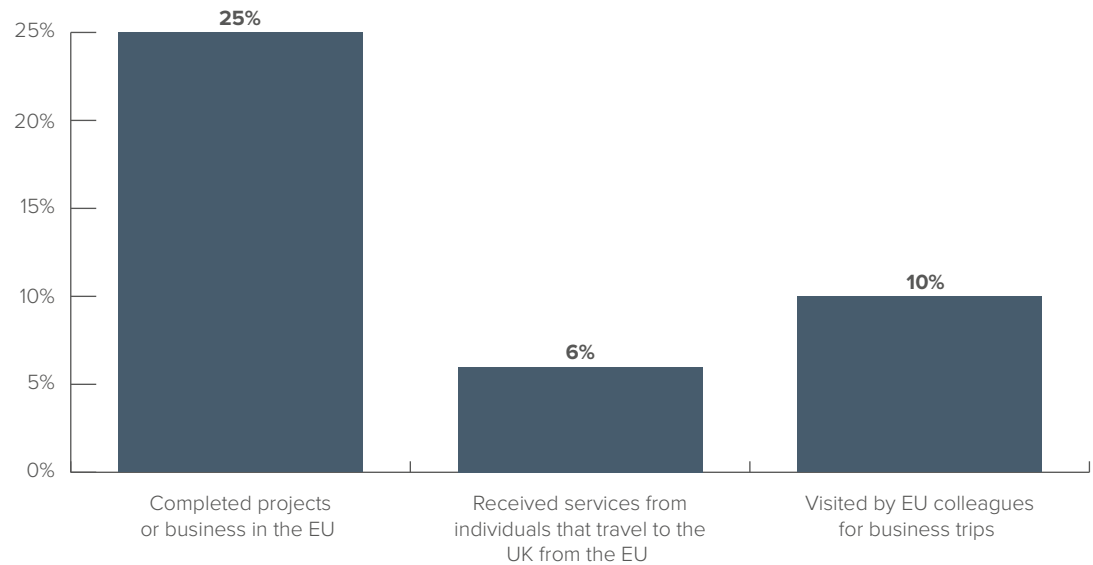


When asked how small businesses make use of their right to free movement for business purposes,<sup>56</sup> about a quarter of all respondents say that they complete projects or business trips in the EU. A similar percentage say that they have had EU citizens visit the UK for business trips. Finally, about six per cent of respondents say that their businesses receive services provided by individuals that come to the UK from other parts of the EU.

<sup>55</sup> HM Government, White Paper on the UK's exit from and new partnership with the EU. Retrieved from: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/589191/The\\_United\\_Kingdoms\\_exit\\_from\\_and\\_partnership\\_with\\_the\\_EU\\_Web.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/589191/The_United_Kingdoms_exit_from_and_partnership_with_the_EU_Web.pdf)

<sup>56</sup> Respondents were asked how they, their business and its employees made use of their mobility rights. The question was not concerned with whether a business' customer base exercised mobility rights.

Figure 18: Type of cross-border business undertaken by small firms<sup>57</sup>  
 Source: FSB access to labour and skills after Brexit survey 2016



There is interesting sectoral variation between respondents who make use of cross-border travel compared to the entire survey sample. There were six sectors with statistically significant numbers of respondents: manufacturing; construction; retail trade; accommodation and food services; ICT; and professional, scientific and technical activities. Manufacturing, professional services and retail trade were the three most reported sectors, making up 64 per cent of all respondents.

In comparison, the top three sectors that make use of some freedom of movement rights were professional services, manufacturing and ICT, making up 82 per cent of businesses.

