



MIGRATION ADVISORY COMMITTEE

# A Points-Based System and Salary Thresholds for Immigration



January 2020

Migration Advisory Committee

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<https://www.gov.uk/government/organisations/migration-advisory-committee>

# **A Points-Based System and Salary Thresholds for Immigration**

**Migration Advisory Committee**

**January 2020**

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## Chair's Foreword

The report we publish today covers two commissions, one on the possible role of a points-based system and one on the appropriate level and design of salary thresholds. Both commissions are about the UK's future skills-based work migration system to be introduced after the end of the Brexit transition period, 2021 at the earliest. There is not much time for decision because any new system needs time to be introduced and employers given adequate notice of what are likely to be substantial changes.

In this report we make recommendations for a skilled worker route for entry with a job offer (currently, the enigmatically named Tier 2 General), a work route for entry without a job offer (the only slightly less mysteriously-named Tier 1 Exceptional Talent) and for settlement.

In making these recommendations, the MAC has, as always, based its recommendations on what it sees as being in the interests of the resident population, taking account that migration has different effects on different groups.

I have separately written to the Home Secretary about our workplan for the next year and potential content for our first annual report and that letter is published alongside this report, on our website.

### **A skilled worker route for those with a job offer**

The current form of Tier 2 (General) has evolved from being part of an 'Australian points-based system' promised by Tony Blair in the 2005 election and introduced from 2008. Originally a points-based system with tradeable points, it is currently a PBS in name only, with successful applicants having to meet all criteria. We do not recommend changes to this framework; the combination of skill eligibility and a salary threshold works well for an employer-driven system. The current packaging as a PBS is, forgive the pun, pointless and could be eliminated. In the future immigration system, Tier 2 (General) is envisaged to apply to both EEA and non-EEA citizens and to be expanded to medium-skill jobs with the cap and Resident Labour Market Test abolished and a simplified process introduced.

There are mixed views on salary thresholds among the organisations that responded to our call for evidence and took part in stakeholder engagement; many would prefer them not to exist at all and, if they do exist, to be lower than the current levels. This is understandable. Running a business is rarely easy and salary thresholds do not make the job easier. We have listened to their views and reflected on their concerns. We see an important role for salary thresholds; what is a cost to an employer is an income for a worker. Salary thresholds prevent undercutting in the labour market, ensuring that employers are not hiring migrants simply because they are cheaper. Salary thresholds can help ensure that migrants are helping to improve the public finances: of every extra pound in earnings approximately 50p goes to the state, and they can

help realise the ambition of the UK as a high wage, high skill, high productivity economy.

This report provides an assessment of how different levels of salary thresholds are likely to affect a variety of outcomes. Most of the impacts we expect from the move to the new system are the result of restricting EEA migration to high-skilled and medium-skilled jobs rather than the level of salary thresholds for eligible jobs. Compared to what would happen under continued free movement, we expect the changes to reduce the levels of immigration, the size of the UK population and total GDP. We expect the changes to very slightly increase GDP per capita, productivity, and improve the public finances, though these estimates are more uncertain. The changes are also expected to reduce pressures on the NHS, schools and on social housing, though they will increase pressure on social care, raise the dependency ratio and have larger impacts on some sectors and areas than others. With the possible exception of the impact on migration numbers, almost all of these estimated impacts at the macro level are small. The conclusions are broadly in line with what I wrote in my Foreword to our 2018 report on EEA migration that *“EEA migration as a whole has had neither the large negative effects claimed by some nor the clear benefits claimed by others”*.

On the level of salary thresholds, we support the current structure, where the relevant threshold is the higher of a general or an occupation specific salary threshold. The occupation specific threshold should be set at the 25<sup>th</sup> percentile, as it is currently. The general threshold should be set at the 25<sup>th</sup> percentile for the eligible occupations as it currently is, but the expansion of eligible jobs to include medium-skill occupations would mean this would currently be about £25,600, a reduction of around £4,400 on current levels. This means that most employers will be able to hire migrants at wages which many existing workers in those occupations are currently being paid. For most eligible occupations in the NHS and schools, we recommend the use of the national pay scales as the relevant salary thresholds ensuring they can hire migrants.

We recommend a simplified formula for the salary thresholds for new entrants<sup>1</sup> (a reduction of 30 per cent on the experienced rate, which would be £17,920 under our recommendations for the general threshold) and a less restrictive definition of a new entrant. The MAC do not recommend introducing any geographical variation at this time. We think it better to target problems in more remote parts of the UK through a visa that caters for these areas' specific needs rather than to alter the whole UK system. We think the Government should pilot and evaluate this.

## **A skilled worker route for those without a job offer**

The current work visa for those without a job offer, Tier 1 (Exceptional Talent), does not work well. There is a visa cap of 2,000 visas on this route, but only 600 main

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<sup>1</sup> Currently those aged under 26 on application, switching from Tier 4, or the role was advertised through a university milkround

applicants were admitted in the last complete year. The skills bar for entry is set far too high, targeted at those at the very top of their field and is too risk averse. Many of those at whom it is targeted would not enter the UK without a job offer. If the Government wants to introduce a PBS we recommend modifying (or replacing) the current Tier 1 (Exceptional Talent) to be a more open PBS, drawing on best practice from other countries and not repeating the mistakes of earlier UK PBS for those without a job offer. There should be an expression of interest system in which those who want to come to the UK can register that interest and a monthly invitation to apply drawn from that pool, though subject to a cap. The selection should use a tradeable points-based system, with more points for the types of migrants the Government wants to encourage, perhaps those with qualifications in STEM, or creative fields, or those in areas where even promising workers might find it hard to obtain a job offer. It should be focused more on those with high potential than established exceptional talent. In doing this the Government should proceed with caution and have limits on the numbers of visas issued. No system for picking winners will be perfect and there will inevitably be some admitted on this route where promise does not deliver.

## Settlement

Australia and other countries also use a PBS for deciding who should be given settlement. The current UK system is inflexible; those in the employer-sponsored route must meet an income threshold unless in a shortage occupation and are only eligible after a minimum of 5 years. We have little idea whether the current system works well because we have not been able to obtain relevant data. We recommend a pause in the proposed increases in the settlement income threshold. We also recommend that there should be a review of the criteria for settlement, though that can only be done if there is better data available than now. If there are to be changes, a PBS is one option.

## Data and evaluation

Problems with data are a perennial problem for the MAC. There are existing data sets we find hard to access, others we would like to combine but cannot and other areas where we think more data should be collected. There are promising developments but, as yet, few tangible results. There are risks with the move to a very different migration system based on skills rather than nationality, in which it is easier for higher-skilled workers to come to the UK and free movement for EEA migrants ends. There may be some sectors and parts of the UK in which the hiring of migrant workers is no longer a viable business strategy; there may be other sectors that are over-enthusiastic users. Good data and evaluation are vital to ensure that effective monitoring is in place and necessary adjustments are made in a timely fashion. Without it, there is a danger that the UK, unable to learn from the past, continues to lurch between an overly open and overly closed work migration policy without ever being able to steer a steady path. We make a number of recommendations to government to improve data availability and access.

This will be my final report as MAC Chair. I had wanted to serve a second full term as Chair but the Government, as it is perfectly entitled to do, has decided to recruit a new Chair. I am pleased that there is now an advertisement for my replacement. Meanwhile the committee and its secretariat are more than capable of continuing its work without me; it is a team effort not dependent on any individual.

In my first foreword as Chair I expressed the desire to maintain the MAC's reputation as a "*reliable, independent, authoritative voice in an area where passions often run high*". Many of those who work on migration in other countries have told me how they wish they had a body like the MAC, so it is an institution to be nurtured.

I would like to thank the secretariat and committee and all the others who have given their time on this and other reports over three fascinating, if demanding, years. I wish the committee and my successor well.

A handwritten signature in cursive script that reads "Alan Manning". The signature is written in dark ink and is positioned to the left of the typed name.

Professor Alan Manning

Chair, Migration Advisory Committee

## Executive Summary

In June 2019, the then Home Secretary commissioned the Migration Advisory Committee (MAC) to report on salary thresholds in the future immigration system. We were asked to consider salary threshold levels, the mechanism for calculating future salary thresholds, whether there should be regional salary thresholds and the case for exemptions to salary thresholds.

This commission was subsequently extended, in September 2019, to ask us also to review how an Australian-style points-based (PBS) immigration system could be introduced in the UK, with the aim of strengthening the UK labour market. We were asked to consider how additional flexibility could be added to the operation of salary thresholds by awarding points for migrants' attributes and whether these points should be tradeable (i.e. allowing points for some attributes to make up for a lack of points for others), which migrant characteristics should be prioritised and what lessons can be learnt from international comparators.

Both commissions are intended to provide input into the design of the UK's future immigration system, to be introduced in January 2021 at the earliest. Today we are publishing our report covering of both these commissions. Alongside it we are also publishing a report we commissioned from Oxford Economics on the fiscal impacts of migration under different salary thresholds.

We were also asked, by the Home Secretary, to “...produce an annual report covering key aspects of the UK's immigration system” and to “...have any update you could give on your initial ideas in this respect and any indication you may have when, given the other demands on the MAC, your first such annual report might be ready”<sup>2</sup>. Whilst this report on PBS and salary thresholds is not an appropriate place to set out the details of our plans around an annual report, today the Chair of the MAC, Professor Alan Manning, has written on behalf of the Committee to the Home Secretary and a copy of that letter is published on our website<sup>3</sup>.

This report is split into two parts, the first focussing on a PBS and the second on salary thresholds. We also draw, both in the summary of the call for evidence and throughout the report, on the responses that stakeholders provided.

The PBS sections of the report consider international experience with these systems. Whilst the commission explicitly mentions Australia, we also consider New Zealand, Canada and Austria as other countries that use a PBS and might have useful lessons

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<sup>2</sup> <https://www.gov.uk/government/publications/migration-advisory-committee-welcomes-salary-threshold-commission/the-home-secretarys-commissioning-letter-to-the-chair-of-the-migration-advisory-committee-on-salary-thresholds>

<sup>3</sup> <https://www.gov.uk/government/organisations/migration-advisory-committee>

for the UK. We are grateful to the Governments and High Commissions of these countries for their generosity in sharing both their time and expertise with us.

PBS have been implemented in a variety of ways in the countries we review; most have common elements ('tradeable' points, generally based on human capital characteristics of migrants such as skills/qualifications, age, work experience, and a process of being able to apply without a firm job offer) but there are also some significant differences (including whether, and how quickly, someone acquires permanent residency, the role of job offers, whether someone gains extra points for being willing to take certain types of job in certain locations). A PBS is always just one part of a wider immigration system and typically also represents just part of the work migration system. In line with international points-based systems, our recommendations for a PBS are focused on highly-skilled migrants.

We review the past UK experience with tradeable PBS both for work migration routes that required (Tier 2 (General)) and did not require a job offer (Highly Skilled Migrant Programme and Tier 1 (General)). Over time these routes evolved to their present form, in which either they are a tradeable PBS in name only, or there are no points at all. These changes were made because the PBS routes were seen as ineffective, or overly complex. Very limited data has prevented us from analysing in detail the effectiveness of these routes, but what limited evidence is available suggests more people using these routes ended up working in lower-skilled occupations than expected given their characteristics. The use of characteristics that were hard to verify and the absence of an overall cap were problems.

We make recommendations for a role of the PBS in the UK's future immigration system for a skilled worker route with a job offer, a skilled worker route without a job offer and for settlement.

We recommend retaining the existing framework for Tier 2 (General). It should remain as an employer-sponsored route with a salary threshold, expanded to include medium and highly-skilled workers. Whilst this route started life as a PBS with tradeable points (applicant strength in one area could offset weakness in another), it evolved to be a route in which all relevant criteria must be met, and points are not tradeable. The existing points attached to characteristics are purely cosmetic, though do no harm.

The current route for skilled workers without a job offer (Tier 1 (Exceptional Talent)) does not work well. The skills bar for entry is set too high, targeted at those at the very top of their field and is too risk averse. The numbers admitted fall far short of the cap. Many of those at whom it is targeted would not enter the UK without a job offer and would most likely be eligible for another work route. If the Government wants to introduce a PBS on entry, it should consider modifying the current Tier 1 (Exceptional Talent) drawing on best practice from other countries and not repeating the mistakes of earlier UK PBS for those without a job offer. If the route is modified, there should be an expression of interest system in which those who want to come to the UK can

register that interest and a monthly invitation to apply drawn from that pool, though subject to a cap. The selection could use a tradeable points-based system and the Government might want to consider assigning points to characteristics such as age, qualifications (with a rigorous process to assess the quality of qualifications), having studied in the UK, and priority areas (for example, STEM and creative skills). We think language skills should be an essential requirement. If doing this, the Government should proceed with caution and have limits on the numbers of visas issued. There will inevitably be some admitted on this route where their expected promise does not deliver.

If the Government were to go down this route, it would be necessary to decide exactly how many points should be given for different characteristics. This can be only be done if there are robust plans to collect high quality data to investigate the characteristics that are predictive of success (however defined) to allow the ongoing monitoring, evaluation and subsequent refinement of the system. Canada, Australia and New Zealand all run large scale cohort studies on migrants, and we recommend the UK should do the same.

A PBS is used in determining settlement in some of the international examples we look at. We also consider the role a PBS could play in deciding who is eligible for settlement. The current UK system is very rigid compared to that used by other countries. We found it impossible to obtain much relevant information on the effectiveness of the current settlement system. Our recommendation is that there is a pause to the planned increases in the settlement income threshold and a review of the requirements for settlement. It may be that the outcome of that review is a recommendation for more flexible paths to settlement and a PBS might have a role to play in that. Occupations which have been on the Shortage Occupation List in the past six years should continue to be exempt from the general threshold for settlement until such a review has concluded.

The salary thresholds section of the report summarises stakeholder views drawn from responses to our Call for Evidence and an extensive programme of stakeholder engagement. Many stakeholders would prefer there to be no salary thresholds (beyond the minimum wage) and, if there are to be salary thresholds, would prefer them to be below current levels. It is not surprising that many employers feel this way: constraints like salary thresholds are likely to add to costs and make running businesses harder when it is already often a very difficult job.

However, it is important to have a wider perspective: what is a cost for an employer is an income for a worker. We see an important role for salary thresholds. First, to ensure that there is no undercutting in the labour market and employers are not simply employing migrants because they are cheaper. Second, to help ensure that migrants are making a net positive contribution to the public finances. Third, to ensure that migration policy is supportive of the ambition to make the UK a high wage, high skill, high productivity economy.

At the moment the salary threshold in most jobs is the higher of the 25<sup>th</sup> percentile of the full-time occupational earnings distribution (the occupation specific threshold) or £30,000 (the general threshold). There are lower thresholds for new entrants<sup>4</sup> and in some public sector occupations that use national pay scales.

We considered whether the current form of salary thresholds is appropriate. We recommend a simplified way of computing the new entrant rate (70 per cent of the experienced worker rate, for both the general and occupation specific threshold), and a wider definition of a new entrant. The new entrant rate should also be applicable for five years instead of the current three.

We recommend the use of national pay scales as the relevant salary thresholds for 24 occupations, which covers most occupations eligible for the route in the NHS and schools. This ensures workers in these occupations can meet the salary thresholds. We do have some concerns about the way in which this privilege is used: there is a risk that it is used to hold down public sector pay and that migrants are often employed at the bottom of pay scales leading to lower pay for migrant workers in these sectors, a pattern not seen in the private sector.

We do not recommend pro-rating salary thresholds for part-time work, though there should be more options for existing visa holders swapping to part-time working when they become parents. Although we find no evidence that the current Tier 2 (General) discriminates against women, we do think that visa statistics disaggregated by gender should be published regularly. Enforcement becomes more difficult if pro-rating was allowed and other forms of compensation (such as pensions or equity) counted towards the salary threshold. Only salary from the individual's main job should be used to determine whether a salary threshold is met.

We do not recommend lower salary thresholds for occupations on the Shortage Occupation List (SOL) for entry. A shortage is generally an indication that wages are below market-clearing levels so that allowing these jobs to pay lower salaries could have the effect of perpetuating shortage.

There is currently no SOL for the medium-skill occupations that are planned to become eligible for Tier 2 (General). We do not see a robust way to accurately and objectively predict future skills shortages. As such, we do not recommend a SOL review for these jobs at this time: any assessment of current shortages is unlikely to be indicative of shortages when the new immigration system is in place and once free movement has ended. We do not anticipate any problems with this, as the proposed abolition of the Tier 2 (General) cap and the Resident Labour Market Test removes the main current advantages from being on the SOL, with the main remaining advantage being slightly lower visa fees. We recommend that once the new immigration system has been in

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<sup>4</sup> Currently those aged under 26 on application, switching from Tier 4, or the role was advertised through a university milkround

place for sufficient time to see how it is working, there is first a review of whether the SOL is still needed, and, if so, what the advantage from being on the SOL should be. Only after a conclusion that the SOL is still needed would there then be a review of which occupations are on it.

On the appropriate level of salary thresholds, we develop a methodology for assessing the impact of various salary thresholds (levels and designs) on a range of outcomes such as immigration, population, employment, GDP, GDP per capita, productivity, the public finances and public services. We estimate the impacts on the UK as a whole, as well as how they vary across regions and countries of the UK and across sectors. Our main methodology (including new modelling, by Oxford Economics for the MAC, on the fiscal impacts of migration) takes a backward-looking approach comparing current outcomes against the outcomes we estimate would have resulted had alternative migration policies been in place for EEA migrants since 2004<sup>5</sup>. This is an exercise to compare the likely outcomes under different migration policies and should not be misunderstood as a recommendation to re-write history. The EEA migrants who have come to the UK have the right to stay, a right the MAC strongly supports. The backward-looking approach is also not a forecast of what might happen when the UK leaves the EU. We use a variety of approaches to ensure that our conclusions are robust to different scenarios for future levels of migration. This is important because making forecasts of migration is difficult and it is important to have a system that performs well in a variety of scenarios.

On salary thresholds we recommend retaining the current structure where the relevant threshold is the higher of a general and an occupation specific salary threshold with the exception of some public sector occupations mentioned earlier. We recommend that the occupation specific threshold should be set at the 25<sup>th</sup> percentile of the full-time annual earnings distribution as now. We recommend that the general threshold should be set at the 25<sup>th</sup> percentile of annual earnings for full-time eligible occupations (at RQF level 3 and above). This is similar to the principle currently used, but the expansion of the route to include medium-skilled jobs reduces the current general threshold by around £4,400, to around £25,600. Both the occupation specific and general threshold should be updated annually using data, rather than just a percentage increase on the previous year.

Compared to free movement we expect the application of the RQF3+ skills threshold and salary thresholds to EEA migrants to result in a lower level of immigration, a lower rate of growth in population, employment and GDP. We also expect the result to be a small increase in GDP per capita, a small improvement in the public finances, slightly reduced pressure in health, schools and social housing but slightly increased pressure

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<sup>5</sup> Throughout this report we use the term 'EEA' migrants to includes European Union (EU) countries plus Iceland, Liechtenstein and Norway. We also include Switzerland as part of our definition, but exclude migrants from the Republic of Ireland, as it will remain part of the Common Travel Area once the UK leaves the EU.

in social care and a small rise in the dependency ratio. We remain concerned about the situation in social care, but the root cause of the problems there is the failure to offer competitive terms and conditions. Most of the expected impacts come from restricting the work migration route to medium and higher-skilled jobs: different salary thresholds have very similar impacts. The small impacts we expect are broadly in line with the conclusion of our 2018 report on EEA migration that “*EEA migration as a whole has had neither the large negative effects claimed by some nor the clear benefits claimed by others*”<sup>6</sup>. These estimates are subject to considerable uncertainty: the proposed changes may have impacts that are hard to anticipate. It is vital that there is monitoring of how the new system is working to ensure that any changes can be made in a timely fashion. There are risks both that the new system may be over-used and under-used by some sectors and some adjustments should be expected.

The estimated impacts of our recommendations vary across sectors. If the Government is very concerned about the impact on some medium-skilled lower-wage occupations, it should consider a system with an occupational cap. In practice, this means when the 75<sup>th</sup> percentile of the pay distribution in an occupation is above the general threshold, the 75<sup>th</sup> percentile is used as the salary threshold instead of a general threshold. Doing this will be of benefit to those sectors but at the cost of reducing the likely overall benefits of moving to the new system. At the level of the general threshold we propose, we do not recommend this. There are trade-offs and no perfect system exists.

Some of the largest expected impacts are in sectors that primarily employ lower-skilled workers that would not be eligible under the proposed restriction to medium-skilled and higher-skilled workers in Tier 2 (General). If the Government is concerned about these impacts, it could address this through another route; for example, something like the temporary worker route which was proposed in the Immigration White Paper, or via sector-based schemes which were mentioned during the election campaign. Doing this will be of benefit to those sectors, but at the cost of reducing the likely overall benefits of moving to the new system.

The estimated impacts of our recommendations also vary across the regions and countries of the UK with the largest predicted impacts in London (driven by the greater share of migrants living and working there). We consider whether there should be geographical variation in salary thresholds. Stakeholder views are mixed on the desirability of this. A system with a different salary threshold for each region and country of the UK would be too complex and many of the salary thresholds would be similar as, with the exception of London, salary variation is limited. A separate salary threshold for London would lead to a much higher threshold there (about 25 per cent higher) but only a slightly lower threshold for the rest of the UK. There is also much more salary variation within regions and countries than between them. Separate salary

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<sup>6</sup> <https://www.gov.uk/government/publications/migration-advisory-committee-mac-report-eea-migration>

thresholds for the Devolved Administrations would not lead to lower salaries in Scotland on economic grounds as earnings there are close to the UK-wide average. It would lead to lower thresholds for Wales and Northern Ireland, but salaries there are no lower than in some English regions.

The MAC's view is that while there are arguments both for and against geographical variation in thresholds, on balance we recommend a single salary threshold across the UK. A lower salary threshold for some parts of the UK risks labelling some parts of the UK as 'low wage', reinforcing geographical inequalities. We have previously supported a separate pilot to deal with the particular problems faced by remote areas and we continue to recommend this idea. The situation of Northern Ireland is unique as the only part of the UK with a land border with the EU and a labour market more distinct from the rest of the UK. Special consideration could be given to Northern Ireland especially if it comes to have a different relationship with the EU compared to the rest of the UK.

In the move to the new system there needs to be more active monitoring and evaluation than now of how it is working as there is inevitably uncertainty about impacts. We make recommendations around data, as the paucity of data and difficulty of access makes assessing how well migration policies are working problematic and this risks sub-optimal decisions being made. In particular, the Home Office should improve its retention of historical data in a format that is suitable for use in monitoring and evaluating the outcome of policies and government should progress linking relevant datasets, sharing this data with the MAC, to allow migrants employment, and other, outcomes to be tracked and evaluated.

## Members of the MAC

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## Introduction

### MAC commission to review the salary threshold and points-based system

- 1 On 24 June 2019, the then Home Secretary wrote to the Chair of the MAC<sup>7</sup> with a commission from the Government on salary thresholds; asking that we report by January 2020. On 3 September 2019, the Home Secretary wrote to the Chair of the MAC<sup>8</sup> to ask us to also consider the introduction of an Australian-style points-based system. Both commissions are set out in Annex A.
- 2 The commissions are intended to help with the design of the UK's future immigration system after it has left the EU and after the end of any transition period. Currently, the earliest any such system could be introduced is January 2021.

### Salary thresholds

- 3 Under the current Tier 2 (General) route, jobs must pay at least the higher of an occupation specific threshold and a general salary threshold. Since April 2017, the general salary threshold has been £30,000 or £20,800 for new entrants<sup>9</sup>. The £30,000 figure was calculated as the 25th percentile of full-time occupations skilled at NQF6+<sup>10</sup> in our 2015 review. These levels were based on MAC advice as laid out in our Review of Tier 2, Analysis of Salary Thresholds in July 2015<sup>11</sup>. The MAC clearly set out in our EEA migration report<sup>12</sup> that these salary thresholds are likely to ensure that migrants arriving through this route raise the level of productivity in the UK, make a clear positive contribution to the public finances and contribute to raising wages, which is the appropriate market response to a labour shortage.
- 4 The salary threshold also applies for anyone applying for settlement under Tier 2 (General). Those applying for settlement must be earning at least the occupation specific rate (set at the 25<sup>th</sup> percentile), as stated in the Codes of Practice in Appendix J of the Immigration Rules, or a gross annual salary of at least the minimum earnings threshold, whichever is higher. The minimum earnings

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<sup>7</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/811269/MAC\\_commission\\_210619.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/811269/MAC_commission_210619.pdf)

<sup>8</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/829234/Home\\_Secretary\\_Professor\\_Manning\\_-\\_Points-based\\_system.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/829234/Home_Secretary_Professor_Manning_-_Points-based_system.pdf)

<sup>9</sup> Those aged under 26 on application, switching from Tier 4, or the role was advertised through a university milkround

<sup>10</sup> National Qualifications Framework levels, which have now been replaced by the Regulated Qualifications Framework (RQF) levels. Occupations which are defined as NQF6/RQF6 and above are graduate level and referred to as high-skilled in this report. RQF3-5 occupations are medium-skilled.

<sup>11</sup> <https://www.gov.uk/government/publications/migration-advisory-committee-mac-review-tier-2-migration>

<sup>12</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/741926/Final\\_EEA\\_report.PDF](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/741926/Final_EEA_report.PDF)

threshold on or after 6 April 2019 is £35,800 (rising each year thereafter). The existing system of salary thresholds is described in more detail later in this report.

- 5 This report can be thought of as a continuation of the report we produced on the impacts of EEA migration in September 2018<sup>13</sup> that made recommendations about the future migration system. For the skilled worker route (Tier 2 (General)) the Immigration White Paper accepted the majority of our recommendations, including the general recommendation that the future immigration system should be based on skill and not nationality; and many of the more specific recommendations about the expansion of the range of eligible skills to include medium-skill occupations, the abolition of the cap and the Resident Labour Market Test (RLMT).
- 6 The only recommendation from our EEA report to be partially accepted by the Home Office, was the retention of the current system of salary thresholds. As part of their 12-month extensive engagement plan following the publication of the white paper, the Home Office has been engaging a wide range of stakeholders to gather views and address concerns about discuss the proposals that have been outlined. Findings from the Government’s consultation prompted the commission of a more comprehensive and in-depth assessment of salary thresholds and the rate at which they should be set. The current salary threshold commission asked us to review the mechanism for calculating salary thresholds:

*“We would like the MAC to consider whether this should be:*

- i. a single minimum salary threshold, potentially with some flexibilities to set a lower rate*
- ii. the current arrangement of a combination of a minimum salary threshold and a ‘going rate’*
- iii. an approach which focuses only on the ‘going rate’ for a particular role”*

And what impact salary thresholds will have on:

- i. annual net migration (as per the Government’s objective for reducing net migration to sustainable levels)*
- ii. the resident workforce, their wages, training productivity and overall labour market flexibility*
- iii. migrant workers*

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<sup>13</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/741926/Final\\_EEA\\_report.PDF](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/741926/Final_EEA_report.PDF)

*iv. employers', the supply of labour and the labour market's ability to adjust, including impacts by sector and occupation where appropriate, and the impact on emerging industries*

*v. the short, medium and long-term effects on public finances*

*vi. the short, medium and long-term effects on the economy*

*The MAC is also asked to advise on the appropriate salary thresholds for those seeking to settle in the United Kingdom."*

## Regional Salary Thresholds

*"The MAC should therefore consider whether the conclusions they reach in relation to levels of salary thresholds are applicable to the whole of the United Kingdom or whether there is a need for greater regional variation."*

## Exceptions to salary thresholds

*"The MAC is asked to further advise on the impact of exemptions from minimum salary thresholds. This includes:*

*i. whether inclusion on a Shortage Occupation List should qualify occupations for lower thresholds (including in relation to settlement)*

*ii. what impact salary thresholds might have on sectors that provide high public value to society and the economy but which might not necessarily pay as high wages*

*iii. what exceptions should exist for new entrants to an occupation and the length of time that such exceptions should be in place for any individual before we can expect them to meet an experienced worker threshold*

*iv. the role of further expanding the scope for non-cash remuneration to count towards salary thresholds, including equity shares and benefits in kind such as accommodation and transport."*

## Points-based systems

- 7 The second aspect of the commission has asked us to review the Australian immigration system:

*“I am asking the MAC, as part of their current work on future potential salary thresholds, to conduct a review of the Australian immigration system and similar systems to advise on what best practice can be used to strengthen the UK labour market and attract the best and brightest from around the world.”*

## **What we did**

### **Internal analysis of alternative salary thresholds**

- 8 We have developed our own modelling to look at alternative scenarios of the design and level of salary thresholds. This approach looks at the impacts that would have occurred had a different policy been implemented on EEA nationals from 2004. To complement this, we have been given access to the HMG economic models of migration<sup>14</sup> which we have used to do our own analysis of policy scenarios.
- 9 Other analysis has been undertaken using a range of sources to look at other specific issues, such as the new entrant threshold and allowances.

### **External analysis**

- 10 For our 2018 report on EEA Migration in the UK, we commissioned Oxford Economics to undertake fiscal analysis. For this report, we have commissioned Oxford Economics to update the static analysis with new data for financial year 2017/18. Additionally, we have commissioned them to undertake analysis of the fiscal impacts of different salary thresholds in line with the methodology used in our own economic modelling.

### **International and historical UK use of points-based systems**

- 11 The commission specifically asked us to consider what could be learnt from other international PBS, including Australia. Whilst other countries have PBS, we have had limited time to undertake this commission. Therefore, we have focused on looking at international examples in Australia, Canada, New Zealand and Austria.
- 12 We have also explored the previous use of pure points-based routes in the UK including the Highly Skilled Migrant Programme, Tier 1 (General) and the early years of Tier 2 (General). This was intended to provide a better understanding of how PBS have worked in practice in the UK context and their effectiveness.

## **The Call for Evidence and stakeholder engagement**

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<sup>14</sup> Home Office and HM Treasury joint models

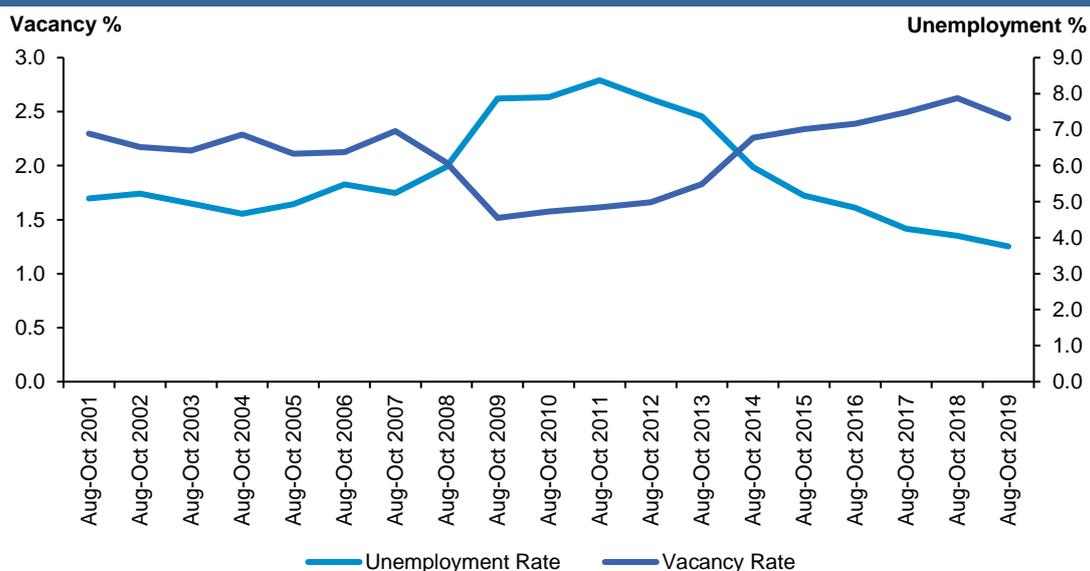
- 13 A crucial part of the evidence we use is gathered from a wide range of experts, organisations and interested parties, to expand our knowledge base and supplement our internal analysis.
- 14 We ran an online Call for Evidence (CfE) on the salary thresholds and points-based system, via a questionnaire, also requesting additional data and evidence from individuals and organisations representing a wide variety of sectors, industries and regions. The CfE was live for eight weeks, from 10 September to 5 November, and 353 responses were received, 189 from employers and 164 from representative bodies. The representative bodies were predominantly UK-wide, whilst employers were a mix of UK-wide and concentrated in regions/nations (most prevalent were London, South East, Scotland). Respondents self-selected whether they were providing views to represent their own organisation (routed as an individual organisation through the questionnaire) or on behalf of a wider membership (where they were then routed differently).
- 15 Responses from individual organisations and from representative organisations are considered separately throughout. Where characteristics are reported by representative organisations, they reflect the characteristics of their membership, not the organisations themselves, as separate questions were asked of these respondents to gather the most common size of their membership, the most prevalent sector that they represent, and the geographical distribution of their membership. Where 'base size' is mentioned, this refers to the number of CfE responses a particular statistic has been based on.
- 16 Closed questions were quantitatively analysed, largely using univariate analysis and crosstabulations. Free text responses were qualitatively analysed using broad thematic analysis techniques. In addition, there were 176 evidence attachments, emails, letters and written responses supplementing the online questionnaire responses, which have been read, and key themes and quotes pulled out. Throughout the report, quotes referencing information from official submissions and reports received have been attributed to the organisations in questions. Where information has been extracted from free text within the CfE questionnaire, quotes have been anonymised.
- 17 In this report, evidence gathered through the CfE is analysed in: Chapter 3 on the points-based system; Chapter 4 on views of the current Tier 2 (General) system and salary thresholds; Chapter 7 on variations to salary thresholds and in Chapter 8 on geographical differences. In addition, specific stakeholder and CfE quotes are included throughout the report and integrated with commentary on the economic analysis. When reading results from the CfE it should be noted that the sample, and any percentages or proportions reported in this document, should be considered to be indicative of those who responded only and not as representative of the UK-wide employer population as a whole.

