



The voice of freelancing

Response to the Migration Advisory Committee Call for Evidence

Key Analysis and Recommendations

- Definitions of 'skilled' and 'unskilled' occupations should be regularly examined and revised if necessary, to ensure that the indicators used are suitable
- Employer perceptions of shortages should not be heavily relied upon as a useful indicator of labour supply
- Offshoring and the contracting out of work should not be used as indicators of shortages in the labour market
- The MAC must consider the interaction between migration policies and skills policies, and the effect that migration has on incentives to train
- In the long term, shortages will only be filled through the up-skilling of non-migrant workers rather than through migration
- Unless and until the economic benefit of offshoring to the UK has been proved conclusively, it should not be seen as providing a sensible solution to filling shortages
- There is no shortage of workers with IT skills in the UK; as a result of recent economic turmoil, demand for IT workers seems to be falling
- The Government's approach to the rules regarding intra-company transfers has a significant and potentially detrimental influence on the supply of skilled workers in the UK
- As part of its research work, the MAC should undertake to examine the wider economic impacts of offshoring.

Introduction

The Professional Contractors Group was founded in 1999 as the representative body for freelance contractors and consultants in the UK. Many of its members operate their own one or two-person limited companies; PCG also represents unincorporated sole traders and freelancers who operate via umbrella structures.

All of PCG's members take on business risk and supply their services to a range or succession of clients. They therefore represent the flexible, skilled, knowledge-based workforce on which the UK's future prosperity depends. They provide IT, engineering, project management, marketing and other functions in sectors including financial services, telecoms, oil and gas and defence.

PCG considers the needs of its members both as workers and as enterprises. As a trade association, PCG represents the very smallest enterprises in the UK. It is therefore one of only six cross-sector trade bodies in the country.

PCG has been campaigning for some years on migration issues, mainly from an IT perspective, although the engineering sector has also been a concern of ours. We responded to the consultation on the new Points-Based System *Selective Admission: Making Migration Work for Britain*, and largely welcomed the new measures outlined therein. We also responded to the consultation on the establishment of the Migration Advisory Committee, which we broadly welcomed. In addition, we have membership of the IT Sector Panel and associate membership of the Engineering Sector Panel.

This response is in addition to the brief answers we have provided on the proforma for response to the call for evidence.

1. Key Indicators of 'Skilled'

We broadly agree with the proposed indicators of whether an occupation is skilled as outlined in the call for evidence. However, while we do not suggest an explicit threshold for demarcating 'skilled' from 'unskilled' occupations, we feel that the proposed threshold of 75 per cent or above of an occupation qualified at NVQ3+ may be too low. At a time of faster growth in the number of skilled workers worldwide, and when the up-skilling of the UK's population is a clear priority for the Government, care must be taken to arrive at a threshold which truly does distinguish 'skilled' jobs from others.



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We believe that whatever separator is used, its level should be regularly examined and revised if necessary, to ensure that it is at a suitable level. As the mix of relative skills within the economy and within occupational groups change, the threshold should be altered accordingly.

2. Key Indicators of ‘Shortages’

i) Adaptable skills

It is important for the MAC to consider the transferability of skills across occupations when deciding which occupations are suffering from shortages. In many occupations, shortages can be filled with workers in other occupations with adaptable skills. It is therefore important to ask, as question 2 of the proforma to the call for evidence does, whether skilled occupations are experiencing shortages, and not whether there is a shortage of skilled workers within an occupation. The former takes into account the number of workers in the whole economy with the skills necessary for a particular occupation, while the latter does not.

ii) Employer perceptions of shortages

PCG welcomes the acknowledgement in the call for evidence that employers may have an incentive to exaggerate the problems of shortages in order to acquire the skills they need at low costs. As the House of Lords Select Committee report on the Economic Impact of Immigration notes, while immigration may be beneficial for individual employers it is not always in the best interests of the economy as a whole.¹ The MAC must therefore be wary of employer expressions of the “need” for migrant labour to fill shortages. It is therefore questionable how much reliance can be placed on employer perceptions of shortages as a useful indicator. If it is possible, these should be balanced against workers’ perceptions of labour market opportunities, though there is no obvious way to collect this data presently.

