Migrant workers and skills shortages in the UK

Role of immigration in tackling post-Brexit skills challenges
The CIPD has been championing better work and working lives for over 100 years. It helps organisations thrive by focusing on their people, supporting our economies and societies. It’s the professional body for HR, L&D, OD and all people professionals – experts in people, work and change. With almost 160,000 members globally – and a growing community using its research, insights and learning – it gives trusted advice and offers independent thought leadership. It’s a leading voice in the call for good work that creates value for everyone.
1 Introduction

In his budget speech in March 2023, Chancellor Jeremy Hunt stated that Brexit represented a decision to change the UK’s economic model from “one based on unlimited low-skill migration to one based on high wages and high skills”.

It was against this context that he presented his plans to tackle labour market inactivity among working-age people in the UK to help address rising skills and labour shortages across the economy.

Labour Leader Keir Starmer has also argued that there’s a need to ‘wean’ businesses off immigration and instead get them to invest more in the skills of the UK-born workforce.

It’s too early to tell how successful this transition will ultimately be, but more than two years after Brexit, it’s important to understand progress to date. This report
reviews the state of play after the end of the free movement of labour and the introduction of the points-based immigration system in January 2021.

First, it sets the current context using official immigration data from the Home Office and Office for National Statistics (ONS). It then focuses on employer responses to a series of questions on immigration. These were included in the CIPD’s winter 2022/23 *Labour Market Outlook*, a quarterly survey of employers that took place in January 2023.

The survey included questions on:

- hiring practices of migrant workers
- whether their workforce nationality breakdown has changed
- which migrant routes have been used
- views on the new immigration system
- whether the system is addressing skills and labour market shortages.

Finally, the report considers the implications of the findings for both immigration and skills policy and makes the following recommendations to the UK Government:

**Immigration policy**

- Regularly review and where necessary extend the shortage occupation list to address skill and labour shortages damaging economic growth or key services.
- Extend the Youth Mobility Scheme to include EU nationals.

**Industrial strategy/skills policy**

- Reform the Apprenticeship Levy into a more flexible skills and training levy.
- Improve the quality of locally delivered business support for SMEs on people management and development via key stakeholders such as Local Enterprise Partnerships, Growth Hubs and chambers of commerce.
- Develop refreshed approach to industrial strategy and skills policy.

### 2 Immigration trends and context

**Migration is part of population growth**

In the years between 2011 and 2021, over half (57.5%) of the population growth in England and Wales was because of net migration. Over this period, migration increased the total population in England and Wales by 2 million. Natural population growth, the number of births subtracted by the number of deaths, increased the UK population over this period by 1.5 million.

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*A points-based immigration system is a system that enables economic migrants to qualify for work visas. Under the UK’s new system, migrants require a total of 70 points to work in the UK. The new system includes a route for skilled workers with a job offer from an approved employer sponsor.*
In total, there are 10 million people living in the UK who are non-UK born. In all, 4.2 million (42.4%) of the non-UK born population have arrived since 2011. Despite the pandemic, a further 680,000 people arrived in the UK between January 2020 and 21 March 2021.

**Figure 1: Non-UK born, by year of arrival since 2011**

Source: 2021 Census of England and Wales.

**London is the destination for migrants**

The influx of migrants into the UK has concentrated to a significant extent in London between 2011 and 2021. In most local authorities in London, more than one in five people came to the UK within the last 10 years. Other areas of note include the university cities of Oxford and Cambridge, with a high number of students arriving in the UK to study. Leicester (18.5%) and Manchester (16.5%) are also prominent destinations. Both cities have high levels of non-UK-born populations, at 41.1% and 31.4% respectively.

**Figure 2: Level of population who have arrived in the UK between 2011 and 2021 in England and Wales, by local authority**

Source: 2021 Census of England and Wales.
3 UK migration and the end of free movement

Despite the UK’s departure from the EU, there has been no overall reduction in net migration into the country. The ONS estimates that in the year to June 2022, long-term immigration into the UK was 1.1 million, with net migration at approximately 504,000. However, this figure was affected by some exceptional factors, such as the war in Ukraine leading to an influx of refugees.

Two-thirds of the total immigration figure was driven by non-EU nationals (704,000), with 224,000 arrivals being EU nationals. Of the non-EU nationals arriving over this period, just 21% arrived on work visas, with 39% arriving on study visas. The remaining 39% of arrivals by non-EU nationals were categorised as other - this includes approximately 89,000 Ukrainian refugees. Among EU nationals, 39% arrived for work, 32% for study, and 29% came to the UK for other reasons.

The ONS suggests the graduate visa route, where students can work in the UK for three years after completing studies, could be a factor in attracting a high number of students to the UK.