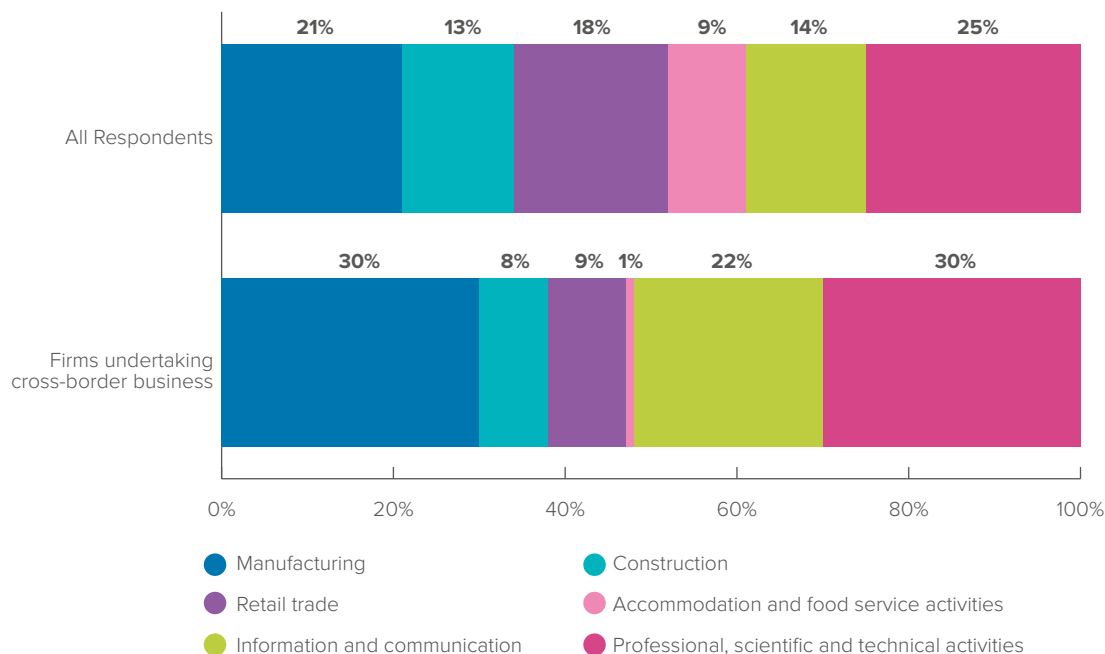
Understandably, cross-border travel is less important for the accommodation and food services sector, where only one per cent of respondents say they benefit. However, for certain sectors it will be vitally important for Government to ensure that a new immigration system allows for the easy flow of workers operating abroad on a temporary basis between the UK and EU member states.

*"[If most visa-free travel throughout the EU ended] It would add more time, cost and inconvenience. I was meant to travel last week [to the US], but I couldn't as my visa didn't come through, and the cost of that was quite significant, both in terms of the business I lost, but also because I had to buy a visa and do two hours of paperwork to sort it. It would be a pain."*

FSB member, retail, Oxford

<sup>57</sup> This figures does not sum to 100% because respondents could select multiple options.

Figure 19: Sectoral breakdown of firms undertaking cross-border business, versus all respondents  
 Source: FSB access to labour and skills after Brexit survey 2016



The UK economy is highly integrated with the other EU member states and businesses have benefited from the seamless movement of their staff across borders.

During an interview, one small business owner cited existing barriers to doing business in the EU as impeding their ability to quickly offer services on the continent and affecting their ability to compete. For the self-employed, completing an A1 form in advance of each trip to another EU member state, and waiting for the response from Government, could mean the difference between success or failure to secure a contract. A number of our members provide examples of how their competitive advantage was derived from the speed with which they could bring their goods and services to market.

This principle was reflected in our survey, which found that 69 per cent of businesses that make use of cross-border travel are concerned about the time that would be required to apply for the appropriate visas. A further breakdown shows that 45 per cent of respondents say they are ‘very concerned’ about the potential costs and only 24 per cent are ‘slightly concerned’. There is also a similar level of concern among our membership on the potential cost of new visas (66%).

Finally, there is broad-based concern over the loss of business resulting from new restrictions on ability to freely operate in other EU member states. About 62 per cent of respondents are concerned about the loss of business from the EU if visas were required for short-term projects or business trips between the UK and EU.

### Case study: Keith Cooper, Northlight Images, Leicester

Northlight Images Photography was founded in 2003 and provides commercial photography and photography-related training services throughout the world.

*"I think Brexit will have a significant impact on my sector, the creative industries. We work with web designers, graphic designers and other creative industries all over the world, and we supply photos and prints to international businesses, so we are key to their supply chain.*

*"For me, my main concern is making casual personal trips and business trips vastly more inconvenient if visa-free travel were to cease. Architectural photography is one of my specialisms, and I tend to work with British companies that work all over the world, but mainly in Europe. For example, I could be asked to photograph a building in Luxembourg. In which case, I can easily travel out there, stay in the country, take my pictures, liaise with the business I am working with and return to the UK. It's a simple process. But I'm uneasy about how this would look in the future. Although my direct costs would remain the same, the cost of me travelling if there were new restrictions would force me to increase my costs. It makes it expensive for me to pitch for work outside the country – even in Dublin, which I don't normally think of as a foreign country. All this makes it more likely that a business in Europe will use someone locally."*

## Free movement of people and Northern Ireland

Northern Ireland is the only part of the UK which has a land border with another EU member state, and many businesses, but particularly those located near the border between Northern Ireland and the Republic of Ireland, not only trade freely and frequently between the two states, but they also freely employ people from either state as required. Indeed, for a potential employee, whether Irish or from Northern Ireland, it is likely that distance and travel time is a more important consideration when considering a vacancy, rather than on which side of the border the employer is located. It is standard practice for vacancies to be advertised on both sides of the border, and businesses in the border area are concerned that restrictions to cross-border travel will have a direct impact on their ability to recruit the best person for their jobs, as well as concerns about whether they will be able to retain current employees – either because of new regulations or because border restrictions will deter staff.

