



The voice of freelancing

PCG response to the consultation paper: 'A New Charging Regime for Immigration & Nationality Fees'

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 the conjoined issues of work permits and offshoring, mainly from an IT perspective, although engineering has also been affected. We responded to the consultation on the new Points-Based System *Selective Admission: Making Migration Work for Britain*, and broadly welcomed the new measures outlined therein; and we will shortly be responding to the consultation on establishing a Migration Advisory Committee.

In addition, one of our members, Gurdial Rai, sits in the Engineering and IT sector panel, and we recently attended the charging regime consultation stakeholder event for the IT and Telecoms sectors. We have also made numerous representations to government on the subject of intra-company transfers and undertaken research into the impacts of offshoring: we are concerned that ICTs are being used to facilitate offshoring to the detriment of the UK's economic needs and will be discussing them with WPUK at forthcoming meetings.

This response will summarise PCG's views on ICTs and offshoring. Given a lack of positive evidence on the long-term impact of offshoring on the UK economy, PCG outlines here how the new charging regime could be used to alleviate the problems caused by offshoring's impact in the short-term.

The link between offshoring and work permits

Superficially, the offshoring of the provision of services may seem unrelated to the debate on immigration. Yet both are often undertaken by companies owing to a single fact: overseas workers can supply similar services at much lower costs than UK workers. There is, moreover, a very specific connection: ICT 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 completely. In short, ICT work permits are being obtained in order to train overseas staff so that work can be taken out of the UK. Offshoring and work permits are therefore strongly connected. For reasons that will be set out fully below, PCG is deeply concerned at the impact of both phenomena on the livelihoods of its members and also on the UK's economy as a whole.

The main argument for offshoring is if it provides sufficient cost savings to cover any short-term loss of jobs to the economy. It can be seen that if a significant cost saving can be achieved by offshoring, wider benefits to the economy will 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 case for offshoring has not been proved. Not only has it yet to be shown that it benefits the UK, but all the evidence so far is that relocating work to countries with a lower cost base without sufficient cost savings is actually harmful to the economy as a whole both in the short-term and the long-term. Unless and until the economic benefit of offshoring to the UK has been proved conclusively, government policy should not promote or encourage it.



The voice of freelancing

Work permit pricing: an opportunity

The consultation frequently says that the migration fees charged should reflect the operational cost of the immigration system. We believe they should also reflect the economic costs. Once the administrative and enforcement costs of the immigration system are covered, remaining funds should be used in the form of investment in the training of UK workers, to ensure that the country maintains its innovative edge in vital sectors.

PCG's preferred choice would be for the Government to implement controls on the use of ICTs to facilitate offshoring, at least until further research is taken into the full effects of offshoring on the economy. Following guidance from PCG, the Government has accepted evidence that offshoring companies are using ICTs in a manner for which they were not intended: the work permits granted to these companies are not for workers with company-specific skills. 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. 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. Given this, PCG recommends that a proportion of the sum levied under the new charging regime for work permits and visas go towards the retraining of those made unemployed as a result of offshoring. This proportion could be varied depending on labour market conditions, allowing the Government to better control the use of ICTs while the long-term economic impacts of offshoring remain unknown.

Page 10 of the consultation states that the Government's charging strategy will be based on evidence of, amongst other things, the impact of immigration fees on the UK's economy. It is a matter of concern to PCG that no quantitative analysis of the long-term impact of offshoring and the related use of work permits on the UK economy has yet been undertaken by the Government. The consultation document, like others before it, suffers as a result of this lack of evidence. De-skilling of the resident labour force, downward pressure on wages, falling employment levels and the up-skilling of the UK's competitors courtesy of the UK itself are all possible consequences of offshoring and the associated migration. In innovative sectors such as IT, which are vital to the UK's future competitiveness and where skills need to be continuously refreshed and updated, the effects of offshoring could be extremely damaging. This point was emphasised recently by Ovum, the IT consultancy group, whose director reported in the national press that the UK's IT sector faces a bleak future as a result of offshore outsourcing.