Figure 3: Long-term immigration, by nationality and reason (year ending June 2022)

Source: ONS estimate of long-term international migration year ending June 2022.
Political concerns in some quarters of the UK Government over the continuing high levels of net migration prompted Home Secretary Suella Braverman’s pledge to cut net migration to the ‘tens of thousands’. The Migration Advisory Committee’s (MAC) review of the shortage occupation list was paused by the Home Secretary in September 2022 while they “awaited greater clarity regarding the Government’s stance on work migration”. The review has since resumed in February 2023.

While the full shortage occupation list (SOL) review was still paused, on 7 February 2023 the home secretary asked the MAC to deliver an expedited review of occupations in the construction and hospitality sectors to coincide with the spring budget. In this interim review, the MAC decided not to recommend any low-skilled (RQF 1-2 occupations) for addition to the SOL or skilled worker (SW) route. However, the caveat is that this does not prohibit them from making different recommendations in their full SOL review, to enable more stakeholder engagement and hence a more robust evidence base.

In its economic forecast published alongside the budget in March 2023, the Office for Budgetary Responsibility (OBR) said that it expected net migration to rise above its previous expectations. It also highlighted the economic benefits of increased migration:

“Net migration flows settle at 245,000 a year, rather than the 205,000 assumed in our November forecast and 129,000 in our March 2022 forecast. A larger population, due to increased net migration, adds 0.5 per cent to potential output in 2027” (OBR, March 2023).

**Migrants and the UK labour market**

In early 2020, there were 2.6 million EU nationals working in the UK, making up 7.8% of the workforce. In the last three months of 2022, this fell to 2.4 million (7.4%). The number of non-EU nationals in the workforce has risen from 1.5 million (4.4%) to 1.9 million (5.7%) over the same period.

The rise in non-EU nationals is driven by the increase in Asian nationals in the workforce, from 662,000 to 970,000 (now 3% of the total workforce). However, the sectors where Asian new arrivals wish to or are able to work does not offset the losses from EU-prevalent sectors. There have also been modest increases from
other European countries outside the EU, from 136,000 to 152,000 (0.5%), and from the rest of the world, from 666,000 to 730,000 (2.2%).

Some sectors are more exposed to immigration changes than others

The MAC’s 2022 annual report\(^5\) suggested that many foreign workers returned to their country of origin during the pandemic. This led to labour shortfalls when restrictions were eased and demand in the economy recovered. The MAC believes the rise in inactivity of older workers has also reduced potential labour supply. Together these factors have brought forward particular labour shortages in some sectors, which otherwise may have developed more slowly.

It highlighted several sectors most dependent on EU workers before the ending of freedom of movement. Manufacturing, logistics, administration (in particular cleaners, gardeners, security guards) and hospitality were found to be most reliant on EU nationals. These sectors also had a high level of EU nationals with lower levels of qualifications. The MAC also highlighted that the agriculture sector was likely to struggle post-Brexit due to the high level of seasonal EU workers.

Research from Portes and Springford\(^6\) suggests a shortfall of 330,000 workers (about 1% of the labour force) compared with if free movement had continued. This is due to a loss of 460,000 EU workers, offset by an increase in non-EU workers of 130,000. They highlight sectors with shortfalls in EU-origin workers which align with the prediction from the MAC above.

They estimate a shortfall of 128,000 EU workers in the transport and storage sector (8.5% of total employment in this sector), and 103,000 EU-origin workers in wholesale and retail. Losses in relative terms are estimated to be higher in accommodation and food, with 4% of EU-origin workers lost (67,000).

Comparing the nationality breakdown between early 2020 and the latest data for the sectors most likely to be affected by the restriction of freedom of movement - using the Labour Force Survey - corroborates the story that these sectors have been most affected (see Figure 4). All sectors have lower levels of EU staff, with hospitality the worst hit, from 15% of the workforce made up of EU nationals to 9.4% in the latest data. This has only been mildly offset by the increased level of Asian nationals working in the sector.
Figure 4: Nationality breakdown of shortage industries, pre-/post-pandemic (%)

When considering labour supply, it’s important to consider hours worked as well as numbers of people. In the economy as a whole, the average UK worker’s total hours are 31 per week; however, for EU nationals it’s 32.8 hours per week - that is, across the whole economy, each EU national works 6% more hours than their UK counterpart.

In each of the shortage industries, the average hours worked by EU nationals are higher than UK nationals (see Figure 5). The most evident difference is in hospitality, where for every four EU national workers in hospitality, you would need more than five UK national workers to take their place to have the same number of total hours worked a week. Combining this with the Portes and Springford estimate of the shortfall of workers in hospitality, this would mean 29% more UK workers would be required to fill this gap in hospitality alone (approximately 85,000).
Some sectors relied more on EU workers in the 2010s

In IT, finance and insurance, hospitality, and transport and storage, more than one in 10 employees have come to the UK since 2010, showing that these sectors have been particularly reliant on more recent arrivals and the relatively liberal immigration regime of the 2010s. One in 40 people working in health and social work have arrived in the UK since 2021.
Recent arrivals are highly qualified

One consequence of Brexit and the new immigration system is that migrants arriving to work in the UK are typically more highly qualified. Figure 7 shows that, in 2022, more than seven out of 10 of those who have come to the UK to work since January 2021 have a degree or equivalent. This continues the upward trend in degree-qualified migrants since the Brexit referendum. Figure 7 indicates migrants have historically had higher qualifications than the typical UK worker.