### Case study: John Friel, Visual Edge Signs and Printing, Strabane

Strabane business owner and FSB Regional Chair for Northern Ireland, John Friel has two businesses which operate on both sides of the border with the Republic of Ireland - one based in Northern Ireland and the other in the south. John's employees help make-up the 17,224 journeys that are made across the border between Lifford and Strabane every day for the purposes of work.

*"The first of my two businesses that operate across the border manufactures PVC and aluminium windows and doors; this one is based in the Republic. My main business designs and develops products for the signage industry. We manufacture here in Strabane in Northern Ireland and we sell mostly business to business, with some of the smaller products available to buy online. The sign business actually started life in the Republic of Ireland before moving to Strabane, which is located just a few miles from the border. The move to Strabane was initially a temporary one. Back in the days that we had a hard border, you could be in the checkpoint queue for one and a half hours. It just wasn't viable for the businesses.*

*"At present, nine of my workers in my signage business cross the border daily from the Republic. We are a highly mobile workforce, which means the ability to freely and quickly cross the border is essential to our success. We can often turn around a job overnight, deliver it, assemble it on site, and then travel back within 24 hours. The same job would have taken three days a few years ago.*

*"At my PVC and aluminium windows and doors' business in the Republic, we employ around 30 people, and 20 cross from Northern Ireland to the Republic each day. This is normal; most people work on either side. However, when we had a hard border there were customs and guards, which was a real inconvenience for ordinary people, never mind businesses. But, even then, people*

*still travelled across the border for work. There is a long tradition of moving across. When you advertise a vacancy – a driver, for instance – with the local Jobcentre in Northern Ireland it is automatically also advertised in the Republic.*

*"There's no doubt that returning to the borders of the past would be disastrous, and Northern Ireland would suffer the worst of it. It's not just the inconvenience or loss of business, but it would mean a loss of jobs, skills and mobility; all of which affect the bottom line and, for small businesses, it can mean the difference between thriving and surviving."*

## Brexit and business owners from outside the UK

Non-UK business owners are an important feature of the UK economy. According to The Centre for Entrepreneurs (CFE) there are almost half a million people<sup>58</sup> from 155 countries who have come to the UK to start a business.<sup>59</sup> Of the 3 million active UK-registered companies in the UK,<sup>60</sup> those founded or co-founded by 'migrant entrepreneurs' total 14.5 per cent, or one in seven of all UK companies.<sup>61</sup> These business owners make a considerable contribution to job creation. CFE estimates that SMEs founded by non-UK citizens<sup>62</sup> employ approximately 1.16 million people, representing 14 per cent of all employment in this segment of the economy.<sup>63</sup> Evidence also suggests that 'migrant entrepreneurs' are more likely to create jobs for others, as opposed to creating a job just for themselves, which, in turn, results in a greater economic and social impact for communities.<sup>64</sup> They are also more likely to create high-growth rather than low-growth enterprises.<sup>65</sup>

However, people from countries outside the UK are also more likely to be involved in entrepreneurial activity than individuals from the UK. The 2015 Global Entrepreneurship Monitor (or GEM) survey, conducted in around 60 countries worldwide over the last 20 years, finds that the percentage of immigrants<sup>66</sup> involved in starting a business (15%) to be around three times that of life-long UK residents (5%).<sup>67</sup>

Further analysis of GEM data by Enterprise Research Centre for this report disaggregates Total Early-stage Entrepreneurial Activity or TEA (the prevalence rate of individuals in the working age population who are actively involved in business start-ups, either in the phase of starting a new firm or in the phase spanning 42 months after the birth of the firm)<sup>68</sup> by migrant status and region of birth. As Figure 20 shows, along with the 95 per cent confidence intervals, both EU citizens and non-EU citizens have higher shares of individuals involved in entrepreneurial activity than the UK-born population.<sup>69</sup> These results are statistically significant because there is no overlap in the confidence intervals between the EU citizens and non-EU citizens compared to UK-born residents. In addition, although entrepreneurial activity for EU and non-EU citizens is not statistically different (between 9% and 13% of the EU population residing in the UK were entrepreneurial, compared to between 11.5% and 14.5% of the non-EU population residing in the UK), it is clear that business owners from the EU are as important a feature of UK entrepreneurship as non-EU business owners.

