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Dear Mr Vereker,

### **The UK's Future Immigration System: Retail Priorities**

Following our discussion at the November Retail Sector Council meeting which you attended, I am writing with further detail of retail priorities relating to immigration.

The industry believes freedom of movement underpins the ability to ensure a sustainable labour pool, however, we recognise freedom of movement will end when the UK leaves the EU. As a large employer, reliant on complex supply chains, the UK's future immigration system is of critical importance to the ongoing success of the industry. The industry directly supports 3.1m jobs across the UK, the majority of which are entry level and lower skilled. It relies on the direct contribution of 170,000 colleagues from the EU, 6% of the total workforce. These colleagues are concentrated in the South East and in distribution but also include those with critical and scarce skills such as pharmacists and data scientists. More widely within the food and drink supply chain, there are 400,000 EU nationals contributing to the industry across all skills levels. During peak periods the number of EU nationals in the retail workforce and in the supply chain is even higher.

Structurally, the retail industry is undergoing a transformation driven by technological innovation and external financial pressures. We expect the overall number of jobs in retail to continue to fall, perhaps by as much as 25%, and the nature of these jobs to become more highly skilled. For instance, retailers are already reporting growth in specialist data and technology roles. As an industry, we are committed to workforce training and skills development. However, investment in skills is a long-term agenda that requires business, government and educators to work in partnership. As the UK makes progress to develop the key skills of the future, industry requires access to the widest pool of talent to fill these roles now to drive productivity and innovation in the industry.

Retail is integrated within, and reliant upon, other industries. While retail jobs are falling, warehousing jobs are growing. Over the past two years jobs in retail fell by 114,000 while the number of jobs in warehousing has grown by 60,000. The labour market will take time to adjust to these industry shifts. To prevent a short-term mismatch in terms of skills available and location of work and the UK's immigration system must enable the retail industry to access workers at all skill levels.

The UK labour market is performing well and has very little slack. These conditions make getting the future immigration system right, for the largest private sector employer, even

more critical. Retailers are already struggling to access labour and skills. The latest data shows 92,000 vacancies in retail alone, accounting for 11% of all current vacancies. As retailers gear up for the Christmas peak, the latest BRC data indicates more than a third of the industry are planning to expand their workforce over the next quarter. At times of near full employment, the UK's future immigration system must allow industry to bring in workers from outside the UK at pace to cover peak trading.

Retailers warmly welcomed the Government's offer of Settled Status and hopes many EU colleagues will remain in the UK in the future. However, we do not believe this workforce will be sufficient for the future jobs within the industry and its supply chains. The retail industry is already under significant pressure. A system that does not provide for any low skilled labour and does not facilitate appropriate transitional arrangements to the new immigration system would put additional pressure on the industry and risks both the choice and the price of goods for consumers. The annex attached sets out the industry's priorities for the future immigration system.

We trust these comments are helpful. We would be pleased to provide further detail if that would be of assistance.

Your sincerely,

Richard Pennycook on behalf of the Retail Sector Council  
Co-chair of the Retail Sector Council

Cc. Greg Clark, Secretary of State for Business, Energy and Industrial Strategy

## Annex - The UK's Future Immigration System: Retail Priorities

The retail industry recognises freedom of movement will end when the UK leaves the EU. We have an opportunity to work in partnership to design a new immigration system that recognises the needs of industry, has the support of the public and ensures a clear focus on domestic skills development. The retail industry has engaged extensively with stakeholders in the Home Office, BEIS and the Migration Advisory Committee (MAC) to discuss the impact of the future immigration system on the retail industry. There is real concern that the recent MAC recommendations while based on sound economic analysis, do not reflect the current reality of the UK labour market.