This shows that the new immigration system is doing its job in attracting what then-Home Secretary Priti Patel said it was designed to do, which is attracting the ‘brightest and best’ to the UK. It also makes it evident that the current system is likely to be leading to problems in filling more unskilled roles, previously filled by migrant labour.
Figure 7: Highest qualification level of arrivals and everyone else working as employees

Source: Labour Force Survey.

The immigration system and labour supply

Visas issued are on the rise

The introduction of the points-based immigration system for all migrant workers in January 2021 has, unsurprisingly, seen a huge increase in work visas, according to data from the Home Office. Figure 8 shows the number of work visas issued in Q2 and Q3 2022 was triple pre-pandemic levels - just shy of 125,000. Since January 2021 there have been a total of 431,186 successful work visa applications from main applicants. Dependants to main applicants are counted separately. Thus, these figures may slightly underestimate the potential labour supply of new arrivals who could be available or able to work. Many dependants will be spouses, partners or children.
Rise in visas not driven by EU nationals

The increase in work visas issued, by region, has been significantly driven by large increases from south Asia and sub-Saharan Africa.

- Work visas issued to south Asian nationals averaged approximately 10,000 per quarter pre-pandemic. This has remained above 20,000 for each of the last three quarters.
- The level from sub-Saharan Africa rose from the low thousands pre-pandemic to 16,102 in the latest quarter.
- There have also been relative increases since January 2021 from southeast Asia, non-EU Europe, central Asia and the EU. EU applicants were, of course, not required to apply for work visas until January 2021.
South Asia figures are almost solely driven by Indian nationals moving to the UK. The number has more than doubled from the pre-pandemic trends, with 16,857 visas issued in the last quarter.

Historically, in sub-Saharan Africa, South Africa nationals had the largest number of work visas issued. These have now been surpassed by Nigeria and Zimbabwe, with the latter only growing markedly since January 2021. Both had over 5,000 nationals in the last quarter who were granted work visas for the UK.

The figures for southeast Asia are driven by the Philippines, which has continued an upward trend that began pre-pandemic.

Only 12.1% (52,055) of accepted work visas since January 2021 (until December 2022) have come from the EU. The top five EU countries with work visas issued are:

- France (7,841)
- Germany (7,010)
- Italy (5,814)
- Spain (4,802)
- Poland (4,272).

Skilled worker visas rise sharply

Work visas issued since January 2021 have been predominantly driven by ‘skilled workers’ and ‘skilled workers in health and care’ (see Figure 10). Intra-company transfers, disaggregated into three categories prior to January 2021, rose to 4,973 in Q1 2022. This number fell to 24 in Q4 2022 - this is likely due to processing rather than the number of applications received. Figure 10 indicates it’s policy changes - that is, the new points-based immigration system - that have resulted in the higher number of visas issued to work in the UK. The Home Office highlights this in its own analysis of this data.  

Figure 10: Work visas issued, by visa type (non-temporary)

![Image of Figure 10](image)


It is possible to look at visa application data (rather than entry clearance data as shown above) by sector of work. Comparing health and care with all other sectors shows a remarkable trend. Figure 11 shows in the three months to December 2016, non-health-related applications were eight times that for those wanted to work in health and care. Now both have surpassed 20,000 per quarter since Q3 2022, with health and care now accounting for over half of all applications.
Figure 11: Visa applications to health compared with all other industries

Overall, work visa applications for health and care have exceeded 100,000 since January 2021. The next most common areas to see work visa applications from are IT, professional activities and finance.


Majority of applicants want to work in high-skilled sectors
Temporary worker visas are mainly driven by the seasonal worker visa route (see Figure 13). Between 2019 and 2021, the UK Government ran a series of annual pilots that gave six-month visas to seasonal horticultural workers. The reason for the sharp fall in the number of seasonal worker visas is due to the quota on seasonal workers in the UK annually, which allows up to:

- 38,000 temporary migrants to work in the UK edible and ornamental horticulture sectors
- 2,000 visas for temporary migrants to work in the UK poultry sector.