58 There are 456,073 migrant entrepreneurs in the UK – The Centre for Entrepreneurs and DueDil, Migrant entrepreneurs: Building our businesses, creating our jobs, March 2016, <http://www.creatingourjobs.org/data/MigrantEntrepreneursWEB.pdf>

59 Ibid.

60 This analysis does not include sole traders.

61 There are 456,073 migrant entrepreneurs in the UK – The Centre for Entrepreneurs and DueDil, Migrant entrepreneurs: Building our businesses, creating our jobs, March 2016, <http://www.creatingourjobs.org/data/MigrantEntrepreneursWEB.pdf>

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

63 There are 456,073 migrant entrepreneurs in the UK – The Centre for Entrepreneurs and DueDil, Migrant entrepreneurs: Building our businesses, creating our jobs, March 2016, <http://www.creatingourjobs.org/data/MigrantEntrepreneursWEB.pdf>

64 Enterprise and Research Centre, Ambitious entrepreneurs and migration: A multi-level study across the Local Authorities in England and Wales, ERC Research Paper No.47, July 2016, <https://www.enterpriseresearch.ac.uk/publications/ambitious-entrepreneurship-migration-multi-level-study-across-local-authorities-england-wales-research-paper-no-47/>

65 Ibid.

66 This includes both EU and non-EU immigrants.

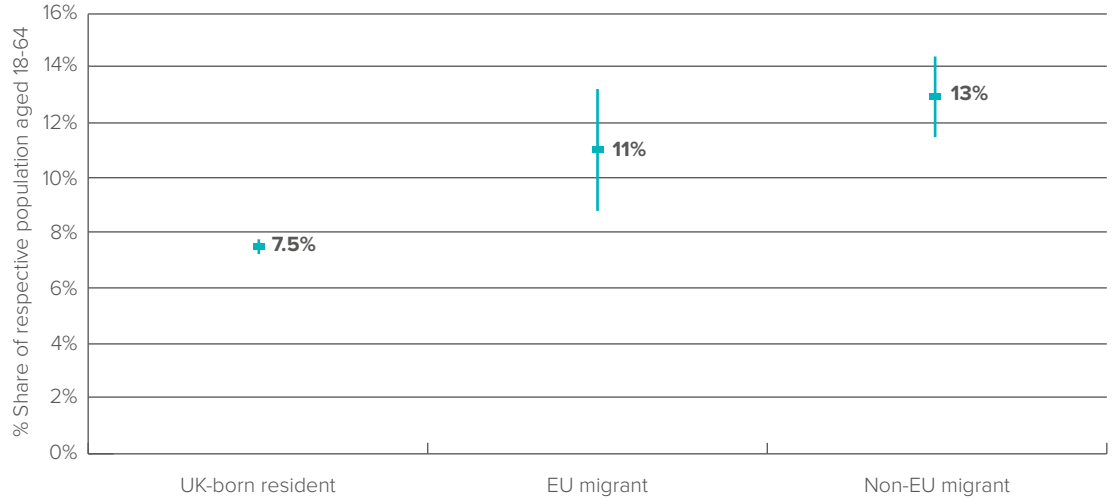
67 Hart, M., Bonner, K., Levie, J., Global Entrepreneurship Monitor, United Kingdom 2015 Monitoring Report, May 2015. <https://www.enterpriseresearch.ac.uk/wp-content/uploads/2016/05/GEM-UK-2015-final-report.pdf>

68 IGI Global, <http://www.igi-global.com/dictionary/total-early-stage-entrepreneurial-activity-tea-rate/47105>, accessed March 2017.

69 Data prepared by Dr. Karen Bonner, Enterprise Research Centre (ERC), Aston Business School, February 2017.

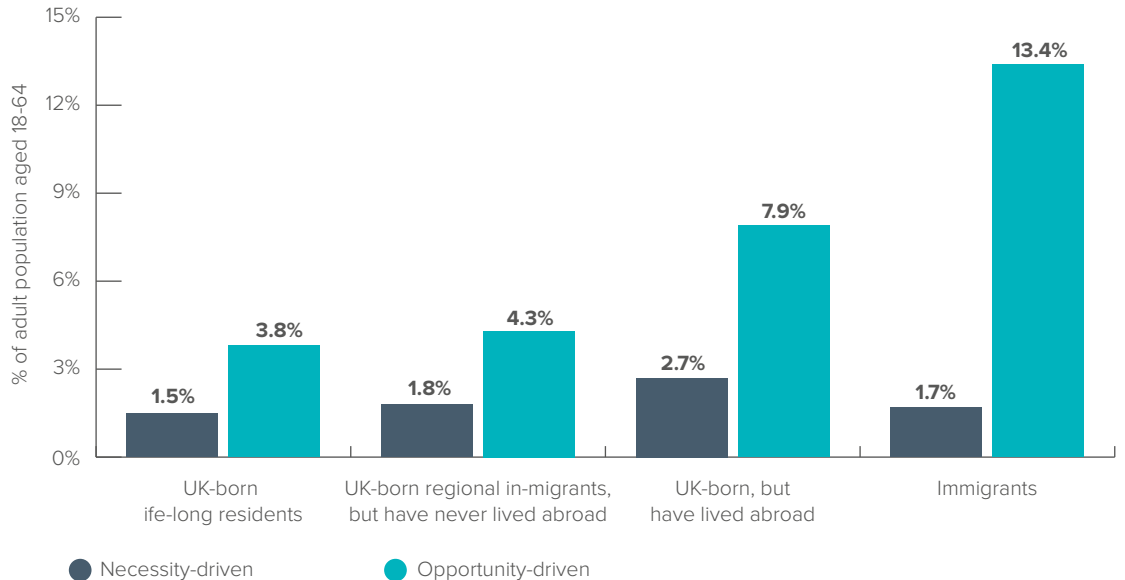


**Figure 20: Total Early-stage Entrepreneurial Activity (TEA) rates by migrant status and region of birth**  
 Source: GEM APS 2011-15, analysed by Dr Karen Bonner, Enterprise Research Centre



