

Brexit and the future of UK immigration policy

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Summary

UK Prime Minister Theresa May has all but ruled out maintaining freedom of movement between the UK and EU post-Brexit. This implies a new migration system, providing recruitment challenges for a range of sectors from social care to agriculture. Businesses should now plan to adapt, but policy flux is not all bad news, with some distinct opportunities arising, especially should the government seek to integrate its approach to migration with industrial policy. Here we look at what will shape the impact.

UK Prime Minister Theresa May has explicitly framed June's EU referendum result as a mandate to set immigration criteria at a national level. Importantly, she has also committed to a long-term numerical cap for net migration to the UK, which will have a decisive impact on how that policy is designed and implemented. Above all it will mean answering difficult questions about how such a quota will be allocated - a process that will mean winners and losers. So, what exactly are those questions and what will shape the way they are answered?

Who to count, what to care about

Reaching the net migration target, notionally set at 100,000 per year, requires a multi strand approach and the government plans to produce a range of options for consultation in the summer of 2017. With UK net migration currently at more than 330,000, the target implies some very tough choices that will be closely scrutinised politically.

The first big one will be who to count. Excluding some large cohorts from the total would not be practically or politically impossible - students stand out as an example. However, the UK prime minister has made it clear that the target will not be altered to exclude groups currently included, with UK Home Secretary Amber Rudd already signalling that student visa numbers will be restricted. If the government gives away this big potential fix, it will put all the more pressure on working migrants. A way to tackle this might be a system of very short-term visas - for example for agricultural workers -

that were effectively netted out in a single year and not counted against a target.

The second question will be who to prioritise for a finite number of work permits. There are a huge range of options for policymakers here. They will need to decide whether to treat EU and non-EU nationals differently. The favourability of the access granted to EU citizens will be defined by the negotiations but is likely to be an early and high profile feature of the exchanges between Brussels and Westminster. Preferential access for EU labour is expected to be advocated by businesses on both sides of the Channel that rely on access to migrant labour and by some member states that are sources of migration to the UK, though is likely to include a requirement for migrants to have a firm job offer before being granted entry to the country.

The UK will then need to make judgements on what skills and sectors to prioritise. A skill focus points to an extension of the current points system. A sector focus implies some big industrial policy decisions on who to favour and why. As with other aspects of recent policy, the government will be keen to ensure the system is 'employer-led' with employers being encouraged to identify their own priorities for any migration system, bargaining with government and with each other - and taking the reputational damage when the media focuses on the issue. The danger for the government is the politicisation and short-term interventionism a quota system implies regardless of any non-governmental bodies placed in control of policy.

Sector	Wage Risk	Recruitment Risk
Hospitality	Low	High
Agriculture & Food Processing	Low	High
Construction	Medium	Medium
Health & Social Care	Medium	High
Tech	High	Medium

Fig 1. Who is most affected by policy change?

Finally, government will need to consider whether to treat the UK as a whole, or divide up migration targets on a regional basis. Although administratively problematic, a range of stakeholders, from the London Chamber of Commerce (LCC) to the All-Party Parliamentary Group on Social Integration have urged the government to consider a regional visa scheme. The visa would allow for migrants to be able to work in areas of labour shortages but would not entitle them to seek employment in other areas of the UK. The administrative headache of such a system will surely count against it.

Which sectors will be impacted?

An obvious implication of such an overhaul is a big increment in cost and complexity for business. If the overhaul of the system is as radical as ministers are hinting at, businesses of all sizes and in all sectors employing migrant labour will have a new regulatory regime to adjust to, with steep penalties likely in the event of any transgressions. These burdens on businesses could include: increased record keeping and reporting requirements, more frequent inspections and charges for requirements such as language learning. The government will also have to fund an increase in processing, monitoring and enforcement activity so in the future employers can expect (despite the current denials) to be levied for the right to hire from the EU, along with fines for breaking the rules.

The pressure to improve domestic hiring rates is also likely to drive policy change and the cost of this will potentially be shared between business and government. The government can be expected, through its industrial strategy vehicle, to invest in vocational skills training, employability support and further incentives for employers to take on and train native workers. With private sector training providers already finding opportunities from the apprenticeship programme this could be a sector that sees substantial growth.

The impact of these changes would obviously not be even. Temporary worker solutions could remove some of the risk in sectors such as agriculture,

summer hospitality or Christmas demand. However, the apparent political focus on high-skilled migrants is likely to mean that low-skilled sectors will potentially be where reforms bite, not just in numerical terms but in English language requirements, reduced rights to settle and the need for a firm job offer before entering the UK.