The quota is now subject to change annually. The Youth Mobility Scheme had 4,607 visas issued in the three months to December 2022, similar to pre-pandemic levels. As of April 2023, the UK is yet to form an agreement with EU countries to allow them to take part in the scheme, something the CIPD called for in the autumn of 2021.9 This is limiting the amount of youth labour that could be supporting struggling sectors such as hospitality, previously reliant on younger workers from the EU.
Since January 2021 most applications for temporary workers are in the agriculture, forestry and fishing sector, due to the seasonal workers scheme (see Figure 14). The number of applications to the arts, entertainment and recreation sector has fallen in recent years but is still in the top three sectors. Temporary extensions of stay are dominated by the arts sector, with over 80% of all applications since January 2021.
Evidence from the MAC\textsuperscript{10} suggests those on temporary work routes, including the seasonal workers visa, are more at risk of underpayment, and labour exploitation is higher due to dependency on their employer. Labour shortages would ordinarily lead to more bargaining power on behalf of the worker; however, those with poor language skills are often not able to take advantage of this.

**Workforces are changing, particularly in health and social care**

While not an exact predictor of migration, changes in nationality makeup among different workforces is a strong indicator of place of birth among workers (as displayed with the Labour Force Survey data previously). Nationality, self-reported by an individual, may reflect their cultural heritage rather than their country of birth. Below we review the latest data on workforces undergoing a change in composition.

Workforce data in the higher education sector has shown the number of staff with an EU nationality dropping by 1% between December 2020 and December 2021 to 37,995, whereas non-EU nationals working in higher education rose by 8% on the year to 36,115\textsuperscript{11}.

Figure 15 shows the level of EU nationals in the NHS workforce has stagnated since the Brexit referendum, with slight falls to its current level of 5.2% since early 2021. Conversely, the level of Asian nationals working for the NHS has risen steeply, in particular since the easing of lockdown restrictions in the UK in summer 2020, to a current high of 7.5%. The level of African nationals has also risen similarly over this period, reaching 3% in the latest quarter for the first time. The top three non-

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**Figure 14: Temporary visa applications, by industry since 2021**

UK nationalities within the NHS are Indian (48,324), Filipino (31,553) and Nigerian (16,732). These three nationalities also saw the highest increases in numbers, outside of British nationals, between June 2020 and September 2022 (Indian: +21,428; Filipino: +8,763; Nigerian: +7,671).¹²

**Figure 15: Non-UK nationality breakdown of the NHS workforce over time (%)**

![Graph showing the percentage of workforce by nationality over time]

Source: NHS Digital, NHS Workforce Statistics September 2022, HCHS staff in post summary tables.

While not as prevalent, this decrease in the EU workforce and increase in the non-EU workforce is also evident in adult social care over the last couple of years. Combined non-UK nationals now make up approximately 16% of the adult social care workforce; this has only been surpassed by the NHS workforce in the last year.¹³
4 Employer responses to the post-Brexit immigration system

The next section of the report draws on a nationally representative survey of more than 2,000 employers to explore the extent to which organisations currently employ migrant workers and the reasons for this. It also explores employer views on the efficacy of the new immigration system.

What proportion of employers hire migrant workers?

One in four (25%) employers surveyed currently employ migrant workers. We define ‘migrant’ as those who are foreign or overseas born, regardless of whether they have become UK citizens. Rates are highest among employers in IT (37%) and healthcare (32%).

In terms of location, employers in London (38%) and Scotland (38%) are most likely to employ migrant workers.

Figure 16: Proportion of employers who employ migrant workers (%)

Source: CIPD Labour Market Outlook winter 2022/23.  
Base: all employers: n=2,012.

Size of organisation is an important factor affecting whether organisations employ migrant workers. Just 6% of micro firms (employing between two and nine people) employ migrants, as do 13% of small firms (10-49 people). In contrast, 33% of organisations with 250 or more staff employ migrant workers.

Table 1: Proportion of employers that employ migrant workers, by size of organisation (public and private sector) %

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Source: CIPD Labour Market Outlook winter 2022/23.
Reliance on migrant workers

Seven in 10 (71%) employers who employ migrant workers believe they are reliant on migrant workers to some degree. In all, 17% of employers are very reliant on migrant workers, with one in five employers (22%) somewhat reliant. A third of employers who have migrant workers are slightly reliant on these workers (33%). A quarter (24%) are not at all reliant on migrant workers.

Figure 17: Reliance on migrant workers among employers (%)


Migrant workers fill gaps left by the UK-born workforce

The two main reasons employers hire migrant workers is because they have difficulty in recruiting UK-born workers to particular types of jobs or roles (37%) and because they have problems recruiting UK-born workers with the necessary technical skills (35%).

A large proportion of employers perceive migrant workers to have technical skills and qualifications that are hard to find (29%), with a quarter of employers believing migrant workers have a better work ethic than UK-born workers (26%). The latter perspective is evidenced by lower rates of absence among migrants compared with UK-born nationals.14

Employers also cited as reasons for hiring migrant workers: useful language skills (19%), and easier to retain than UK-born workers (17%).