iii) Offshoring as a key indicator

We do not believe that evidence of increased offshoring of work should be used as an indicator of shortages in the labour market. Offshoring is primarily used by employers to cut costs regardless of the availability of skilled labour in the country. The MAC will therefore not be able to deduce labour market shortages from evidence of increased levels of offshoring.

iv) Contracting out as a key indicator

We also do not believe that increased levels of contracting out work would always be a good indicator to use in deciding whether there are shortages in an occupational group. Increased contracting out may occur for a variety of reasons, for example as a result of changes in business operational methods favouring the commercial nature of the contracting out of work over a dependency on in-house facilities. Contractors may be able to provide the commercial flexibility and just-in-time services which departments of employees cannot. Such changes are not the result of shortages of workers, but merely a shift in the way in which services are provided and produced.

v) PCG’s preferred methodology for identifying shortages

PCG believes that a key indicator of shortages will be the number of jobs advertised for a specific occupation or skill set, and the change in the number of adverts placed. Given this, we suggest that in order for an occupation to be put on a shortage list, it should generally have experienced:

- an increase in the demand for workers with the necessary skills for that occupation by circa 10 per cent over last two quarters
- a similar decrease in supply over the last two quarters to the extent that demand exceeds supply
- the increase in the number of workers demanded being at least ten per cent of the total number of workers with the skills necessary for that occupation.

This last point is necessary in order to take into account small fluctuations in demand where the increase in demand may be large relative to previous quarters, but a small increase considering the size of the workforce with the necessary skills as a whole.

¹ ‘The Economic Impact of Immigration’, House of Lords Select Committee (1/04/2008), <http://www.parliament.the-stationery-office.com/pa/ld200708/ldselect/ldeconaf/82/8202.htm>



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It would also be necessary to take into account general unemployment and salary levels for the occupation under consideration and occupations with similar skill sets.

3. Key Indicators of ‘Sensible’

i) Alternatives to migrant labour

The MAC is right to point out in the call for evidence that shortages in the labour market can be filled by alternatives to migrant labour. Indeed, migration may not provide a permanent solution to filling shortages at all. As the Select Committee report on the Economic Impact of Immigration notes, “vacancies are, to a certain extent, a sign of a healthy economy” and “immigration is unlikely to be an effective tool for reducing vacancies other than in the short term”. In the long term, other routes to filling shortages must be used, such as altering production patterns or increasing the skills of domestic workers.

ii) Increased wages and profitability

The call for evidence acknowledges that employers could respond to labour shortages by increasing wages to attract local workers to jobs in shortage occupations, and that this is likely to have consequences for the profitability of their businesses. There is no discussion on the pros and cons of this, however. The MAC must surely consider equity issues here: when is it more equitable for employers to suffer a fall in profits while workers benefit from increased earnings, and vice versa? These are issues on which the Migration Impacts Forum may be able to provide guidance.

iii) Migration and skills

PCG firmly believes that the debate over migration cannot be divorced from the issue of skills. When deciding whether it is sensible to use migrant labour to fill shortages in the labour market, the MAC must therefore consider the effects that granting employers easier or more restricted access to migrant labour has on incentives to increase workers’ skill levels.

This is particularly important in light of the Government’s current policy priority to improve the skills of the UK population. Several new initiatives have recently been launched to promote the benefits of training and the future need to compete on skills. Examples include:

- The Government’s new Public Service Agreements include i) raising the productivity of the UK economy and ii) improving the skills of the population on the way to securing a world class skills base by 2020
- In April 2008 the Commission for Employment and Skills started work with a remit to raise employer ambition and investment in skills
- The Government is challenging employers to sign a ‘skills pledge’ to improve employees’ skills
- In December 2007 UK Trade and Investment launched a new marketing strategy to promote the UK’s expertise in ICT
- In November 2007 DIUS launched a major new investment programme to boost skills and learning
- In July 2007 DIUS launched the campaign “Our future. It’s in our hands” to encourage people to invest in learning new skills
- In his final report, Lord Leitch recommended that the UK should aim to be a world leader on skills by 2020

The MAC must therefore consider all of the work that is being undertaken to encourage the up-skilling of UK workers, and decide how migration policies should interact with skills policies.