- 18 In addition to the CfE, there were an additional 30 stakeholder meetings and events held across the UK with government departments, devolved administrations, and a wide range of representatives from large and small employers from across the industrial spectrum, education stakeholders, trade unions and organisations representing the vulnerable. The views of stakeholders have been included throughout the report.

## Labour market context

- 19 The UK's key labour market indicators suggest that the current labour market is the tightest it has been in some time, with low unemployment rates and high vacancy rates. Figure 1 shows the unemployment rate is low, a longer time series would show it is at its lowest level since the early 1970s, despite the notable downturn in GDP growth in recent years. Figure 1 also shows that vacancy rates are nearly at the highest point since the current series began in 2001 though the very latest figures show a slight downturn.

**Figure 1: Unemployment and Vacancy rate over time**

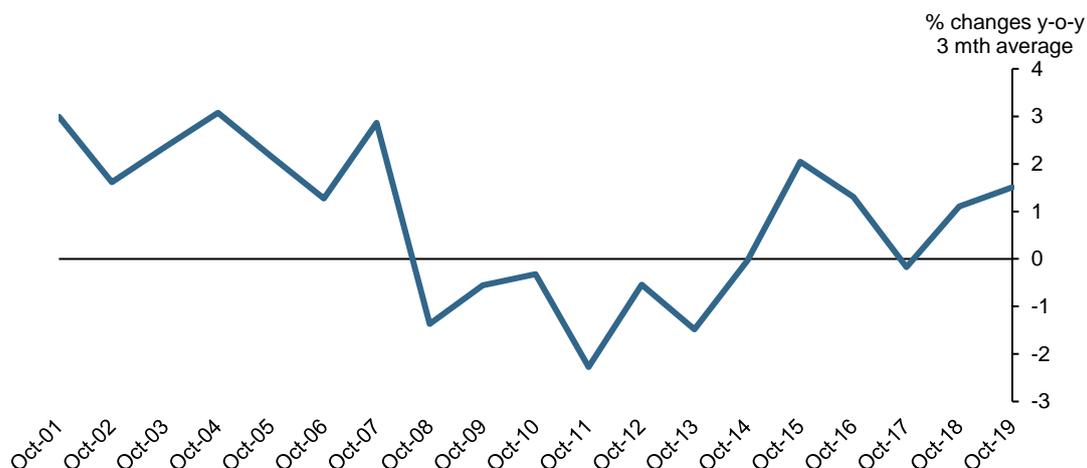


Source: ONS Vacancy Survey/ Labour Market Survey

- 20 Despite low unemployment and high vacancy rates, wage growth has been very weak. Median gross weekly earnings were approximately £18 (or 2.9 per cent) lower in 2019 when adjusted for inflation compared to their 2008 pre-crisis peak<sup>15</sup>. This partly reflects very weak productivity growth, though the transmission of low unemployment to wages also seems different from in the past (historically, low unemployment is frequently linked to stronger wage growth).

<sup>15</sup> Peak pre crisis median wages reached £603 per week in 2008 prices whilst median weekly wages were £585 in 2019. Source: ONS ASHE data 1997-2019

**Figure 2: Average real weekly earnings % changes year on year, 3-month average**



Source: ONS Monthly Wages and Salaries Survey

- 21 The overall volume of EU and Non-EU born migrants in employment in the UK has increased considerably over the time period assessed: from 2001 to 2018 the share of EU workers in employment in the UK almost tripled to 7 per cent, alongside the share of Non-EU workers increasing to just over 10 per cent. This suggests a considerable increase in workforce participation amongst workers not born in the UK. The population share of the UK-born has fallen by more than six percentage points, whilst the population share of the EU-born has more than doubled to 5.5 per cent.

**Table 1: Change in employment and population share by country of birth<sup>16</sup>**

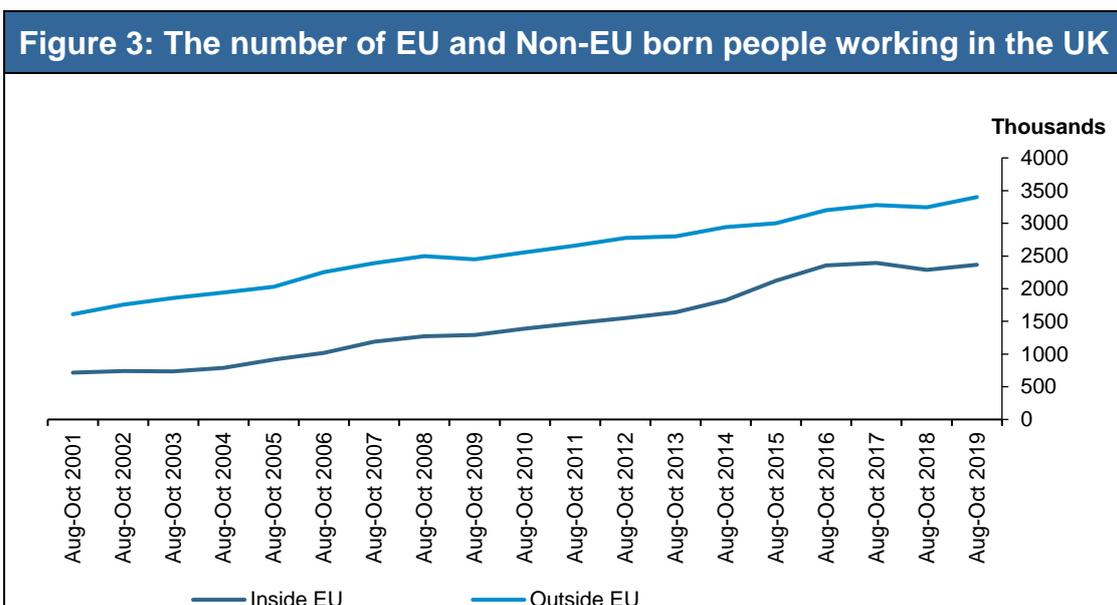
|                  | Employment Share Q4 2001 (%) | Employment Share Q4 2018 (%) | Population Share Q4 2001 (%) | Population Share Q4 2018 (%) |
|------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| UK               | 91.5                         | 82.7                         | 91.9                         | 85.7                         |
| EU <sup>17</sup> | 2.6                          | 7.0                          | 2.0                          | 5.5                          |
| Non-EU           | 5.9                          | 10.3                         | 9.9                          | 8.8                          |

Source: ONS Labour Force Survey

- 22 As Figure 3 indicates, the volume of Non-UK born people working in the UK has increased considerably since 2001. While the number of non-EU born workers has continued to grow in recent years, the number of EU-born has flatlined since 2016. There are some indications that the numbers of EU-born workers may now be

<sup>17</sup> Includes Republic of Ireland

falling, with the fall concentrated in those from Eastern Europe who had the most rapid growth after 2004.



Source: ONS Labour Force Survey

## Wider Context

- 23 Throughout the report we refer to routes in the existing immigration system, such as Tier 2 (General). Our recommendations are based on the existing terminology and are intended to apply to the equivalent routes in the future system, even though these may be rebranded and restructured.
- 24 In line with the approach in our 2018 report on EEA migration<sup>18</sup> *“our discussion focuses on what we think might be a desirable migration system for the UK if it was to be set in isolation. This should not be taken as a MAC recommendation that migration should be excluded from negotiations with the EU”*.
- 25 EEA migrants already in the UK have the right to remain, a right the MAC strongly supports. Nothing written in this report should be misunderstood as implying any dilution of the rights of EEA migrants already in the UK.

## Structure of this report

- 26 Chapter 1 discusses PBS in general and some international experience with them.
- 27 Chapter 2 reviews past UK experience with PBS and summarises stakeholder views.
- 28 Chapter 3 covers recommendations about how a PBS could be used in the UK.

<sup>18</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/741926/Final\\_EEA\\_report.PDF](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/741926/Final_EEA_report.PDF)

- 29 Chapter 4 details the responses we have received from our Call for Evidence and stakeholder engagement on salary thresholds.
- 30 Chapter 5 outlines the justification for salary thresholds, includes recommendations about the form they should take and whether there should be any variations.
- 31 Chapter 6 describes our methodology for assessing the impact of salary thresholds on a range of outcomes: immigration, population, GDP, productivity, the public finances and public services. It outlines the likely variation in the impacts across sectors, regions and countries.
- 32 Chapter 7 provides our estimates of the impacts of different salary thresholds on outcomes and makes recommendations about the appropriate level.
- 33 Chapter 8 discusses geographical variation in salary thresholds.
- 34 The final chapter provides an overview of our recommendations.

# Chapter 1: Points-based systems: definition and international experience

## Summary

- Defining a PBS is not as simple as it might seem. Using the broadest definition any selective migration system can be thought of as a PBS, because it could be presented as a system with points, though we would question the value of doing so purely as a cosmetic exercise. A narrower definition would only see a system with explicit points and trade-offs between characteristics and, therefore, a variety of ways of passing any ‘test’, as a PBS.
- We are not aware of any country that uses a PBS as its only route for work migration. A PBS tends to be part of a wider work migration system which may operate with, or without, requiring a job offer, or give more points if there is a job offer. Work migration also sits alongside routes like study, asylum and family migration; so, any PBS route only represents a share of overall immigration.
- A PBS can be used as a system for initial entry to the country, or for giving permanent settlement, or both; international evidence suggests a variety of approaches have been taken.
- A PBS typically gives more points for those characteristics thought to be predictive of ‘success’; this is most commonly defined as labour market success but could be defined in other ways e.g. to encourage migration to some locations, rather than others. Predicting success (however defined) may be difficult: both because this is intrinsically complex, but also because some characteristics are harder to verify.
- In order to be able to determine whether a PBS is achieving its desired objectives, and to be able to suggest any refinements, it is important to collect high quality data. Most countries operating a PBS use large scale cohort studies to track migrants’ outcomes, but historically the UK Government hasn’t always effectively evaluated migration policy; therefore, we have been unable to learn as much as we would have liked about previous attempts to run a PBS in the UK.

## Introduction

- 1.1 This chapter provides an overview of points-based systems, both in general, and in selected countries that might have experience relevant to the question whether the UK should use a PBS.

## What is a points-based system?

- 1.2 One way of defining a PBS is that it is a method of selecting migrants in which points are given for certain characteristics. Either every applicant with more than a certain number of points is admitted or, where there is a cap or quota, those with the most points are admitted (any cap or quota could be set monthly, or annually, and also may apply to certain locations, occupations etc.). Any migration system with points is then a PBS, any system without points is not. This might seem very straightforward, but the problem is that this definition only looks at the way a migration system is presented without looking at the substance of that policy. Any selective migration policy could be packaged as a system with or without points while remaining the same policy.
- 1.3 A good illustration is the current form of the UK's Tier 2 (General) visa. There are points in this system: 30 points are given for having been assigned a Certificate of Sponsorship and met some other criteria, 20 points for being offered an appropriate salary, 10 points for having a certain level of English language skills and 10 points for having enough funds available for maintenance on arrival in the UK. To be admitted 70 points are required, and the only way to get that many points is to meet all the criteria: in other words, there is no flexibility in how an applicant can qualify. It would be equally effective to dispense with the points entirely, provide a checklist of criteria and simply require all the boxes to be ticked. The system would then have changed, from one with points, to one without, while remaining the exact same system.
- 1.4 Tier 2 (General) might seem very different from the PBS in other countries described in this chapter, in which points are given for different characteristics and there are multiple ways to obtain the minimum required number of points, so that a migrant can trade-off strength in one area against weakness in another. However, this difference may be more apparent than real, as there is a way to re-configure Tier 2 (General) to make it look like a PBS with trade-offs and a way to re-configure the PBS of other countries to be the same system but without points.
- 1.5 The way Tier 2 (General) is currently configured means there is only one way to obtain the necessary points, so there is no way to trade-off one characteristic against another, but it could be re-packaged in a way that some trade-off seems possible. For example, the level of earnings required to satisfy the salary requirement depends on whether the migrant is classified as an experienced worker, or a new entrant (this is described in more detail in Chapter 5). One could present the current system in a different way with some points awarded for having a salary above the experienced worker rate, fewer points for being paid above the new entrant rate and some points for meeting the definition of a new entrant. That way Tier 2 (General) may seem like a PBS with trade-offs, but it is exactly the same system presented in a different way.

- 1.6 Similarly, one could re-configure the PBS of other countries to get rid of the points while having the same system. The way this would be done would be to provide a list of the different combinations of characteristics needed for entry and priority in the event of a quota being met. This might be a long unwieldy list, but it would be the same system.
- 1.7 From this discussion the broadest definition of a PBS is that it is simply any selective migration policy because any such policy could be presented as a system with points. This would classify selective systems presented without points as a PBS, based on the principle that one should look behind the façade of how a system is packaged. Free movement would not be a PBS on this definition as it is not a selective system.
- 1.8 A narrower definition of a PBS is to look only at the façade and to classify only migration policies with explicit points as a PBS. Still narrower would be to restrict the definition of a PBS to systems with explicit points and multiple ways to gain the necessary points i.e. where points are tradeable.
- 1.9 An even narrower definition would be to restrict the definition of a PBS to a system with points, trade-offs and in which it is possible to get enough points without having a job offer. We have defined this type of system as a 'pure' PBS. As described in this chapter, some countries allow this, though others give more points for having a job offer, and some require it. This feature is often thought to be an important feature of the Australian PBS. In the UK, there are work routes with relatively small numbers which allow migrants to come without a job offer, such as Tier 1 (Exceptional talent) and Tier 5 (Youth Mobility), though these are not currently packaged as a PBS.
- 1.10 The MAC view is that it is best to approach migration policy by first having a clear view of what that policy is designed to achieve. From that arises a question of how to design policy to best achieve those objectives. Finally, there is the question of how best to package and present that policy. The question of whether there should be a system presented with explicit points only really arises at this final stage. Although any selective system could be presented with and without points, having a system that is simple to understand is important and complaints about complexity from users are common. For the current UK Tier 2 (General) the number of characteristics used to determine eligibility are few and the possible trade-offs very limited so that the packaging as system with points seems pointless. For some of the other countries discussed in this chapter, a much wider range of characteristics are used with more trade-offs possible: in this case presenting as a system with points seems simpler than the alternative.
- 1.11 Whether it should be packaged as a system with explicit points depends primarily on how many characteristics are thought relevant in that selection process. This

chapter describes the system used in some other countries, and the lessons that might be relevant for the UK.

## International experience

- 1.12 While selective migration policies have a very long history, the first policy with explicit points was introduced by Canada in 1967. This was then followed by similar systems in Australia in 1979 and New Zealand in 1991. Other countries have since adopted similar points-based systems such as Austria, Denmark, South Korea and Singapore.
- 1.13 In this chapter we focus on the experience of Australia, Canada and New Zealand due to the length of time which their systems have been in place and the prominence these countries in many debates in the UK around PBS<sup>19 20 21</sup>. We also include a discussion of Austria's PBS that differs from the other countries in that a job offer is an essential requirement: this makes it more like the UK's Tier 2 (General).

## PBS as part of a wider work migration system

- 1.14 One important point to recognise is that in all the countries we study, the work migration routes with explicit points exist alongside other work routes that do not have explicit points.
- 1.15 Most programmes that are not part of the PBS in these countries are employer-sponsored routes, requiring the applicant to have an offer of employment. This type of route is demand driven in the sense that the only migrants admitted are those an employer is prepared to sponsor. In contrast many of the PBS routes do not require an employer-sponsor so are more supply-driven, though subject to overall quotas on the numbers admitted.
- 1.16 It is difficult to calculate exactly what proportion of worker migration into Australia, Canada and New Zealand is encompassed by the PBS of each country. Published data is unclear as some systems have different visa types of the same work permit name, for example one temporary and one permanent. There are also visa routes with work rights that would not match the definition of a specific work visa in the UK system, and so are not comparable with the UK system, such as working holiday makers etc. These types of visa have not been included in our calculations.

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<sup>19</sup> <https://www.oecd.org/migration/mig/recruiting-immigrant-workers-canada-2019-4abab00d-en.htm>

<sup>20</sup> <https://www.oecd.org/migration/recruiting-immigrant-workers-australia-2018-9789264288287-en.htm>

<sup>21</sup> [https://www.oecd-ilibrary.org/social-issues-migration-health/recruiting-immigrant-workers-new-zealand-2014\\_9789264215658-en](https://www.oecd-ilibrary.org/social-issues-migration-health/recruiting-immigrant-workers-new-zealand-2014_9789264215658-en)

We estimate that since 2011, the use of PBS routes as a proportion of all work visas (excluding investment and post-study work routes) in these countries is between 40 to 60 per cent<sup>22</sup>.

- 1.17 It is important to note that PBS routes offer permanent settlement in the countries we studied (with the exception of Austria). Some admitted will be coming to the country for the first time, others are already in the country transferring from a different visa. The proportion of successful applicants entering directly from abroad varies between countries, being highest in Australia. In Canada and New Zealand, most successful applicants onto the PBS routes come from temporary programs within each country.
- 1.18 Australia has 3 main permanent worker migration streams:
1. Skilled Independent and Nominated (points-tested)
  2. Employer Sponsored
  3. Business Innovation and Investment
- 1.19 The first is a points-tested, supply driven stream, making up 61 per cent of the Skilled Stream (i.e. permanent skilled migration) in 2017/18. The second is the employer sponsored, demand driven stream (32 per cent of permanent skilled migration in 2017/18), and the last is a mixture of both points-tested and employer-sponsored visas with certain business/investment required criteria attached (around 7 per cent of skilled migration in 2017/18).
- 1.20 The Canadian immigration system contains 3 main permanent workers migration programmes all of which are PBS:
1. Federal Skilled Workers Program (FSWP) which is points-tested
  2. Canadian Experience Class (CEC)
  3. Provincial Nomination Program (PNP)
- 1.21 Allowing candidates who are highly skilled (15 per cent of permanent worker migration in 2017), have previous work/study experience in the country (21 per cent of permanent worker migration in 2017) or intend to settle in regional areas through provincial nomination (31 per cent of permanent worker migration in 2017). These programmes generally do not require an employer to sponsor or endorse the application.

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<sup>22</sup> MAC calculations based on data from Annual Migration Reports from;  
Australia: <https://www.homeaffairs.gov.au/research-and-statistics/statistics/visa-statistics/live/migration-program>,  
Canada: <https://www.canada.ca/en/immigration-refugees-citizenship/corporate/publications-manuals.html>,  
New Zealand: <https://www.immigration.govt.nz/documents/statistics/>

- 1.22 The wider system also includes a temporary foreign worker route that is conceptually similar to the UK's Tier 2 (General) system, except that it allows workers to be sponsored at lower skill and salary levels. This route is not subject to a points-test unless an individual wishes to make an application for a permanent visa.
- 1.23 Most labour migrants enter New Zealand on temporary visas, and permanent migration mainly draws from the pool of temporary migrants already in the country. A points-test is used to process the admissions of permanent labour migrants, generally those wishing to apply for residency can accumulate points whilst living and working in the country on a temporary visa. The Skilled Migrant Category visa, which is part of New Zealand's PBS made up around 81 per cent of skilled migration residence applications in 2017/18.
- 1.24 In Austria, labour migration of non-EU/EFTA nationals occurs primarily through what is called the Red-White-Red (RWR) Card system. This is an employer-sponsored route for workers. It is subject to a points-test, and has separate tests for highly skilled migrants and those employed in occupations in shortage.

#### **The allocation of points for characteristics**

- 1.25 The PBS routes described here generally award points for a variety of characteristics. The main factors for which points are awarded in the four countries examined are laid out in Table 1.1 though Annex C has a more complete list.

| Table 1.1: Weighting of Points Tests by country as a Percentage (%) of the Minimum Pass Mark |                     |  |                     |  |                     |  |                     |  |
|--|---------------------|--|---------------------|--|---------------------|--|---------------------|--|
| Country <sup>1</sup>   | Australia           |  | Austria             |  | Canada              |  | New Zealand         |  |
|  | % of Min. Pass Mark | % of Available Points<br>(Actual points) | % of Min. Pass Mark | % of Available Points<br>(Actual points) | % of Min. Pass Mark | % of Available Points<br>(Actual points) | % of Min. Pass Mark | % of Available Points<br>(Actual points) |
| Age  | 46                  | 23 (30)                                  | 29                  | 20 (20)                                  | 18                  | 12 (12)                                  | 30                  | 13 (30)                                  |
| Language Proficiency <sup>2</sup>  | 31                  | 15 (20)                                  | 14                  | 10 (10)                                  | 42                  | 28 (28)                                  | -                   | -  |
| Job Offer <sup>3</sup>   | -                   | -  | -                   | -  | 15                  | 10 (10)                                  | 80                  | 33 (80)                                  |
| Work Experience  |                     |  |                     |  |                     |  |                     |  |
| In-country   | 31                  | 15 (20)                                  | 29                  | 20 (20)                                  | 23                  | 15 (15)                                  | 50                  | 21 (50)                                  |
| Overseas   | 23                  | 12 (15)                                  |                     |  |                     |  | 60                  | 25 (60)                                  |
| Education/ qualifications  |                     |  |                     |  |                     |  |                     |  |
| In-country   | 46                  | 23 (30)                                  | 71                  | 50 (50)                                  | 45                  | 30 (30)                                  | 85                  | 35 (85)                                  |
| Overseas   | 31                  | 15 (20)                                  | 57                  | 40 (40)                                  | 37                  | 25 (25)                                  | 70                  | 29 (70)                                  |
| Additional points <sup>4</sup>   | 31                  | 23 (30)                                  | -                   | -  | 15                  | 10 (10)                                  | 40                  | 17 (40)                                  |
| <b>Minimum Pass mark / Available points</b>  | <b>65</b>           | <b>130</b>                               | <b>70</b>           | <b>100</b>                               | <b>67</b>           | <b>100</b>                               | <b>100</b>          | <b>240</b>                               |

<sup>1</sup>Australia: Skilled Independent, Austria: Very Highly Qualified Worker, Canada: Federal Skilled Worker, New Zealand: Skilled Migrant Category

<sup>2</sup> New Zealand does not give points on language but does require applicants to have an acceptable English language test result

<sup>3</sup>Australia and Austria do not give points to candidates for an offer of employment. In Austria, an offer of employment is a requirement. In Australia the PBS does not require an offer of employment.

<sup>4</sup>Additional points denotes; Australia – additional language qualification, skilled partner points, Canada – partner language test scores, Canadian relatives, and arranged employment, New Zealand – skilled partner points.

Full Points tables for each country can be found in Annex C.

- 1.26 To give an example from Table 1.1, Australia give a maximum of 30 points for a person aged between 25 and 33, this is 46 per cent of the minimum pass mark of 65 points on the Skilled Independent visa and 23 per cent of the total available 130 points.
- 1.27 Many of these characteristics relate to the individual migrant rather than the job they are doing. For those PBS where no job offer is required, this is obviously inevitable. But individual characteristics also matter a lot where points are awarded for having a job offer. This use of individual characteristics is a key difference from many employer-driven systems like the UK's Tier 2 (General) route, where most of the eligibility criteria relate to the job that the worker will do. Though this difference is often one of degree rather than kind: Tier 2 (General) has a lower salary threshold for migrants who are classified as new entrants, which is a characteristic of the individual, not the job.

- 1.28 Although some characteristics might seem very clear, there are often operational issues in implementing them. For example, if there are points for having a bachelors (or higher) degree it may be important to ensure that this is of an equivalent standard to an equivalent degree in the receiving country. Given how many institutions in the world offer a degree, this may be a daunting task.
- 1.29 The points for different characteristics often co-exist with criteria that must be satisfied. For example, New Zealand does not give points for English language proficiency but does insist on a certain level of competence, without which the migrant will not be eligible no matter how many points they accumulate for other characteristics.
- 1.30 Another example of an essential criteria is minimum salary thresholds in the Austrian system where a job offer is required. Workers in shortage occupations must receive at least the collectively bargained wage. Austria has the same amount of points available for experience whether overseas or in-country, however applicants can earn the maximum 20 points in half the time (5 years) if at least 6 months is spent in skilled employment in Austria.
- 1.31 In the 'pure' PBS routes of Australia, Canada and New Zealand shown in Table 1.1, there are a variety of ways in which the migrant can accumulate the minimum points required for entry. How the characteristics are weighted determines the relative importance of particular characteristics in being selected. If more points are given for education than age, then the system will tend to select migrants with high levels of education of all ages. The allocation of points for different characteristics depends on the type of migrant the Government wants to attract and the perceived effectiveness of the system. Countries vary the points over time in the light of changing circumstances. For example, Canada made large changes in 2016, increasing the number of points for having studied in Canada and reducing those for having a job offer.

### **Managing numbers in the PBS: expression of interest/admission rounds**

- 1.32 The countries studied here all have a minimum number of points required to be eligible. But in Australia, Canada and New Zealand having the minimum number of points is not a guarantee of a successful application as there are quotas/caps/planning targets on the numbers of visas issued. These numerical targets also exist in other parts of the immigration system and are often seen as providing public confidence that the immigration system is under control. As the targets relate to the numbers of visas issued that is controlled by the Government, they are very different from the UK's previous net migration target because net migration was not controlled by the Government because of free movement and because it includes emigration as well as immigration.

- 1.33 When the number of applicants with the minimum number of points exceeds the target (a very common situation), there needs to be some way of deciding who is successful. Although the system for doing this varies between countries and for different visas within countries (for example, in the Canadian provincial programmes anyone in the pool with above the minimum number of points can be chosen), those with higher levels of points are more likely to be accepted. This means that the effective minimum points required for entry might be a lot higher than the minimum required. For example, the minimum pass mark in the New Zealand system is 100 points but currently 160 are required to be admitted.
- 1.34 In Australia decisions are made on a monthly cycle while both Canada and New Zealand operate fortnightly invitation rounds. This is outwardly similar to the monthly quota on Certificates of Sponsorship in the UK's Tier 2 (General) where salary is used to decide who is admitted. When the cap binds, the UK system suffers from the problem that the required salary level can vary greatly from month to month.
- 1.35 To mitigate this problem, Australia, Canada and New Zealand all now use Expression of Interest (EOI) pools. The EOI system was first introduced by New Zealand in 2003 with a similar system were adopted in 2012 by Australia called SkillSelect, subsequently followed by Canada and its Express Entry system in 2015.
- 1.36 Under an EOI system applicants do not initially submit a full application: instead candidates 'express their interest' by providing some basic initial information about their eligibility; these people then enter a pool from which they may then be invited to submit a full application in each admission round. Applicants remain in the pool for a certain period meaning that there is much more stability in the pool from which applications are being drawn than in the UK Tier 2 (General) where applications are only held for one month.
- 1.37 The advantage of this system is that the stability of the pool prevents instability in the number of points required in each admission round. It also prevents big backlogs and long queues when applications exceed administrative processing capacity, something that was a problem, for example, in Canada in the early 2000s.
- 1.38 Austria does not operate an EOI system. Candidates who score at least the minimum number of points are eligible for a residence permit. Because the route requires a job offer and this naturally constrains the number of applicants worldwide who can be eligible, there is less immediate need to have a numerical limit on applications. Indeed, caps on employer-sponsored entry visas can be disruptive due to the unpredictability they generate for employers, as we discussed

in our previous report on EEA migration<sup>23</sup>, in which we recommended removing the cap on Tier 2 (General) visas. The Austrian Government does have targets for skilled migration as a proportion of total migration, though this does not affect an individuals' likelihood of being accept or rejected for a visa.

## Temporary vs. permanent migration; entry vs. settlement

- 1.39 One of the problems in considering other countries' migration systems is that they are often perceived and thought about differently in a way that can be a source of confusion. For example, the UK's Tier 2 (General) is often thought in the UK as a permanent migration route because migrants on that route have a path, though not an automatic right, to permanent settlement (indefinite leave to remain). This is in spite of the fact that the Tier 2 (General) visa is of limited duration. That contrasts with Tier 5 (Youth Mobility) where there is no path to settlement. So, in the UK we think of migration routes as permanent if there is any path to settlement, and temporary if there is none.
- 1.40 In contrast, similar employer-driven routes in some of the other countries studied here are thought of as temporary because they are of fixed duration and the term permanent migration is reserved for those routes that give permanent residence. In this regard it should be noted that successful applicants to the PBS systems in Australia, Canada and New Zealand (though not Austria) are given immediate settlement. In some cases, these migrants may be new arrivals in the country with permanent residence from day 1. But in many cases, migrants will not come directly from abroad, being already in the country most commonly on a temporary work or student visa. In Australia, most migrants coming through the main points-tested route (skilled independent, regional and state/territory nominated) were for people coming directly from abroad. In Canada and New Zealand, however, most people granted status through the main points-tested programmes previously held a work visa. For example, currently about 85 per cent of successful applicants to the New Zealand PBS are already in-country.
- 1.41 As Table 1.1 shows, many countries give points for having in-country work experience. This will tend to favour applicants who have already been in the country. It also means that, in contrast to the UK, there is no set amount of time required for migrants to qualify for permanent status through a PBS. Some migrants will have enough points to qualify for permanent residence immediately; others may live in the country for several years first, and the work experience they gain during this period helps them to qualify for permanent status. Some migrants on temporary work visas with low levels of skills and education may never get enough points to be admitted for permanent residence under the PBS system.

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<sup>23</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/741926/Final\\_EEA\\_report.PDF](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/741926/Final_EEA_report.PDF)

- 1.42 A PBS for the UK could be used for initial entry, or for granting settlement. Although these two uses are mixed up in all the systems discussed here (except Austria) they are conceptually different, and we discuss them separately in our recommendations chapter.
- 1.43 Austria has a different system: the RWR-Card expires after 2 years. However, migrants can apply for a RWR-Card Plus, which allows an additional 3 years to be added to the migrant's work permit. This residence permit can be renewed multiple times to prolong stay in the country indefinitely, or the individual can apply for a residence permit to be a long-term resident in the EU.

### The regional dimension in PBS

- 1.44 Both Australia and Canada have regional dimensions to their PBS to reduce congestion in the main cities, increase the population in remote regions and reflect the fact that different states/provinces may have different migration policies in a federal political system.
- 1.45 Two main methods have been devised to achieve this: visas that allow states and provinces to select their own migrants from the EOI pool; and giving additional points to a candidate willing to apply outside of the main hubs and cities. In both cases, the mechanism through which workers are encouraged to go to non-traditional destinations within the country is essentially to lower the bar for eligibility for those applicants. This means that while some applicants meet the criteria to qualify for national-level visas, some will only qualify for subnational ones, creating an incentive for them to apply to those places.
- 1.46 Australia has two main skilled visas in which states and territories can select their own migrants from the SkillSelect pool, the skilled nominated and the skilled work regional (provisional) visas. The skilled employer sponsored regional (provisional) visa allows employers to sponsor prospective migrants.
- 1.47 Canada introduced the Provincial Nominee Programme (PNP) in 1996, now it is the largest single stream in the economic class route into Canada. In 2017, just under a third (31 per cent) of economic class migrants came through the provincial nominee program. Allowing provinces to select their own candidates from the Express Entry pool (having first passed the minimum requirements of the skilled federal programs) and in doing so earning the candidates an additional 600 points on the Comprehensive Ranking System (CRS). The numbers of those entering the country on a permanent visa through the program have increased steadily from 2013 to 2017, from just under 40,000 to around 50,000<sup>24</sup>.
- 1.48 Unlike Australia and Canada, New Zealand has no specific regional visa route for migrants. However, those entering through the Skilled Migrant Category visa with

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<sup>24</sup> <https://www.canada.ca/en/immigration-refugees-citizenship/corporate/publications-manuals.html>

an offer of employment can earn 30 extra points if that offer is outside the Auckland region, obtaining 80 points on this aspect of the test alone. Therefore, this is worth 80 per cent of the minimum pass mark to be entered onto the EOI pool and half-way to the current automatic selection threshold of 160 points. In 2016/17, 53 per cent of applicants claimed bonus points for holding a job offer outside the region of Auckland<sup>25</sup>.

- 1.49 Given Austria's size relative to the other countries discussed, there is no policy aimed towards incentivising regional settlement in the country. Indeed, due to the requirement of an offer of employment, migrants would be unlikely to settle in rural or remote areas of Austria as they would have to commute to their place of work.

### Evaluating points-based systems

- 1.50 In all PBS, the characteristics awarded points and the characteristics given more points than others are designed to select migrants who are perceived as being of most value to the receiving country. More educated migrants receive more points because a more highly skilled workforce is thought desirable. Younger applicants (though not too young) are preferred because they will have a longer working life to contribute to pay taxes before they receive pensions and healthcare in old age. Migrants to more remote areas are preferred because these areas have difficulties in avoiding population decline. Those with a track record of work and/or study in the country are preferred because they are more likely to integrate.
- 1.51 Different countries have different ways of expressing the objectives of migration policy. Very broadly, they can all be thought of as more or less consistent with the MAC objective of the 'welfare of the resident population'. The commissioning letter sent to us by the Home Secretary in September 2019 says that the Government is interested in learning from practices in Australia and similar systems in order *"to strengthen the UK labour market and attract the best and brightest from around the world"*. The letter also states that the future immigration system should be one that *"welcomes to the UK the people who will contribute, but that enables us to control migration"*.
- 1.52 There is one important potential difference in policy objectives: Australia, Canada and New Zealand all want positive population growth. In the UK, the Scottish (and, to a lesser extent, Welsh) Governments are explicit that population growth (or at least the avoidance of population decline with consequent ageing) is desirable. The Westminster Government makes no such statement.
- 1.53 It is very important to evaluate PBS against objectives and to compare how migrants admitted through a PBS compare in outcomes with those admitted through other routes. Comparing migrants on different routes is hard because the

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<sup>25</sup> <https://www.mbie.govt.nz/assets/Uploads/c22ab0c547/migration-trends-2016-17.pdf>

differing eligibility rules mean that like-for-like comparisons are difficult. In Canada, almost all permanent work routes are points-tested, making it hard to identify the impacts of points-testing as a selection mechanism. The broad findings are also not the same across countries with points systems.