In addition, some respondents identified migrants’ ability to be flexible and work longer hours (17%) and the belief that they are better prepared for work than UK-born workers (16%) as reasons for hiring. Analysis from the MAC (2022)15 shows foreign-born workers more commonly have jobs involving some kind of shift work or have night shifts, compared with the UK-born population.
Employers somewhat or very reliant on migrant workers are more likely to hire migrant workers due to difficulties in recruiting UK-born workers into particular types of role (44% vs 33%) and due to the high cost of training the existing workforce to develop key skills required by the business (17% vs 9%). Those more reliant on migrant workers believe they have technical skills and qualifications that are hard to find (36% vs 25%) and have a better work ethic than UK-born workers (36% vs 19%), compared with those who are less reliant on migrant workers.

Only a small proportion (11%) of organisations hire migrant workers because ‘they accept lower wages than UK-born workers’. This is supported by previous research by the MAC on the impact of European Economic Area migration in the UK.16

Why employers don’t hire migrant workers

Turning to the factors behind why organisations don’t hire migrant workers, just over a fifth (22%) of respondents said their organisation had no opportunity to hire
migrant workers. Other common reasons cited by employers that have not hired migrant workers include that it is not necessary to address skill or labour shortages (16%), they want to support local employment (14%) and the cost and complexity of the immigration system (13%).

Further factors include being unable to support relocation costs (13%), job roles don’t meet requirements of the points-based system (12%), potential language barriers (12%), and that they are able to recruit/train UK-born workers to address skills and labour shortages (11%).

**Figure 19: Reasons for not hiring migrant workers among employers (%)**

Source: CIPD Labour Market Outlook winter 2022/23.
Base: all employers who do not employ migrant workers: n=1,312.

A higher rate of private sector employers do not hire migrant workers than in the public sector due the cost and complexity of the immigration system (15% vs 9%), and because their organisation prefers to support local employment (15% vs 6%). Small and medium-sized firms employing between two and 249 staff are much
more likely to say there are no specific reasons for not employing migrants (30%) than larger firms with 250+ staff (14%).

Those with hard-to-fill vacancies were twice as likely to state they have not employed migrant workers due to the cost and complexity of the immigration system than those without (18% vs 9%). Those with hard-to-fill vacancies were also more likely to be unable to support relocation costs (15% vs 10%). This indicates some employers struggling to fill roles cannot afford to do so with migrant labour due to the costs initially involved.

**Employers report fewer EU nationals and more non-EU nationals since 2020**

Mirroring the official statistics from the ONS, a larger proportion of employers (42%) have a higher number of staff from outside the EU compared with January 2020, with 25% having fewer staff from outside the EU (see Figure 21). The new restrictions imposed on staff from inside the EU are evident, as almost half of employers (44%) have fewer EU staff than three years ago, with a quarter (26%) having more than three years ago.

Those who are somewhat or very reliant on migrant workers are more likely to have increased the number of EU nationals in their workforce compared with those who were less reliant (34% vs 21%).

**Figure 20: Change in workforce nationality since January 2020 (%)**

Source: CIPD Labour Market Outlook winter 2022/23.
Base: all employers who employ migrant workers: n=455.
Among employers that have hired migrant workers since January 2021, the most common approach has been to hire EU citizens with a right to stay in the UK under the EU settlement scheme, with half of respondents (51%) having done this.

The next most popular approaches were to hire migrants through the sponsored skilled points-based system (25%) or through the graduate visa route (24%). A further 22% of employers have hired either overseas students (during their period of study) or through the highly skilled route under the points-based system. Nearly a fifth of organisations have also hired people who have resettled in the UK following the Russian invasion of Ukraine (19%).

In all, 12% have hired other refugees, while a similar proportion have recruited people from Hong Kong on a British National Overseas visa.

Figure 21: Categories of migrant workers hired since January 2021 (%)

Source: CIPD Labour Market Outlook winter 2022/23.
Base: all employers who employ migrant workers: n=455.

Fewer employers have used the new system compared with the old one
One in five (19%) employers surveyed used the immigration system to sponsor non-EU workers prior to January 2021. A similar level did not know whether they had or not (22%).

IT (35%), healthcare (30%), business services (27%), education (22%) and construction (22%) were the sectors most likely to use the immigration system, compared with the survey average.

**Figure 22: Use of the immigration system prior to January 2021 (%)**

Source: CIPD Labour Market Outlook winter 2022/23.
Base: all employers: n=2,012.

In all, 15% of employers have used the immigration system since January 2021. The rates were highest in healthcare (29%) (as seen within the analysis of visa data) and IT (24%).

**Figure 23: Use of the immigration system since January 2021 (%)**

Source: CIPD Labour Market Outlook winter 2022/23.
Base: all employers: n=2,012.

**Employers’ views on the new system are mixed**

Four in 10 employers (41%) find the new points-based immigration system somewhat difficult or very difficult to use (see Figure 24). However, a similar proportion (45%) say the system is somewhat or very easy to understand and use. Interestingly, small and medium-sized employers with 2–249 staff are more likely to say the system is easy to use and understand (57%) than larger organisations with 250+ workers (43%). This may be because smaller employers using the system typically have to recruit fewer migrant workers than larger employers.
More than half of respondents (54%) whose organisation has used the points-based immigration system since January 2021 believe it is effective in helping their organisation address skill and labour shortages. However, over a third (34%) believe it is ineffective in addressing skills and labour shortages (see Figure 25).