In addition, those individuals who are ‘spatially mobile’, for example those who have lived outside the UK, are more likely to start new ventures characterised by high growth aspirations. A reason for this might be that non-UK entrepreneurs have been found to be more ‘opportunity-driven’, meaning that they are more motivated to start a business by opportunity or the possibility of new market potential than a lack of available employment options.<sup>70</sup>

**Figure 21: Motivation for entrepreneurship, by migrant and resident status**  
 Source: GEM UK APS 2015



Six per cent of business owners that took part in our survey are from countries outside the UK.<sup>71</sup> Of this, five per cent originate from countries within the European Union.

Figure 21 shows that most business owners from the EU (91%) are running businesses that require highly-skilled people, such as directors, managers and professionals, and mid-skilled workers,

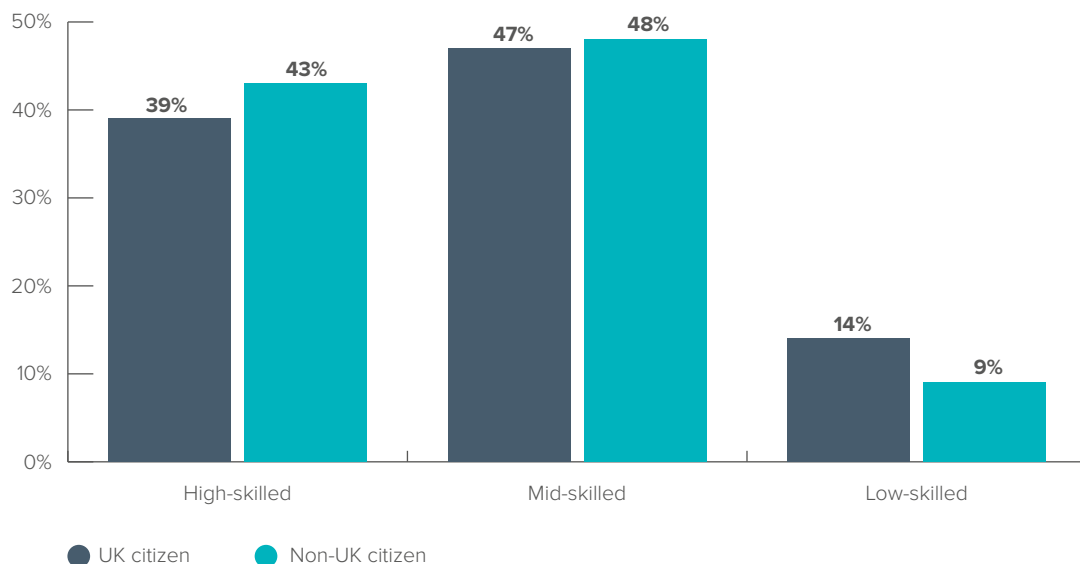
<sup>70</sup> Data prepared by Dr. Karen Bonner, Enterprise Research Centre (ERC), February 2017.

<sup>71</sup> Non-UK citizens include EU citizens (excluding the UK – for the purposes of this survey, all references to the EU includes the EEA. The EEA includes Iceland, Liechtenstein and Norway, as well as all of the EU countries: Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and Sweden. Switzerland is neither an EU nor EEA member, but does participate in the free movement of people and should also be read into EU, EU citizens with UK permanent residency have been provided with an indefinite leave to remain in the UK, but are not a citizen), a citizen of a country outside the EU and UK, and non-EU or UK citizen without UK permanent residency.

such as mechanics, construction workers and care workers with training and considerable practical experience. In addition, these business owners are recruiting more highly-skilled workers than business owners from the UK (39% versus 43%). Although the sample size means we cannot draw firm conclusions about the sectors where employers from outside the UK are found, the data show a tendency for these businesses to be operating in manufacturing,<sup>72</sup> retail<sup>73</sup> and accommodation and food service activities.<sup>74</sup>

It is also worthwhile to note that, like UK-born business owners, employers from outside of the UK are also providing mid-skilled employment opportunities and driving-up demand for technical professions such as technicians, advanced manufacturing roles and healthcare workers, and other roles that require vocational qualifications or technical knowledge.