- 1.54 Since 2009 Australia has used the Continuous Survey of Australia's Migrants (CSAM), which surveys migrants 6 and 18 months after entry into Australia. Canada maintains a Longitudinal Immigration Database informed by information through tax-filers, showing income by the number of years since entering the country. New Zealand measures migrants' outcomes using linked immigration and tax data, and also had a longitudinal study, named the Longitudinal Immigration Survey, containing information on migrant outcomes such as; occupation, satisfaction with life in New Zealand, satisfaction with their main job, perception of safety and labour force status (surveys were conducted at 6, 18 and 36-months since entering the country), however it has not released data on the outcomes of migrants through the various routes since 2009.
- 1.55 In Australia, permanent migrants selected through the employer sponsored route (which does not require a points-test) are - perhaps unsurprisingly - more likely to be employed (and employed in skilled jobs) than 'independent' migrants selected through the points-test without employer sponsorship (Table 1.2). Looking at the 2016 cohort, employer sponsored migrants still had lower unemployment rates than any of the other skilled migrant 18 months after receiving their permanent visa (1.6 per cent). However, at this stage their median earnings were lower than 'offshore independent' migrants who were granted permanent visas directly from overseas. Migrants selected through regional schemes fared less well on some measures (unemployment) at the 18-month point than both national-level points-tested migrants and employer sponsored ones.

| <b>Table 1.2: Australian skilled migrant outcomes by visa route<sup>26</sup></b> |                        |                         |               |
|--|------------------------|-------------------------|---------------|
| <b>Unemployment rate (%)</b>   | <b>6 months (2016)</b> | <b>18 months (2017)</b> | <b>Change</b> |
| State/Territory Nominated (PBS)  | 11.3                   | 6.1                     | -5.2          |
| Offshore Independent (PBS)   | 17.4                   | 4.9                     | -12.5         |
| Onshore Independent (PBS)  | 6.5                    | 2.8                     | -3.7          |
| Other Skilled  | 7.5                    | 3.4                     | -4.1          |
| Employer Sponsored   | 2.2                    | 1.6                     | -0.6          |
| General Population   | 5.7                    | 5.5                     | -0.2          |
| <b>Median Annual Earnings (\$000's)</b>  | <b>6 months (2016)</b> | <b>18 months (2017)</b> | <b>Change</b> |
| State/Territory Nominated (PBS)  | 62                     | 73                      | 11            |
| Offshore Independent (PBS)   | 75                     | 88                      | 13            |
| Onshore Independent (PBS)  | 64                     | 73                      | 9             |
| Other Skilled  | 52                     | 60                      | 8             |
| Employer Sponsored   | 66                     | 72                      | 6             |
| General Population   | 73                     | 76                      | 3             |
| <b>Proportion in Highly Skilled Employment (%)</b>                               | <b>6 months (2016)</b> | <b>18 months (2017)</b> | <b>Change</b> |
| State/Territory Nominated (PBS)  | 60.9                   | 70.3                    | 9.4           |
| Offshore Independent (PBS)   | 61.5                   | 77.9                    | 16.4          |
| Onshore Independent (PBS)  | 71.3                   | 79.9                    | 8.6           |
| Other Skilled  | 35.5                   | 44.9                    | 9.4           |
| Employer Sponsored   | 63.2                   | 66.5                    | 3.3           |
| General Population   | N/A                    | N/A                     | N/A           |

Source: Continuous Survey of Australian Migrant report 2016: Changes in Outcomes

- 1.56 Canada does not have an employer-sponsored permanent migration scheme comparable to Australia's, although it is notable that the highest-earning group is migrants coming through the Canadian Experience Class (CEC), which requires at least 1 year of skilled work experience in Canada, performed on a temporary visa (such as the employer-sponsored temporary foreign worker programme).
- 1.57 A 2010 evaluation<sup>27</sup> of an earlier iteration of the Canadian points-based system operating in the mid-2000s shows stark differences in the earnings of points-tested migrants depending on whether they had a job offer lined up. Migrants with a job offer earned 80 per cent more than those without, even 3 years after receiving their permanent visa, suggesting that the employment offer was playing an important role in the selection process.

<sup>26</sup> <https://www.homeaffairs.gov.au/research-and-stats/files/csam-cohort4-change-outcomes-2017.pdf>

<sup>27</sup> <https://www.canada.ca/en/immigration-refugees-citizenship/corporate/reports-statistics/evaluations/federal-skilled-worker-program/section-5.html#sub4>

- 1.58 In Australia, migrants in regional schemes earned more, on average, than those coming through the federal points-tested route, even after 4 years. Looking at skilled migrants overall, outcomes for candidates entering through permanent skilled migration routes have stronger labour market outcomes than the general population, once settled in their new country. The typical skilled migrant into Australia<sup>12</sup> is more likely to be higher earning and have a higher participation in the labour force than the general population.
- 1.59 Canadian skilled migrants take longer to increase their employment rate to be comparable with the general population than in both Australia and New Zealand. Looking at earnings, the PBS visa routes in Australia (general skilled migration) earn more than the employer sponsored visas, both of which are above the median for the general population.
- 1.60 For the regional dimension of PBS, a key outcome measure is whether migrants remain in the area to which they were admitted. In Canada 83 per cent of all primary applicants entering on to the program between 2002 and 2014, were still residing in their provincial territory of nomination in 2014<sup>28</sup>. This was comparable to retention rates for those on other streams, of FSWP's (83 per cent) admitted during the same time period, however this was lower than for the CEC (94 per cent) and the business class (90 per cent). There is, however, big variation in the retention rates across areas: the remote areas that are meant to benefit most from these schemes typically have the lowest retention rates. Prince Edward Island had a retention rate over the same period of 27 per cent, with Newfoundland and Labrador at 56 per cent. Of those who moved from their nominating province 70 per cent cited economic reasons, such as having better job opportunities elsewhere, as the main reason.
- 1.61 Although not all results are consistent and some comparisons are hard to make, there are some useful conclusions to be drawn. In a PBS where a job offer is not required for entry and admittance is based on something like a CV it is inevitable that some of those admitted will end up working in jobs at much lower skill levels than one might have thought or even not working at all. These 'misses' may be more than off-set by the 'hits', migrants who contribute a lot, but it is impossible to design a system that does not require a job offer to guarantee that migrants are all as highly skilled as they may appear on paper. This may not be such a problem if one objective is population growth, but it is more of a problem if the aim is to reduce immigration.

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<sup>28</sup> <https://www.canada.ca/en/immigration-refugees-citizenship/corporate/reports-statistics/evaluations/provincial-nominee-program-2015.html#table6>

- 1.62 One reason this is a problem is that it may be difficult to verify claims of qualifications, experience and even job offers. It is important to only use characteristics that are verifiable. Australia, Canada and New Zealand all require candidates to undergo a 'skills assessment' as part of the immigration process to ensure that qualifications and skills on paper truly reflect the desired level of skills. In contrast, within the current UK system, verifying the skills of migrants is effectively out-sourced to employers on the principle that they would not offer a job to those deemed not competent to do that job.

## Conclusions

- 1.63 Although all the countries reviewed here acknowledge that their PBS are not perfect and they are often changing them in the light of emerging issues, their PBS are all regarded as a valuable part of the work migration system and none of them want to move away from them.
- 1.64 However, defining a PBS is not as simple as it might seem. Any selective migration system can become a PBS, because it could be presented as a system with points, though we would question the value of doing so purely as a cosmetic exercise. It is equally possible to use a narrower definition, one that would only see a system with explicit points and trade-offs between characteristics, that allows a variety of ways of to meet the required standards, as a PBS.
- 1.65 A PBS with explicit points is part of a wider work migration system, which sits alongside routes like study, asylum and family migration; so, any PBS route only represents a share of total immigration. When used as part of a work migration route a PBS can operate effectively without requiring a job offer, and does so in several countries, equally it can insist on one, or give more points if there is a job offer. It can be used as a system for initial entry to the country, or for giving permanent settlement, or both; international evidence suggests a variety of approaches have been taken.
- 1.66 A PBS typically tends to give more points for those characteristics thought to be predictive of 'success'; this is most commonly defined as labour market success but could be defined in other ways e.g. to encourage migration to some locations rather than others. However, predicting success may be difficult: both because this is intrinsically complex, but also because some characteristics may be harder to verify.
- 1.67 In order to determine whether a PBS is achieving its desired objectives (which need to be clearly defined), and to be able to suggest any refinements, it is important to collect high quality data. Most countries operating a PBS use large scale cohort studies to track migrants' outcomes, but historically the UK Government hasn't always effectively evaluated migration policy; therefore, we have been unable to

learn as much as we would have liked about previous attempts to run a PBS in the UK. The next chapter considers, at greater length, UK experience using a PBS.

## Chapter 2: PBS in the UK: previous experience and stakeholder views

### Summary

- The UK has previous experience of using a PBS with tradeable points, both for visas that do not require a job offer (Highly Skilled Migrant Programme and Tier 1 General) and visas that do (Tier 2 (General)).
- There is very limited data on outcomes for migrants on these programmes that did not require a job offer, but it appears a sizeable proportion did not end up working in highly-skilled jobs as was intended.
- Some of these poor outcomes are an inevitable feature of routes that do not require a job offer, but some were the result of poor design: the lack of a cap, and the use of characteristics that were hard to verify, such as overseas earnings, qualifications or work experience.
- Tier 2 (General) evolved over time from a PBS with tradeable points to a simpler system that is a PBS only in the sense that it is still selective; the points no longer add any value and could equally become a checklist. However, this simplification does not seem to have affected the ability to select high-skilled migrants.
- Many stakeholders found it hard to express a view on PBS because they were not sure know what it was, or what it would be used for.
- Stakeholders generally preferred the continuation of a visa route that requires a job offer, though it is less clear to us whether that is because of a genuine preference, or simply that it more closely reflects what they are currently used to.

### Introduction

- 2.1 This chapter reviews the history of the UK's experience with pure points-based systems and considers whether they worked effectively. We discuss the Highly Skilled Migrant Programme (HSMP) that was introduced in 2002, its successor Tier 1 (General) and Tier 2 (General) both introduced in 2008. Tier 2 (General) was for those with a job offer and Tier 1 (General) for those without. We also examine what the Call for Evidence (CfE) and stakeholder engagement process can tell us about how employers and business leaders view PBS.
- 2.2 The system introduced in 2008 was referred to and designed as a PBS and has its roots in the 2005 election in which then Prime Minister Tony Blair in his opening

campaign speech promised a new immigration system that *“will include the type of points system used in Australia, for example, to help ensure our economy gets the skills we need”*<sup>29</sup>, a promise included in the Labour Party manifesto of that year.

- 2.3 In its early years this points-based immigration system did have the feature, in both Tier 1 (General) and Tier 2 (General), that migrant strength in some areas could be offset against weakness in others and a certain number of points were needed to be admitted. Over time, this ability to trade-off different characteristics disappeared because of perceived problems with how the system was working so that today, although the system is still referred to as a PBS, the only way in which this is an accurate description is that it is a selective system. It is important to understand this history in deciding what should be done in the future.

### Highly Skilled Migrant Programme

- 2.4 The HSMP was introduced in 2002 with the intention of encouraging highly skilled migrants to come to the UK to work without requiring them to have a job before they arrived. Prior to 2006 migrants were awarded points based on education, work experience, previous earnings, achievements in chosen field and partner’s achievements, as well as additional points for GPs. The points offered also varied depending on whether the applicant was over the age of 28 or not. Table 2.1 outlines the points scheme, which required a minimum of 65 points for an application to be successful.

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<sup>29</sup> <https://www.theguardian.com/politics/2005/apr/22/election2005.immigrationandpublicservices>

**Table 2.1: Outline of HSMP Points-Based System Prior to 5<sup>th</sup> December 2006<sup>30</sup>**

| Education                   |    | Work experience   |  |                      | Previous earnings |               |          |   |
|-----------------------------|----|---|--|----------------------|-------------------|---------------|----------|---|
| Degree                      | 15 | At least 5 years FT graduate level work experience (or 3 years if you have a PhD)   |  |                      | 25                | £40,000       | 25       |   |
| Masters                     | 25 | At least 5 years FT graduate level work experience including at least 2 years in a senior or specialist role                          |  |                      | 35                | £100,000      | 35       |   |
| PhD                         | 30 |   |  |                      |                   |               |          |   |
|                             |    | At least 10 years FT graduate level work experience including at least 5 years in a senior or specialist role                         |  |                      | 50                | £250,000      | 50       |   |
| Achievement in chosen field |    | Partner's achievements  |  | Priority application |                   | Age allowance |          |   |
| Significant achievement     | 15 | Spouse/married partner educated to degree level or previously employed in a graduate level job and lived together for 2 years or more |  | 10                   | GPs               | 50            | Under 28 | 5 |
| Exceptional achievement     | 25 |   |  |                      |                   |               |          |   |

2.5 Migrants were originally granted a visa for one year if they could show they intended to make the UK their main home and were granted a three-year extension if they could show they had taken 'active steps' to become economically active in the UK. This did not necessarily include being in employment but could include proof that the visa holder was applying to jobs. After four years they could be granted settlement if they had not had recourse to public funds and were in any type of employment.

2.6 In this initial period, over 40 per cent of successful applicants to the HSMP received the minimum of 65 points, and less than 10 per cent more than 80. It is likely that a pure PBS with no overall quota on admissions is going to disproportionately attract those with the most basic entry requirements. In the case of the HSMP the typical successful applicant with 65 points had an undergraduate degree, 5 years of graduate experience and claimed previous earnings equivalent of £40,000 in the UK, a combination that leads to exactly 65 points. There is no data on how these migrants subsequently fared in the UK labour market.

2.7 Another important lesson to learn from the HSMP is that there can be considerable slippage between the desired aim of the programme and how it works in practice. A large number of points were awarded to those with a PhD, a high-quality MBA

<sup>30</sup> [http://www.hsmpforumltd.com/old\\_guidance\\_notes.pdf](http://www.hsmpforumltd.com/old_guidance_notes.pdf)

and for GPs, reflecting an ambition to hire migrants in those categories. Yet only 2.8 per cent of successful applicants had a PhD, 2.3 per cent an MBA and 0.5 per cent were GPs.

- 2.8 The ambition behind programmes like the HSMP is often to recruit ‘global talent’. Yet the successful applicants tend to be drawn from a relatively small number of countries – 42 per cent from India, 9.9 per cent from Pakistan, 8.8 per cent from Australia, 6.8 per cent from Nigeria and 4.5 per cent from New Zealand – over 70 per cent of applicants came from just 5 countries.
- 2.9 Several changes were made to the HSMP route in December 2006. Applications after this date needed to score 75 points against an amended set of criteria, set out in Table 2.2 below. Points were no longer awarded for work experience, a significant achievement in a chosen field, or for having a skilled partner and greater emphasis was placed on previous earnings, qualifications and age. The HSMP was suspended for a month in November 2006 to allow a transition to this new points-test.

| Table 2.2: Outline of HSMP points-based system after 5 December 2006 |  |                   |                   |
|--|--|-------------------|-------------------|
| Qualifications   |  | Previous earnings |                   |
| Points   | Qualifications   | Points            | Previous earnings |
| 50   | PhD  | 5                 | £16,000 - £17,999 |
| 35   | Masters degree   | 10                | £18,000 - £19,999 |
| 30   | Bachelors Degree   | 15                | £20,000 - £22,999 |
| 75   | MBA  | 20                | £23,000 - £25,999 |
|  |  | 25                | £26,000 - £28,999 |
|  |  | 30                | £29,000 - £31,999 |
|  |  | 35                | £32,000 - £34,999 |
|  |  | 40                | £35,000 - £39,999 |
|  |  | 45                | £40,000 +         |
| UK Experience  |  |                   | Age               |
| Points   | Experience   | Points            | Age               |
| 5  | Where previous earnings or qualifications have been gained in the UK | 5                 | 30 or 31          |
|  |  | 10                | 28 or 29          |
|  |  | 20                | 27 or under       |

Source: MAC 2009 *Analysis of the points-based system: Tier 1*, Table 2.1, p.75

- 2.10 In addition to the change in points, the qualifying period for settlement was increased from four to five years, in line with changes made to all work-related routes. The initial leave granted was also increased from one to two years. Furthermore, as part of these changes, applicants were now required to meet the new points assessment at the extension phase rather than just an ‘active steps’ test. This requirement applied not just to new applicants at their point of extension, but also HSMP migrants that had entered the UK under the previous points-test. This retrospective application of the new test to HSMP migrants already in the UK was successfully challenged by judicial review in April 2008<sup>31</sup>.
- 2.11 In the Government reply to a report by the Joint Committee on Human Rights<sup>32</sup>, it was stated the reason behind this set of changes was that “*analysis of the way the HSMP worked in practice prior to the changes showed that some of those with HSMP visas were not doing highly skilled work*”<sup>33</sup>. This problem of a gap between

<sup>31</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/258333/hsmptjudicialreview.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/258333/hsmptjudicialreview.pdf)

<sup>32</sup> <https://publications.parliament.uk/pa/jt200607/jtselect/jtrights/173/173.pdf>

<sup>33</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/243139/7268.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/243139/7268.pdf)

the rhetoric of a scheme (this one for highly skilled migrants) and the reality of how it works is a theme that recurs in this chapter.

- 2.12 Even after these changes key features remained much the same. Over 40 per cent of applicants had the minimum 75 points, less than 10 per cent had more than 85. Most successful applicants had an undergraduate degree and claimed the highest level of earnings. The points advantage for having a PhD was increased but only 2.3 per cent of successful applicants had one. The geographical concentration remained much the same.

### Application volumes

- 2.13 The number of applications granted under the Highly Skilled Migrant Programme are shown in Table 2.3. Unfortunately, due to data limitations we are only able to see whether an applicant has been granted a visa through this scheme, and are unable to differentiate between new applications, extensions and Indefinite Leave to Remain applications.

| <b>Table 2.3: Volumes of HSMP initial applications granted from 2005-2008</b> |                   |                       |               |
|---|-------------------|-----------------------|---------------|
| <b>Year</b>   | <b>In-Country</b> | <b>Out-of-Country</b> | <b>Total</b>  |
| <b>2005</b>   | 8,549             | 5,264                 | 13,723        |
| <b>2006</b>   | 13,333            | 7,068                 | 20,401        |
| <b>2007</b>   | 16,532            | 11,564                | 28,096        |
| <b>2008</b>   | 5,413             | 12,317                | 17,730        |
| <b>Total</b>  | <b>43,737</b>     | <b>36,213</b>         | <b>79,950</b> |

Source: Home Office Management Information

- 2.14 A response to a Freedom of Information Request from August 2006 put the number of initial HSMP approvals between January 2002 and March 2006 at 33,491<sup>34</sup>.

### Tier 1 (General)

- 2.15 In 2008, there were wider changes to the immigration system as part of the move to a PBS and the introduction of Tier 1. These wider reforms aimed to better attract migrants who contribute the most to the UK, a transparent and objective application process, and improved compliance. The HSMP was replaced by Tier 1 General of the PBS. The objective was to widen the pool of highly skilled individuals and maintain labour market flexibility.
- 2.16 As with the HSMP, individuals did not need a job prior to applying for a visa and could obtain points based on qualifications, previous earnings, UK experience,

<sup>34</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/99013/4092-HSMP.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/99013/4092-HSMP.pdf)

age, English language skills, and maintenance. The breakdown of this points-based system can be seen in Table 2.4 below. Competence in English language and meeting the maintenance rules were essential criteria though did not attract points. In addition, applicants had to score a total of 75 points from the criteria covering qualifications, previous earnings, age and previous experience. In February 2009, the Government announced that a masters level qualification would be the minimum entry requirement.

**Table 2.4: Points under Tier 1 (General) route (April 2009 to April 2010)**

| Requirement                                |  | Points criteria                                 |               |                  |
|--|--|---|---------------|------------------|
| <b>Tier 1 General (95 points required)</b> | <b>75 points required</b>                            | Qualifications                                  | Bachelors     | 0 <sup>(1)</sup> |
|  |  |   | Masters       | 35               |
|  |  |   | PhD           | 50               |
|  |  | Previous earnings (£s per annum) <sup>(2)</sup> | 16,000-17,999 | 0 <sup>(1)</sup> |
|  |  |   | 18,000-19,999 | 0 <sup>(1)</sup> |
|  |  |   | 20,000-22,999 | 15               |
|  |  |   | 23,000-25,999 | 20               |
|  |  |   | 26,000-28,999 | 25               |
|  |  |   | 29,000-31,999 | 30               |
|  |  |   | 32,000-34,999 | 35               |
|  |  |   | 35,000-39,999 | 40               |
|  |  | 40,000 or more                                  | 45            |                  |
|  | Age  | Under 28  | 20            |                  |
|  |  | 28 or 29  | 10            |                  |
|  |  | 30 or 31  | 5             |                  |
|  | Previous earnings or qualifications gained in the UK | 5   |               |                  |
| <b>20 points required</b>                  | English language <sup>(3)</sup>                      | 10  |               |                  |
|  | Maintenance <sup>(4)</sup>                           | 10  |               |                  |

<sup>(1)</sup> On 31 March 2009, the Government tightened the points criteria so that no points are awarded for a bachelors degree or previous earnings below £20,000.

<sup>(2)</sup> An earnings multiplier applies to overseas earnings for initial applications. There are five bands of multiplier, ranging from 1 to 11.4, depending on the country in which money was earned.

<sup>(3)</sup> English language requirements may be met by either passing an English language test (equivalent to grade C or above at GCSE level or level 6.5 on the International English Language Testing System – General Training or Academic Module), being a national of a majority English-speaking country, or having taken a degree taught in English.

<sup>(4)</sup> Maintenance is set at £2,400 plus start-up costs of £400. If there are dependants, maintenance for the first dependant is set at £1,600 and at £800 for each subsequent dependant.

Source: MAC 2009 *Analysis of the points-based system: Tier 1*, Table 2.1, p.21

2.17 The UK Border Agency (UKBA) had a system to assess the equivalency of international qualifications with additional points awarded for professional or vocational qualifications which were recognised by the UK National Recognition Information Centre (NARIC). For previous earnings, only actual earnings over a 12-month period were considered and these must have been within 15 months of the application. This could cover earnings from multiple employers. For self-employed applicants, earnings were based on profits of their business before tax or the applicant's share of the business' profits. Overseas earnings were converted

into pounds and UKBA used salary multipliers to account for differences in income levels between countries.

### Analysis of the points-based system: Tier 1 MAC Report

- 2.18 The MAC reviewed Tier 1 (General) of the PBS in 2009<sup>35</sup> and suggested changes to the selection criteria. In this review, the MAC noted *“we have been unable to establish an explicit economic rationale for the precise calibration of the points. Most of the points calibrations have been transferred directly across from the various preceding schemes”*. The MAC noted that many stakeholders said Tier 1 was very important for recruiting highly skilled staff, with a number of issues with the qualification and earnings requirements of the route.
- 2.19 The MAC recommended retaining Tier 1 (General) though refining the selection criteria to attract highly skilled migrants to the UK. The recommendations on specific points are outlined in Table 2.5.
- 2.20 At this time, the MAC also identified the need for further research on the employment and economic outcomes of Tier 1 visa holders. The report noted that successful research would need to address the issues of data availability either through management information or new data collection methods.
- 2.21 Many recommendations were reflected in the update to the points awarded under Tier 1 (General) made on the 6th of April 2010<sup>36</sup>, including providing points for those aged up to 39 years old, re-introducing points for a bachelors degree and raising the minimum salary awarded points to £25,000.
- 2.22 Additional changes to Tier 1 (General) were introduced on the 19th of July 2010. Significantly an interim limit (600 visas per month) on the number initial of out-of-country applications was introduced. Furthermore, the minimum number of points required was raised from 95 to 100, with the number of points awarded for previous earnings of £150,000 or an eligible MBA both being raised from 75 to 80. As part of wider changes to the migration system, Tier 1 (General) was closed to new initial applications on the 6th of April 2011.

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<sup>35</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/257267/mac-december-09.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/257267/mac-december-09.pdf)

<sup>36</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/268024/hc439.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/268024/hc439.pdf)

**Table 2.5: MAC recommendations on criteria and points for Tier 1 (General) (December 2009)**

| Highest qualification |        | Previous earnings |        | Age          |        | UK experience |
|-----------------------|--------|-------------------|--------|--------------|--------|---------------|
|                       | Points |                   | Points |              | Points | Points        |
| Bachelors             | 30     | Less than £25,000 | 0      | 40+          | 0      | 5             |
| Masters               | 35     | £25,000-29,999    | 5      | 35-39        | 5      |               |
| PhD                   | 45     | £30,000-34,999    | 15     | 30-34        | 10     |               |
|                       |        | £35,000-39,999    | 20     | 29 and under | 20     |               |
|                       |        | £40,000-49,999    | 25     |              |        |               |
|                       |        | £50,000-54,999    | 30     |              |        |               |
|                       |        | £55,000-64,999    | 35     |              |        |               |
|                       |        | £65,000-74,999    | 40     |              |        |               |
|                       |        | £75,000-149,999   | 45     |              |        |               |
|                       |        | £150,000+         | 75     |              |        |               |

Source: MAC 2009 *Analysis of the points-based system: Tier 1*, Table 9.1, p.145

### Application volumes

- 2.23 The overall inflows of Tier 1 (General) migrants from 2008-2018 can be viewed in Table 2.6 below. The number of visas granted for dependants continued at quite high levels after the closure of the route to main applicants because they were joining a main applicant previously admitted.

**Table 2.6: Volumes of Tier 1 (General) entry clearance visas granted from 2008-2018**

| Year         | Main Applicants | Dependants    | Total         |
|--------------|-----------------|---------------|---------------|
| 2008         | 7,774           | 3,086         | 10,860        |
| 2009         | 13,930          | 10,377        | 24,307        |
| 2010         | 10,127          | 12,813        | 22,940        |
| 2011         | 1,894           | 10,036        | 11,930        |
| 2012         | 25              | 5,921         | 5,946         |
| 2013         | 5               | 4,385         | 4,390         |
| 2014         | 7               | 2,644         | 2,651         |
| 2015         | 1               | 1,138         | 1,139         |
| 2016         | 2               | 289           | 291           |
| 2017         | 1               | 103           | 104           |
| 2018         | 0               | 64            | 64            |
| <b>Total</b> | <b>33,766</b>   | <b>50,856</b> | <b>84,622</b> |

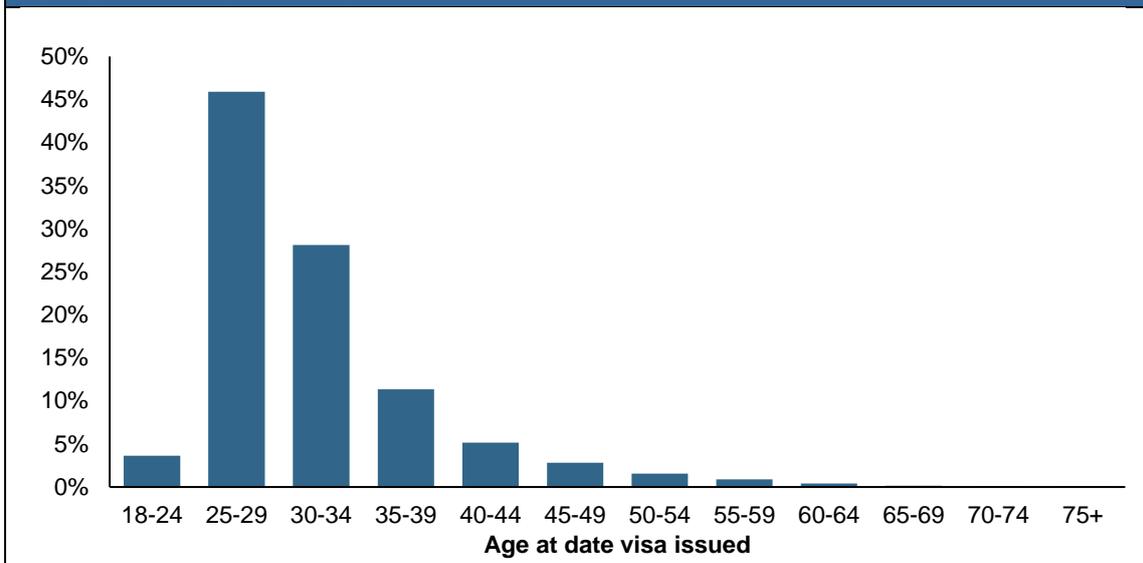
Source: Immigration statistics, year ending March 2019, table “vi 04 Entry clearance visas granted by category”

## Migrant characteristics

- 2.24 Just eight countries accounted for 80 per cent of all Tier 1 (General) main applicant entry clearance visas issued over the lifetime of the route<sup>37</sup>. Indian nationals accounted for 39 per cent alone, with Australia and the United States both accounting for 9 per cent each, Pakistan 7 per cent and South Africa, Nigeria and New Zealand 5 per cent each. This was similar to the HSMP.
- 2.25 As Table 2.6 above showed dependants also made up a considerable percentage of Tier 1 (General) migrants from 2008-2018, at around 60 per cent of total numbers, implying each main applicant had on average 1.5 dependents.
- 2.26 The median age of a Tier 1 (General) main applicant (out of country) was 30 years old and as Figure 2.1 below shows the age distribution overall skews towards the young, with 46 per cent of all main applicants aged between 25 and 29.
- 2.27 Unfortunately, the data available to us on Tier 1 (General) is very limited and does not let us understand much more about the characteristics of the migrants who used that route.

<sup>37</sup> Immigration statistics, year ending March 2019, table “vi\_06\_q\_w Entry clearance visas granted by category and country of nationality: Work”

**Figure 2.1: % of Tier 1 (General) main applicant out of country visas issued by age-band (2008-18)**



Source: Home Office management information provided to the MAC

## The Effectiveness of Tier 1 (General)

- 2.28 We have been unable to obtain the data necessary to do a proper evaluation of the effectiveness of Tier 1 (General). We were told by the Home Office that there is not even data in a retrievable format on applications to Tier 1 (General) akin to that we have summarized earlier for HSMP. There are a few reports providing some relevant information though, as we will explain, none of it is very satisfactory.
- 2.29 A process evaluation was published by the Home Office in 2011 looking at the experiences of applicants, sponsors and UK Border Agency staff. This focused primarily on the process of application. Home Office undertook a survey of Tier 1 applicants. Of 4,500 questionnaires sent out, 35 per cent were deemed eligible for analysis. The report does not provide breakdowns for Tier 1 (General) and the overall Tier 1 findings include applicants from other routes under Tier 1.
- 2.30 For Tier 1 applicant respondents (of whom there were 1,564), 82 per cent reported they were very satisfied or fairly satisfied with the process. Over 80 per cent of Tier 1 applicants who responded agreed that the points-based system was meeting its objectives (easy to understand, open/transparent, user friendly, efficient, fair). Applicants were asked to exclude the outcome of their application from their consideration, but it was observed that refused applicants were less likely to report being satisfied with the process though 54 per cent of refused applicants reported the experience as being either fairly satisfactory or very satisfactory.
- 2.31 It was noted whilst most respondents found the system easy to understand and provide supporting documents, there was a proportion of applicants who reported issues. 18 per cent of respondents reported proof of previous earnings were

difficult to provide and this was a more frequently reported issue for out-of-country applicants of whom 24 per cent of respondents reported it was an issue. Others also reported difficulties with obtaining proof of funds and UK equivalents of foreign qualifications.

2.32 This process evaluation also included information about the employment status of the survey respondents who were granted a Tier 1 visa (across all the Tier 1 routes). 89 per cent of Tier 1 granted applicants who responded were in paid work and 10 per cent said they were not doing paid work. Of those who were working, the majority (92 per cent) were working as employees, with only 6 per cent reporting they were self-employed. As would be expected, the applicants who had been granted their visa more recently were less likely to be in work than those who had received their outcome earlier. Most respondents reported they were working in skilled occupations, with 15 per cent in ‘managers and senior officials’, 36 per cent in ‘professional occupations’ and 14 per cent in ‘associate professional and technical occupations’. Taken at face value, this report suggests that that Tier 1 (General) was relatively successful in selecting migrants who would find skilled work. Though it is inevitable in any scheme that does not require a job offer that some proportion will not be in skilled work, or work at all. However, the sample of respondents may not be representative of Tier 1 (General) visa-holders as a whole.

| <b>Table 2.7: Tier 1 Survey Respondents by Occupation</b> |                              |                   |
|---|------------------------------|-------------------|
| <b>SOC code</b>   | <b>Number of respondents</b> | <b>Percentage</b> |
| Managers and senior officials                             | 191                          | 15%               |
| Professional occupations                                  | 469                          | 36%               |
| Associate professional and technical occupations          | 186                          | 15%               |
| Administrative and secretarial occupations                | 112                          | 9%                |
| Skilled trades occupations                                | 26                           | 2%                |
| Personal service occupations                              | 20                           | 2%                |
| Sales and customer service occupations                    | 64                           | 5%                |
| Process, plant and machine operators                      | 22                           | 2%                |
| Elementary occupations                                    | 37                           | 3%                |
| Not working   | 128                          | 10%               |
| Insufficient details                                      | 31                           | 2%                |
| <b>Total</b>  | <b>1,286</b>                 | <b>100%</b>       |

Source: Points-Based System Pilot Process Evaluation, Home Office, 2009<sup>38</sup>

2.33 Other relevant information is in an operational assessment by the UK Border Agency published in 2010. This used management information data for Tier 1 visa

<sup>38</sup><https://webarchive.nationalarchives.gov.uk/20110220154538/http://rds.homeoffice.gov.uk/rds/pdfs09/horr22c.pdf>

holders at the point at which a dependant applied to join them. It is also not a representative sample as it excludes visa holders who did not have dependants (though Table 2.6 shows that many did). This study included only the applications for this submitted in June 2010. This limits the conclusions we can draw about the functioning of Tier 1 (General) route as a whole, given it only covers a small subset of visa holders during a snapshot in time.