The danger is that migration policies have unintended consequences for skills strategies. As the call for evidence notes, short term migration may dampen the incentive for non-migrant workers to acquire skills. This can be detrimental not only in low-skilled occupations, but also in highly-skilled sectors vital to the future growth of the economy. For example, there is evidence (see page 5 below) of UK students being put off Science, Technology, Engineering and Mathematics (STEM) subjects due to the downward pressure on wages exerted in STEM occupations as a result of the inflow of migrants in such sectors.



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If entry-level jobs in STEM sectors come to be seen as poorly paid, UK workers will be put off entering such sectors; they will not gain the experience needed to climb the career ladder; and the economy will be deprived of future populations of highly-skilled workers in sectors vital to the UK's future as an innovative, high-skills economy.

Furthermore, if employers continue to find that they cannot access the skills they need from non-migrant workers in the UK - perhaps because there is little incentive for these workers to acquire skills - then employers will relocate to countries with better skills bases. This could result in entire highly-skilled industries leaving the UK.

The authors of the Select Committee report mentioned above also expressed their belief that the MAC should “ensure that employers have made serious efforts to recruit British or other EEA nationals, and seriously considered other alternatives for filling vacancies, before claiming that there is a shortage”. PCG concurs: when seeking to fill a post, employers should ideally first look to the domestic labour market and to the rest of the EU. With such a large resource of skilled workers from which to choose, it should seldom be necessary to recruit workers from further afield. If employers cannot find domestic workers with the necessary skills for a role, in the long-term it would be more beneficial to the UK's economy for businesses to prioritise the retraining of domestic workers in order to fill the position, rather than seeking to recruit workers from elsewhere.

iv) The feasibility of offshoring as an alternative to migrant labour

Finally, PCG does not believe the feasibility or otherwise of offshoring work should be a consideration in deciding whether it is sensible to fill identified shortages of skilled labour through migration. As we state above, offshoring is primarily used by employers to cut costs and it is not indicative of a shortage of skilled labour. Whether businesses are actually able to cut costs by offshoring work, and whether this is of benefit to the UK economy as a whole, is debatable.

The question of whether any cost reduction, no matter how small, that a company achieves by offshoring always benefits the wider economy is one of the most important, but least well-researched, questions in economic offshoring theory. PCG continues to research this question in further detail and has presented its findings so far to the Government. These are that companies that offshore do not seem to gain any noticeable performance advantage over those that do not offshore. Indeed, a trend is emerging of companies who have experimented with offshoring being dissatisfied with the results and bringing their operations back onshore.

Detailed information from offshoring firms on the cost and savings outcome of their decisions to offshore their IT functions is lacking. This may be because the decision to offshore has been costly and firms are naturally reluctant to admit that their strategy has failed to deliver the expected benefits.

A survey in 2007 by research and consultancy firm AT Kearney for leading blue-chip companies found wide variations in the results achieved by firms offshoring business operations. Sixty per cent of firms surveyed failed to meet their operational performance expectations while thirty-four per cent failed to meet their savings expectations. Cost savings ranged from nought to seventy-five per cent, and while some firms achieved improvements across most of the operational performance areas studied, others saw a decline in performance in many areas. The survey did not go on to consider the wider issues of offshoring, however, such as broader social and economic impacts.

If a significant cost saving can be achieved by offshoring, wider benefits to the economy may be generated. The risk to the economy, though, is of only relatively small cost savings being realised as significant amounts of work are offshored by more and more companies.