**Figure 25: Effectiveness of points-based immigration system in addressing skill and labour shortages (%)**

Source: CIPD *Labour Market Outlook* winter 2022/23. Base: all employers who have used new points-based immigration system: n=286.

The main concerns of employers around the use of the new system centre on the amount of administration time and cost required to hire through it. Nearly half of employers (who have used it) believe a drawback of the new system is the internal administration and time required to hire through it. A further 44% believe the costs of hiring through the sponsorship system is also a drawback. Over two in five employers also believe the overall time to hire through the sponsorship route (42%) is a drawback, with 41% believing a lack of knowledge in their organisation is causing difficulties in using the sponsorship system.
Figure 26: Drawbacks of the new immigration system (%)

Asking employers to choose only the main drawback in the system leads to a variety of responses. In all, 18% believe the overall time and the internal administration and time are the main drawbacks (see Figure 27). This indicates speed in the new system is causing frustration to employers. Capacity (16%) and knowledge (14%) of the system within organisations are also perceived to be the biggest drawbacks by some the employers.
Source: CIPD Labour Market Outlook winter 2022/23.

Base: all employers who have used new points-based immigration system who believe there are drawbacks: n=271.

One in four employers (26%) believe the new points-based system is less efficient than the previous system. Nearly a fifth (18%) of employers think the new system is as efficient as before. A third of employers believe the new system is more efficient (34%), so experiences are not homogenous across the board.

Figure 28: Efficiency of the new immigration system compared with the previous system (%)
Base: all employers who have used previous system and new points-based immigration system: n=225.

Employers not using the new system have the same perceived drawbacks

The two main drawbacks in using the new system were also the two main reasons given by employers as their reason for not sponsoring migrant workers. Both internal administration and time that would be needed (18%), as well as overall time anticipated to hire through this route (17%), were cited by those not sponsoring migrants to work in their organisation.

How have employers adapted to the post-Brexit immigration system?

The introduction of a points-based immigration system in January 2021 was intended to help ensure that only the ‘brightest and best’ migrant workers could come to work in the UK to address identified skills shortages.

The analysis in the first part of the report suggests that the new system is broadly achieving this overarching objective and has enabled employers to continue recruiting skilled migrant workers in large numbers.

However, the new system has necessarily led to a very significant restriction on employers being able to employ migrant workers for lower-skilled jobs in the UK, exacerbating skill and labour shortages in a range of sectors. This, though, is arguably another key intended consequence of the new immigration regime.

Theoretically, given that employers can no longer rely on ‘cheap’ overseas workers, they will be incentivised to shift to higher-value forms of production and services. As a consequence, they will need to invest more in the skills of their UK-born workforce and reduce their reliance on and need for low-skilled labour. This will help underpin the UK’s transition to a high-skill, high-wage economy.17

The next section tests this theory and considers the extent to which employers have engaged with the immigration system post-Brexit and how this has in practice affected business behaviour and investment decisions on the UK-born workforce.

Link between skill shortages and use of the immigration system

The period since January 2021 has been characterised by a tight labour market, with job vacancies rising sharply to a new record of 1,144,000 between March and May 2022, and then falling slightly but remaining very high18 across most sectors.

This picture was reflected in the CIPD’s winter 2022/23 Labour Market Outlook19 survey data, which shows that, despite a slowdown in economic activity, nearly six in 10 (58%) employers reported hard-to-fill vacancies in January 2023. Four in 10 (39%) SMEs report hard-to-fill vacancies, rising to 65% among large organisations. Employers reported high levels of hard-to-fill vacancies across all sectors and parts of the UK.
Table 2: Proportion of employers that report they have hard-to-fill vacancies (%)

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Source: CIPD Labour Market Outlook winter 2022/23. Base: all employers: n=2,012; SMEs (private): n=875; large organisations (private): n=627.

The survey data also shows that employers with hard-to-fill vacancies are most likely to have used the new immigration system since its introduction in January 2021. In all, about a fifth (21%) of employers with hard-to-fill vacancies have sponsored migrant workers through the new points-based immigration system since January 2021. This compares with just 8% of organisations that have used the new immigration system that don’t have hard-to-fill vacancies and 15% of all employers.