2.34 It was reported there were issues with the quality of data used in this assessment. For example, job titles in the applications forms were not specific and over a quarter of individuals did not provide their employer details and approximately 26 per cent of responses failed to provide employer details.

2.35 The analysis divided visa holders into three categories:

- Skilled- higher-level, professional employees with salaries over £25,000;
- Unskilled - those who do not meet the skilled requirement or who are unemployed but whose employment status is clear;
- Unclear - those whose employment status is unknown.

2.36 Table 2.8 shows that 29 per cent of the Tier 1 (General) visa holders in this assessment were in skilled roles and 21 per cent were in unskilled roles. Half of the Tier 1 (General) visa holders included in this assessment had an unclear employment status. The fact that so many were labelled as unclear makes conclusions hard but of those where the employment status was deemed clear, 58 per cent were in skilled work. The problem of many migrants seeming to be in lower-skilled roles was much greater for those on post-study work visas.

**Table 2.8: Tier 1 Operational Assessment: Employment Status of Visa Holders for Selected Sample**

| Visa Type    | Skilled    | Unclear    | Unskilled  | Total       |
|--------------|------------|------------|------------|-------------|
| General      | 265        | 450        | 194        | 909         |
| Post Study   | 23         | 77         | 153        | 253         |
| Investor     | 4          | 9          |            | 13          |
| Entrepreneur | 2          | 3          |            | 5           |
| Gateway      | 1          | 3          |            | 4           |
| <b>Total</b> | <b>295</b> | <b>542</b> | <b>347</b> | <b>1184</b> |

Source: Tier 1 Operational Assessment, Home Office, 2010<sup>39</sup>

2.37 The report also includes some information on the length of time since the individual was issued a visa, though is only available for the Tier 1 routes combined. This

<sup>39</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/115913/occ91.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/115913/occ91.pdf)

found that 47 per cent of visa holders in the unskilled category had been issued a visa before July 2009 (i.e. a year before the assessment was conducted). This shows that a significant proportion of those on Tier 1 routes defined within this study were not in skilled work after a year (or, if they were, it was not reported and they fell within the 'unclear' category.)

- 2.38 The National Audit Office undertook an investigation into the work routes of the Points-Based system in 2011<sup>40</sup> looking at the performance of the system against its stated objectives and the adaptability over time. As part of this they took a random sample of 70 Tier 1 (General) applications and concluded that *“We estimate around 60 per cent of Tier 1 migrants in the UK, excluding those who stayed on after studying, are working in skilled or highly skilled professions, although the evidence is not robust”*.
- 2.39 They also noted *“There was little information on the qualifications, earnings and skilled occupations of previous migrants with which to compare the new scheme, including whether the precursor to Tier 1, the Highly Skilled Migrant Programme, was a success”*. Again, this highlights the lack of information available to assess whether HSMP and Tier 1 (General) were successful.

### Closure of Tier 1 (General)

- 2.40 As previously mentioned, an interim cap was introduced on Tier 1 (General) in July 2010 and the points required to pass the points-test increased. Following this, in April 2011 Tier 1 (General) was closed to initial applications as part of wider changes to the migration system aimed at reducing numbers of migrants. The then Home Secretary announced the closure of Tier 1 (General) in an oral statement of intent issued in November 2010. In the statement, the Home Secretary referred to the employment outcomes of Tier 1 (General), stating that *“At least 30 per cent of Tier 1 migrants work in low-skilled occupations such as stacking shelves, driving taxis or working as security guards and some don't have a job at all”*<sup>41</sup>. At that time, it was reported that businesses said they wanted to prioritise the Tier 2 route for those with a job offer over Tier 1. Applications for extension under Tier 1 (General) closed in April 2015 and applications for settlement closed in April 2018.
- 2.41 The discussion so far has been about entry into the UK under Tier 1 (General). There has also been issues around the earnings criteria used to give indefinite leave to remain on this route. In 2018, the Home Office published a Review of Applications by Tier 1 (General) Migrants Refused under Paragraph 322(5)<sup>42</sup>. Whilst this review was focused on the issue of previous earnings, it included some

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<sup>40</sup> <https://www.nao.org.uk/wp-content/uploads/2011/03/1011819.pdf>

<sup>41</sup> <https://www.gov.uk/government/speeches/immigration-limit-changes-oral-statement-by-theresa-may>

<sup>42</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/758375/2018-11-22\\_Tier\\_1\\_General\\_paragraph\\_322\\_5\\_report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/758375/2018-11-22_Tier_1_General_paragraph_322_5_report.pdf)

information on the operation of the route more broadly. It reported that “*many applicants claimed points for earnings which were not genuine*” and that “*the lack of a sponsoring employer or any other form of third-part oversight of migrants’ activities mean that the category was heavily abused*”.

- 2.42 The review included a comparison of the reported self-employed earnings from Tier 1 (General) applications and HMRC records for indefinite leave to remain applications between January 2015 and May 2018. They found that there were differences of over £10,000 in 88 per cent (1,490) of the assessed applications (1,697) which had been refused. This trend of exaggerating reported income was likely due to applicants wishing to gain additional points from income in order to increase their likelihood of success. Additionally, they found a pattern of applicants subsequently amending their tax records. The extent of this practice is the subject of controversy, but it does illustrate the difficulties that can occur with verifying earnings, even in the UK.

### Early Years of Tier 2 (General)

- 2.43 Tier 2 (General) was introduced in November 2008 originally as a ‘pure’<sup>43</sup> points-based system (PBS) for skilled migrants with a job offer in the UK coming from countries outside of the EEA. There was no fixed salary threshold, instead applicants had to score a minimum of 50 points, acquired through sponsorship, qualifications and prospective earnings as detailed in Table 2.9 below. Migrants and sponsors could trade-off different characteristics, such as lower qualifications for a higher salary, to meet the required minimum points.

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<sup>43</sup> Tier 2 is still described as a PBS, however points are only used as a way of presenting the eligibility criteria and to prioritising applications when the cap binds. We use the descriptor ‘pure’ to refer to PBS routes that allow applicants to trade off different characteristics.

| Table 2.9: Points Table for Tier 2 (General & ICT) November 2008 |        |  |        |                      |        |
|--|--------|--|--------|----------------------|--------|
| Sponsorship  |        | Qualifications   |        | Prospective Earnings |        |
|  | Points |  | Points |                      | Points |
| Shortage occupation  | 50     | None, or below an appropriate sub degree level qualification | 0      | Below £17,000        | 0      |
| Job offer passes Resident Labour Market Test (RLMT)              | 30     | An appropriate sub degree level qualification                | 5      | £17,000-19,999.99    | 5      |
| Intra-company Transfer   | 30     | Bachelors or Masters degree                                  | 10     | £20,000-21,999.99    | 10     |
| Post Study Work  | 30     | PhD  | 15     | £22,000-23,999.99    | 15     |
|  |        |  |        | £24,000+             | 20     |

Source: Table 10 p25 Statement of changes to the Immigration Rules: HC1113, 4 November 2008

2.44 In April 2010, the characteristics and the points awarded for those characteristics were updated to reflect the structure presented in Table 2.10. These changes emerged from recommendations by the MAC in our *Analysis of the Points-based System*<sup>44</sup> report. Our recommendations were motivated by the observation that it was difficult to argue that jobs paying less than £20,000 per year (30th percentile of full-time earnings in 2008) were skilled to NQF level 3, the minimum skill requirement under the scheme at the time. Equally £24,000 appeared too low to guarantee an individual holding no qualifications is skilled (as with the 20 points previously allocated for £24,000 and combined with sponsorship an individual could breach the 50-point threshold). Median full-time earnings for skilled occupations in the UK were estimated to be around £32,000 in 2008, hence the recommendation this be the upper band. An extra five points more than the MAC had recommended were given at each band above £20,000 “because of the difficulties in identifying occupations involved in the delivery of key public services”<sup>45</sup>.

<sup>44</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/257266/mac-august-09.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/257266/mac-august-09.pdf)

<sup>45</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/257257/report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/257257/report.pdf)

| Table 2.10: Points table for Tier 2 (General & ICT) April 2010 |        |                                      |        |                      |        |
|--|--------|--------------------------------------|--------|----------------------|--------|
| Sponsorship  |        | Qualifications                       |        | Prospective Earnings |        |
|  | Points |                                      | Points |                      | Points |
| Shortage occupation  | 50     | None, or below A-Level or equivalent | 0      | Below £20,000        | 0      |
| Job offer passes Resident Labour Market Test (RLMT)            | 30     | A-Level or equivalent                | 5      | £20,000-23,999.99    | 10     |
| Intra-company Transfer   | 25     | Bachelors degree                     | 10     | £24,000-27,999.99    | 15     |
| Post Study Work  | 30     | Masters degree or PhD                | 15     | £28,000-31,999.99    | 20     |
|  |        |                                      |        | £32,000+             | 25     |

Source: Table 10 p15 Statement of changes to the Immigration Rules: HC439, 18 March 2010

- 2.45 April 2011 marked the transition of Tier 2 (General) from a 'pure' PBS route to a scheme characterised by pass/fail thresholds, which only used points as a way of organising the presentation of requirements for sponsors and migrants. Applicants still needed to score 50 points but now could only do this through meeting the sponsorship requirements and being paid the 'appropriate rate', as set out in Table 2.11 below. The 'appropriate rate' was defined as either the £20,000, or the rate set out in the codes of practice published by UK Border Agency, whichever was higher. A salary threshold of this type has been in place ever since.
- 2.46 Furthermore, the minimum skill level of occupations for which sponsors could fill vacancies using Tier 2 (General) migrants was raised from NQF3 (equivalent to a job requiring A Levels) to NQF4, which was described as 'graduate-level' at the time<sup>46</sup>.
- 2.47 In addition to the change in how you qualify for Tier 2 (General), this period also saw the introduction of a numerical cap on the number of Certificates of Sponsorship that could be issued – this was set at 20,700. If a given month's allocation of the annual cap was exceeded, then applications were prioritised using a points system that gave priority to applications on the Shortage Occupation List

<sup>46</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/257243/analysis-of-the-pbs.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/257243/analysis-of-the-pbs.pdf)

(SOL) or in PhD level occupations and which used salary to determine priority for other occupations<sup>47</sup>. The 2018 MAC report on EEA migration recommended abolishing the cap, a proposal endorsed by the Immigration White Paper.

| Table 2.11: Tier 2 (General) April 2011                 |                    |   |        |
|---|--------------------|---|--------|
| Sponsorship   | Appropriate salary |   |        |
|   | Points             |   | Points |
| Shortage occupation                                     | 30                 | £20,000 or the appropriate rate for the occupation, whatever is higher. | 20     |
| Job offer with a salary of £150,000 or more             | 30                 |   |        |
| Job offer passes Resident Labour Market Test (RLMT)     | 30                 |   |        |
| Post Study Work   | 30                 |   |        |
| Continuing to work in the same job for the same Sponsor | 30                 |   |        |

Source: Table 11A p41 Statement of changes to the Immigration Rules: HC863, 16 March 2011

## Lessons from the historical UK experience

- 2.48 The ‘pure’ PBS routes that did not require a job offer (HSMP and Tier 1 (General)) both became more restrictive over time, reflecting concerns that too high a share of migrants were not working in the high-skilled jobs intended.
- 2.49 The available data on the success of HSMP and Tier 1 (General) is very limited. We had hoped to do a proper evaluation of these routes which would have offered important insights into the design of any future points-based system. Unfortunately, this is not possible with the data the Home Office has retained. The scraps of information available suggest that perhaps 50 per cent of migrants on these routes worked in the highly-skilled jobs for which the routes were intended. Many of those who did not work in skilled jobs may not have obtained settlement but, again, we have little information on this.
- 2.50 Whether 50 per cent in highly-skilled jobs is a success or failure perhaps depends on one’s perspective. Any work visa that is not conditional on a specific job offer will inevitably have some migrants working in jobs at a lower skill level than intended, or even not working at all. This may be tolerated as a price worth paying if the schemes also attract some very highly-skilled migrants that could not be recruited in any other way. Similar issues arise in the other countries discussed in Chapter 1, but these countries do have an aim of using immigration to raise the

<sup>47</sup> See page 45 in Statement of changes 16 March 2011 for more details.

population. In contrast, when the UK closed Tier 1 (General) one factor was that the Government was looking for ways to restrict migration.

- 2.51 There are ways to make a ‘pure’ PBS without a job offer more effective at selecting highly-skilled migrants. First, some regard needs to be taken of the verifiability of information used in assigning points. It may be the case that those with high levels of earnings in their countries of origin are more likely to do better in the UK labour market, but this cannot be used if there are serious difficulties in verifying previous earnings overseas. Such issues should be considered in the design of any future ‘pure’ PBS in the UK. Verifying the quality of overseas educational qualifications was also an issue. But the more thorough the verification process is, the more bureaucratic, expensive and subjective the system is likely to become.
- 2.52 Second, it is vital to collect data on outcomes of migrants entering via these programmes and using that data to assign the points given for different characteristics. When investigating Tier 1 (General) as part of looking at the UK’s experience of pure points-based routes, we were unable to use historical data on the actual points scored for visa holders as it no longer exists in a retrievable form. This data would have been invaluable in providing insights into how Tier 1 (General) worked and whether such a route would be sensible to reintroduce in the future. Unfortunately, the lack of historical records means that the learning in terms of what has worked on ‘pure’ points-based routes in the UK is extremely limited.
- 2.53 Previous MAC reports have made similar complaints about the lack of data. We are concerned that this could be a recurring issue for future areas of MAC analysis and make recommendations on this issue in Chapter 3.
- 2.54 Tier 2 (General), the work visa that requires a job offer, started life as a ‘pure’ PBS but has evolved to be a PBS only in the sense that that it is a selective system. Part of this evolution has been making it more restrictive (e.g. the removal of eligibility for medium-skill jobs) but some changes were more in the line of making the system simpler using fewer but more vital characteristics and focusing on those of the job offer rather than those of the individual.
- 2.55 This has been about how ‘pure’ PBS systems have operated in the UK in the past. We now consider how stakeholders view the prospect of a future PBS.

## **Stakeholder views and understanding of points-based systems**

- 2.56 As part of our Call for Evidence (CfE) and stakeholder engagement we asked for views on PBS. Confusion emerged over what is meant by an Australian-style PBS system in the UK context. Many employers declared it was hard to conceptualise what a PBS system might look like because of the variety of forms such a system could take in practice, and how it would interrelate with the rest of the immigration system. At several stakeholder events, for example, participants declared it

currently an 'abstract concept'. When PBS was discussed, it was predominantly in relation to the Australian model (aside from specific engagement with the High Commissions of Canada, New Zealand, and the Austrian Government to discuss their systems).

- 2.57 The popularity of the Australian PBS model with the UK public was evidenced in research submitted by British Future, who in 60 citizens' panels as part of the National Conversation, found that a positive view of the Australian system came from the perception that it typified a well-controlled immigration system that met the needs of the economy. This contrasted with a less favourable view of free movement in their research. However, through this submission, and other engagement, the perceptions of the Australian system presented seemed to be formed largely based on anecdotal stories of individuals' own experience of applying for visas when visiting or migrating to Australia, rather than a clear understanding of exactly how the PBS works or how it would be implemented in the UK.
- 2.58 Turning to the practical implications of how a PBS system might be designed, there was support among many of those who spoke at stakeholder events for using the PBS to create more regional differentiation in the UK's immigration system, for example by having different points profiles in different geographies. One stakeholder said they would consider spouses picking up points to help increase population inflows to parts of Scotland, for example. A significant proportion of those representing geographical regions favoured the targeting of a PBS system to grow the populations of remote areas. A handful, however, raised concerns about how compliance would be monitored within a regionally differentiated PBS system and how you would stop migrants from moving away from the area that they were initially permitted to live.
- 2.59 From both the CfE and the stakeholder engagement, it is clear that employers want to continue to be able to sponsor specific workers, whether this means that PBS would be part of a mixed system alongside other routes, including Tier 2 (General) and potentially a temporary workers route, or that sponsorship would be incorporated into a PBS system. The system proposed by the Federation of Small Businesses (FSB), outlined below, represents what a number of stakeholders mentioned as their preferred system:

*“A hybrid system which incorporates both an employer led system (i.e. applicants requiring a job offer) and a human capital points-based-system, which selects migrants based on their personal characteristics, and allows for regional variation. A temporary route which effectively meets the needs of small businesses requiring low skilled labour. This should reflect the seasonal nature of work, periodic repetition of need, all of which may vary considerably in different sectors, urban or rural locations, and different parts of the UK”*

FSB response to MAC Commission, 2019

- 2.60 Some stakeholders representing small businesses, in particular, highlighted that a PBS system not linked to a job offer would be useful for SMEs who have often struggled to engage with the current Tier 2 (General) system, due to the administrative obligations of sponsorship, as they would be able to recruit from the pool of migrants who had already entered under a non-work-linked PBS system. Other stakeholders felt that a PBS system would help them fill low skill jobs that would not meet the RQF3 threshold for the skilled worker route, although it is not clear exactly how they envisaged this working given that PBS is a tool that almost always targets higher skilled workers.
- 2.61 PBS was also viewed by some as a good way of enabling workers, whose salary progression might not meet the settlement threshold, to earn extra points to enable them to qualify for settlement. Stakeholders expressed the view that there is an issue with pay progression meeting the settlement threshold in some occupations, such as early career research and teaching. One stakeholder stated the importance of ensuring the UK remains an attractive place for EU migrants, once we leave the EU, and that the immigration system needed to reflect this objective.

### **Characteristics within a points-based system**

- 2.62 This section describes stakeholder views of the characteristics that could be included in a PBS system.
- 2.63 When asked about the characteristics that should be judged and awarded points in any future system, there was relative convergence of views amongst stakeholders. As well as ensuring priority occupations, or occupations in shortage were identified, work experience, language proficiency and having a job offer were all identified as key characteristics both with stakeholder engagement sessions and in the responses to the CfE. Language proficiency, in particular, was raised as a marker of capacity for long-term integration. Some stakeholders expressed a desire for government to consider how PBS characteristics on entry would support integration in the longer-term.

2.64 In the CfE, stakeholders were asked to rank a series of characteristics that could be included in a PBS system. Each rank was then scored 1-8, with the highest rank receiving the highest number of points (rank 1 = 8 points, rank 2 = 7 points and so on to rank 8 = 1 point). Table 2.12 below show how individual employers, and separately bodies representing a group of institutions/employers, responded to this at the aggregate level. The hierarchy attributed to the characteristics was relatively similar over the two types of respondent. Having a job offer was deemed of higher importance than language proficiency by representative bodies, whilst the two were ranked the other way around by individual employers.

**Table 2.12: Comparative importance assigned to characteristics commonly used in points-based systems**

| Individual employers          |                  | Representative bodies         |                  |
|-------------------------------|------------------|-------------------------------|------------------|
| Characteristic                | Mean score (1-8) | Characteristic                | Mean score (1-8) |
| Priority occupations          | 6.3              | Priority occupations          | 6.4              |
| Work experience               | 5.8              | Work experience               | 5.9              |
| Language proficiency          | 5.7              | Having a job offer            | 5.9              |
| Having a job offer            | 5.5              | Language proficiency          | 5.5              |
| Education attainment          | 4.6              | Education attainment          | 4.5              |
| Salary                        | 3.5              | Salary                        | 3.3              |
| Having studied in the UK      | 2.5              | Having studied in the UK      | 2.3              |
| Age                           | 2.1              | Age                           | 2.3              |
| <i>N= 183 valid responses</i> |                  | <i>N= 132 valid responses</i> |                  |

Base: All respondents: individual organisations (183), representative organisations (132). Responses for representative organisations reflected a mixture of the views of businesses/organisations they represented, and the views of the representative organisations themselves.

2.65 The importance of ‘having a job offer’ and working in a ‘priority occupation’ suggests that most employers are not particularly interested in a PBS system in which entry without a job offer is possible.

2.66 Whilst work experience was deemed an important characteristic to attribute points to, some expressed concern about the ability of the future system to transparently and consistently judge intangible concepts such as ‘experience’. Although other countries seem to give their caseworkers considerable discretion in evaluating some criteria, there seems to be a lower level of trust in decisions made by the Home Office. Stakeholder feedback on experience of the current Tier 2 (General) system indicated that for some users, issues of trust in decision-making on visa eligibility were a concern. If used, the Government will need to reflect on how intangible characteristics would be judged in a future PBS system, how much

discretion will be required from caseworkers when assessing whether someone meets the criteria, and how trust in the system can be won amongst users.

- 2.67 It was also highlighted a handful of times during stakeholder engagement that a PBS system could be used as a mechanism to ensure immigration is encouraged from those whose skills will contribute important expertise to society and add public value. For primary care, for example, one stakeholder felt this should mean favouring staff who are qualified to work in multiple roles or have specific expertise.
- 2.68 As well as being given the opportunity to rank potential characteristics, CfE respondents were also asked whether there were other characteristics that were not listed in the questionnaire, but which they considered to be important to include in a PBS system. A wide range of suggestions were put forward ranging from the net worth of individuals coming to the UK, to the presence of an existing family support network in the UK including the extent of familial financial support, to the skills level of the applicant's partner, the applicant's technical specialist skills, their willingness to work in remote locations or unsociable hours and their professional accreditation. Some stakeholders in the care sector raised concerns about the idea of age being included as a characteristic, whilst for others there were concerns raised about a PBS system potentially being discriminatory towards women if work experience were included as a characteristic, because a larger proportion of women are part-time and therefore have less continuity of work experience.

### **Advantages and disadvantages of characteristics used in pure points-based systems**

- 2.69 This section brings together the discussion of the last two chapters to provide a summary discussion of the characteristics commonly used in pure PBS.
- 2.70 **Education/Qualifications** is used in many countries and was used in the past in the UK. The justification is that education is generally a strong predictor of labour market success. However, it is important to remember that whether a person's foreign qualifications are valued by UK employers depends not just on whether the formal level of the qualification is the same, but more intangible factors such as the quality and name recognition. Points systems by their nature tend to 'level' all qualifications at the same broad level (e.g. bachelors, masters, PhD), but we know in practice that the labour market value attached to a qualification can depend strongly on the specific institution that issued it and the subject of the degree. Use of education probably requires some verification that an overseas qualification is equivalent in standard to that provided by a UK institution. NARIC have played this role in the past so it is feasible, but it is inevitably quite a bureaucratic process
- 2.71 **Previous earnings:** The UK has used this criterion in the past. Although it might be expected to be a good predictor of future earnings, the central problem with this is verification. Verifying previous overseas earnings was found to be difficult in Tier

1 (General): “many applicants claimed points for earnings which were not genuine”<sup>48</sup>. However, for those already in-country on a different type of visa, claims could be authenticated using HMRC data. Even this has problems for those claiming self-employed earnings: there is some evidence in Tier 1 (General) of non-existent self-employment income being reported to HMRC to meet income thresholds for settlement.

- 2.72 **Age** is used in all PBS. Younger individuals can be expected to have longer working lives before retirement so are more attractive from the perspective of the public finances. Another rationale for awarding points for age is that it offsets the disadvantage that young people may face in accruing points in other areas such as previous earnings; for example, if someone has high earnings despite being younger than other applicants, this may indicate the presence of valuable skills or abilities. Age is also generally easily verifiable.
- 2.73 **English language proficiency:** Some countries give points for greater fluency while for others it is an essential requirement, not least as an indicator of ability to work. The MAC view is that it should be an essential requirement.
- 2.74 **Previous Work experience** is also likely to be predictive of future work prospects. The difficulty is again with verification, especially in the case of experience gained outside the UK.
- 2.75 **Regional:** More points can be given to migrants moving to particular parts of the country, if that is a policy objective. The main potential drawback with this is whether the migrants remain in those geographical areas (or even if they live and work in separate locations): often they will leave, sooner or later, for other areas which are more attractive to existing residents and migrants alike.
- 2.76 **Priority occupations:** Extra points can be given to migrants deemed to have skills that are particularly desirable. Examples might be health workers, researchers, scientists, or some creative occupations where salaries tend to be lower. Where no job offer is required one issue is that migrants may not end up working where desired: many science PhDs currently work in finance when it could be preferable, for society, if they were in research.
- 2.77 **Family or Dependants:** Some countries give additional points for partner characteristics, or if a migrant already has family in the UK. Partner qualifications and experience have the same verifiability issues.
- 2.78 **Job offer:** More points could be given if the migrant has a job offer on the grounds that there is then greater knowledge about what the migrant is going to do on arrival, though they may quickly (depending on visa arrangements) change to

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<sup>48</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/758375/2018-11-22\\_Tier\\_1\\_General\\_paragraph\\_322\\_5\\_report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/758375/2018-11-22_Tier_1_General_paragraph_322_5_report.pdf)

another role. There is an important difference between having a verified job offer and employer sponsorship. In some countries, migrants get points for having a verified job offer but there is no requirement to work in that job after arrival: in contrast, an employer sponsorship system typically does require the migrant to work in the job used in the application.

- 2.79 **In-Country Study:** Some countries give extra points for having studied in the country, partly because verification of skills is easier and partly to attract international students in an increasingly competitive market.

## Conclusions

- 2.80 The UK has previously used a PBS with tradeable points; both for visas that do not require a job offer (HSMP and Tier 1 (General)) and visas that do (Tier 2 (General)). There is very limited data on outcomes for migrants on these programmes that did not require a job offer, but what information there is suggests a sizeable proportion did not end up working in highly-skilled jobs as was intended.
- 2.81 Some of these poor outcomes are an inevitable feature of routes that do not require a job offer, but some were the result of poor scheme design: the lack of a cap, and the use of characteristics that were harder to verify, such as overseas earnings, qualifications or work experience.
- 2.82 Tier 2 (General) evolved over time from a PBS with tradeable points to a simpler system that is a PBS only in the sense that it is still selective; the points no longer add any value and could equally become a checklist. However, this simplification does not seem to have affected the ability to select high-skilled migrants.
- 2.83 Stakeholders had mixed views on a PBS: many were not clear what it would do and there was some desire to see a visa route with a role for employers continue.
- 2.84 Having considered stakeholder views and historical experience in the next chapter we make recommendations on how a PBS could operate in the UK.

## Chapter 3: Recommendations for a points-based system

### Summary

- The current framework for Tier 2 (General) as a work visa requiring a job offer without tradeable points should continue.
- If the Government wants to have a PBS route on entry, it could modify Tier 1 (Exceptional Talent) which requires no job offer, to focus more on those with exceptional promise than an established track record. The current system isn't working well, with the 'bar' set too high; there is scope to add tradeable points.
- Any changes should not repeat mistakes made in UK systems in the past but draw on best practice from other countries which would include a cap and the use of the Expression of Interest system.
- There should be a review of the settlement rules as we have virtually no information on how the current settlement process works and so this should be evaluated.
- Any new system for migration needs to be properly monitored and evaluated to ensure it is meeting its clearly defined objectives.

### Introduction

- 3.1 This chapter considers and makes recommendations about the role a points-based system (PBS) could play in the UK's future work immigration system following EU exit. As in other countries, a PBS is likely to be only one part of a work migration system; there will be various other work routes that exist alongside it, as well as routes for investors, family and students etc.
- 3.2 As discussed in Chapter 1, defining a PBS is not straightforward. Any selective system could be packaged as a system with explicit points. Similarly, any system with explicit points could be packaged in a way without explicit points while remaining the same system in terms of who would be admitted and who would not. The MAC is much more interested in the substance of migration policy than the way it is presented. It is important to present a policy in the way that is easy to understand. Sometimes this may be a system with explicit points, sometimes not.
- 3.3 In this chapter, we make recommendations for visa routes that require a job offer (currently Tier 2 (General)) and that do not (currently Tier 1 Exceptional Talent). We also make recommendations on settlement. We use the current names of these routes to refer to them, but one could give them names that are more descriptive of their intended aims. There are risks in doing this: public confidence

in the system can be undermined if the outcomes of the route differ a lot from the given name – the UK’s Highly Skilled Migrant Programme discussed in Chapter 2 might be one example of this.

- 3.4 In line with international points-based systems, our recommendations for a PBS are focused on highly-skilled migrants. A PBS route would not be suitable for low-skilled migration because an individual usually gets points for characteristics associated with working in high-skilled roles.

## **Tier 2 (General) – Job offer required**

- 3.5 As explained in more detail in Chapter 1, Tier 2 (General) is currently part of what is called the ‘points-based system’ but the points assigned to characteristics are redundant as the only way to obtain enough points is to satisfy all the criteria.
- 3.6 It is clear from the responses to the Call for Evidence (CfE) and in stakeholder engagement that employers want a work route where any worker they want to hire into an eligible job will be eligible for a visa. We do not see any evidence that Tier 2 (General) fails to select sufficiently qualified migrant workers in the UK. The use of a relatively small number of clear criteria is an advantage and thus we do not see the value in adopting the Austrian model, which combines employer sponsorship and an additional points-test focused on migrants’ own characteristics and qualifications.
- 3.7 One could package the current form of Tier 2 (General) as one in which there is a way to trade-off some characteristics against others. The new entrant rate could be packaged as giving more points to new entrants that then off-set points given to having a higher salary offer. If Tier 2 (General) was to have a lot of characteristics used to define the appropriate salary thresholds then points might be a sensible way to present it. As we recommend keeping the system relatively simple, we think that packaging in this way would only be cosmetic and have no purpose.

**Recommendation: We recommend retaining the existing framework of Tier 2 (General).**

- 3.8 We make recommendations on the design and level of salary thresholds for this route later in the report. This recommendation should be taken in conjunction with our recommendation in the EEA report<sup>49</sup> that medium-skilled occupations should be eligible for Tier 2 (General) and the cap and RLMT should be abolished. Tier 2 (General) would be a selective migration route but one in which points are not used to present the eligibility criteria. The existing points attached to characteristics in

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<sup>49</sup> <https://www.gov.uk/government/publications/migration-advisory-committee-mac-report-eea-migration>

Tier 2 (General) serve no purpose, though do no harm either. They could be removed.

## Tier 1 (Exceptional Talent) - Job offer not required

- 3.9 The Tier 1 (Exceptional Talent) visa is currently a way to enter the UK labour market based on skills without the requirement to have a job offer. This visa replaced the Tier 1 (General) visa described in Chapter 2. Tier 1 (Exceptional Talent) is intended for those with exceptional talent, or exceptional promise. Applicants must have their application endorsed by one of the following five 'designated competent bodies': the Royal Society (for science and medicine), the Royal Academy of Engineering (for engineering), the British Academy (for humanities), Tech Nation (for digital technology) and Arts Council England (for arts and culture). To be successful, applicants must be endorsed as being a leader (exceptional talent), or emerging leader (exceptional promise). Once endorsed other criteria must be satisfied but, given endorsement, the acceptance rate for applications to the Home Office has been around 97 per cent in recent years<sup>50</sup>.
- 3.10 There is an annual cap on the number of visas issued to main applicants of 2,000 though no restriction on the number of dependants. Each of the designated competent bodies has a quota, with those unused being available to the other bodies. The cap was doubled from 1,000 to 2,000 in 2017 as part of the Government's *"ongoing commitment to welcome talented people from across the globe, and in recognition of the importance of these innovative industries to the UK"*<sup>51</sup>, with the statement that *"this will ensure that more highly skilled people who enhance the UK's economy can come to, and work in, this country. It is a further demonstration of the Government's dedication to the global mobility of individuals who will help make sure that the UK remains at the forefront of these world-leading industries"*.
- 3.11 Figure 3.1 shows the numbers of if Tier 1 (Exceptional Talent) visas issued to main applicants and dependants. While the figures are not routinely published, the Home Office has published some data on the numbers of endorsements by the designated competent bodies in response to a Freedom of Information (FOI) request<sup>52</sup>.