**Figure 22: Predominant skill level of businesses owned by UK and non-UK citizens**  
 Source: FSB access to labour and skills after Brexit survey 2016



The vote to leave the EU has left many small business owners considering their options for the future. As the following comments from non-UK small business owners show, there are not only concerns relating to the impact of Brexit on their own immigration status, but questions about the attractiveness of the UK to entrepreneurs from outside in the future.

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

FSB member, retail, Edinburgh

*“I am a German national living in the UK. My main thought is – is it worth staying in the UK and further investing in growing the business, which is currently in a growth spurt? I am concerned about my highly specialised team and their future and about the possibility of not being able to transfer them with us if we decide to move to the continent because their freedom of movement gets restricted.”*

FSB member, education, Herefordshire

<sup>72</sup> Manufacturing includes electronic equipment, machinery, food & beverage, textiles, paper, media, chemicals and repairing equipment.

<sup>73</sup> Retail trade includes all retail trade.

<sup>74</sup> Accommodation and food service activities includes holiday letting, camping grounds, restaurants and mobile food services.

# RECOMMENDATIONS

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## Immediate to short-term:

### 1. Guarantee the right to remain for EU citizens in the UK workforce – with no early cut-off date, including those that arrive during the EU exit negotiations

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

- On behalf of FSB members and all small firms, FSB has called for a blanket right to remain for all EU citizens who already reside in the UK, and who will reside in the UK during EU exit negotiations, until the UK has exited the EU. The status of these individuals needs to be clarified as soon as possible and they should be granted the right to remain and work within the UK after Brexit. This includes confirmation of the rights of self-employed EU citizens who are working in the UK.
- To minimise uncertainty for business owners, FSB asks Government to ensure that no new restrictions be placed on EU migration until a new immigration system is in place. Any other arrangement could result in an uncertain residency status for many EU workers, self-employed people and entrepreneurs. In addition, it could lead to restricted access to EU skills and labour, which would inhibit businesses' decisions to invest or grow.

### 2. Review the collection of migration data so that it underpins effective policymaking

There are significant weaknesses in the UK's migration data. The International Passenger Survey (IPS) is the source for most of the data on migrant flows in and out of the UK. However, commentators<sup>75</sup> have called on the Government to review its means of collecting and recording data on migration, in particular the use of the IPS, saying it should not be used for evidence-based policymaking as the margin for error is significant. For example, the recent House of Lords European Union Committee report on UK-EU movement of people noted that immigration figures include UK nationals.<sup>76</sup> FSB supports this call and ask that Government:

- Find an alternative to the IPS for the collection of reliable data to net migration statistics which reflect and measure the wide range of aspects of migration. The IPS was never intended for its current purpose and the ONS has admitted that the survey has 'inherent limitations' and wide margins of uncertainty. For example, students and migrants who return home shortly after arriving are included in the data. The Government should identify and connect administrative data sources that provide an accurate picture of the extent of migration by individuals from the EU to the UK, as well as their characteristics, to inform the design of a post-Brexit immigration system that delivers for employers.
- Explore ways to overcome barriers to sharing data across Government and link-up information already held within Government by DWP, Home Office and HMRC, to unlock opportunities to better understand the impact of migration to and from the UK, as outlined in the House of Lords European Union Committee report.<sup>77</sup>

<sup>75</sup> Institute of Directors, Post-Brexit Immigration Policy – A system that supports economic growth, works for business and addresses public concern, IOD Policy Report, October 2016, <https://www.iod.com/Portals/0/PDFs/Campaigns%20and%20Reports/Europe%20and%20trade/Immigration-Report-2016.pdf>

<sup>76</sup> House of Lords, Brexit: UK-EU movement of people, European Union Committee, 14th Report of Session 2016-17, 6 March 2017, <https://www.publications.parliament.uk/pa/ld201617/ldselect/lducom/121/121.pdf>

<sup>77</sup> Ibid.

### 3. Ensure that small businesses do not take on additional administrative burdens or costs

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

- Any future immigration system for EU citizens cannot place additional administrative or fiscal burdens on small employers. The Government should take on the administrative task of creating a simple form of evidence that employers can check to confirm that future EU workers have the right to work in the UK, once we have left the EU.

### Medium to longer-term:

#### 4. Small businesses need an immigration system which gives them access to the best talent – without the red tape

There are a number of different models for a future immigration system, from modified versions of freedom of movement to a work permit system. However, we understand that freedom of movement does not form part of the Government's negotiating position. The post-Brexit immigration system must help small businesses access the labour and skills they need to thrive and grow, but it must also be flexible and simple. With employers facing the prospect of significant changes to the way they have previously sourced and employed EU workers, while acknowledging the Government's focus on reducing net migration to the UK, policymakers could consider:

- Introducing a work permit system such as that found in Sweden, which applies to non-EU citizens looking to work in the country. To qualify for a work permit, one of the criteria most<sup>78</sup> individuals must meet is to have received an official offer of employment from a Swedish employer, meaning that those who do not have this will not be granted entry.<sup>79</sup> This would be coupled with a simple resident labour market test (which organisations looking to sponsor migrants under Tier 2 and/or Tier 5 of the UK's points-based system must currently carry out if the role is not on the shortage occupation list) in order to establish that there are no suitable UK workers available to the business. This employer-driven arrangement would ensure that businesses can meet their rapidly-developing skills needs – something which a government-generated list of acceptable occupations under a new work permit system would struggle to do. Another advantage of this system is that a permit can be obtained for almost any occupation, irrespective of skill level or salary attached to the vacancy. Rather than having a series of sectoral exemptions, a more responsive work permit system, such as that found in Sweden, would allow small businesses not only access to skilled individuals, but also satisfy their demand for workers to do low-skilled work.
- The new immigration system for EU citizens should also allow for easy transfers between employers once an EU worker is in the UK, as 72 per cent of small employers recruited all of their EU employees when they were already here.
- The immigration system needs to be able to address the varying skills and labour needs of nations and regions across the UK.

<sup>78</sup> Under the Swedish work permit system, employees in certain fields may be exempt from work permit regulations. For more, see <https://www.migrationsverket.se/English/Private-individuals/Working-in-Sweden/Employed/Special-rules-for-certain-occupations-and-citizens-of-certain-countries/Exemptions-from-the-work-permit-requirements.html> Accessed February 2017.

<sup>79</sup> Generally, individuals from outside the EU are required to apply for a permit before entering Sweden, though, in some cases, it is possible to apply from within Sweden if someone is already legally living in the country.

## **5. Provide businesses with a transition period after the UK has left the EU**

Small businesses who employ EU workers say that, on average, they need a transition period of more than three years after the UK exits the EU to be able to meet their labour and skills needs. Small businesses do not want to see any cliff edge changes in immigration policy, and it could take more than five years for the UK Government to negotiate a comprehensive free trade agreement with the EU. As such, the Government should:

- Plan for an extended transition period that would reduce short-term uncertainty and provide sufficient time for businesses to prepare for a new policy environment. Time must be given to allow the Industrial Strategy and each of the devolved administrations respective economic development strategies to change the structure of the labour market to fill these gaps. Businesses should not be penalised for these changes to take effect.

## **6. Create a system that allows EU entrepreneurs into the UK after Brexit**

Entrepreneurs drive innovation and economic growth, and create jobs. Evidence produced exclusively for FSB from the GEM dataset shows that there is a statistically significant difference between EU migrants to the UK and UK-born residents, where EU citizens are more likely to be entrepreneurial. The UK needs to continue capturing this talent in the future, but a work permit system (as proposed above) would not include future EU entrepreneurs who wish to come to the UK, as there is no employer to sponsor this type of migrant. Therefore, the Government should:

- Consider providing self-employed EU citizens who aspire to grow a business with a bespoke visa to allow them to work in the UK. This visa would likely require some minimum assets or support from angel investors, similar to the current Tier 1 visa system for entrepreneurs, to act as a test of entrepreneurial propensity. Government should also review the minimum assets required by these entrepreneurs to gain access to the UK.

## **7. Ensure that the Immigration Skills Charge will not be extended to include EU workers**

In April 2017, an Immigration Skills Charge was introduced for UK employers who recruit skilled workers from outside the EEA through the Tier 2 (General) and Tier 2 (Intra-company Transfer) routes. Small businesses (and charitable sponsors) that take on non-EU workers will have to pay a reduced rate of £364 per sponsored individual per year, as opposed to the standard rate of £1,000 per individual per year. FSB was encouraged to see that the Government's new Immigration Skills Charge would be set at a lower rate for small businesses, which shows that the Government acknowledges the challenges faced by smaller employers in accessing the labour and skills they need. In addition, with growing uncertainty regarding the ease and cost of recruiting skilled workers from the EU to fill vital skills and knowledge gaps in our labour market, small businesses predominately employing highly-skilled individuals and mid-skilled workers with technical skills, which the UK currently lacks, could face new and significant financial pressure and rising labour costs. In light of this, we ask Government to:

- Ensure that the Immigration Skills Charge is not extended to EU workers post-Brexit. Small businesses will be particularly vulnerable to the prospect of future changes to EU immigration policy and many small employers will not be able to cope with the additional costs imposed by the Immigration Skills Charge.
- New administrative burdens must be kept to a minimum for small businesses, many of which do not have HR departments to manage complex international recruitment.