The Government itself has accepted that offshoring causes short-term job losses. Furthermore, it acts as a disincentive for UK workers to train in those sectors where offshoring is most prevalent, such as IT. As



entry-level jobs in sectors such as IT are offshored, the bottom rung of the career ladder is removed from the reach of the UK's IT graduates. Research by e-skills UK has shown that the number of students choosing to study IT-related courses dropped by 43 per cent between 1996 and 2001. In an article in Computer Weekly in 2007, a careers consultant at the University of Manchester attributed this drop to students being put off IT courses "because of the perception that IT jobs are being offshored".² This decline in the number of highly-skilled graduates cannot be good for the future prospects of the UK.

Offshoring may offer a feasible alternative to migrant labour but it is, at best, unknown whether it offers a sensible solution to filling shortages in terms of providing economic benefits to the UK as a whole. Unless and until the economic benefit of offshoring to the UK has been proved conclusively, PCG believes that it is not sensible for government policy to promote or encourage it.

4. Call for evidence question 4 - Specific occupations or job titles

In order to inform our response to this call for evidence, and in order to provide the MAC with some supply-side figures, PCG undertook a survey of our members to determine whether any of the occupations in which they work were suffering from a shortage of skilled labour. We asked members to indicate which of the SOC2000 classification codes most closely resembled their own occupation, as well as questioning them on: their qualifications; their experience of new business opportunities over the past twenty-four months; whether they had experienced lengthy periods out of work; and their experience of offshoring in their sector.

As PCG's members work in a range of sectors and occupations, for many occupational groups the responses received were spread too thinly to be able to provide meaningful evidence. We did, however, receive a large number of responses from members in the SOC2000 code 2132 for software professionals. The total number of responses from this code was 108, providing a reasonable sample size.

We found that 86.7 per cent of software professionals were qualified to at least undergraduate level. Using one of the MAC's proposed definitions for 'skilled' - 75 per cent or more of an occupation qualified at NVQ3+ - this would meet the criteria for being a skilled occupation.

Turning to the experience of their business over the past twenty-four months, we found that only 7.6 per cent had experienced an increase in new business opportunities in the year to April 2008, while 52.4 per cent had experienced a decrease. Similarly, only 18.3 per cent had experienced an increase in new business opportunities in the year to April 2007, while for the remainder opportunities had remained steady or fallen.

Software Programmers' New Business Opportunities over the last 24 months:

	Up	Down	Same
New Business Opportunities (year to April 2008)	7.6%	52.4%	40.0%
New Business Opportunities (year to April 2007)	18.3%	18.3%	63.5%

We also found that 57.4 per cent of software programmers had experienced an involuntary period out of work in the last twelve months - for 40.8 per cent this period was greater than one month. Similarly, in the twelve months to April 2007, 53.3 per cent of software programmers had experienced an involuntary period out of work.

² 'Getting better value with graduates', Computer Weekly (13/03/2007), <http://www.computerweekly.com/Articles/2007/03/13/222303/getting-better-value-with-graduates.htm>



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The evidence points to there being no shortage in the supply of workers with skills in software programming. If anything, the market is becoming more saturated, with a smaller number experiencing a rise in new business opportunities in the year to April 2008 compared with the previous year, and more experiencing an involuntary period out of work in the past twelve months than in the previous twelve months.

Further evidence from other sources also reveals a decline in the opportunities open to IT workers in general. In 2007, data from ReThink Recruitment, an IT staffing company, revealed that the proportion of new IT jobs created in software development had shrunk six per cent over the previous year.³ More recent research from contractor services provider Giant Group plc revealed a rise of 5.5 per cent in the number of IT contractors going without work for three months or more.⁴ In the latter case, the researchers attributed the increase in time spent out of contract to the response by hiring firms to the recent turmoil in the economy.

PCG has long argued that there is no shortage of workers with IT skills in the UK, and in 2002 evidence gathered by us was enough to convince the Home Office to remove all IT skills from the shortage lists. It is our belief that the evidence continues to point to there being no shortage: indeed, it may be that the credit crunch - and its accompanying phenomena - has recently resulted in a slowing down in the hiring of IT workers. The MAC must therefore take into account this evidence and the early signs of a potential depression in the IT labour market when it comes to finalise its shortage list later this year.