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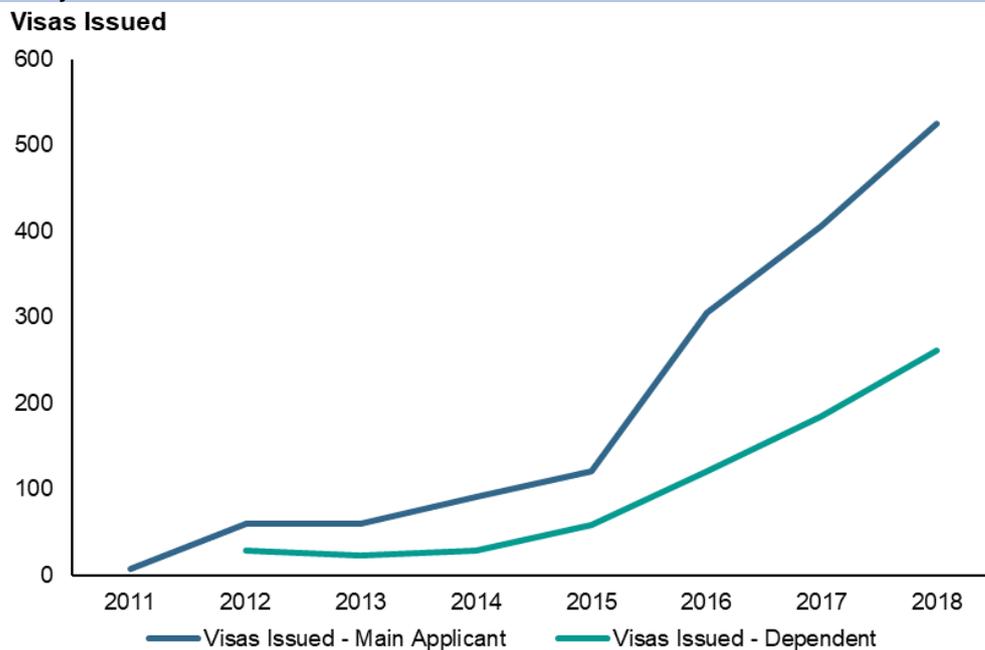
<sup>50</sup> <https://www.gov.uk/government/statistical-data-sets/managed-migration-datasets>

<sup>51</sup> <https://www.gov.uk/government/news/government-doubles-exceptional-talent-visa-offer>

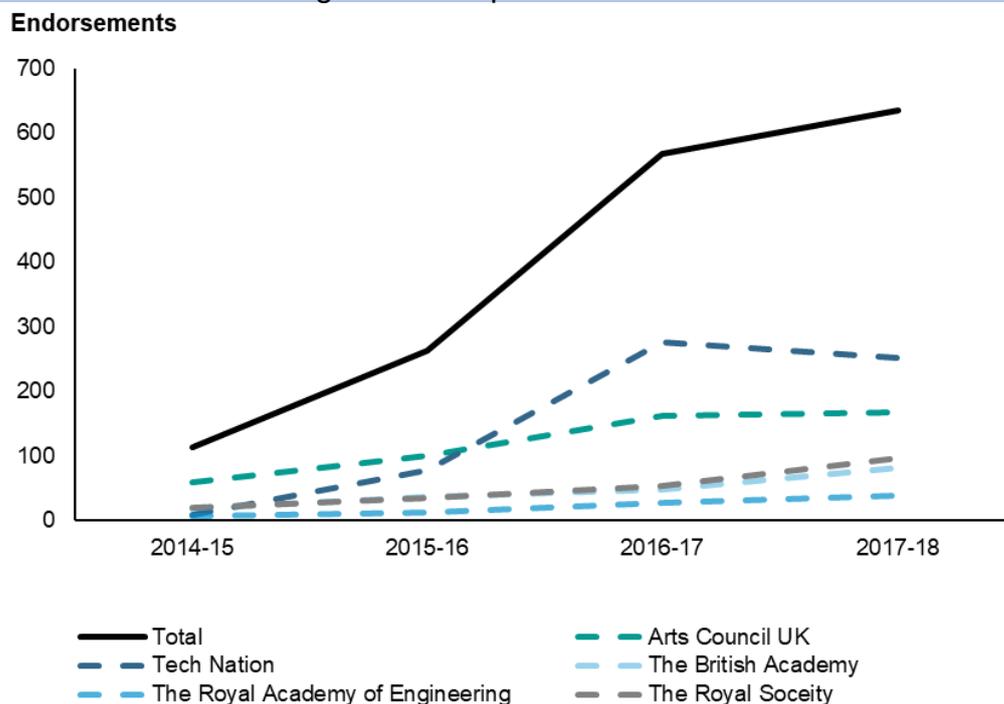
<sup>52</sup> [https://www.whatdotheyknow.com/request/545182/response/1298710/attach/6/FOI%2051909%20Annex.pdf?cookie\\_passthrough=1](https://www.whatdotheyknow.com/request/545182/response/1298710/attach/6/FOI%2051909%20Annex.pdf?cookie_passthrough=1)

**Figure 3.1: Number of Tier 1 (Exceptional Talent) Visas Issued and Total Endorsements by Designated Competent Bodies**

**Entry Clearance Visas Issued**



**Endorsements of Designated Competent Bodies**



Notes: Entry Clearance Visas issued from Home Office Immigration Statistics year ending September 2019 Table Vis\_D02; Endorsements of DCBs from response to FOI request<sup>55</sup>

- 3.13 The number of successful main applicants has risen to 600 in the most recent complete year of data, but this is still below the original cap of 1,000. There is no point in government announcing how they are being more welcoming by raising a cap when the existing cap is not being hit.
- 3.14 Table 3.1 shows the distribution of successful endorsements by designated competent body (though as Figure 3.1 makes clear, not all endorsements necessarily lead to applications).

| <b>Table 3.1: Distribution of successful Tier 1 (Exceptional Talent) endorsements<sup>53</sup></b> |             |             |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|
| DCB  | 2015        | 2016        | 2017        | 2018        | 2019        |
| Arts Council UK  | 52%         | 38%         | 29%         | 26%         | 24%         |
| British Academy  | 16%         | 14%         | 8%          | 13%         | 17%         |
| Royal Academy of Engineering   | 6%          | 5%          | 5%          | 6%          | 6%          |
| Royal Society  | 18%         | 13%         | 9%          | 15%         | 21%         |
| Tech Nation  | 8%          | 30%         | 49%         | 40%         | 31%         |
| <b>Total</b>   | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |

- 3.15 Tech Nation provides the largest number of endorsements (and is the only body that has ever exceeded its initial quota), followed by the Arts Council UK. Around 6 per cent of endorsements are in engineering. The individuals admitted through this route may be very effective leaders, or emerging leaders (though we have no information on their activities), but there are so few of them in many areas that it is hard to imagine that their impact on the UK as a whole is transformative. The low numbers admitted mean this route must be judged as failing to meet all its objectives.
- 3.16 One problem is that the visa sets too high a bar for the definition of 'exceptional talent' and is often not a route well-suited for those who satisfy the existing definition. For example, leaders with exceptional talent are unlikely to want to enter the UK without a job offer and if they do have a job offer, their employer may encourage them to apply under the Tier 2 (General) route for which they would almost certainly be eligible. Having a job offer may be less common for those with exceptional promise or for those in digital technology (e.g. wanting to work in a start-up which pays in equity) or in the arts (where freelancing, self-employment

<sup>53</sup>[https://www.whatdotheyknow.com/request/545182/response/1298710/attach/6/FOI%2051909%20Annex.pdf?cookie\\_passthrough=1](https://www.whatdotheyknow.com/request/545182/response/1298710/attach/6/FOI%2051909%20Annex.pdf?cookie_passthrough=1)

and working to commissions is common). This may account for why Tech Nation and the Arts Council give the largest number of endorsements.

- 3.17 The problem of small numbers is not the result of a high rejection rate of applications to the designated competent bodies (DCBs). Table 3.2 shows the endorsement acceptance rate as well as the fraction of endorsements that are for exceptional talent (as opposed to promise).

| <b>Table 3.2: Endorsement rates by Designated Competent Bodies (2014 to 2019)<sup>54</sup></b> |                          |            |            |
|--|--------------------------|------------|------------|
| <b>DCB</b>   | <b>Endorsement Rates</b> |            |            |
|  | Total                    | Talent     | Promise    |
| Arts Council UK  | 73%                      | 68%        | 74%        |
| British Academy  | 89%                      | 93%        | 83%        |
| Royal Academy of Engineering   | 67%                      | 66%        | 68%        |
| Royal Society  | 75%                      | 75%        | 75%        |
| Tech Nation  | 62%                      | 62%        | 62%        |
| <b>Total</b>   | <b>70%</b>               | <b>68%</b> | <b>71%</b> |

- 3.18 Overall, endorsement rates by the designated competent bodies are above 70 per cent so a challenge to increase the numbers on this route. Some of what is required may be off-putting to many applicants. The current definition of ‘exceptional promise’ includes the requirement to *“Provide a dated letter of personal recommendation supporting the Tier 1 application from an eminent person resident in the UK who is familiar with your work and your contribution to your field, and is qualified to assess your claim that you have the potential to be a world leader in your field”*<sup>55</sup>. For migrants thinking about coming to the UK, a requirement to know an eminent UK resident seems restrictive. The criteria for a successful application are also inevitably subjective meaning uncertainty about the outcome.
- 3.19 Another problem is that the process of going through a designated competent body can be quite slow. There are some circumstances when the application can be ‘fast-tracked’ e.g. if a researcher has been awarded a grant judged sufficiently prestigious. While a sensible provision, some of these grants are only open to those who are already employed in the UK, so presumably they already have a valid visa. While a few may benefit from the ability to move to Tier 1 (Exceptional Talent) it is always likely that the impact is small.

<sup>54</sup>[https://www.whatdotheyknow.com/request/545182/response/1298710/attach/6/FOI%2051909%20ANNEX.pdf?cookie\\_passthrough=1](https://www.whatdotheyknow.com/request/545182/response/1298710/attach/6/FOI%2051909%20ANNEX.pdf?cookie_passthrough=1)

<sup>55</sup> <https://www.gov.uk/guidance/immigration-rules/immigration-rules-appendix-l-tier-1-competent-body-criteria>.

- 3.20 Given these problems, if the Government wants to have a PBS route on entry, it could make sense to re-orient Tier 1 (Exceptional Talent) with the aim of increasing the numbers though the challenge is to do this without significantly affecting quality. It is important to learn from the past experience of the UK and other countries as described in Chapters 1 and 2. In particular, care should be taken to avoid mistakes made under the old Tier 1 (General) and Highly Skilled Migrant Programme of using characteristics that were hard to verify and had no overall limit on the numbers admitted.
- 3.21 We think that the ‘Expression of Interest’ system used in several countries (including Australia) is a good one. There are advantages in having a low-cost way for applicants to register their interest in moving to the UK leading to a pool of interested individuals. Invitations to submit a full application could be on a monthly basis with a quota. If the system is working well, the numbers in the pool would be above the monthly quota so some method of selecting from the pool is needed. This could be done using a PBS with those invited to apply being the applicants with the most points. There should also be a minimum acceptable number of points in case the quota is not met.
- 3.22 If the Government wants to pursue such a route, more points could be awarded to the types of skills deemed to be of highest value though it should be remembered that giving lots of points to a particular skill because it is highly desired is no guarantee that there will be many migrants admitted with that skill (as illustrated by previous UK experience discussed in Chapter 2). Thought should also be given to using this route to attract migrants who would find it difficult to enter the UK through other routes particularly the route for skilled workers with a job offer (Tier 2 (General)) and the innovator and investor visa routes.
- 3.23 If the Government looks to expand this route, we believe there should be more emphasis on the ‘exceptional promise’ rather than ‘exceptional talent’ part of the current route because those with proven talent are likely to be eligible for a visa with a job offer. In focusing more on potential and possibly lowering the bar for assessing that, it is important to consider the criteria that should attract points in this system. There are a number of characteristics that seem to us to make sense.
- 3.24 Age is a criterion consistently used in international PBS. Our view is younger workers should attract more points because it offsets the disadvantage young people may face in demonstrating potential and because younger individuals can be expected to have longer working lives before retirement, so are more attractive from the perspective of public finances. Qualifications are important with higher-level qualifications attracting more points, but it is important to ensure that the qualifications are at least of an equivalent standing to a UK-based institution. Previous UK PBS were too slack in this regard. There is some prior experience with the designated competent bodies and NARIC (the agency for the recognition

and comparison of international qualifications and skills) to build on. The challenge is to build a system that is effective but not too expensive and bureaucratic.

- 3.25 More points could also be given to those migrants with skills that mean they are likely to work in priority areas, for example STEM skills and creative skills. There are priority areas for which this route might not be well suited: if one wants to recruit migrants to the NHS it may be better to require them to have a job offer from the NHS in which case Tier 2 (General) would be more suitable. More generally it should be considered that, as this is not an employer-sponsored route, there is no control on the jobs the migrants end up doing. For example, some migrants with a STEM PhD may choose to work in finance in London, when working in science outside London may better achieve the Government's objectives.
- 3.26 Points could be awarded for being a graduate of a UK Higher Education Institution: skills verification is simpler, it demonstrates an existing level of integration in the UK and this may improve the UK's offer to international students. Language skills are important so we think these should be an essential criterion for ensuring integration.
- 3.27 It is inevitable that some of those admitted under a work route that does not require a job offer do not have good labour market outcomes. This is a risk to this type of programme and one way to limit that risk is to limit the numbers admitted to it. For this reason we recommend that there should be a cap on the number of visas issued under Tier 1 (Exceptional Talent) or any other route that replaces it. If the scheme works well following any changes, it could be expanded but the Government should proceed with caution.
- 3.28 The following summarises our recommendations in this area:

**Recommendation: If government wants to have a PBS route on entry, it should consider modifying Tier 1 (Exceptional Talent) in the following way:**

- **There should be an overall annual cap on those admitted;**
- **The route should operate on an Expression of Interest basis creating a pool of migrants interested in coming to the UK;**
- **There should be a monthly draw from this pool with those selected invited to submit a full application;**
- **The selection of those invited to apply should be based on those who have the highest number of points in the pool using a points-based system with tradeable points;**
- **There should also be an absolute minimum number of points;**

- **Points should be given for characteristics that the Government wants to attract through this route and for whom other routes are not suitable;**
- **Among the characteristics that the Government might want to consider in assigning points are:**
  - **Qualifications with a rigorous process to assess the quality of qualifications and not just the level;**
  - **Age;**
  - **Extra points for having studied in the UK;**
  - **Priority areas such as STEM and creative skills.**
- **Changes should only be made if data is collected on the outcomes of migrants on this route, with monitoring and evaluation of the route.**

**3.29** We think it makes sense to have these changes as an alteration to the current Tier 1 (Exceptional Talent) route rather than a new visa route. We would expect that all those currently accepted on Tier 1 (Exceptional Talent) would also be accepted on the proposed modified route. An alternative would be to have a separate route with the same objectives.

**3.30** We do not feel able to go further in our recommendations than this, either to definitely recommend this course of action or to suggest how many points should be given for which characteristics. This is partly because it is up to the Government to decide on its objectives but also because we currently lack the evidence and data needed to make an assessment of the extent to which certain characteristics are associated with a higher chance of a good outcome. The lack of evaluation or even information about specific migration schemes is a serious problem and is quite acute. Other countries have longitudinal studies of migrants to assist with consideration of design of their migration routes. The UK Department for Education has the Longitudinal Education Outcomes (LEO) dataset to link educational experience to subsequent outcomes.

**3.31** The current lack of data and evaluation is also a problem because there are risks with this course of action and it is important to be aware of and monitor them. The main problem is that it is difficult to assess the quality of applications or future economic contribution if there is no job offer, since the actual future employment prospects of the applicant will be hard to predict. Some migrants on this route will undoubtedly have poor outcomes. Evidence from other countries and the UK reviewed in Chapter 2 makes this clear. Good design of the system can mitigate these risks but never eliminate them.

## Settlement

- 3.32 As described in Chapter 1, ‘pure’ points-based systems are used in Australia, Canada and New Zealand to determine who is eligible for settlement (sometimes called permanent residence or indefinite leave to remain): those admitted typically get immediate permanent residence. Many of those admitted have previously been in the country on a different type of visa but some are new entries to the country who are given permanent residence from day one. This contrasts with the current UK system where a worker under Tier 2 (General) has to have been in the UK for at least five years<sup>56</sup> and to meet the settlement income threshold currently at £35,800.
- 3.33 As of April 2019, the settlement threshold is currently the higher of the occupation specific rate (set at the 25<sup>th</sup> percentile of the full-time earnings distribution for that occupation) or £35,800. This only includes earnings from the sponsoring employer. A previous government set out a plan that this threshold should rise each year until it reaches £40,100 in April 2024<sup>57</sup> according to:
- £36,200 if the date of application for ILR is on or after 6 April 2020;
  - £36,900 if applying on or after 6 April 2021;
  - £37,900 if applying on or after 6 April 2022;
  - £38,800 if applying on or after 6 April 2023;
  - £40,100 if applying on or after 6 April 2024.
- 3.34 The origin of the settlement income threshold dates back to 2011 when the Government asked the MAC to consider what the impact would be of restricting the settlement rights of Tier 1 and Tier 2 migrants. In response<sup>58</sup> to this the MAC recommended that, if there was a desire to limit settlement, then a simple earnings threshold would be an appropriate way to do this. Whilst the MAC did not recommend a specific figure, we said *“there is no single right way of setting the minimum pay threshold, but a level of between £31,000 and £49,000, up-rated over time to account for price or pay inflation according to a pre-determined formula, would be economically defensible”*<sup>59</sup>.
- 3.35 Additionally, the 2011 MAC report considered whether sectors or occupations should be the primary criterion, based on factors such as strategic economic

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<sup>56</sup> The applicant cannot have more than 180 days of absence from the UK during any consecutive 12-month period (with exemptions for overseas research if in PhD level occupation or assisting with national crisis).

<sup>57</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/836921/2019.06.05\\_-\\_MAAP\\_guidance\\_FINAL1.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/836921/2019.06.05_-_MAAP_guidance_FINAL1.pdf)

<sup>58</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/257256/mac-settlement-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/257256/mac-settlement-report.pdf)

<sup>59</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/257256/mac-settlement-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/257256/mac-settlement-report.pdf)

importance and public services. However, we advised against this on the basis that putting together this list would be a complex and contentious exercise. They noted that if the Government wanted to put in place exemptions, that would be preferable to attempting to design a wider system that accommodates for special exceptions. The MAC recommended “*exceptions are limited in their scope and the economic or other reasons for them are explicitly articulated by the Government*”<sup>60</sup>.

3.36 There are currently some exemptions in place to the minimum earnings threshold if:

- the applicant has been employed in a job which has been on the SOL at any time in the last six years and during the period in which they have been sponsored;
- the applicant has been employed in a PhD level occupation.

3.37 This exemption only applies to the minimum earnings threshold and the applicant must still meet the occupation specific rate.

### Stakeholder views of the settlement threshold

3.38 Employers have reported challenges in meeting the settlement threshold, which requires significant pay progression in the five years from when a visa is granted under Tier 2 to when settlement is considered after five years. Stakeholders have highlighted this is a particular issue in some public sector occupations in which it is unusual for pay to progress at that rate and formal pay scales limit the possibilities of pay progression. For example, for nurses the top of Band 5 is below the required settlement threshold now let alone if it rises to £40,100 by 2024 though the fact that nurses have been on the SOL means that the threshold does not have to be met at the moment. One education sector stakeholder also outlined that settlement thresholds were currently too high for some researchers and technicians to meet. Meanwhile, it was also noted by stakeholders that following a sustained period of public spending cuts, orchestral salaries have flatlined, meaning that the pay of permanent orchestral musicians may well not meet salary thresholds in future, including for settlement, and musicians from EEA and non-EEA countries may need to leave the UK, and lose their employment, after five years.

3.39 Stakeholders highlighted there is also a geographical dimension to this issue. Even in occupations where employees in many parts of the UK would meet salary thresholds for settlement, there is variation across the UK, and employers reported rural areas tend to be impacted adversely. Evidence from a variety of sectors engaged during the Commission indicated that there were examples of employers

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<sup>60</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/257256/mac-settlement-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/257256/mac-settlement-report.pdf)

offering differing rates of pay to migrants compared to domestic staff in order to satisfy threshold criteria, which also has an impact on the resident population. In terms of attracting talent, during engagement, employers were particularly concerned about the attractiveness of the UK to potential skilled migrant workers given our departure from the EU.

### **Impact and effectiveness of the settlement income threshold**

- 3.40 It is very difficult to assess the impact of the settlement system (including the income threshold) because very little data is available. Given the new settlement income threshold has been enforced on those settling from 2016, it is difficult to quantitatively assess its effects to date. It is also challenging to isolate the impacts of this policy from other factors which may affect the likelihood to settle in the UK (including other policy changes, economic and wider factors).
- 3.41 The published Migrant Journey data provides settlement rates only for broad Tiers (1,2,4,5). In the analysis of Tier 2, the Migrant Journey data on settlement combines all Tier 2 routes (General, Intra-Company Transfer, and the much smaller routes of Minister of Religion and Sportsperson) even though Tier 2 (General) has a path to settlement subject to the income thresholds while Tier 2 (ICT) became ineligible for settlement after April 2010.
- 3.42 The difficulties this poses are illustrated by Table 3.3 which considers the proportion of those who entered the UK on a Tier 2 visa after 2009 (the first full year of Tier 2 operating) who had settlement after five years.
- 3.43 The second column shows proportion of migrants in Tier 2 with settlement after five years fell substantially from 13 per cent for the 2009 cohort to 6 per cent in 2013. The settlement rate will be affected by the April 2010 changes to Tier 2 (ICT) making visa-holders ineligible for settlement. The final column shows the fraction of ICT visas in the total. There were also changes to the skill eligibility requirement in Tier 2 (General) in 2011 and 2012, as well as the introduction of the settlement income threshold in 2016 (affecting the 2011 entry cohort onwards). Working out the reasons for the fall in the settlement rate from this data is not possible.

**Table 3.3: Proportion of Tier 2 & pre-PBS equivalents main applicants with settlement after 5 years**

| Year of initial visa | Proportion with settlement after 5 years | Share of Tier 2 (General) in Tier 2 – main applicants, entry clearance visas |
|----------------------|--|--|
| 2009                 | 13%                                      | 24%  |
| 2010                 | 12%                                      | 25%  |
| 2011                 | 6%                                       | 20%  |
| 2012                 | 5%                                       | 24%  |
| 2013                 | 6%                                       | 26%  |

Source: Home Office, Migrant Journey data table volume 1 2018 and Home Office Visa Statistics June 2019

3.44 We were unable to gain access to data that would have allowed an adequate assessment. We require assistance from the Home Office in enabling access to the full Migrant Journey dataset to allow further analysis on this issue.

3.45 We are concerned that the current level of the general settlement salary threshold is quite high and unrealistic for workers in a number of professions and for those who have entered under the much lower new entrant salary thresholds. The projected future increases seem to us to be very high.

**Recommendation: There should be an immediate pause in the proposed increases to the settlement threshold.**

3.46 This recommendation should not be taken to mean that we think the settlement threshold should not be above the entry threshold. An argument for it to be higher is to ensure that those remaining in the UK permanently are more likely to have a positive economic and fiscal impact, particularly when they become eligible for public funds. Those with settlement are given the right to remain in the UK, even if no longer in employment, so the future unemployment risk becomes more relevant. It may also encourage pay progression which could be important when a migrant is tied to an employer sponsor.

3.47 On the other hand, there is a risk that if the settlement income threshold is set well above the entry salary threshold this simply leads employers to replace migrants after five years with a new migrant. This churn of workers especially in sectors where pay progression is more limited could be undesirable. A lower prospect of settlement may also have negative impacts on the integration of migrants.

### Other Aspects of the Settlement System

3.48 There are other aspects of the settlement system that would also benefit from consideration of how it currently works and whether it achieves its objectives. In

comparison to the settlement routes in other countries, the UK has quite a restricted path.

3.49 The current system exempts workers in shortage occupations from the settlement income threshold. The continuation of an exemption for occupations in shortage from the settlement threshold would exempt these occupations from the upward pressure on wages and to improve terms and conditions, intensifying the problem. While we believe that some people should be able to qualify for settlement despite lower incomes, we do not believe that the Shortage Occupation List is necessarily the right way to determine this. For example, it might be simpler to replace the SOL with longer-run priority areas such as the NHS or working in science and innovation.

3.50 As described earlier, the UK does not currently offer a quicker path to settlement than five years for those on work routes. This makes the UK 'offer' less competitive than the offer of other countries, something that might put the UK at a disadvantage in the competition for global talent (though we have no specific evidence on that point). It also may cause concern for migrants who need to commit five years to life in the UK before knowing whether they will be allowed to settle permanently. Settlement is attractive to migrants not just because of the certainty it offers but because it allows the freedom to take any job in the labour market and for recourse to public funds.

**Recommendation: We recommend a review of the requirements for settlement, to establish a clearer picture of how it is currently working and possible changes that could be made.**

3.51 Occupations which are currently on the SOL should continue to benefit from the current exemption from the settlement threshold until the review has taken place.

### **PBS as a route to settlement for workers**

3.52 Any such review could recommend changes to the settlement system. Those changes might involve the use of a PBS for settlement as is used in some other countries. An advantage of applying a wider set of criteria at settlement is that scrutinising the migrant's personal characteristics (rather than just their job) makes more sense at the stage that they are no longer to be tied to an employer or specific job.

3.53 Even if the recommendation of a review was for a more varied range of paths to settlement, this would not necessarily be best packaged as a PBS; it could be a list of alternatives. Which is simpler is likely to depend on how many characteristics are relevant for determining settlement, an issue where we are not making specific recommendations in this report.

- 3.54 The review should also consider accelerated settlement for some workers. However, there are some pitfalls to avoid. It might be tempting to use accelerated settlement for workers in priority jobs which are hard to fill domestically. If the problem with filling these jobs is uncompetitive terms and conditions this may be counter-productive: a migrant with settlement may use their new-found labour market freedoms to find more attractive jobs elsewhere. One would only want to use accelerated settlement where one is sure that offering settlement is desirable.

## Collection and development of new data

- 3.55 A major impediment to our work on this report, as experienced with previous reports, is the paucity of data. This is particularly frustrating when useful data exists, but it is impossible to access. This results in difficulties assessing the effectiveness of specific migration policies on which to make evidence-based decisions. Our ability in this report to make very specific recommendations on Tier 1 (Exceptional Talent) and Settlement has been severely limited by this. We appreciate the continued support from the ONS and the Government to access the data we need for this work.
- 3.56 In future, we hope departments will assist us in accessing data which is fundamental to the MAC's ability to understand the impact of policies and improve evidence-based policy making on migration. This includes the dataset linking the Annual Survey of Hours and Earnings (ASHE) with the Migrant Worker Scan, Longitudinal Education Outcomes (LEO) data held by DfE and the Migrant Journey dataset held by Home Office to allow us to undertake more detailed analysis on some of the issues covered in this report including migrant progression in the labour market.
- 3.57 As we mentioned in our EEA report, the Government has the option to link HMRC and Home Office data to provide information on employment and earnings of migrants over time. Such a dataset would be invaluable to the work of the MAC and others interested in analysing the outcomes of migrants. This is one of a number of possibilities to link existing data held across government to provide administrative data for analysis on migration policy.

**Recommendation: The Government and ONS should seek to link datasets across government to allow a better understanding of the employment outcomes of migrants, for the purposes of research whilst ensuring confidentiality.**

- 3.58 Whilst there are many data sources collected on migrants in the UK and we support the ONS' transformation programme of migration statistics, few data sources are specifically linked to which visa route migrants are on. This limits the ability to draw conclusions about the effectiveness of small visa routes and to understand migrant outcomes for those on these routes. The development of a global immigration

system provides the opportunity to collect data across all nationalities and to ensure appropriate data is collected to monitor the outcomes of visa holders over time.

- 3.59 In our recommendation on the points-based system, we have highlighted it would be essential to conduct a longitudinal study for migrants coming under routes where we are proposing changes. Additionally, better data on outcomes should be collected across the migration routes to monitor whether routes are working effectively and would enable evaluation in the longer term to understand the economic contribution of these migrants under different routes.

**Recommendation: The Government should invest in a data set designed to link migrants with subsequent outcomes to be used for the evaluation of all visas.**

- 3.60 In Chapter 2, we highlighted that the lack of historical data on Tier 1 (General) had inhibited our ability to undertake a detailed assessment of the effectiveness of the route and learn lessons which could feed in to future policy. For example, we were unable to use historical data on the actual points scored for visa holders as it no longer exists in a retrievable form. This information would have been valuable for us and the Government to learn lessons from historical experience and such information is important to retain in a form for analytical purposes.

**Recommendation: The Home Office should ensure it retains historical data on migration routes in a usable format for future analysis.**

## Conclusion

- 3.61 The two preceding chapters considered the issues around a PBS and this chapter went on to consider how such a system could be implemented in the UK.
- 3.62 We think that work migration should be selective; this is to maximise the benefits of migration to the resident population, which has always been the objective of the MAC. Beyond this we think that the methods used to make that selection should vary with the circumstances.
- 3.63 The current framework for Tier 2 (General) as a work visa requiring a job offer without tradeable points should continue. We don't see a case for adding tradeable points to it.
- 3.64 If the Government wants to have a PBS route on entry, it could modify Tier 1 (Exceptional Talent) to focus more on those with exceptional promise than an established track record. The current system isn't working well, with the 'bar' set too high, and there is scope to add tradeable points and entry without a job offer to it.

- 3.65 If the numbers in the Expressions of Interest pool exceed the cap, applications should be prioritised using a PBS; this draws on best practice from other countries and should avoid some of the issues the UK has previously faced when using PBS.
- 3.66 We have little information on how the rules for settlement are working. We recommend a pause to the proposed increases in the settlement threshold and a full review. It may be that the UK should have a more flexible system for granting settlement, possibly based on a PBS with tradeable points.
- 3.67 In the next chapters we turn to salary thresholds, initially with a focus on what stakeholders told us via our CfE.

## Chapter 4: Call for Evidence and stakeholder views of salary thresholds

### Summary

- The Call for Evidence (CfE) gathered 353 responses from individual organisations and representative bodies through an online questionnaire. In addition, stakeholders were engaged through an additional 25 meetings/ events.
- The CfE only reflects the views of those who chose to respond and will represent their own perspectives and interests. Unsurprisingly, in many cases, stakeholders did not support actions that constrained their ability to act freely.
- The majority of respondents agreed that there should not be a salary threshold above the National Minimum Wage, however, a substantial minority also expressed support for a threshold.
- Reasons for opposing the current salary thresholds were primarily the level at which they were set, with the £30,000 salary threshold being considered too high. A salary level of between £20,000 and £21,000 was frequently cited as a more desirable level.
- There was stronger support for the idea of a salary threshold that was in some way variable to reflect employer needs, than there was for a single salary threshold, although views were mixed.
- Reflecting this, there was strong support for the idea of tailoring of the salary threshold by sector and/or occupation, and widespread support for tailoring the salary threshold for new entrants/young workers. (Some respondents also supported tailoring the salary threshold by geographical area – see Chapter 8).

### Introduction

- 4.1 The CfE (Annexes K and L) gathered 353 responses from individual organisations and representative bodies. Respondents were able to respond either as an individual employer (referred to throughout as ‘individual organisations’) or as a representative body/organisation representing the views of a number of other businesses/organisations (referred to throughout as ‘representative organisations’). The CfE asked about the characteristics of respondents’ organisations (or, for representative organisations, the characteristics of the organisations they represented), their experience/members’ experience of recruiting staff through the Tier 2 (General) visa system, and a number of key

questions about their views and/or their members' views of salary thresholds. In particular, the CfE focused on:

- The level at which salary thresholds are set, any issues the organisation/those they represent have experienced in relation to salary thresholds, views on what should count as 'salary' and on whether a general or an occupation specific salary threshold is appropriate;
- Whether employees/the employees of those they represent have applied for settlement, and views on settlement income thresholds.

4.2 This chapter describes who responded to the CfE, before turning to their views on the current system and salary thresholds. Evidence from the CfE can also be found in other chapters, primarily Chapter 8, but also Chapters 2 and 5. Evidence gathered from stakeholder engagement events on salary thresholds will also be included and analysed.

4.3 CfE data is indicative of the perceptions of those who responded only (including, for representative organisations, their perceptions of the views of those they represent) and where they reference levels of pay, for example, these have not been externally verified. Overall percentages are given, as base sizes were too small to enable analysis by factors such as region, and non-responses are excluded. In addition, during stakeholder engagement the concerns of freelancers and the self-employed were raised but are not discussed in detail in this report because such individuals are unlikely to qualify for sponsorship under Tier 2 (General). It must be borne in mind that employers, stakeholders and representative organisations will be influenced by their views of the current system and this does not necessarily reflect some of the changes proposed by government in the Immigration White Paper (December 2018).

4.4 Where 'base size' is mentioned, this refers to the number of CfE responses a particular statistic has been based on. It is worth bearing in mind that all those responding to the CfE and taking part in stakeholder engagement events will be presenting their perspectives and interests as business leaders and employers, and this has to be considered alongside the economic case, and what is in the best interests of employees and the resident population when forming recommendations.