From healthcare to homeware, food to fashion, the retail industry is diverse and requires a range of skills and labour to meet consumer demand. In the future we expect retailers to draw its workforce from multiple sources across a global labour pool. This diversity of the industry combined with the need to flex the workforce quickly to meet consumer demand will require substantial reform to the Tier 2 (general) system if it is to be used as a template for the future system. The key elements of the required modifications are set out below:

- **Overall Cost:** The overall cost burden of accessing the immigration system must be reduced. It is right that it is always more expensive to hire from overseas than to hire from the resident population. However, in instances of genuine labour and skills shortage cost should not be a barrier for business. In the current climate retailers are seeing costs outpace sales and employment costs make up a significant proportion of that cost burden. Between sponsor licences, visa fees and additional charges, such as the Immigration Skills Charge (ISC), the current system is inaccessible to many retailers and even more so for smaller businesses within retail supply chains. The retail industry accepts that there will be a cost to the future system but the overall burden must be reduced. In particular for businesses contributing significantly to the Apprenticeship Levy and investing in skills development, the requirement to pay the ISC should be removed.
- **Tier 2 Cap and eligibility criteria:** The annual cap on Tier 2 (general) visas must be abolished and both the skills and salary thresholds must be lowered and be proportionate to one another. The ambition to deliver a managed migration system can be achieved more effectively through clear eligibility criteria rather than through numerical targets. Lowering the skills threshold to Level 3 would not meet the industry's full labour needs, but is regarded by the industry as a positive step. However, if retailers are to access workers from outside the UK the salary threshold must also be reduced. Initial evidence from retailers suggests between 85% and 95% of the workforce would not meet a £30,000 salary threshold. Salary thresholds are in place to prevent undercutting of the resident population. At occupational skill level 3 the 25<sup>th</sup> percentile stands at £20,100, which is regarded as a more proportionate salary threshold.
- **Youth Mobility Scheme:** Retail provides jobs across the skills spectrum in all corners of the UK. Should the government lower the skills threshold to Level 3 key occupations such as sales and customer assistants would not be covered. These roles make up a significant part of the retail workforce and securing a future labour source to fill these roles is critical. The MAC suggested one future labour route could be an expanded Youth Mobility Scheme (YMS). The retail industry can see benefits to this approach, particularly as the current scheme enables movement between employers. However, retailers are clear that this route alone would be insufficient to meet the labour needs

of the industry and are concerned that the time-limited nature of the YMS would embed additional cost into employment. An expanded YMS – which could be open to individuals from a wider range of countries, to the age of 35 and for upto 3 years – would be a useful supplementary labour pool for the industry to draw from but will not meet the full needs of the retail industry if it is the only labour route for lower skilled labour from outside the UK.

- **Building agility into the system:** The resident population will continue to make up a significant proportion of the retail workforce and its supply chains. As the retail industry continues to transform, the skills profile of the industry is evolving with more high-skilled role being created. The retail industry is committed to upskilling their workforces and delivering training for new roles, but this is a long-term agenda. The latest CBI/Pearson skills survey reveals eight in ten employers expect to increase the number of high-skilled roles in the coming years, but two thirds are concerned about the ability to fill the roles. To meet the skills needs of the industry in the short to medium term it is important the government builds a more agile immigration system that can be flexed to respond to skills gaps and fluctuating labour market conditions. For instance, the shortage occupations list should be a more dynamic list which is regularly updated rather than the current static list which is only reviewed periodically.
- **Partnership and Consultation:** Designing and implementing a new immigration system will take time and must be done in partnership with industry. The economic analysis undertaken by the MAC provides a strong base from which to begin this process, but it is important the government consider the labour market context as well as the economic when developing the new system. For retail, a service industry in the midst of a significant period of transformation, the UK's future system must be more accessible and flexible than the current non-EEA system to ensure it can be adjusted appropriately to enable retailers to deliver for consumers. Going forward the work of the MAC and their engagement with business will become even more critical to ensure that the future immigration system is responsive to business and the labour market – the government should consider establishing the MAC as a fully independent body that can undertake regular analysis of the labour market, industry skills needs to ensure the immigration system is fit for purpose.