5. Call for evidence question 5 - Government policies and other influencing factors

The Government's approach to the rules regarding intra-company transfers (ICTs) has a significant influence on the supply of skilled workers in the UK, particularly in the IT sector. ICT work permits were originally intended to allow a company to bring into the UK an employee based outside the EU, without having to go through the time consuming hoops of advertising, when that employee has company-specific skills not available in the UK.

These work permits are often obtained by a company in order to up-skill their overseas workers, as part of the preparatory work for offshoring their operations out of the UK completely. Work Permits UK has admitted that ICT workers are coming into the UK without genuinely company specific skills, indeed that they are often trained in the UK after arriving. The Government has made it clear, however, that it would like to allow this practice to continue.

It is the Government's prerogative to acquiesce to the continued offshoring of work from the UK through the use of easily available ICTs. PCG believes this to be an unwise policy, however, given the lack of evidence regarding any positive impacts that the offshoring of work in vital sectors will have on the economy. Indeed, the Government itself has accepted that offshoring causes short-term job losses, and sectors such as IT where offshoring has been more widespread have seen record unemployment in the UK.

It is far from the case that those operations currently being offshored all involve low-skill, non-critical work. In PCG's member survey mentioned above, over 85 per cent of software programmers indicated that they were aware of work previously undertaken by workers in their occupational group being offshored within the last two years, with 41.7 per cent claiming to be aware of large amounts of work being offshored. Increasingly, entire projects are being offshored, and firms are looking at offshoring as a long-term strategy rather than just a short-term cost-cutting exercise.

If employers continue to have easy access to ICTs to allow them to offshore high-skill jobs, there will be little incentive for them to provide the necessary investment in training for domestic workers in order to up-skill domestic skill levels as desired by the Government. This will have serious long-term consequences as the UK is de-skilled and foreign competitors' staff are trained in new technologies, which in turn assists

³ 'The impact of offshoring on the IT market', Shout99 (25/09/2007), <http://www.shout99.com/contractors/showarticle.pl?id=46319>

⁴ 'Rise in the number of jobless IT contractors', ContractorUK (28/03/2008), <http://www.contractoruk.com/news/003722.html>



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the process of taking entire IT projects outside the UK. If this phenomenon continues, entire businesses or industries could be offshored.

PCG believes that the ICT system needs to be altered, so that it better takes into account the economic interests of the UK. While the long-term effects of offshoring remain unclear, ICTs should only be available in sectors where there are shortages in the UK's workforce, not in sectors, such as IT, where there is an abundance of workers.

6. Gathering evidence

i) Survey data sources

It is important that the MAC uses the latest information available in its research. Surveys such as the National Employers Skills Survey which are only conducted every two years could rapidly become out-of-date. If the MAC is unable to rely on up-to-date information from national surveys, more reliance will need to be placed on the “bottom-up” approach to evidence gathering.

PCG believes it is important that the MAC makes use of the expertise of Sector Skills Councils and sector experts. These bodies will be particularly important to the MAC in the early stages of its research and compilation of the skills shortage list as they have an excellent knowledge of the labour market experiences in their sectors. We believe the MAC should examine the methodology developed by the IT Sector Panel Board to measure skills shortages, and use this as a template for its own methodology.

ii) SOC codes

The MAC should also investigate whether the Standard Occupation Classification codes can be improved. Currently, certain occupational codes overlap somewhat while for other occupations there is no directly applicable code. For codes such as 2423 - management consultants, actuaries, economists and statisticians - occupations requiring seemingly quite different skill sets are placed together. As the SOC codes will be central to the studying of skills in the economy, it is important that codes are as accurate and instructive as possible.

iii) Research into offshoring

As we mention above, research into the wider economic impacts of offshoring is lacking. PCG believes that, as the body tasked by the Government with advising it on matters relating to migration, the MAC should investigate undertaking this research.