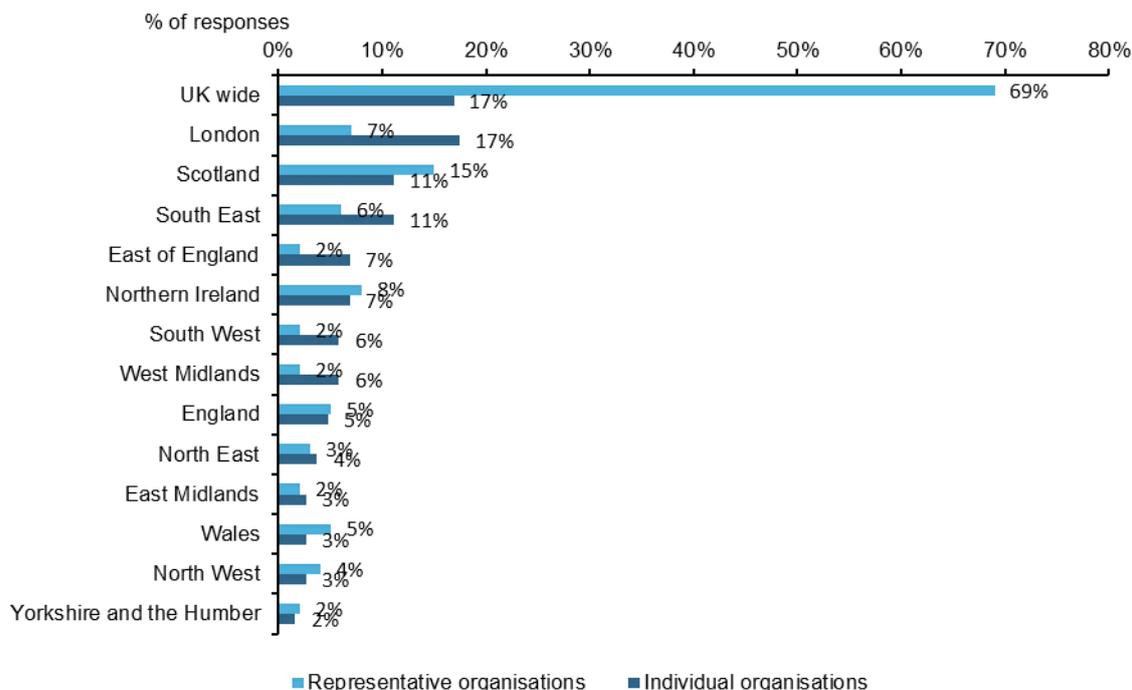
## Responses to the Call for Evidence

### Geographical area

4.5 When asked in which region/country most of their employees were located, individual organisations most commonly said UK wide and London, with almost a fifth (17 per cent) of the total responses each, followed by Scotland and the South East (11 per cent each) (see Figure 4.1).

4.6 Respondents that represented other organisations most commonly said that they were representing organisations across the UK (69 per cent), 15 per cent said their organisations had concentrations in Scotland, 8 per cent in Northern Ireland, 7 per cent in London, 6 per cent in the South East and 5 per cent in Wales.

**Figure 4.1: Proportion of Call for Evidence responses by geographical area**



Based on: All: individual organisations (189), representative organisations (164). Percentages for representative organisations reflect the geographical areas in which the businesses/organisations they represent were based, and not the characteristics of the representative organisations themselves. Representative organisations were able to select more than one geographical area, so responses do not sum to 100.

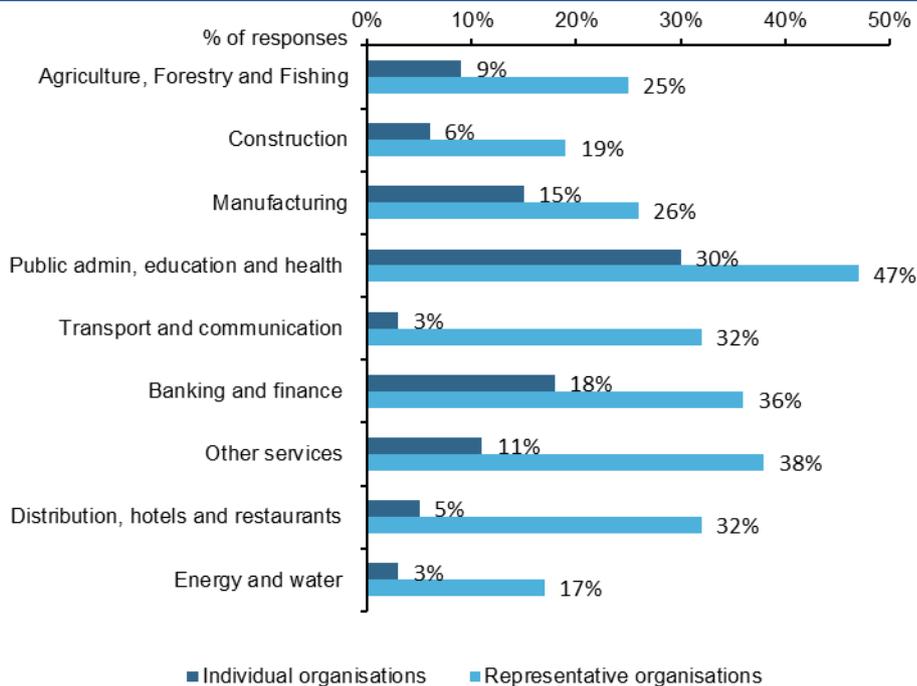
## Sector

4.7 Due to small base sizes<sup>61</sup>, sectors were aggregated into nine groups to allow for greater comparability<sup>62</sup> (see Annex L for a description). Almost a third (30 per cent) of responses from individual organisations were from the public administration, education and health sector, just under a fifth from the banking and finance sector (18 per cent) and 15 per cent from the manufacturing sector. Public administration, education and health sectors represented a large proportion of responses (47 per cent) for representative organisations, followed by ‘other services’ (38 per cent) and banking and finance sectors (36 per cent).

<sup>61</sup> ‘Base size’ refers to the size of the group or subgroup being analysed. The ‘base size’ for all individual organisations, for example, is the 189 respondents who submitted a response to the CfE.

<sup>62</sup> Sector names are broad and may not be reflective of all sectors that are being represented under each aggregated sector name.

**Figure 4.2: Call for Evidence responses by sector (aggregated)**



Base: All individual organisations (189), representative organisations (164). Percentages for representative organisations reflect the sectors which the businesses/organisations represent, and not the characteristics of the representative organisations themselves. Representative organisations were able to select more than one sector, so responses do not sum to 100.

4.8 There was a greater share of responses to the CfE from Scotland and Northern Ireland, compared with the employment share and proportion of registered businesses<sup>63</sup>. By sector, there was a greater share of CfE responses from individual organisations in the public administration and ‘other services’ sectors compared to the proportion of enterprises registered to these sectors in the *Inter-Departmental Business Register (IDBR)*. On the other hand, responses from the banking and finance, transport and communication, distribution, hotels and restaurants and construction sectors were under-represented in the CfE relative to the proportion of enterprises recorded in these sectors in the IDBR. The CfE also received a higher proportion of responses from large organisations, and a smaller

<sup>63</sup> APS, regional labour market summary published in December 2019; *Inter-Departmental Business Register*, published October 2019: <https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/ukbusinessactivitysizeandlocation>. Representative organisations had the option of selecting more than one location, each response was treated as a single option (UK wide option was not included).

proportion of responses from the smallest organisations (see Table 4.1), than the UK business population as a whole<sup>64</sup>.

## Organisation size

| Table 4.1: Call for Evidence responses by organisation size (individual organisations only) |                         |
|---|-------------------------|
| Size of organisation  | Proportion of responses |
| 0-9 employees   | 11 (6%)                 |
| 10-49 employees   | 25 (13%)                |
| 50-249 employees  | 36 (19%)                |
| 250-499 employees   | 13 (7%)                 |
| 500+ employees  | 104 (55%)               |

Base: All individual organisations (189)

## Skill level

- 4.9 The CfE asked for the views of employers who recruit migrant workers for medium- and high-skilled roles, as per the direction of the future immigration system which will be prioritising skilled workers<sup>65</sup>. Based on the 4-digit Standard Occupational Classification (SOC) code data given by employers, almost 8 in 10 (79 per cent) of the 161 employers who gave SOC data for one or more roles gave salary data for roles predominantly at RQF3+, 14 per cent gave salary data for roles predominantly at RQF 1 or 2, and 7 per cent gave data for an equal number of roles at RQF 1/2 and RQF 3+<sup>66</sup>.

<sup>64</sup> *Inter-Departmental Business Register*, published October 2019:

<https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/ukbusinessactivitysizeandlocation>

<sup>65</sup> Individual organisations responding to the CfE were asked to give Office for National Statistics (ONS) Standard Occupational Code (SOC) data for up to ten roles in their organisation filled by migrant workers, along with the average starting salary and salary an average performer would be likely to receive after three years. The Regulated Qualification Framework (RQF) equivalent for the role was then identified and employers were coded as 'high/medium' (RQF 3+) or 'low' (RQF 1/2) skilled employers according to whether they had identified a greater number of roles at RQF 3+ or RQF 1-2. If the number of high/medium and low skilled occupations was exactly equal they were coded as 'mixed' skill. However, employers commonly recruited for both high/medium and low skilled roles.

<sup>66</sup> This question was only asked to respondents who represented their own organisation (individual organisations) and was not applicable to representative organisations.

## Recruitment of non-EEA employees and experience of the Tier 2 system

### Recruitment of workers

- 4.10 As shown in Table 4.2, almost all organisations responding had hired UK and Irish workers (95 per cent of employers) or represented those that had (96 per cent of representative organisations) and EEA workers from countries outside the UK and Ireland (95 per cent of employers and 97 per cent of representative organisations). Most had also hired workers from outside the EEA or the organisations they represented had done so (71 per cent of employers and 87 per cent of representative organisations).

**Table 4.2: Call for Evidence responses: recruitment of workers over the previous 5 years**

|   | Individual organisations (189) | Representative organisations (164) |
|---|--------------------------------|------------------------------------|
| UK and/or Irish workers                                     | 180 (95%)                      | 157 (96%)                          |
| Workers from EEA countries outside of the UK and/or Ireland | 179 (95%)                      | 159 (97%)                          |
| Workers from non-EEA countries                              | 134 (71%)                      | 142 (87%)                          |

Base: All individual organisations (189), representative organisations (164). Respondents were able to select more than one option, so responses do not sum to 100. Percentages for representative organisations reflect recruitment by the businesses/organisations they represent, and not the representative organisations themselves.

- 4.11 Most organisations (71 per cent of employers and 87 per cent of representative organisations: see Table 4.3) also envisaged that they (individual organisations)/those they represented (representative organisations) would be recruiting non-EEA workers over the next 12 months, slightly lower than the number expecting to recruit UK/Irish and/or other EEA workers.

**Table 4.3: Call for Evidence responses: nationalities organisations are likely to recruit over the next 12 months**

|   | Individual organisations (189) | Representative organisations (164) |
|---|--------------------------------|------------------------------------|
| UK and/or Irish workers                                     | 172 (87%)                      | 156 (95%)                          |
| Workers from EEA countries outside of the UK and/or Ireland | 175 (93%)                      | 155 (95%)                          |
| Workers from non-EEA countries                              | 135 (71%)                      | 142 (87%)                          |

Base: All individual organisations (189), representative organisations (164). Percentages for representative organisations reflect recruitment by the businesses/organisations they represent, and not the representative organisations themselves. Respondents were able to pick more than one option, so responses do not sum to 100.

### Experience of Tier 2 (General) visa system

- 4.12 As shown in Table 4.4, most respondents who had recruited non-EEA workers over the past 5 years (individual organisations), or who represented other businesses/organisations that had (representative organisations) reported that at least some of these non-EEA workers had been recruited through the Tier 2 (General) visa system. Almost a quarter of representative organisations did not know whether employers who they represented had recruited through this route.

**Table 4.4: Call for Evidence responses: whether non-EEA workers were recruited under the Tier 2 (General) visa system**

|            | Individual organisations (133) | Representative organisations (137) |
|------------|--------------------------------|------------------------------------|
| Yes, all   | 26 (20%)                       | 10 (7%)                            |
| Yes, some  | 81 (61%)                       | 88 (64%)                           |
| No         | 23 (17%)                       | 8 (6%)                             |
| Don't know | 3 (2%)                         | 31 (23%)                           |

Base: All respondents who said they/the organisations they represented had recruited non-EEA workers in the past five years: individual organisations (133), representative organisations (137). Percentages for representative organisations reflect recruitment by the businesses/organisations they represent, and not the representative organisations themselves.

- 4.13 As shown in Table 4.5, almost all individual organisations (97 per cent) who responded to the CfE and had recruited non-EEA workers through Tier 2 (General) in the previous five years said that they were also licensed to sponsor workers under this route. Only a very small number of those who had recruited through Tier 2 (General) said they were not sponsors.

**Table 4.5: Call for Evidence responses: whether employers who had recruited non-EEA workers under Tier 2 (General) were licensed to sponsor workers under this route (individual organisations only) <sup>67</sup>**

|            | Individual organisations (106) | % of responses |
|------------|--------------------------------|----------------|
| Yes        | 103                            | (97%)          |
| No         | 2                              | (2%)           |
| Don't know | 1                              | (1%)           |

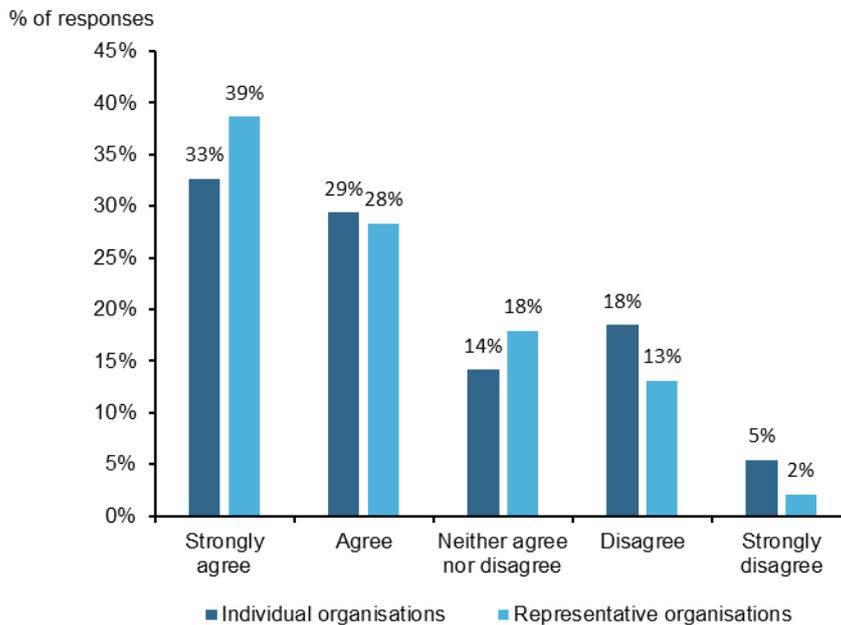
Base: All individual organisations that said they had recruited non-EEA workers in the past five years through the Tier 2 (General) route (non-responses excluded) (106)

## Extent to which respondents believed there should be salary thresholds

- 4.14 In responses to the CfE from both individual and representative organisations there was widespread agreement that there should not be a salary threshold (other than the National Minimum Wage). Agreement that there should be no salary threshold was slightly stronger among respondents from representative organisations (see Figure 4.3), with 39 per cent of representative organisations strongly agreeing and 28 per cent agreeing, compared to 33 per cent of employers strongly agreeing and 29 per cent agreeing that they did not want to see a salary threshold above the minimum wage. However, some support for the existence of a threshold was also expressed by both groups. Slightly less than a quarter of individual organisations disagreed (18 per cent disagreed and 5 per cent strongly disagreed), as did a slightly smaller proportion of representative organisations, with the statement that there should not be a minimum salary threshold.

<sup>67</sup> There are around 31,000 Tier 2 and 5 sponsors registered in the UK (30,712 on 12<sup>th</sup> December 2019), compared to around 4,202,000 businesses registered at Companies House [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/851606/2019-12-12\\_Tier\\_2\\_5\\_Register\\_of\\_Sponsors.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/851606/2019-12-12_Tier_2_5_Register_of_Sponsors.pdf)  
<https://www.gov.uk/government/news/uk-company-statistics-2018-to-2019>

**Figure 4.3: Call for Evidence responses: extent to which respondents considered there should not be a minimum salary above the legal requirement (National Minimum Wage)**



Base: All respondents: individual organisations (184), representative organisations (145). Responses for representative organisations reflected a mixture of the views of businesses/organisations they represented, and the views of the representative organisations themselves.

**4.15** For those who did not support salary thresholds, the reasons included:

- The current level at which salary thresholds were set – which is discussed further below (Paragraph 4.23-4.29);
- Salary thresholds were felt to be a ‘blunt instrument’ that did not take adequate account of differences in regional and sectoral salaries, or of skills in short supply. However, many felt that a system that was able adequately to take account of these differences would inevitably be too complex.

*“Regional variances will mean that some areas will be too high, some will be about right and some will be too low. Having no threshold would simplify this.”*

Individual organisation, Public Administration/Education/Health, 500+ employees, Scotland

**4.16** Indeed, the Tier 2 (General) system as it currently stands was felt by some respondents already to be complex enough to dissuade businesses from engaging with it: the administrative requirements of compliance were said to be difficult over

and above any implications of the threshold itself. This was particularly felt to be the case for smaller organisations who were less likely to have dedicated HR and recruitment staff (see paragraph 4.38).

*“The complexity of the system is a potential drag on effective business recruitment practices, particularly if and when extended to EEA nationals.”*

Individual organisation, Transport/Communication, 500+ employees,  
Nationwide

4.17 Other respondents said that they did not currently find salary thresholds to be a problem for their organisation or the organisations they represented, although some of these were concerned about whether this would remain the case after the UK’s departure from the EU. This is discussed further below in paragraph 4.36.

4.18 The Confederation of British Industry (CBI) supported the principle of having a salary threshold in its submission, on the grounds that it prevented undercutting, although, in line with many others, its evidence went on to state that a threshold at £30,000 is too high.

*“... maintaining a salary threshold is vital to build public confidence that migrants are not undercutting wages of domestic workers.”*

CBI response to MAC Commission, 2019

4.19 Others, including Welsh Government and the TUC did not support the principle of any salary threshold.

*“The Welsh Government is opposed to a salary threshold, which we believe is a blunt instrument...”*

Welsh Government response to MAC Commission, 2019

4.20 For the TUC, the exploitation of workers was a key issue driving their concern about a salary threshold, their desire for a continuation of free movement and fears that a salary threshold would tie employees to an employer and risk them being exploited.

*“The TUC is calling for the government to maintain free movement rights, provide a guaranteed right to remain for all EU citizens in the UK and enhance labour market protections and sectoral bargaining structures to guard against exploitation.”*

TUC response to MAC Commission, 2019

- 4.21 Migration Watch UK emphasised the need to restrict Tier 2 (General) recruitment to a designated skills list and said that the £30,000 threshold should be a minimum. Moreover, they said that the system should operate a cap on overall numbers and retain the RLMT. They suspected that without these factors, employers would turn to overseas recruitment as a means of accessing a large supply of cheaper labour, and that this had the potential substantially to increase inward migration.

*“Applicants to the PBS should be qualified in an occupation that is listed on a designated skills list (as in Australia) and have a job offer that meets a minimum salary threshold... An Australian-style cap on skilled work is essential for ensuring control going forward. Without this, employers would be free to engage in a global bonanza of hiring cheaper labour (at the expense of UK workers) without restraint.”*

Migration Watch UK response to MAC Commission, 2019

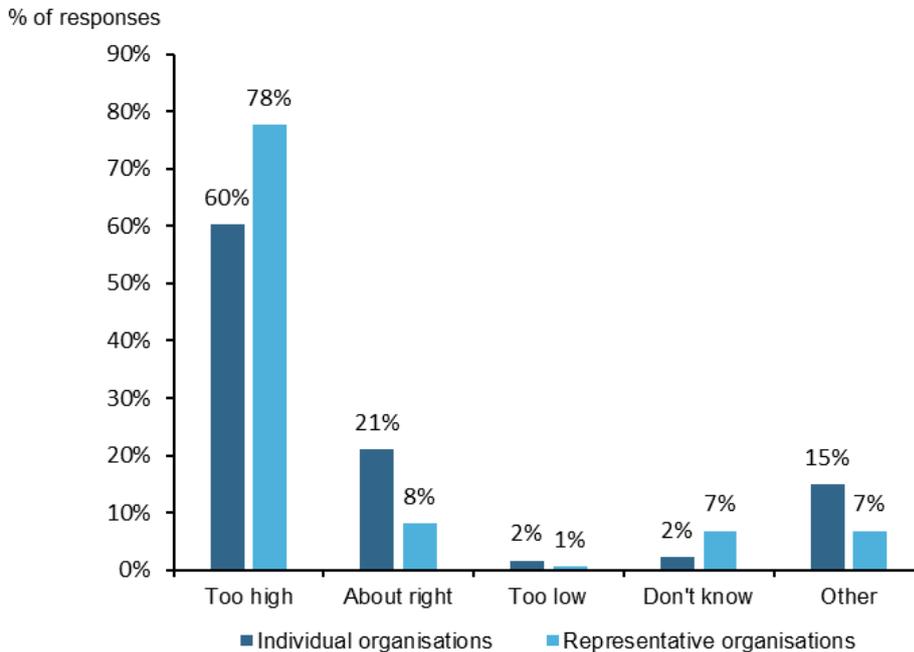
- 4.22 Some stakeholders appeared to bypass the question of whether a salary threshold should be in place, inferring that it was an accepted reality that one would exist, and instead concentrated more on what they considered to be the right level for such a threshold.

## **Views on the current Tier 2 (General) salary and settlement thresholds**

### **The £30,000 salary minimum**

- 4.23 Most respondents to the CfE from both individual and representative organisations said that the current minimum salary requirement of £30,000 per annum was too high. A higher proportion of representative organisations (almost eight out of ten, 78 per cent) than individual organisations (60 per cent) said that this was the case. Just over a fifth of individual organisations said that the threshold was about right, however, very few respondents in either group believed the current threshold to be too low. A number of respondents raised points in the ‘other’ section which have been considered alongside the issues considered elsewhere in this chapter.

**Figure 4.4: Call for Evidence responses: views of the minimum salary requirement of £30,000 for an experienced full-time employee**



Base: All respondents: individual organisations (181), representative organisations (161). Responses for representative organisations reflected a mixture of the views of businesses/organisations they represented, and the views of the representative organisations themselves.

4.24 The £30,000 level was felt to be too high for certain sectors where respondents said employees were highly skilled but not highly paid (for example musicians, chefs), or where salaries as a whole were kept low (for example charities, heritage). Employers said that this meant they had difficulty in filling their vacancies, with a consequent effect on their ability to carry out their business. Although in some cases employers said that they were able to raise wages to meet the threshold (see paragraph 4.36), others reported that this was not always possible.

*“Around a quarter of our employers reported that the salaries required by the Tier 2 (General) immigration rules were too high and that this caused them problems in recruiting the talent that they need.”*

Representative organisation, multiple sectors represented, Nationwide

*“Skilled chefs qualify for Tier 2 (General) visas via their inclusion on the Shortage Occupation List but are required to earn a salary of £29,570. This is significantly higher than the typical salary for UK chefs based on the Annual Survey of Hours and Earnings (ASHE), which is £17,800... This salary threshold is not affordable for most restaurant takeaway owners, who are running small or medium-sized independent businesses. It is constraining recruitment at a time of acute growth for the takeaway sector, ... three-quarters of restaurants offering takeaways find*

*it difficult to recruit the chefs, while one-quarter say current immigration rules hinder the growth of their business.”*

Representative organisation, Distribution/Hotels and restaurants, Nationwide

*“In some cases, a £30,000 salary threshold may force an increase in wages but it is equally likely to result in roles being left unfilled, downturns in revenue, redundancies, more reliance on automation or clients moving their businesses to a different country.”*

Representative organisations, multiple sectors represented, Nationwide

- 4.25 Many stakeholders including NHS employers, Cancer Research UK, local government bodies, several government departments, the British Academy, Devolved Administrations as well as employer representatives including the CBI and the British Chambers of Commerce (BCC) and the Federation of Small Businesses (FSB) agreed that the £30,000 salary threshold for experienced workers was too high to sustain an appropriate level of migrant workers.

*“A minimum salary threshold of £30,000 will deny firms access to vital labour and skills, with a negative impact on the economy.”*

CBI response to MAC Commission, 2019

*“A £30,000 salary threshold would make accessing skilled migrant talent unaffordable for most businesses, when they are unable to recruit locally, potentially damaging their productivity and competitiveness.”*

BCC response to MAC Commission, 2019

*“In short, FSB calls for a future system to include the following: A reduced salary threshold to a figure of £20,100 based on RQF 3 skill level across all regions of the UK.”*

FSB response to MAC Commission, 2019

*“The £30K threshold would, quite simply, be detrimental for research and innovation.”*

UK National Academies in response to the MAC Commission, 2019

- 4.26 The Chartered Institute for Personnel Development (CIPD), on the other hand was supportive of a salary threshold of £30,000, but only if a two-year unskilled route was also introduced.

*“If the two-year unskilled route were introduced, the CIPD would support retaining the current proposal of a minimum salary threshold of £30,000. However, we recommend that lower salary thresholds could be set for some jobs on the shortage occupation list while removing the current exemption for some public service organisations. The specific proposal is that if the median annual earnings for a shortage occupation lies below the £30,000 threshold, this should become the default minimum salary threshold for that particular occupation.”*

CIPD response to MAC Commission, 2019

- 4.27 The question of whether the salary threshold would be lowered to take account of the skills threshold being lowered was raised both by CfE respondents who felt the current threshold was too high and those who did not. Many respondents said that the entry salary threshold would need to be lowered to take account of the lower salaries typically commanded by jobs with lower qualification levels. The point was also made that these jobs may also be unlikely to attract salary increases sufficient to meet the settlement threshold after five years.

*“However, members are very concerned about a £30,000 minimum salary threshold being maintained for the new skilled visa if this is to be the main route for employing RQF Level 3+ workers from abroad. A £30,000 minimum salary threshold would be prohibitively expensive for some RQF Level 3-5 roles for companies of all sizes.”*

Representative organisation, multiple sectors represented, Nationwide

*“Should the Government continue with plans to include all roles from RQF Level 3, issues with a salary settlement threshold will pose significant barriers to settlement. Even the 90th percentile of SOC code 3119 would not qualify for the settlement salary threshold currently, regardless of future increases.”*

Representative organisation, multiple sectors represented, Nationwide

- 4.28 In terms of what level might be appropriate, some representative bodies submitted suggestions settling on a salary threshold between £20,000 - £25,000. The CBI, for example, considered that a salary threshold should be set at the 25th percentile for RQF 3 occupations. They described this as equating to £20,100, which was the figure given for the 25th percentile of RQF3 occupations alone<sup>68</sup> in the 2018 MAC

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<sup>68</sup> *EEA migration in the UK: Final report*, MAC, 2017, p.113

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/741926/Final\\_EEA\\_report.PDF](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/741926/Final_EEA_report.PDF)

EEA Report, citing 2017 ASHE data. This figure does not take into account the earnings of occupations skilled above RQF4 that will become eligible for Tier 2 (General).

*“Reject a £30,000 minimum salary threshold and instead set it at the 25th earnings percentile for eligible occupations, which now includes RQF Level 3 so should be updated to £20,100.”*

CBI response to MAC Commission, 2019

4.29 Other stakeholders echoed the CBI position about setting a salary threshold at the 25<sup>th</sup> percentile for eligible occupations, including Welsh Government, BCC, the Russell Group and BEIS acknowledged that some of the employers it had consulted also held this view:

*“Some employers and representative groups recognised the value of having a single salary threshold but recommended it should more closely reflect the earning distribution at the lower bound of the applicable skills threshold.”*

BEIS response to MAC Commission, 2019

*“Our preference is that any job judged to be in shortage should have no salary threshold applied. Were a salary cap to be applied, the CBI’s proposed threshold of £20,100 should be the maximum.”*

Individual organisation, Transport/Communication, 500+ employees,  
Nationwide

*“We support the London Living Wage, approx £21,000, as the salary threshold for Tier 2. While this would make it higher in other parts of the country than the living wage, we believe one approach is more consistent and straight forward. Should this not be accepted, we support the London Living Wage for jobs within London, and the living wage for jobs outside London and throughout the rest of the country.”*

Individual organisation, Public Administration/Education/Health, 500+ employees, London

*“If there will be a minimum salary threshold under a new immigration system, we support a base salary of £21,000 as proposed by Universities UK and the Russell Group. If this is not possible, an exemption from the starting salary should be granted to those higher education institutions that are registered with the Office for Students. An alternative model would be to apply an exemption from the starting salary to certain roles within higher education that are essential to*

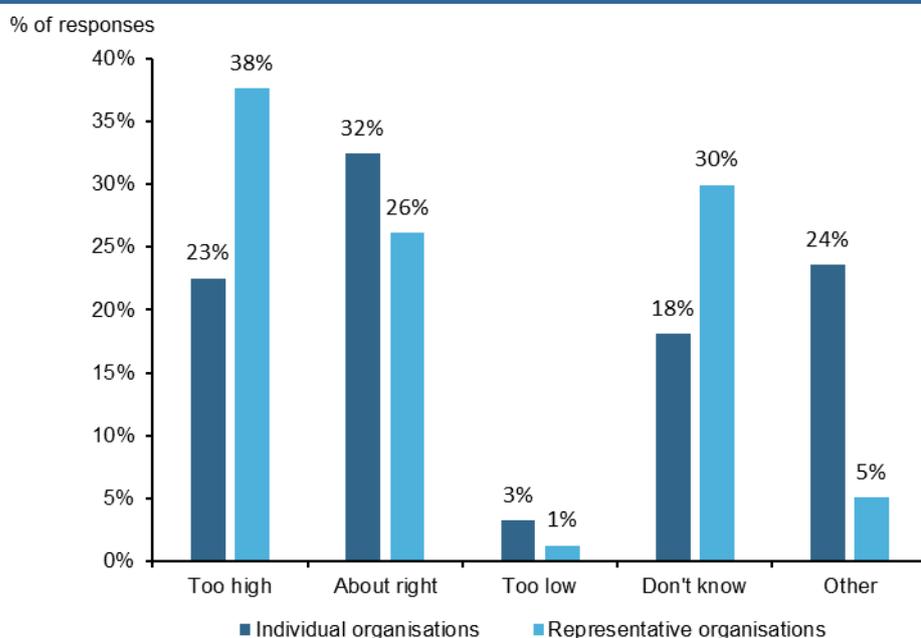
*delivering world-class teaching and research. These roles should be identified in conjunction with the HE sector. It would be important to build in flexibility into this system so that the identified roles could change depending on developments in the sector.”*

Individual organisation, Public Administration/Education/Health, 500+ employees, Yorkshire and the Humber

### The 25th percentile salary requirement

4.30 On the whole, views on the requirement that Tier 2 (General) workers should be paid at or above the 25th percentile of salaries for their occupation were more positive than those relating to the £30,000 salary threshold, with almost a third of employers (32 per cent) and a quarter of representative organisations (26 per cent) saying that the threshold was ‘about right’ (see Figure 4.5). However, this still represented a minority of both groups, and 23 per cent of employers and 38 per cent of representative organisations deemed the 25th percentile threshold ‘too high’. A number of additional points were raised in the ‘other’ section, and these have been considered alongside the issues raised below, and elsewhere in this chapter.

**Figure 4.5: Call for Evidence responses: views of the 25th percentile threshold for full-time occupations**



Base: All respondents: Individual organisations (182), Representative organisations (155). Responses for representative organisations reflected a mixture of the views of businesses/organisations they represented, and the views of the representative organisations themselves.

- 4.31 The 25th percentile by occupation, which is already in place for RQF6+, was felt to be a fairer (although intrinsically more complex) way of setting a threshold than an overall amount as it took account of sectoral and occupational variations. It was suggested that the 25th percentile requirement could even stand alone, without the £30,000 threshold, and that this would simplify the system at a general level, counterbalancing the additional complexity introduced.

*“Our members believe that simply having a threshold set at the 25th percentile is sufficient and there should not be a fixed figure as currently exists alongside. This would remove the need for exceptions, keeping the system simple, and is in line with our views on aligning salary thresholds with sectors.”*

Representative organisation, multiple sectors represented, Nationwide

- 4.32 However, some respondents – particularly those outside London, and in the Devolved Administrations – still felt that the 25<sup>th</sup> percentile salary threshold did not adequately reflect the full variation in regional salaries. Among those who felt the threshold could be more nuanced, further variations by region, role and sector were proposed: for example, greater distinction in the levels of seniority in roles or a broader definition that encompassed the level of skills and experience that lie between the current levels of ‘new entrants’ and ‘experienced’. As with the £30,000 salary threshold, there were those who felt that the level of nuance and complexity required would be so great that it would be easier to lower or remove the salary threshold across the board. The question of reliability of data, and whether it would be possible to obtain sufficient data across all occupations for a workable 25<sup>th</sup> percentile salary threshold to be set, was also raised.

*“This level of blanket application of salary thresholds does not cover a range of salaries depending on geographical location, role and seniority which exists over and above the “new entrant” vs “experienced worker” distinction in the current system.”*

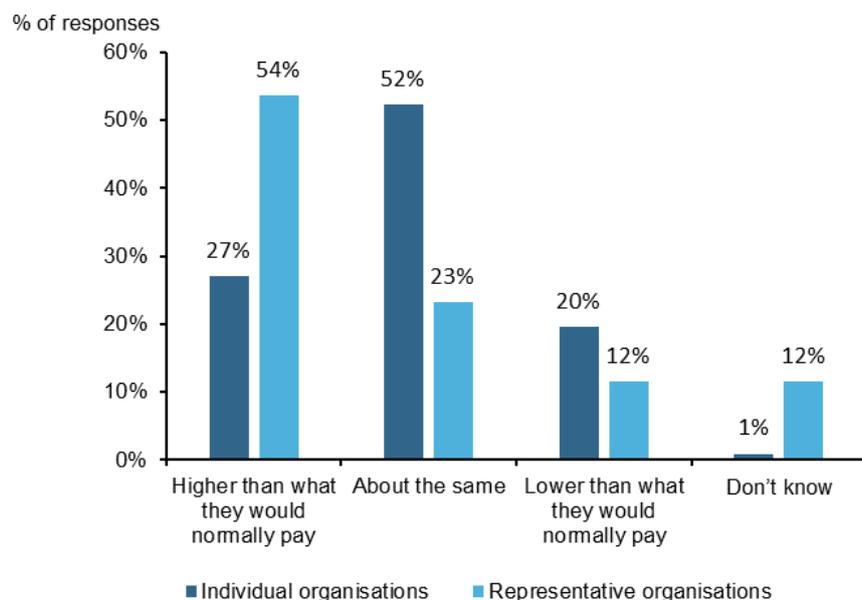
Individual organisation, Banking/Finance, 10-49 employees, Nationwide

- 4.33 The greater positivity shown by respondents to the 25th percentile threshold compared to the £30,000 threshold may also (to some extent) reflect greater levels of confusion over what the 25th percentile was, or how high a salary it represented. Figure 4.5 illustrates that 18 per cent of employers and three in ten representative organisations answered ‘don’t know’; higher levels than the 2 per cent and 7 per cent respectively of these groups who did so in answer to the question on the £30,000 threshold.