Table 3: Proportion of employers that have used the new points-based immigration to sponsor migrant workers since January 2021 (%)

<table>
<thead>
<tr>
<th>Response</th>
<th>All</th>
<th>SMEs (2-249)</th>
<th>Large (250+)</th>
<th>Hard-to-fill vacancies</th>
<th>No hard-to-fill vacancies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>15</td>
<td>6</td>
<td>24</td>
<td>21</td>
<td>8</td>
</tr>
<tr>
<td>No</td>
<td>62</td>
<td>86</td>
<td>44</td>
<td>52</td>
<td>79</td>
</tr>
<tr>
<td>Don’t know</td>
<td>23</td>
<td>8</td>
<td>32</td>
<td>27</td>
<td>13</td>
</tr>
</tbody>
</table>

Source: CIPD Labour Market Outlook winter 2022/23. Base: all employers: n=2,012; SMEs (private): n=875; large organisations (private): n=627; hard-to-fill vacancies: n=1,133; no hard-to-fill vacancies: n=802.

The data highlights that, despite widespread skills shortages in the UK, only a relatively small minority of organisations have used the new immigration system to hire migrant workers since January 2021, and these are much more likely to be large employers.

We turn to explore what other steps, besides hiring migrant workers, employers have been taking to tackle skill and labour shortages. We also consider whether there is any difference in approaches between those that have hired migrant workers through the new immigration system and those that haven’t.
Employers that hire migrant workers invest more in the UK-born workforce

What is clear is that organisations that have hired migrant workers since January 2021 are also those that are much more likely to be investing in their UK-born workforce in different ways than those employers that haven’t hired migrant workers.

There is no evidence that organisations that can no longer hire migrant workers with the ease they could before Brexit are being incentivised by this to invest more in training or seek to recruit and retain a more diverse workforce.

Figure 29 shows that employers that have hired migrant workers since January 2021 are also more likely to be taking a range of steps to invest more in the UK-born workforce or technology than organisations that have not used the new immigration system.

This is likely to be partly because those organisations that have hired migrant workers are more likely than the survey average to report hard-to-fill vacancies, so are taking a range of steps to address this. They are also typically larger employers, which are also more likely than smaller firms to have the HR capability and organisational resources to take action.

The two most commonly cited approaches for all employers to tackle hard-to-fill vacancies are upskilling staff and increasing wages. However, there is no statistically significant difference between organisations that have hired migrant workers and those that haven’t on these measures. However, employers that have hired migrant workers are much more likely to have taken a range of other steps to recruit or train UK-born workers than those that have not. For example, they are significantly more likely to have hired apprentices (34% vs 23%), hired UK graduates (28% vs 14%) and to have hired more school or further education college-leavers (17% vs 13%). They are also much more likely to have taken steps to recruit parent returners (22% vs 12%), older workers (20% vs 14%) and to hire from disadvantaged groups in the labour market (18% vs 6%).

Few employers adopt new technology to tackle skills/labour shortages

The other key area where employers that have hired migrant workers since 2021 are much more likely to have taken action than other employers is investment in automation (23% vs 12%). This suggests policy-makers need to rethink how to encourage and enable more employers to adopt AI and automation, particularly SMEs and those in low-wage, low-skill sectors with entrenched labour or skill shortages.
Figure 29: Steps taken by employers to tackle hard-to-fill vacancies in the last six months (%)

Source: CIPD Labour Market Outlook winter 2022/23. Base: employers with hard-to-fill vacancies who have (n=231) and have not (n=639) used new points-based immigration system.

Employers hiring migrant workers most likely to recruit disadvantaged groups

This last section looks in more detail at the extent that employer decisions to hire migrant workers affect their approaches to recruiting from the UK-born workforce among key groups that face disadvantage in the labour market.

This is an issue that has preoccupied the UK Government recently after a fall in employment rates among workers aged 50 and above following the pandemic, prompting a review of economic inactivity.

Employers hiring migrant workers since 2021 are more likely to have hard-to-fill vacancies (79%) compared with those who have not used the post-2021 system (50%). Employers using the immigration system are more likely to have recruited from a range of disadvantaged groups in the UK. They also plan to recruit from these groups in future at a greater level than other employers.
Those who have used the immigration system since 2021 are much more likely to have hired from all groups with barriers to work over the last three years than employers that have not used the immigration system (Figure 30).

The data suggests that it is typically larger organisations, with more HR capability and resources, that will have the knowledge and expertise to both hire migrant workers and to broaden their approach to recruiting and retaining a more diverse workforce.

**Figure 30: Hiring of groups with barriers to work in the past three years, comparing employers who have and have not hired migrant workers since January 2021 (%)**

Source: CIPD Labour Market Outlook winter 2022/23. Base: all employers who have (n=286) and have not (n=1,337) used new points-based immigration system.

Those who have used the immigration system since 2021 are also more likely to plan to hire in the next three years from all of the groups listed with barriers to work (see Figure 31).

These stark differences are particularly concerning given that the current labour and skills shortages mean that all employers should be focusing more attention on hiring from a more diverse range of candidates and groups.
5 Conclusion

This report finds that the points-based immigration system introduced in January 2021 is broadly meeting its aim of enabling skilled migrants to continue to come to live and work in the UK if they can meet identified skills shortages.