## **8. Prioritise visa-free travel between the EU and UK in negotiations. If this is not possible, develop a simple visa system for EU-UK travel and work towards a comprehensive free trade agreement (FTA) that includes services and mobility rights**

Almost a third of small business owners, or their staff, benefit from the ability to freely move themselves across the borders of other EU member states. Some commentators have suggested that EU citizens will be able to visit the UK without a visa for short trips (e.g. tourists),<sup>80</sup> as well as reciprocal rights for UK citizens travelling to EU member states. Obviously, small businesses would prefer a visa-free model for short-term travel. At the same time, we are aware that the EU is planning to launch the European Travel Information and Authorisation System (ETIAS)<sup>81</sup> to facilitate easy travel of non-EU citizens into the EU – a system that appears to be similar to the American Electronic System for Travel Authorization (ESTA)<sup>82</sup> program. The American ESTA requires travellers to apply in advance of their journey and to pay a nominal fee. If approved, the traveller's ESTA will typically be valid for two years.

- Assuming that there is no privileged visa free arrangement, it will be important for the UK to influence the development of the ETIAS program so that, once we are outside of the EU, business owners and their staff will still be able to complete business trips with relatively few new restrictions placed on their movement.
- Ideally, a special arrangement could be reached through a comprehensive FTA between the UK and EU that would allow self-employed people and small businesses to continue to operate across borders. Other modern free trade agreements, like the EU-Canada Comprehensive Economic and Trade Agreement (CETA), include an effective provision for the free movement of labour to provide services and the UK should work to ensure that it achieves an arrangement that is at least as integrated as CETA.

## **9. Support and incentivise small businesses to invest in training employees**

All employers should be encouraged to invest in developing their employees. Indeed, the prospect of a reduction in the availability of skilled workers from the EU could see some small businesses commit to making this a reality. In addition, research by the CIPD shows that employers who currently recruit non-UK workers are more likely to invest in the development of their wider workforce than employers who don't employ non-UK workers.<sup>83</sup> However, it is impossible to say whether the overall level of training by employers in the UK will increase post-Brexit, and cost and time remain significant barriers to training. In spite of this, encouraging and incentivising businesses to invest in training UK workers is the right thing to do, and may go some way in helping to manage the introduction of a post-Brexit immigration system. The Government should:

- Devise a diverse range of solutions and support to boost training in the workplace – not just through apprenticeships. There are many ways to train, and apprenticeships should not be explained to business as a panacea to all their skills issues. As the Institute for Fiscal Studies suggests, apprenticeships will not necessarily lead to an increase in the training offered by business, but could see employers simply switch from unsubsidised on-the-job training to subsidised off-the-job training offered by apprenticeships.<sup>84</sup> Instead, Government should present apprenticeships as just one of many ways to build a skilled workforce and encourage and support small businesses to invest in lifelong learning.
- In addition, as employers of non-UK workers are more likely to invest in training, Government should prioritise developing of solutions and support to help these businesses to find and fund training which addresses any gaps in their workforce that the post-Brexit immigration system may cause, now or in the future.

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80 The Migration Observatory, Labour Immigration after Brexit, 27 January 2017, <http://www.migrationobservatory.ox.ac.uk/resources/reports/labour-immigration-brexit-trade-offs-questions-policy-design/>

81 European Commission, press release database [http://europa.eu/rapid/press-release\\_IP-16-3674\\_en.htm](http://europa.eu/rapid/press-release_IP-16-3674_en.htm), accessed March 2017.

82 U.S. Customs and Border Protection, Official ESTA Application Website, <https://esta.cbp.dhs.gov/esta/>, accessed March 2017.

83 CIPD in partnership with The Adecco Group, Labour Market Outlook: Views from employers, Winter 2016-17, February 2017 [https://www.cipd.co.uk/Images/labour-market-outlook\\_2017-winter-2016-17\\_tcm18-18238.pdf](https://www.cipd.co.uk/Images/labour-market-outlook_2017-winter-2016-17_tcm18-18238.pdf)

84 Ibid.

## **10. Build a responsive skills system fit for the post-Brexit future**

The vote to leave the EU has emphasised the need to ensure that skills strategies are future-proof. With the increased likelihood that the UK's technical skills gap will not be met by workers from outside the UK in the foreseeable future, young people must be educated, encouraged and supported to boost their technical ability, and enhance their employability. We call on the Government to:

- Create clear vocational pathways into each sector, with an emphasis on improving access to high-quality technical routes and opportunities.
- Emphasise the tangible benefits of taking on apprentices to achieve real investment and commitment from small firms.
- Pursue policies that provide young people with the education, direction and ambition to create skilled and adaptive local labour markets. FSB believes that these plans must be supported by high-quality careers information, advice and guidance.

# METHODOLOGY

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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 series of 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 17 – 29 November 2016. The survey questionnaire was completed by a total of 1,236 small businesses.

FSB also facilitated an initial forum discussion with members of its Big Voice Panel (this consists of FSB members who volunteer to be part of a panel that gets surveyed frequently throughout the year) to collect views on any immediate impact that the EU referendum result has had on their business. This forum discussion was open for two weeks from the 16<sup>th</sup> August 2016.

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.