## Salary threshold in relation to salaries paid

- 4.34 The CfE asked whether the current Tier 2 (General) salary threshold was higher, about the same or lower than employers would normally pay. Individual organisations were more likely than representative organisations (as shown in Figure 4.6) to say that the current salary threshold was about the same as current salary, perhaps reflecting the fact that those who responded (or those they represented) had successfully recruited non-EEA workers under Tier 2 (General) (52 per cent of employers, compared to 23 per cent of representative organisations said that it was about the same). Just over a quarter of individual organisations (27 per cent) and just over half of the representative organisations (54 per cent) responding to the CfE said that the salary threshold was higher than current salaries: this difference may reflect the greater advocacy and campaigning role often taken by representative organisations on behalf of their members.
- 4.35 Although both individual and representative organisations had generally agreed that the threshold was too high (see paragraph 4.23/Figure 4.4), when those who had recruited (or represented those who had recruited) non-EEA workers through Tier 2 (General) in the past five years were asked how the threshold related to the salaries that were actually paid, the percentage saying that the threshold was above the salary paid was lower. This is not surprising given that current Tier 2 users are limited to those who are able to meet current salary requirements.

**Figure 4.6: Call for Evidence responses: views of the current Tier 2 (General) salary threshold in relation to salaries paid**



Base: All respondents who had recruited/represented those who had recruited non-EEA workers in the past five years under the Tier 2 (General) scheme: individual organisations (107); representative organisations (95). Responses for representative organisations reflected a mixture of the views of businesses/organisations they represented, and the views of the representative organisations themselves.

## The impact of salary thresholds

4.36 The impact of salary thresholds varied according to whether organisations were able to meet the current salary threshold. Employers and their representative organisations can be divided into those who reported they:

- Were unaffected, as the salaries they indicated were normally paid to employees/the employees of those they represented were above the threshold:

*“The salaries within the financial industry are on average higher than in all other industries in the UK. The Tier 2 (General) salary threshold has no impact on the firm's salaries as in order to remain competitive, we need to adhere to what the industry dictates as the appropriate salary level.”*

Representative organisation, multiple sectors represented, multiple regions

- Were currently unaffected because they said they were able to fill their vacancies through the UK workforce, NHS Agenda for Change salary requirements, or by using the EEA workforce (but who expressed a corresponding degree of concern about whether they would be able to continue to do so in future, and the impact the salary threshold would be likely to have at that point):

*“Inclusion on the Shortage Occupation List, removal from the annual cap and salary exemptions within the current points-based system has helped the NHS to attract and retain overseas nurses and some other healthcare professionals. The 2015 salary exemption applicable to nurses, paramedics and radiographers, extended in 2019 until 2021, has particularly facilitated supply using Agenda for Change salary scales. Absence of these arrangements in the future, would be detrimental to overseas supply.”*

Representative organisation, Public Administration/Education/Health, Nationwide

*“Post-Brexit, however, our clients will struggle to meet their staffing needs from the UK workforce alone and expect to need to continue to recruit new workers from outside the UK, including those in lower skilled and lower paid roles. If a blanket salary threshold of £30,000 is imposed for the purpose of sponsoring any non-UK workers, this will cause significant difficulty for our clients in being able to hire all of the workers they need.”*

Representative organisations, multiple sectors represented, Nationwide

*“Looking to the future system, almost all companies in the industry envisage the current salary proposal being a risk to their UK businesses labour needs if such requirements are placed on EU nationals.”*

Representative organisation, Manufacturing, Nationwide

- Were unaffected as they said they were deliberately avoiding the recruitment of staff through Tier 2 (General);

*“The governing body decided not to proceed with future applications for sponsorship because it found the process “extremely complex, time consuming and costly.”*

Representative organisation, Public Administration/Education/Health,  
Nationwide

- Were able to meet the minimum threshold, but reported having had to increase salaries, boost job grades or adjust salary packages (for example by incorporating bonus payments or removing pensionable allowances) in order to achieve this;
- Were able to meet the salary threshold for some of the more highly-paid roles recruited, but not lower-paid roles; or
- Were unable to meet the current salary threshold in all or most cases. Unsurprisingly, this was generally said to be because prevailing salaries in the industry were lower than the threshold, but respondents also mentioned regional variation in salaries meaning that starting salaries fell below the requirement. Some respondents also mentioned additional complicating factors in specific sectors or industries, such as high rates of part-time working, lack of national pay scales, rigid pay scales in their specific industries, short-term project-based working or pay that was not at a guaranteed level preventing employers being able to respond flexibly. Many of these employers said that they had simply not been able to recruit the workers required.

*“For social care, Tier 2 visa salary requirements are among the factors which rule out migration for the vast majority of roles. These alongside the loss of non-Tier 2 routes over the last decade have caused a meaningful reduction of care workers from outside the EEA, causing their proportion in the*

*workforce to fall from 13% to 10% between 2012/13 and 2018/19 despite this being a period of rising vacancies and turnover (Skills for Care 2019)*

Representative organisation, Public Administration/Education/Health,  
Nationwide

*“Based on conversations with our members, charities in London and the South East have found it less prohibitive than those in the North East and South West, due to the variation in average wages in these areas, and importantly the amount of money which funders and grant making organisations (including local authorities) are willing to give in different regions.”*

Representative organisation, multiple sectors represented, Nationwide

*“Additionally, those working in smaller practices and practices outside of London tend to pay salaries on the lower end of the scale. For example, the median average salary of an architect with less than five years’ experience in the South West, West Midlands, Yorkshire and North West is below the current £33,320 salary threshold outlined in Appendix J of the Immigration Rules.”*

Representative organisation, multiple sectors represented, Nationwide

4.37 Some of those who reported they were currently able to fill the vacancies required nevertheless raised questions about how fair this made their recruitment practices:

- ‘New entrant’ age requirements were said to be limiting, especially for those in PhD-level roles (for example, post-doctoral researchers);
- Those who worked in part-time roles – reported as being more likely to be women, but also those, such as musicians, in roles for which part-time employment was normal practice – were less likely to be able to meet the minimum;

*“Another issue was difficulty in accommodating flexible working patterns for Tier 2 staff, as the current system is based on actual earnings rather than the full-time equivalent. Employers struggle to offer sponsored workers flexible working patterns to suit evolving personal needs.”*

Representative organisation, Public Administration/Education/Health  
Nationwide

- Progression was slower than the threshold (whether the new entrant threshold, settlement threshold, or both) required, with staff not reaching the experienced or settlement thresholds for a number of years: this was said to impact adversely on the organisation, which had to recruit again and lost its investment in staff training, on staff welfare and wellbeing. In some cases, it was reported by respondents that the need to meet either or both thresholds acted as a disincentive for migrants to consider the UK as a destination in the first place. Respondents said that if employers recruited staff at an inflated salary to meet the threshold, these staff could reach the top of the pay scale quickly and then stagnate.

*“Further to Q14, for some, graduate salaries meet the current Tier 2 salary requirements, however the threshold for visa renewal as per the outlined pay progression (prior to settled status) is higher than typically achievable within that timescale... Employers who cannot renew their employee’s visas due to the threshold must re-recruit for these roles. Some employers highlighted the impact on employee wellbeing that not quite reaching this threshold has had during the renewal period. Organisations cited struggling to retain skilled employees due to uncertainty over the requirements.”*

Representative organisation, multiple sectors represented, Nationwide

*“Overseas health and care staff without exemptions struggle to meet the settlement threshold, in some cases by 50 per cent.*

*It is typically unfeasible to reach £35,800 after five years in the NHS given base salaries are almost £6,000 below the current entry threshold. For example, an individual entering the profession on the minimum point of agenda for change Band 5, after five years of incremental progression would earn just over £30,000.*

*We understand that overseas recruits do progress up the pay scale in line with their domestic counterparts, however the NHS pay framework and starting salaries don’t facilitate reaching the settlement threshold within the timescales.”*

Representative organisation, Public Administration/Education/Health,  
Nationwide

*“However, high settlement salary rates mean that, for the majority of archaeological jobs, employers are priced out of keeping staff beyond initial visa terms, leading to failure to recoup investment in sponsorship and training. This limited time frame also dis-incentivises skilled archaeologists from migrating to the UK.”*

Representative organisation, Banking/Finance, Nationwide

- Some respondents stated that non-EEA staff were sometimes paid higher salaries than UK staff for the same job, which both employers and their employees felt was inequitable. Reasons given for this were either because non-EEA staff had to be paid more to reach the threshold, or because the salary threshold meant non-EEA staff had to be brought in on shorter term contracts under Tier 5 instead;

*“As early-career researchers are most often over the age of 26, but not by very much, they need to meet the experienced worker salary thresholds. Often this requires universities to inflate salaries for non-EEA workers, as salary bands for early-career researchers are primarily lower than £30,000. This means for these roles, non-EEA nationals were often paid a higher salary than settled or British workers in equivalent positions.”*

Representative organisation, multiple sectors represented, Nationwide

*“It was found where the salary thresholds are higher than they would normally pay, the employers are forced to either choose a less suitable candidate to keep the role within budget or pay more than they would normally do to allow them to hire a candidate best suited for the role. This translates in non-EEA/UK workers receiving a better package than the local workforce.”*

Representative organisation, multiple sectors represented, multiple regions

- The existence of certain jobs where respondents felt that skill was not commensurate with salary. The laboratory research technician role was an example of this, with several respondents noting that this role is highly-skilled, but not highly paid. Language assistants and interpreters, and a broad range of creative and artistic jobs, were also mentioned frequently as high-skill, low-pay occupations;

*“According to [our] recent workforce survey of 87 HEIs, almost 50% of institutions experience at least moderate difficulty recruiting technicians. Over 60% of them hold a degree yet 67% of them earn under £30,000.”*

Representative organisation, Public Administration/Education/Health,  
Nationwide

4.38 Several respondents suggested that small and medium-sized enterprises (SMEs) were particularly vulnerable to any negative effects of salary thresholds they had identified. Reasons given for this included that SMEs lack the HR functions

necessary to cope with the Tier 2 (General) application process; are less likely to pay the salaries required (particularly outside London), or to be able to increase salaries at the rate demanded by the settlement threshold; and are vulnerable to losing employees to larger companies who can better absorb any additional salary that needs to be paid.

*“SMEs are more susceptible to market fluctuations (and) reported finding it hard to meet the thresholds set under the current visa system, and reported losing out on talent to larger, more financially resilient, companies who were able to offer better benefits packages to poach their employees. The smaller organisations who wrote to us believe their ability to attract the best talent are disproportionately threatened by the salary thresholds imposed.”*

Representative organisation, multiple sectors represented, Nationwide

- 4.39 The issue of potential knock-on effects of salary thresholds was also raised. Some businesses said they feared that while the level would be fine for their sector/occupation, it could impact on their supply chain, which would then affect other businesses and have knock-on implications for them.

*“Raising the threshold to £30,000 would be damaging for agriculture as sheep farmers cannot afford a drop in value that the abattoirs would have to pass back to farm gate in order to afford the costs of paying workers the extra. It would have the potential to cripple the industry.”*

Representative organisation, Agriculture, forestry and fishing, Nationwide

- 4.40 Stakeholders also reported other difficulties related to the Tier 2 (General) system, including problems with:

- a. The Resident Labour Market Test, and in particular the level at which the High Earners threshold was set (although, in common with some of the other points reported in this chapter, it is not particularly surprising that employers said this);
- b. The high cost of settlement visas was also said to be a problem, especially given that it was suggested that employers may be more likely to support with these, as there is less incentive for them to do so;

*“The IDL visa costs are prohibitively expensive. The profiteering off fees is extortionate – the high fee paid does not go into supporting a high-quality service. Employers rarely, if ever, give much support to IDL applications given they free individuals to work elsewhere. It is regularly a surprise to*

*many that the citizenship test needs to be completed in order to apply for IDL. There should be better communication around this.”*

Representative organisation, Public Administration/Education/Health,  
Nationwide

*“The cost of the settlement visa is often prohibitive for those living in high cost of living areas such as London.”*

Representative organisation, Public Administration/Education/Health  
Nationwide

- c. The process (respondents indicated problems with the difficulty, speed and expense, and receiving incorrect advice) of recruiting an applicant via Tier 2 (General) was mentioned, as was moving a student applicant from Tier 4 to Tier 2 (General) (and in many cases it was indicated that employers required extra support with this process to be able to complete it successfully). It was also indicated that it was possible for employers to fall foul of the system even if trying to comply – whether through difficulty in following the rules or the actions of their employees:

*“More generally, our members report that their experience of the Tier 2 settlement system is one of complexity, prohibitive costs, inconsistency of outcome and slow progress. Simplification and digitisation of processes are urgently required. The system is also unfairly harsh on sponsors when individuals fail to update personal information. Guidance is insufficiently very clear. Moreover, the current rules can have a negative personal and professional impact on individuals with a sense of insecurity and uncertainty over their future, given that after five years of working in the UK and contributing to our economy and our society they may lose their legal status.”*

Representative organisation, multiple sectors represented, Scotland

*“Where use is made of Tier 2, the sponsorship route is viewed as cumbersome, slow, bureaucratic and expensive. In most cases external support is needed to complete the process.”*

Representative organisation, multiple sectors represented, Nationwide

*“Those that do sparingly use T2G are our larger, multinational members (who would typically pay above the market average anyway). These members that do use T2G are more likely to report the cost, duration, and*

*bureaucracy burdens of obtaining a T2G visa as their main concerns rather than the salary threshold requirement.”*

Representative organisation, multiple sectors represented, Nationwide

- d. The administrative burden of the appeals process (and the likelihood that this would fall disproportionately on areas of the UK where salaries are lower);
- e. Lack of mobility for Tier 2 (General) workers: the potential for employers to exploit their employees' inability to move jobs because of their need to stay employed. It was also mentioned that the 'cooling off period', under which Tier 2 (General) workers who leave the UK cannot return on another Tier 2 (General) visa for 12 months, had the potential to inhibit mobility.

*“Additionally, the removal of the 12 month cooling off period for Tier 2 migrants who leave the UK and then wish to re-enter would assist with recruiting candidates from the global talent pool.”*

Individual organisation, Public Administration/Education/Health, 500+ employees, West Midlands

*“Migrant teachers report problems with their employer. They may struggle to find alternative employment quickly, so threatening their status to continue working in the UK on a Tier 2 (General) visa. Some employers are using this vulnerability to exploit migrant teachers who are often reluctant to challenge such practices.”*

Representative organisation, Public Administration/Education/Health  
Nationwide

### Salary threshold and settlement

- 4.41 When looking at those who said that they, or those they represented, had recruited non-EEA employees via the Tier 2 (General) route in the past 5 years, 75 per cent said that at least some of those recruited under Tier 2 (General) had applied for settlement. For representative organisations this figure was 64 per cent (see Table 4.6).

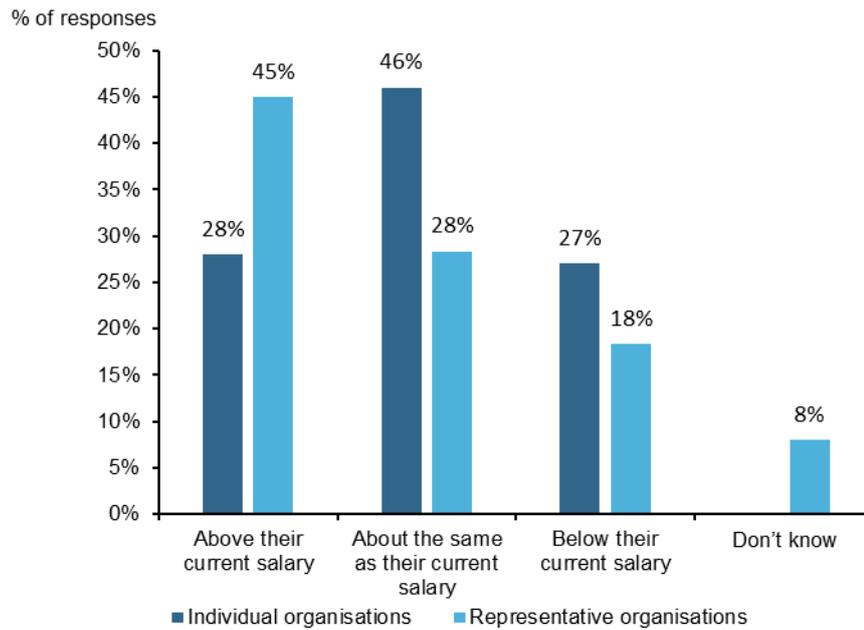
**Table 4.6: Whether non- EEA employees who were recruited under Tier 2 (General) have applied for settlement**

|            | Individual organisations (107) | Representative organisations (95) |
|------------|--------------------------------|-----------------------------------|
| Yes        | 80 (75%)                       | 61 (64%)                          |
| No         | 9 (8%)                         | 2 (2%)                            |
| Don't know | 18 (17%)                       | 32 (34%)                          |

Base: All respondents who had recruited/represented those who had recruited non-EEA workers in the past five years under the Tier 2 (General) scheme: individual organisations (107), representative organisations (95)

4.42 Figure 4.7 below shows the proportion of respondents that believed the current settlement threshold was above, about the same as or below the current salaries paid. Just under three in ten employers said that the settlement thresholds currently required for Tier 2 (General) were 'above what they would normally pay', although well over half of those responding said either that the settlement thresholds were 'about the same' (46 per cent) or 'below' (27 per cent) what they normally paid. As with the question about the current salary threshold, representative organisations were more likely than employers to say that the settlement threshold was above the salary levels currently being paid (45 per cent versus 28 per cent).

**Figure 4.7: Call for Evidence responses: views of the current Tier 2 (General) settlement salary threshold in relation to salaries paid**



Base: All who had recruited/represented those who had recruited non-EEA workers in the past five years under the Tier 2 (General) scheme, whose employees had applied for settlement: individual organisations (79), representative organisations (60). Responses for representative organisations reflected a mixture of the views of businesses/organisations they represented, and the views of the representative organisations themselves. Individual organisations were not given the option of stating 'don't know' in response to this question.

4.43 Several of the individual employers who responded said they were able to meet the current settlement threshold, with some stating that they paid higher salaries (see paragraph 4.36). However, as previously reported, employers expressed a concern about the future immigration system and the difficulty for those recruited in medium skilled roles to meet the settlement threshold.

*“Under the current immigration system the vast majority of our colleagues seeking settlement will be earning a salary at or around the required threshold. However, we have serious concerns regarding the proposed future immigration system as regards the initial minimum salary threshold proposed as £30,000 required to permit entry as a migrant worker. Even if the initial entry threshold is lowered, the threshold of £35,800 will be excessive for many workers in roles at RQF levels 3 to 5 where typical starting salaries would be much lower than £35,800 which would be unlikely to be reached within 5 years required for settlement. This may impact our ability to recruit and retain EU/EEA nationals into the roles they currently occupy such as highly skilled technical and professional roles and some of our in-house operational roles”.*

Individual organisation, Public Administration/Education/Health, 500+ employees, South East

*“The Trust recruits large volumes of nurses on a band 5 salary. Concerns would be if the minimum salary threshold increased for nurses.”*

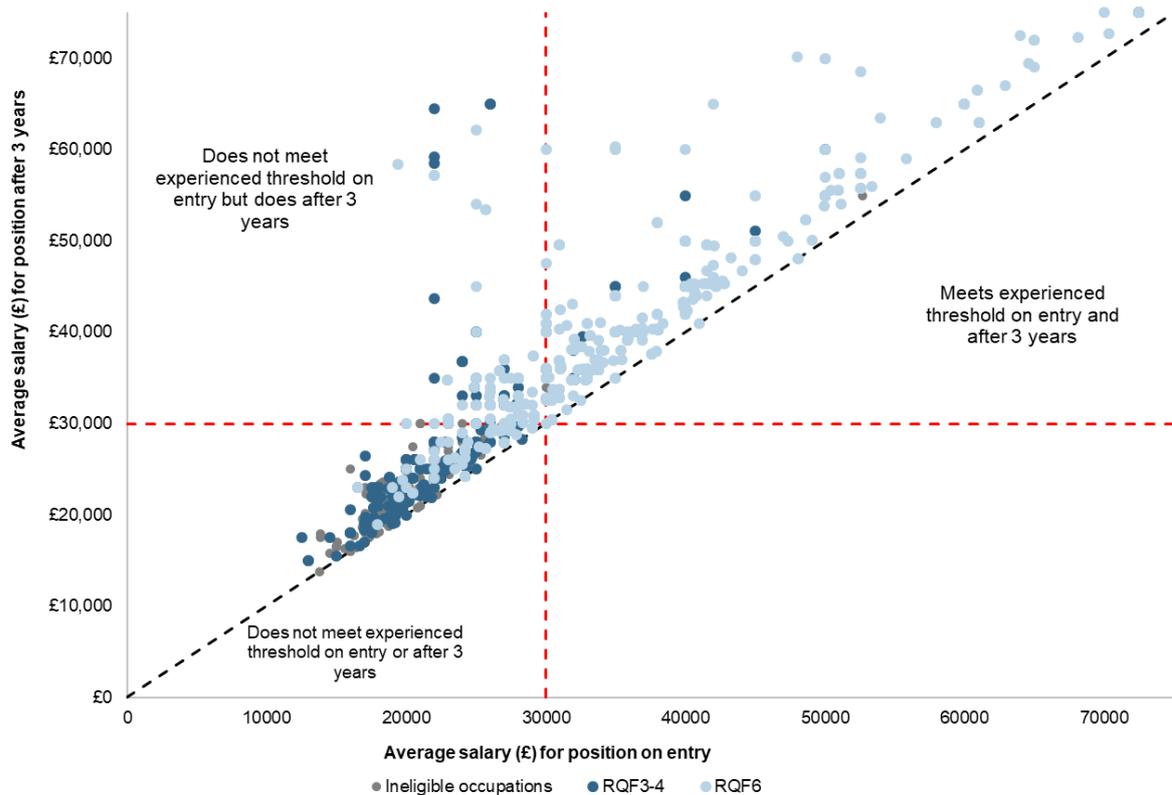
Individual organisation, Public Administration/Education/Health, 500+ employees, North East

- 4.44 There were also a number of employers that recruited for PhD roles and hence were not impacted by the settlement threshold. In response to other questions in the CfE some employers suggested that the length of time an employee was required to meet the settlement threshold was too short, particularly for inexperienced staff, and that this should either be extended or the settlement threshold should be lowered.

### Salary data

- 4.45 In the CfE, individual organisations were asked to give details of up to ten roles in their own organisation that were filled by migrant workers, and in each case, to provide information on the average starting salary (excluding allowances and deductions) for a full-time employee, and the pay an average performer might expect to earn after three years in the same job. The SOC associated with each occupation was then paired with the relevant RQF level.
- 4.46 Figure 4.8 shows that, for the occupations given by respondents, while highly-skilled occupations (those associated with RQF level 6 and above, i.e. those requiring a bachelors degree or equivalent) are on the whole associated with higher pay, around a third of highly-skilled roles fell below the current entry threshold level (31 per cent). The chart shows only the £30,000 threshold, and not sector-specific thresholds, which may be higher. When considering occupations associated with RQF levels 3-4 (A-levels and equivalent, HNC or level 3-4 NVQ and equivalent), 87 per cent of roles for which employers gave data did not meet the current threshold.

**Figure 4.8: Call for Evidence responses: Salaries paid for roles filled by migrant workers**



Based on salary data given by individual organisations for roles being filled by migrants in their organisations. Data was given for 787 eligible occupations, of which RQF 3-4 (251); RQF 6 (536), based on SOC code supplied. Based on given starting salary and salary after three years, for an average employee in that job (salaries over £75,000 excluded from this chart to aid legibility). For simplicity, this chart also only considers the general, rather than occupation specific, thresholds.

## Views on potential future Tier 2 (General) salary and settlement thresholds

### Tailoring the thresholds

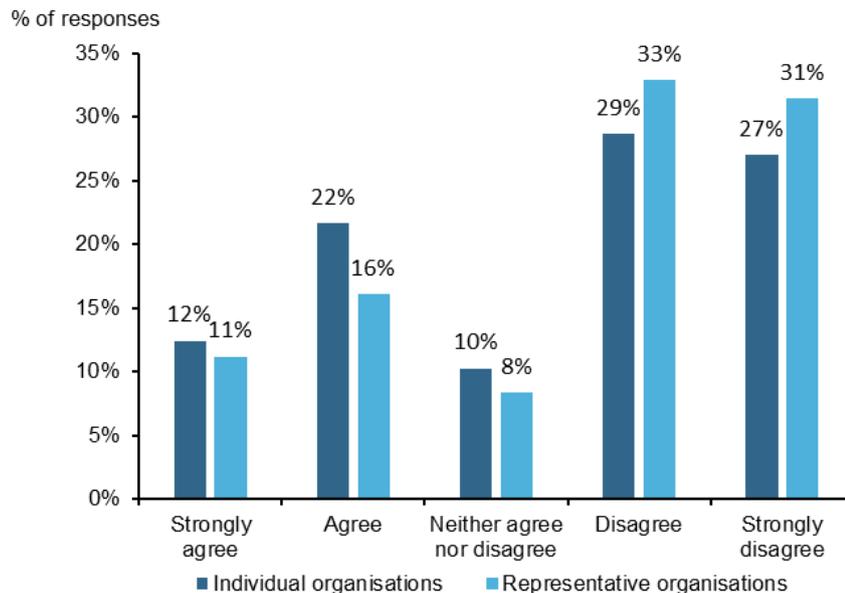
- 4.47 The CfE suggested several potential ways in which the salary threshold could be tailored, and invited respondents to indicate how far they agreed or disagreed with each. Most respondents agreed that there should not be a salary threshold other than the National Minimum Wage, but that, if a salary threshold were to exist it should not be universal but should be able to reflect the needs of employers. There was very strong support for tailoring thresholds by sector and occupation, and support for lowering the threshold for occupations judged to be in shortage. Smaller proportions, although still a majority, also agreed that it would be appropriate to tailor the threshold by geographical area (see Chapter 8), and for new entrants and young workers.

### Extent to which any proposed threshold should be tailored

4.48 As previously discussed, (see paragraph 4.14), there was broad agreement in the CfE questionnaire responses that there should not be a minimum salary threshold above the legal requirement (the National Minimum Wage). There was also broad agreement with the idea that there should be some sort of variation to reflect the differing needs of employers (Figure 4.10). It should be noted that in evidence attachments some representative bodies, including the CBI, took a different view on both these issues (see paragraph 8.6, for example) preferring a single overall threshold to be set to at a level that adequately accounted for salary variations.

4.49 Well over half of the individual organisations that responded to the CfE disagreed with the idea of a single threshold (29 per cent) or strongly disagreed (27 per cent), and more than six in ten of the representative organisations disagreed (33 per cent) or strongly disagreed (31 per cent) as shown in Figure 4.9. However, a substantial minority of respondents still agreed with the idea of a single threshold: more than three in ten employers and over a quarter of representative organisations expressed agreement or strong agreement with the idea.

**Figure 4.9: Call for Evidence responses: extent to which respondents considered that if there is a salary threshold, it should be applied universally across the economy and UK, with a few exceptions to keep the system simple**

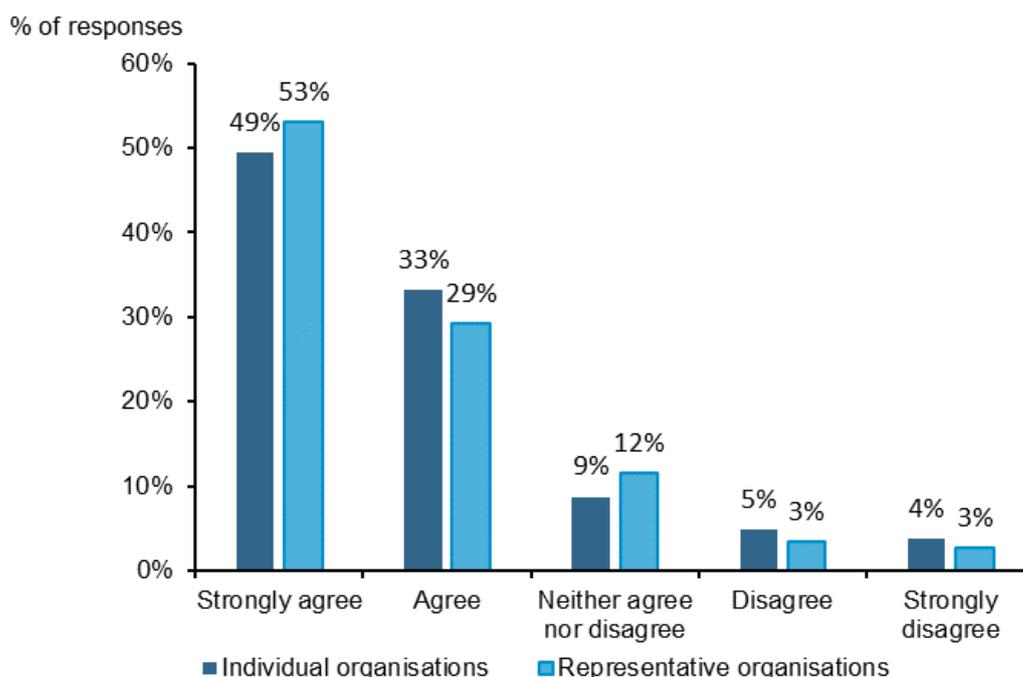


Base: All respondents: individual organisations (185), representative organisations (143) representative organisations. Responses for representative organisations reflected a mixture of the views of businesses/organisations they represented, and the views of the representative organisations themselves.

4.50 As might be expected, support from both individual and representative organisations for the idea of varying the salary threshold was therefore high. Figure 4.10 shows that among both employers and representative organisations, around half of both employers (49 per cent) and representative organisations (53 per cent)

strongly agreed that any salary threshold should be varied, and more than four in five respondents agreed overall (agreed/strongly agreed) that this should be the case (82 per cent of employers and 82 per cent of representative organisations).

**Figure 4.10: Call for Evidence responses: extent to which respondents considered that if there are salary thresholds, there needs to be a variety to reflect employer needs**



Base: All respondents: individual organisations (184), representative organisations (147). Responses for representative organisations reflected a mixture of the views of businesses/organisations they represented, and the views of the representative organisations themselves.

4.51 Agreement with the idea that the salary threshold should be varied was higher than disagreement that it should be kept simple, which could indicate broad support for a system that is as simple as possible while still enabling responsivity to employers’ needs. Potential methods of tailoring the thresholds are discussed further in paragraphs 4.52 to 4.54 and Chapter 8.

*“We support the need to keep the future immigration system as simple as possible, however there should be flexibility within the thresholds to ensure there are no barriers in attracting, recruiting or retaining key talent.”*

Individual organisation, Energy/Water, 500+ employees, Nationwide

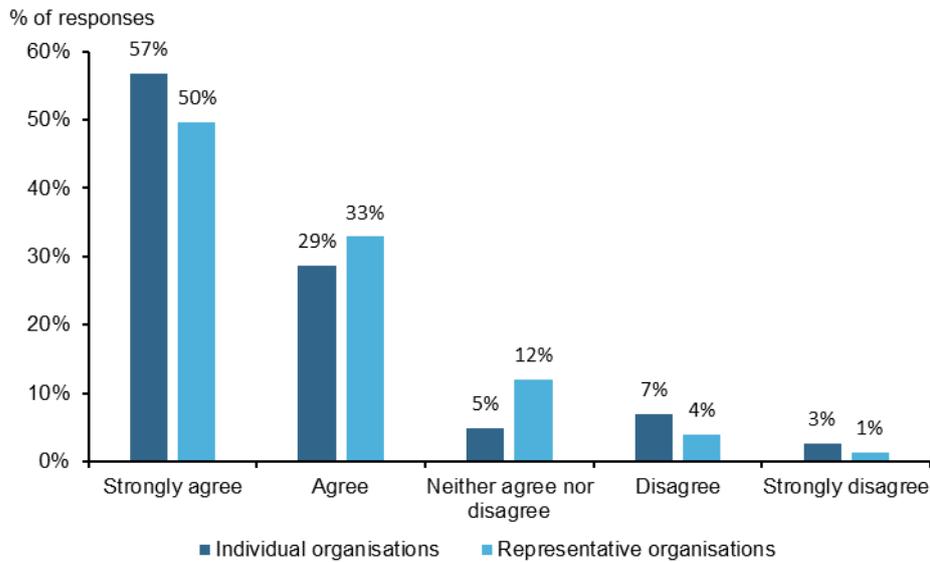
### Potential methods of tailoring future salary thresholds: sector/occupation

4.52 The CfE asked respondents to what extent they agreed/disagreed with the view that thresholds should be varied by sector, region, new entrants and occupation.