Data from the employers surveyed suggests that improvements could be made to make the system for sponsoring migrant workers less burdensome in terms of administrative time and cost. Nonetheless, employers that have used the system since January 2021 are more likely than not to say it has helped them to address skills shortages.

However, it is also clear that employer engagement with the new system is limited, with just 15% of employers having used the system to date. This is despite six in 10 employers having hard-to-fill vacancies.

Two issues explain this low level of employer use of the new system. One is that sponsoring migrants requires a certain level of internal resource and knowledge.
that many firms, particularly SMEs, do not have. The other is that many hard-to-fill vacancies are roles that fall outside of the criteria for sponsoring migrants. This is an intended consequence of the new system, with policy-makers hoping that the restriction of migrants for lower-skilled roles will incentivise employers to invest in the UK-born workforce to address skills and labour shortages.

However, this report shows it is employers that have sponsored migrants that are more likely to be taking measures to recruit and invest in the skills of UK workers in different ways, than organisations that have not used the new system. They are also much more likely to be investing in technology as a means of addressing skill or labour shortages than organisations that have not sponsored migrant workers in the last two years.

Overall, it is clear that while the new immigration system as currently designed can only play a limited role in addressing systemic skill and labour shortages. Our evidence also suggests that many employers are not adapting fast enough to the rising labour market challenges facing them.

In response, key changes to public policy are clearly required. In terms of changes to immigration policy, the shortage occupation list should be regularly reviewed and where necessary broadened to tackle critical skill shortages in key parts of the economy. There is also a strong case for extending the existing Youth Mobility Scheme to include EU nationals who could help address seasonal skills shortage challenges in low-skill jobs and sectors.

**Key changes to skills policy required**

However, the evidence in this report suggest policy makers should focus primarily on making changes to skills policy when considering how to encourage organisations to invest more in the recruitment and development of UK-born workers.

There is not space here to explore skills policy reform in depth but an urgent change needed is reform of the Apprenticeship Levy. The levy in its current form has led to a significant fall in the number of apprenticeships, particularly among young people, while employer investment in workplace training has continued to decline. A more flexible skills levy would allow employers develop existing staff through other forms of accredited training and skills development which are more cost effective and usually much more suitable for employees aged 25 and over. This would leave more funding to invest in apprenticeships for young people who most need and benefit from them.

Levy flexibility would also help employers fund their employees through training in further education colleges as many technical and vocational courses are not apprenticeships. This key change would provide a boost to meeting the ambition of the Government Skills for Jobs white paper and enhance employer engagement with their local colleges.
The other central focus should be on how to support and enable more SMEs with limited HR and people management capability to invest more in skills (including apprenticeships) and recruit and retain a more diverse workforce.

Smaller organisations invest less in training and are often blind to the skills challenges facing their organisations. Even when they do identify a skills challenge, they often lack the internal capacity to develop their employees’ skills because of poor management or a lack of a specialised HR function. Many small firms also lack consistent processes when recruiting and have little knowledge of job design or different forms of flexible working.

The CIPD has run regional pilots to explore approaches that might work to raise SME’s people management and development capability, and to stimulate their investment in skills via a limited amount of high quality ‘pump-priming’ HR consultancy support. These pilots highlighted the low level of people management and development capability in most small firms, with many struggling even to comply with employment law.

The evaluation of these pilot schemes suggests that the provision of high-quality HR support to small firms at a local level, can make a material difference to owner-manager confidence and capability and support productivity growth. Effectively embedded in the business support system through key partnerships such as Local Enterprise Partnerships, chambers of commerce and local authorities, they also have the potential to reach large numbers of employers over time.

Finally, these changes need to be adopted as part of a fundamentally different approach to industrial strategy, which seeks to influence the broader business environment.

One that recognises that employer investment in and use of skills is affected by a wide range of interdependent policy areas including skills, innovation, growth/business support and labour market enforcement.
The Office for National Statistics (ONS) Centre for International Migration uses the UN-recommended definition of a long-term international migrant: “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.”

Further analysis can be found here:


Note: The headcount of unknown nationality has fallen from 45,961 to 32,237 over the period June 2020 to September 2022. This may account for some of the increases in the nationality figures, so these should be treated with caution.
17 www.telegraph.co.uk/politics/2021/10/05/boris-johnson-got-guts-make-us-high-wage-country/
18 www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/timeseries/jp9z/unem
19 www.cipd.co.uk/knowledge/work/trends/labour-market-outlook#gref
20 https://community.cipd.co.uk/cipd-blogs/b/cipd_voice_on/posts/are-management-apprenticeships-effective-in-addressing-england-s-skills-and-productivity-challenges
21 https://www.nfer.ac.uk/media/4532/nfer_imap_apprenticeships_report.pdf
22 https://www.fenews.co.uk/fe-voices/encouraging-employer-demand-for-training/