To this effect we welcome the suggestion made in the consultation that migration fees could be priced in a flexible manner taking into account the degree to which attracting migrants to the country is in the interests of the UK. PCG believes that migration should be utilised primarily and, ideally, solely, in the economic interests of the UK. Companies that offshore work from the UK are some of the most profitable companies in the world; Infosys, one of the larger offshoring firms, achieved a 45% increase in profits in 2005. The consultation suggests that those who benefit from the immigration system, by being able to bring in those migrants they need for work, should also meet the costs of the system. PCG suggests that those companies which benefit from offshoring through use of the ICT system should also contribute to alleviating some of the economic costs to the UK of offshoring. This could be in the form of tax incentives for companies to retrain and employ those UK resident workers in areas where work is being offshored, to be paid for from increases in the work permit and visa fees charged.

Better enforcement

PCG welcomes the introduction of new measures to police the immigration system better. Bearing in mind that sponsors will be given significant responsibilities to control immigration, it is imperative that sponsors are monitored closely and that the threat of the loss of sponsorship status is real. Once the Home Office has approved an organisation wishing to sponsor migrants and issued it with its certificate, WPUK must



The voice of freelancing

regularly monitor the salaries paid to workers via HMRC's records and other means; it must not just take the employer's word for the salary being paid. The Government must uphold its commitment in the Points-Based System command paper that "failing sponsors...will be removed from the list of approved sponsors and may be prosecuted." The Government needs to ensure that the punishment for abuse is sufficient to deter abuse.

In addition to the level of information currently required of offshoring companies in the IT sector, PCG believes the Government would benefit by being provided with regular additional information from them, such as their number of permanent staff, number of UK resident contract staff, IT budget and other financial information related to the use of ICTs. This would help the Government monitor the ICT system, and better control its economic impacts.

Research

The consultation document states that the Government will be undertaking market research into the international competitiveness and price elasticity of migration fees. PCG agrees that the demand for migrant workers is likely to be inelastic: indeed, if it were found to be elastic this would suggest that employers are only hiring migrants because of their cost, and not because they believe there is a shortage of workers in the UK labour force.

PCG recommends that, in line with our concerns summarised above, full research also be undertaken into the impact of offshoring on employment, skills and other aspects of the UK's economy. Some of the fees accrued through work permit charges could be used in order to fund such research, perhaps by the new Migration Advisory Committee. In particular, it should be studied whether offshoring allows companies to achieve cost savings on a sufficient scale to provide wider economic benefits in the long-term. Provisional research by PCG casts doubt on whether this is ever achieved in practice. Rather, we believe that the continued offshoring of work from the UK will lead to significant job losses of UK residents; for every ICT work permit issued with the intention to offshore, one job is taken out of the UK. If this trend continues, we will eventually have to start importing the resource provided by the offshored worker. This in turn would have negative impacts on the country's GDP, trade balance, exchange rates, interest rates and in particular on our proportion of Foreign Direct Investment.

Conclusion

The UK's contractors are a vital part of the dynamic, flexible and productive workforce which the Government no doubt wishes to promote: this workforce will be seriously damaged, and its skills allowed to go to waste, if firms are allowed to continue bringing in overseas workers on ICTs in order to facilitate the offshoring of work from the UK. It is to be hoped that it is the Government's aim to encourage companies to pursue policies and practices which benefit the UK economy as a whole rather than those which offer short-term gain with an unknown long-term impact. Currently, the long-term impacts of offshoring are unknown. If the Government is determined to allow this practice to continue, we believe that some of the fees for work permits should go towards the retraining of UK workers made unemployed as a result of offshoring, in order to maintain the country's skills base in vital sectors.

Key Points

- There is a lack of evidence showing that any short-term cost savings to the economy from offshoring will lead to economic benefits in the long-term
- Unless and until such evidence emerges, the Government should seek to carefully control the use of ICTs and to monitor their impact on the economy
- This could be done by varying fees for ICT work permits in line with labour market trends
- Fees accrued in this way could be used to retrain resident workers made unemployed as a result of offshoring.