Whichever model the UK government chooses, for hospitality, construction and social care employers, the route to finding employees will be more convoluted. For these sectors, there is likely to be a shift in the recruitment process; for smaller enterprises, this means a reliance on recruitment agencies. For recruitment agencies, this could be a double-edged sword, with increased demand balanced by being at the sharp end of fresh regulatory requirements.

The UK healthcare sector stands out due to its level of exposure. Already facing a range of existential pressures, the health and care system is more reliant than most on migrant labour. The social care workforce is 18% non-UK, the NHS 22%. While for the latter there is the political will to create rules to maintain worker inflow, the perception that the UK is a less attractive place to seek work could push labour shortages from being a major inconvenience to something that persistently degrades the quality of care across the UK. This is not good news for traditional providers of health and care, whether public or private. If there is a silver lining it may be in the greater impetus to reorganise and innovate in healthcare delivery.

Tech could also be impacted. The relative lack of depth in the UK's home-grown digital workforce, compared to the amount of capital and entrepreneurial energy deployed in the UK potentially means a big talent gap. The amount

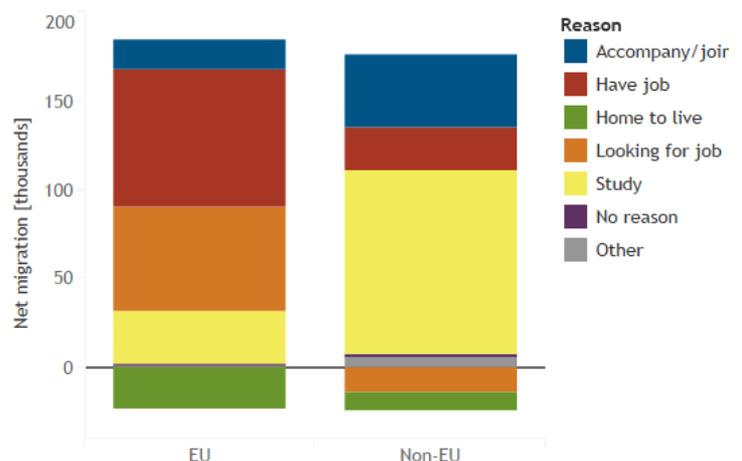


Fig 2. Net migration to the UK by non-UK nationals
Source: ONS IPS estimates (2016), GC analysis

of non-British workers in the UK's IT sector stands at 14% and there is currently a bottleneck of non-EU workers trying to get into the UK through the capped Tier 2 visa stream. Any move to restrict skilled migration further will exacerbate the situation, especially if proxies for skills, like pay, tip the system in favour of sectors like financial services.

Conclusion

It is far from certain how migration policy reform will unfold, but Brexit, combined with the UK's determination to reach the 100,000 net migration target, will likely prompt a radical overhaul of employers' access to the fluid labour market provided by EU membership. While EU nationals may find themselves privileged to some degree in the new system, changes will still represent a rolling back of the immense basic labour market currently represented by the single market. More broadly, there could be a range of indirect consequences of a shift in migration policy, from a revival of government plans to introduce ID cards to an acceleration of economic rebalancing from the South East of England to the rest of the UK as businesses look for a more affordable workforce.

Policy will not be decided in isolation. Public opinion will matter, as will the perceived strain on the system and the economy. The economic significance of Brexit may be more relevant for migration flows than any of the potential shifts in policy. With net migration expected to fall (the Office for Budget Responsibility expects net migration to fall from 330,000 to 165,000 by 2020) and weak sterling already reducing the attractiveness of the UK to new arrivals, it may be that the perception of lower migrant numbers dampens political pressure for stronger curbs on freedom of movement in the short-term. UK Prime Minister Theresa May has shown no inclination to retreat from the current target, but once back in control of the UK's system, politicians may feel they have more leeway to adjust numerical levels as a 'sovereign' choice. This might allow for the possibility of a simple work visa system for all EU workers with a UK job offer, as proposed by former UK Foreign Secretary William Hague.

For business, preparation will be key. Many sectors need to adapt now, with the urgency dependent upon how much churn there is in their workforce. Adjusting recruitment models, investing in training and considering staff retention models will be central. Those looking to ensure that they can continue to access the skills they need will also need to understand the current UK government

mindset around immigration. For businesses seeking to engage in the debate, a positive and engaged strategy that constructively seeks to help develop forthcoming reforms will be viewed more positively than those who actively combat an end to freedom of movement. Immigration policy will undoubtedly change and evolve as Brexit takes shape and a degree of flexibility from business will be required to facilitate a constructive relationship with government.

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