Support was strong for variation by all these factors, especially sector and occupation. Variation by region, including CfE responses to this question, will be discussed separately in Chapter 8.

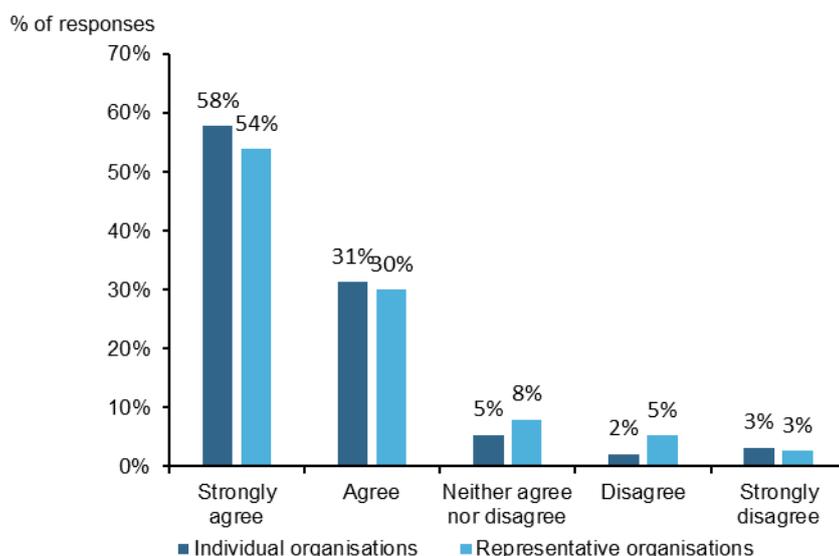
4.53 As shown in Figures 4.11 and 4.12, there was strong support for variation of salary thresholds by sector and occupation from both types of respondents, with more than eight in ten respondents agreeing or strongly agreeing that salary thresholds should be varied by each. Levels of disagreement were comparatively low.

**Figure 4.11: Call for Evidence responses: extent to which respondents considered that salary thresholds should vary by sector**



Base: All respondents: individual organisations (185), representative organisations (149). Responses for representative organisations reflected a mixture of the views of businesses/organisations they represented, and the views of the represented organisations themselves.

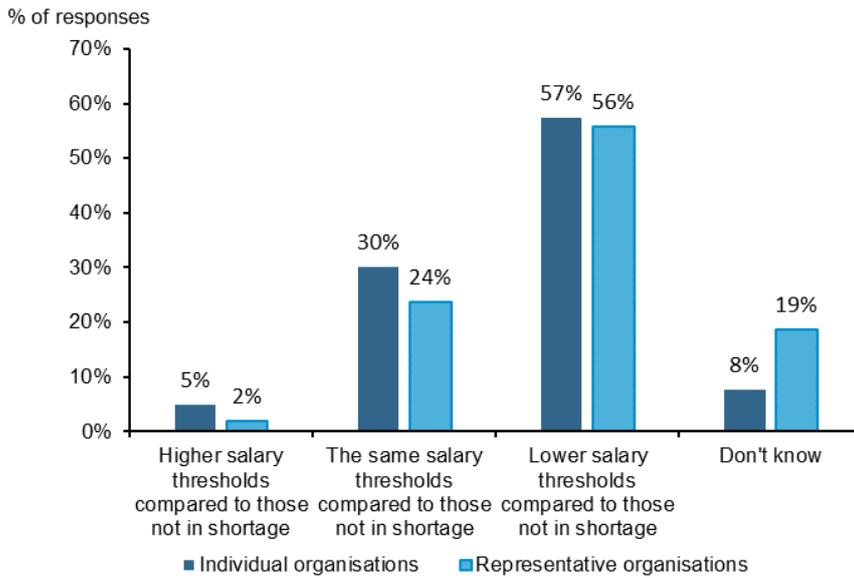
**Figure 4.12: Call for Evidence responses: extent to which respondents considered salary thresholds should vary by occupation**



Base: All respondents: individual organisations (185), representative organisations (150). Responses for representative organisations reflected a mixture of the views of businesses/organisations they represented, and the views of the representative organisations themselves.

4.54 The CfE asked respondents for their views on the current salary thresholds for the Shortage Occupation List (SOL): whether salaries should be the same, lower or higher than occupations that are currently not in shortage. Over half of individual organisations (57 per cent) and representative organisations (56 per cent) said the SOL should have lower salary thresholds (Figure 4.13). However, almost a quarter (24 per cent) of representative and almost a third (30 per cent) of individual organisations said that the SOL should have the same salary thresholds as those occupations not in shortage.

**Figure 4.13: Call for Evidence responses – extent to which respondents considered jobs in shortage should have higher/lower or the same salary thresholds to jobs that are not in shortage**

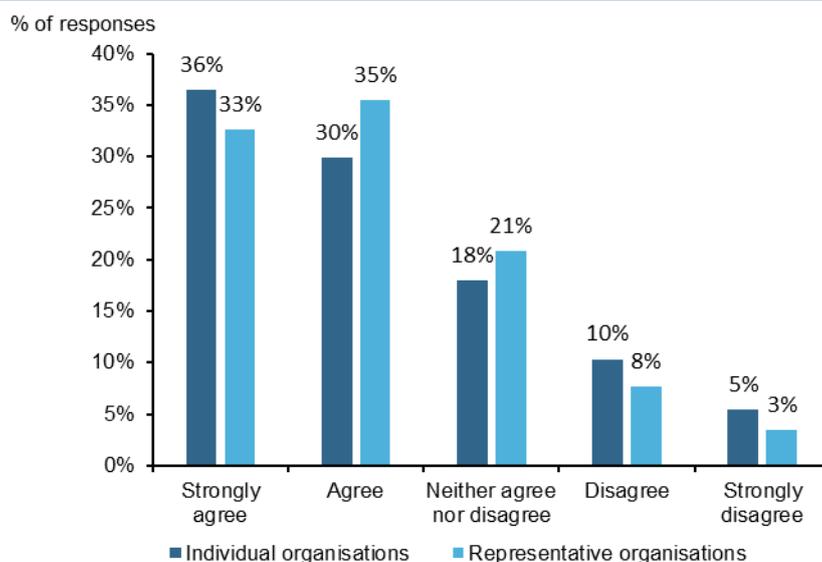


Base: All respondents: individual organisations (183), representative organisations (156). Responses for representative organisations reflected a mixture of the views of businesses/organisations they represented, and the views of the representative organisations themselves.

### Potential methods of tailoring future salary thresholds: new entrants and young people

4.55 A majority of respondents also supported the view that there should be variations in salary thresholds for new entrant workers (Figure 4.14), with more than six in ten individual and representative organisations strongly agreeing or agreeing that this should be the case.

**Figure 4.14: Call for evidence responses: extent to which respondents considered salary thresholds should vary by new entrants/young workers**



Base: All respondents: individual organisations (184), representative organisations (144). Responses for representative organisations reflected a mixture of the views of businesses/organisations they represented, and the views of the representative organisations themselves.

4.56 As shown in Figure 4.14, a substantial minority of respondents were neutral about salary threshold variations by new entrant level (just under one in five individual organisations – 18 per cent – and just over one in five representative organisations – 21 per cent). This may be because of differences that exist in the new entrant salaries for different roles within the same organisation. Responses to the CfE also indicated that some employers would like some variation in the salary scales attached to roles, beyond the current new entrant and experienced thresholds, in order to better account for roles in the middle.

*“Our sector is diverse in the sort of roles one can have anywhere from working in the field to surveying buildings to running computer simulations. We also have many levels of progress from a tech to a supervisor to a project officer to a project manager to a regional manager to a national manager. They have different roles and responsibilities and different pay levels. The current levels do not reflect this and many of the middle roles are missed by the current pay rates. £22,500 is too little for a project officer and would let rates slip but £35k is too high and no one could afford to hire them at that rate”*

Representative organisation, multiple sectors represented, Nationwide

4.57 Although a majority agreed salary thresholds should be tailored for new entrants and younger people when asked, concern was also expressed that having a new entrant age limit could create the potential for age discrimination or mean that

younger people were offered lower salaries. Having differences in new entrant salaries by occupation was supported by some (to take account of prevailing sectoral or geographical salary differences). However, as with regional variation, others said they thought that combining different occupational salary thresholds with another factor had the potential to overcomplicate the system.

*“[We do] not support different salary thresholds for new entrants/young workers, who should be paid the same as others doing a similar job.”*

Representative organisation, multiple sectors represented, Nationwide

*“... Whilst we would rather there was no threshold, if there were we agree that it could be varied by new entrants into a profession but not by young workers, as this could be age discriminatory. Varying threshold by occupation could become very complicated as the starting point of a salary scale could be below the threshold but the top end above it. This would therefore impact a new entrant to the profession but would not necessarily impact a professional at the top of the scale” This would therefore impact a new entrant to the profession but would not necessarily impact a professional at the top of the scale.”*

Individual organisation, Public Administration/Education/Health, 500+ employees, Scotland

## Conclusion

- 4.58 We received 353 responses to the CfE, from a combination of individual organisations and representative bodies.
- 4.59 Overall the majority of both individual employers and representative organisations agreed that there should not be a salary threshold above the National Minimum Wage. However, there was some support for the existence of a threshold expressed by both groups.
- 4.60 Reasons for opposing the current salary thresholds were primarily the level at which they were set, with £30,000 being considered too high. Less opposition was expressed in relation to the 25th percentile threshold.
- 4.61 For those who agreed that salary thresholds were currently about right, this was because respondents said they felt the salary levels were appropriate and/or achievable given prevailing salaries in their business area, and/or that they tended to recruit non-EEA workers into skilled roles attracting higher salaries.
- 4.62 There was stronger support for salary thresholds that were in some way variable to reflect employer needs than there was for a single, simple threshold. Respondents were very supportive of varying salary thresholds by sector and/or

occupation, and a small majority also said that shortage occupations should attract a lower salary threshold.

4.63 This chapter has examined the broad range of stakeholders' views received in response to our CfE and through engagement events. It is not surprising that employers often want relatively low salary thresholds: running a business is hard and higher salary thresholds do not make the job easier. However, what is a cost to an employer is an income for a worker so that while employer views are very important, a wider perspective is needed. In the next chapter we move on to consider the economic rationale for salary thresholds.

## Chapter 5: Economic rationale for salary thresholds and variation in thresholds

### Summary

- The main economic rationale for salary thresholds is that they prevent undercutting in the labour market i.e. hiring migrant workers at levels below the prevailing domestic wage. We have little evidence undercutting is happening, but salaries paid to migrants tend to cluster around existing salary thresholds, suggesting employers would like to pay less if they were able to.
- Preventing undercutting salary thresholds help support the Governments ambition to make the UK a high-wage, high-skill, high-productivity economy and ensure that migrants have a positive impact on the public finances.
- We considered the most appropriate methodology to set salary thresholds and believe they should be revised annually in line with ASHE data. They should not be set as a nominal amount that changes with earnings indices as this fails to reflect the nuances of changes in the labour market.
- Salary thresholds should be lower for new entrants to the labour market. We recommend that the new entrant rate should be set at 70 per cent of the experienced worker rate. We also suggest widening the definition of a new entrant to better reflect labour market experiences.
- There are a range of, mainly public sector, occupations where salaries may not fully reflect the value of the work undertaken; for example, nurses or teachers, and this group should have their thresholds set by other means, such as nationally negotiated pay scales.
- Salary thresholds should not be pro-rated for part-time work on entry, though government may wish to consider whether it allows migrant workers a lower threshold if they become a parent or carer (if a suitable definition can be agreed) whilst already in the UK.
- Salary thresholds should be based on regular salary alone. This is easiest to verify and least open to potential exploitation.

### Introduction

- 5.1 This chapter describes the economic rationale behind the use of salary thresholds, their history and current use in the UK in the Tier 2 (General) route, and arguments for variation in salary thresholds both as used in the current system and as we are

asked to consider in the commission. As noted in Chapter 4, many of the employers responding to the Call for Evidence (CfE) and through engagement events, were not in favour of the principle of salary thresholds because of their constraining influence on recruitment. However, this chapter will outline some of the reasons why salary thresholds are important when considering the wider economic perspective.

## The rationale for salary thresholds

5.2 Our recommendations on migration policy have always been based on maximising the welfare of the resident population, bearing in mind that the impacts are likely to vary across individuals, sectors and regions. From this perspective there are three arguments for the use of salary thresholds:

- To prevent undercutting in the labour market;
- To ensure that migration policy is supportive of the wider ambition for the UK to be a high-wage, high-productivity, high-skill economy;
- To help to ensure that migrants make a net positive contribution to the public finances.

5.3 The salary thresholds commission also asked us to consider the role that salary thresholds can play to *“help control migration, ensuring that it is reduced to sustainable levels, whilst ensuring we can attract the talented people we need for the UK to continue to prosper”*<sup>69</sup>. We have always believed that the level of immigration is only important in so far as it affects the welfare of the resident population. However, we do discuss the potential role that salary thresholds could play in influencing the level of immigration.

### Salary Thresholds to prevent undercutting

5.4 A main purpose of salary thresholds is to prevent undercutting in the labour market. It is not desirable for employers to be allowed to hire migrants because they are cheaper than resident workers.

5.5 Previous MAC research, most recently in our report on EEA migration<sup>70</sup> found little evidence that immigration has reduced wages or employment opportunities for resident workers though also reports some studies that have found a small negative effect of immigration on the wages of lower-skilled workers and small positive effects for the higher-skilled. This might be taken as evidence that there is no risk of undercutting though this is in a labour market where there are salary

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<sup>69</sup> Home Office, 2019 <https://www.gov.uk/government/publications/migration-advisory-committee-welcomes-salary-threshold-commission/the-home-secretarys-commissioning-letter-to-the-chair-of-the-migration-advisory-committee-on-salary-thresholds>

<sup>70</sup> MAC, *EEA Migration in the UK*, 2018, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/741926/Final\\_EEA\\_report.PDF](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/741926/Final_EEA_report.PDF)

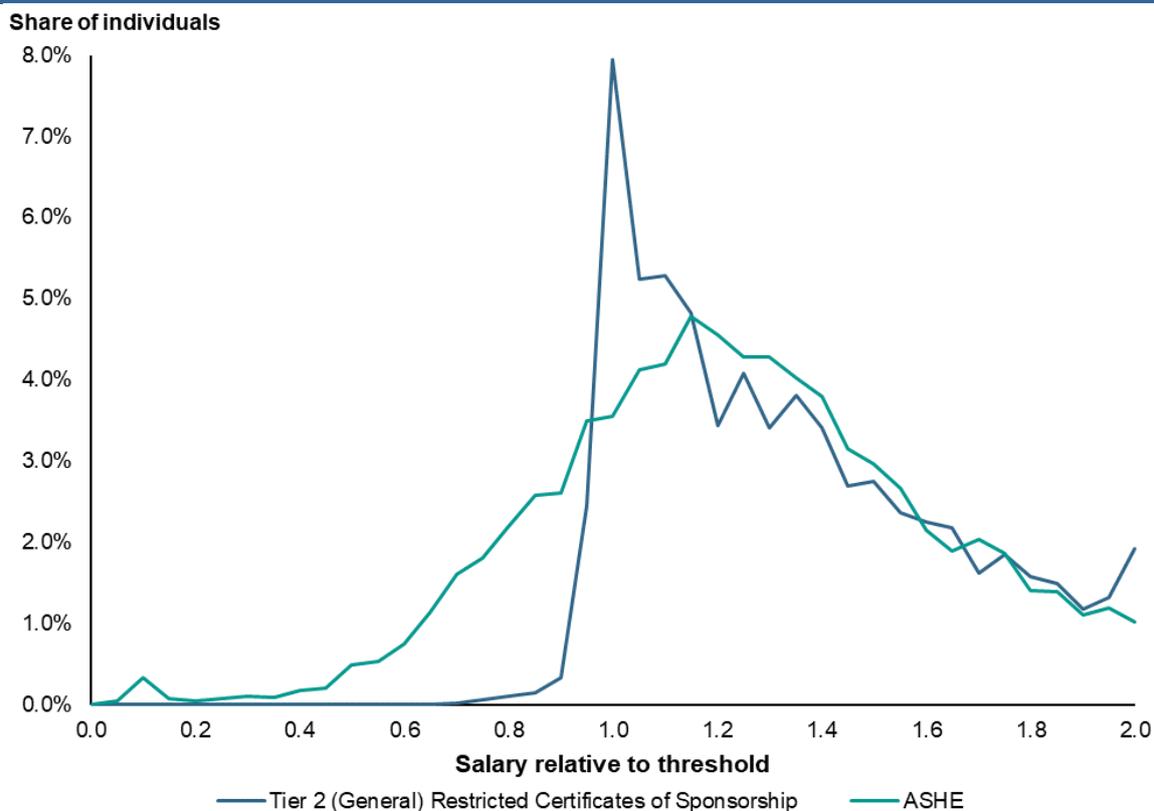
thresholds for skilled migration and the minimum wage to protect undercutting in lower-wage labour markets.

- 5.6 We recognise there is no evidence of significant undercutting but do think the system needs to guard against that possibility. There is a risk of undercutting when employers are understandably interested in keeping labour costs low and some migrants, especially from lower-income countries, might believe that a poor UK salary compares favourably with the salaries on offer in their origin countries, and also might be less aware of their rights in the UK labour market.
- 5.7 Analysis conducted in MAC (July 2015)<sup>71</sup> showed that salaries paid to migrants cluster around minimum salary thresholds which is indicative that these thresholds are binding and that employers would pay lower salaries if allowed to. We updated this analysis with similar conclusions. Figure 5.1 shows the distribution of salaries relative to the relevant salary threshold both for all experienced Tier 2 (General) migrants over the period 2015-2019 and for employees as a whole using data from ASHE re-weighted to reflect the distribution of age and occupation among Tier 2 migrants. A relative salary of 1 means that a worker is paid the salary threshold, below means they are paid less and above means they are paid more.

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<sup>71</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/452805/Review\\_of\\_Tier\\_2\\_-\\_Analysis\\_of\\_salary\\_thresholds.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/452805/Review_of_Tier_2_-_Analysis_of_salary_thresholds.pdf)

**Figure 5.1: Salaries in Tier 2 (General) compared to Earnings Distribution as a Whole**



Notes: Pooled ASHE observations 2015-2019; Tier 2 (General) Restricted Certificates of Sponsorship used between 6th April 2015 and 29th March 2019; comparison excludes individuals aged under 26 and those aged over 65.

- 5.8 As would be expected there are very few migrants being paid below the relevant salary threshold, the few apparent occurrences of this probably being the result of it being difficult to assign the appropriate salary threshold in the data set. There are sizeable numbers of workers in the UK labour market paid below the threshold, as would be expected given that the thresholds are set at the 25th percentile.
- 5.9 The salary threshold is of no special significance for the wage distribution as a whole but there is a notable ‘spike’ in the wage distribution at the threshold for Tier 2 (General) migrants. This is suggestive of the salary threshold influencing the salaries offered by some employers. If the threshold were lower, the spike would move to the new lower salary threshold. We conclude from this that salary thresholds are necessary as a guard against undercutting though it should be recognised that the vast majority of employers are paying migrants much higher salaries. We will revisit this analysis later in Chapter 6.
- 5.10 Salary thresholds alone are not sufficient protection against the risk of undercutting – the minimum wage and enforcement of labour standards are important too. But those other institutions are not sufficient without salary thresholds.

## Salary thresholds to help make the UK a high-wage, high-skill, high-productivity economy

- 5.11 Most countries have the ambition to be a high-wage, high-skill economy and young people are encouraged to acquire skills and qualifications. In the UK, this ambition is currently articulated in the Government's Industrial Strategy<sup>72</sup>. Migration policy should be supportive of these ambitions. Since the expansion of the EU in 2004, by accident rather than design, much immigration into the UK has been into lower-wage, lower-skilled jobs in lower-productivity sectors, so has been a slight drag on average UK productivity and wage growth through compositional effects.
- 5.12 Salary thresholds can help align migration policy with these ambitions, though are not the only policy tool to achieve these aims. The current Tier 2 (General) system uses a combination of the skill level of the occupation and salary to select skilled migrants. Occupational skill level should not be used alone to select skilled migrants. The occupational taxonomy available to us divides the labour market in 369 different jobs but this is a coarse classification. As a MAC report from 2015 noted: *"since there are approximately 4,000 job titles eligible for Tier 2, it would be a near impossible task to provide a definitive list of occupations where migrants would be most valuable to the UK economy"*<sup>73</sup>.
- 5.13 Skill requirements alone also have the problem that it is hard to verify exactly what job a migrant is doing. Using a combination of salary thresholds and skill requirements to select migrants should help transition the UK to having both a higher paid and skilled economy. The fact that an employer is prepared to pay above a salary is an important indication that the worker is likely to have a high level of productivity though, as discussed below, should never be the only consideration.
- 5.14 In some roles, pay may not reflect the full economic value or social value of that specific job. The benefit of an individual's output to society is not simply measured by their salary, a point was raised by many stakeholders. We further discuss this issue later in this chapter.

## Salary thresholds and the impact on public finances

- 5.15 The MAC have previously considered the fiscal consequences of migration, most recently in the 2018 report on the impacts of EEA migration. For that report we commissioned Oxford Economics to undertake fiscal analysis. We concluded that EEA migrants as a whole pay in more than they take out *"in 2016/17, EEA migrants as a whole are estimated to have paid £4.7bn more in taxes than they received in*

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<sup>72</sup> <https://www.gov.uk/government/publications/industrial-strategy-building-a-britain-fit-for-the-future>

<sup>73</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/493039/Tier\\_2\\_Report\\_Review\\_Version\\_for\\_Publishing\\_FINAL.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/493039/Tier_2_Report_Review_Version_for_Publishing_FINAL.pdf)

*welfare payments and public services*”<sup>74</sup>. This conclusion should not be taken to mean that all EEA-migrants make a positive net contribution to the public finances. The analysis included in that report also found that non-EEA migrants had a deficit of £9bn and whilst that might be surprising, most non-EEA migrants do not come through the work route and have much lower employment rates. As discussed in our EEA report, net fiscal contribution varies by whether someone is in work and the earnings they receive, their age and number of dependents and the economic activity of those dependents. The impact on the public finances of different salary thresholds is considered in more detail in Chapters 6 and 7.

- 5.16 Higher incomes are generally associated with a higher net fiscal contribution; therefore, salary thresholds can help to ensure that migration is not a burden on the public finances. Along with changes in population, the fiscal impact is one of the more tangible implications of migration on the resident population.

### Salary thresholds and the level of immigration

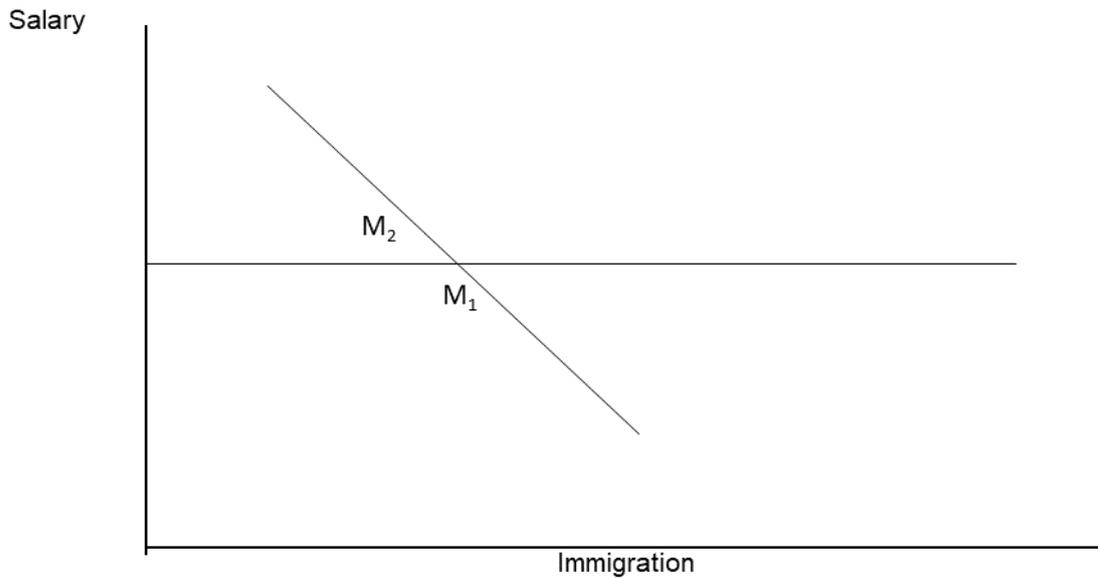
- 5.17 The commission asks the MAC to consider the potential role that salary thresholds could play to *“help control migration, ensuring that it is reduced to sustainable levels”*<sup>75</sup>. This section considers this although the MAC view is that migration policy should be used to benefit the resident population which cannot be reduced to a ‘numbers game’. Numbers can also be volatile, so defining migration policy as a success or failure according to numbers is a recipe for trouble as, perhaps, the previous Government discovered.
- 5.18 Higher salary thresholds would be expected to lead to lower immigration under the routes affected (which currently cover a minority of total immigration flows). Figure 5.2 illustrates this. The line D1 shows the demand for migrants from employers as a function of the salary threshold; it is reasonable to think this is downward-sloping as the demand for migrant labour decreases as the cost (i.e. salary threshold) increases. An increase in the salary threshold from ST1 to ST2 then reduces the demand for migrants from M1 to M2.

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<sup>74</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/741926/Final\\_EEA\\_report.PDF](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/741926/Final_EEA_report.PDF)

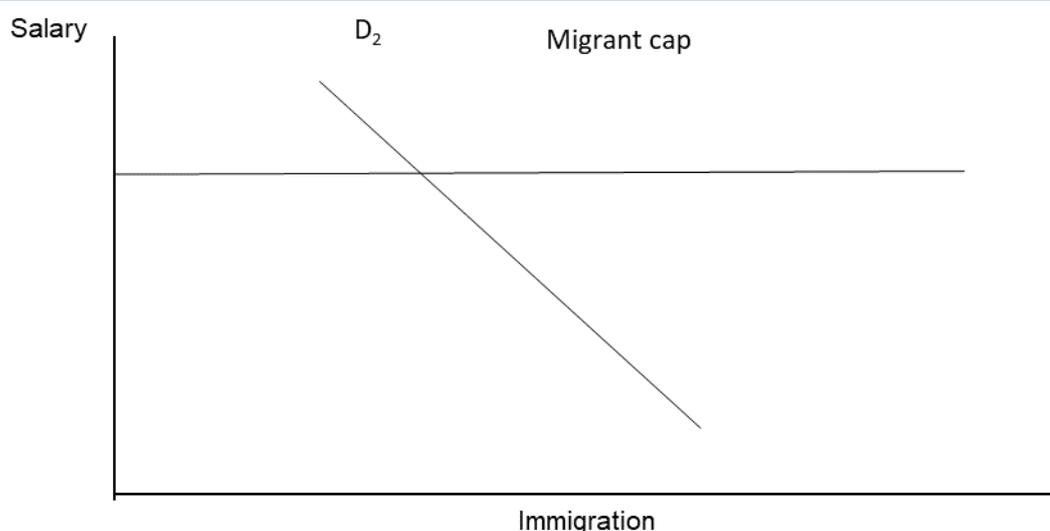
<sup>75</sup> <https://www.gov.uk/government/publications/migration-advisory-committee-welcomes-salary-threshold-commission/the-home-secretarys-commissioning-letter-to-the-chair-of-the-migration-advisory-committee-on-salary-thresholds>

Figure 5.2: The market for work migration given a salary threshold



- 5.19 There are other ways to control the level of immigration other than salary thresholds. An important difference between a salary threshold and a cap are in how they respond to changes in the demand for migrants.
- 5.20 Figure 5.3 shows an increase in the demand for migrants from  $D_1$  to  $D_2$ . With a constant salary threshold at  $ST_1$  there would be an increase in immigration from  $M_1$  to  $M_2$ . With a hard cap, this increase would not occur but there has to be some way of deciding which employers should be able to employ migrants when the cap is below demand. In the current Tier 2 (General) system jobs on the SOL and PhD level occupations have priority but after that salary is used resulting in a rise in the effective salary thresholds. In Figure 5.3 this would mean a rise in the salary threshold from  $ST_1$  to  $ST_2$ . Where there is a cap the increase in salary thresholds can be dramatic as occurred in June 2018 where the salary threshold in Tier 2 (General) effectively rose to over £60,000.

Figure 5.3: The demand for work migration given a migrant cap



- 5.21 The variations in effective salary thresholds when a cap binds means that employers are uncertain about whether they would be able to employ migrants or not. As this uncertainty is unhelpful, the MAC report on EEA migration<sup>76</sup> recommended abolishing the cap on Tier 2 (General), a recommendation accepted in the Immigration White Paper<sup>77</sup>. Such a policy does mean that large variations in immigration inflows can occur in response to changing demands.
- 5.22 There are other ways to control numbers other than a single salary threshold or a cap. Eligibility for a visa might be restricted to some occupations and there might be different salary thresholds for different jobs. Salary thresholds can only be used in migration routes where a job offer is required such as Tier 2 (General). A PBS system that does not require a job offer cannot use salary thresholds and has to restrict numbers by using other selection criteria.
- 5.23 Although this section is largely about salary thresholds, the skill eligibility condition is also very important in practice. For example, looking at all full-time employees in the UK in 2018, just over 50 per cent (ASHE 2019) were paid £30,000 or more, while only 37 per cent (ASHE 2019) were employed in an occupation currently eligible for Tier 2 (General) (i.e. RQF6+ occupations). Although in the future system, where the occupational skill requirements are to be lowered to RQF3+, this will no longer be the case. 68 per cent (ASHE 2019) are employed under the current definition of RQF3+.

<sup>76</sup> <https://www.gov.uk/government/publications/migration-advisory-committee-mac-report-eea-migration>

<sup>77</sup> <https://www.gov.uk/government/publications/the-uks-future-skills-based-immigration-system>

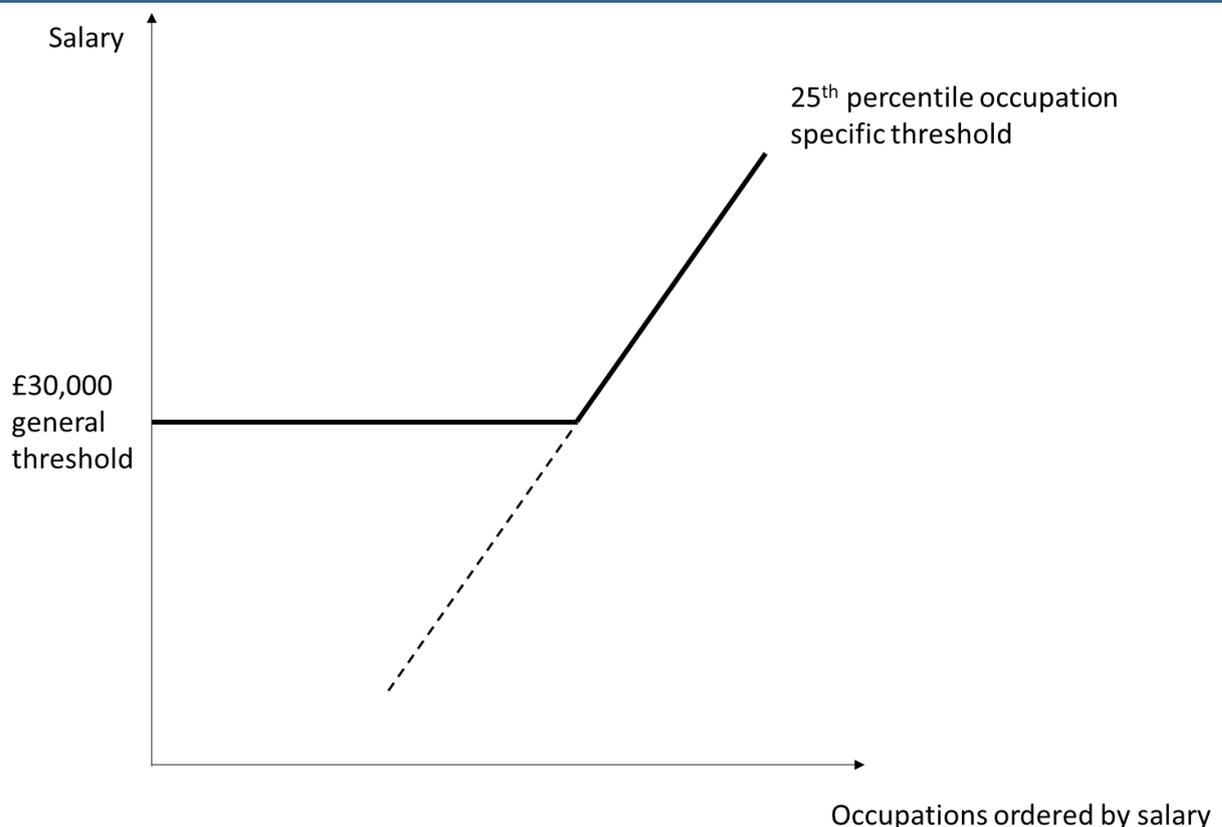
## Current system of Tier 2 (General) salary thresholds

- 5.24 The current Tier 2 (General) system of salary thresholds are applicable both at the point of first entry to the UK but also if extending the visa. Different salary thresholds are applied when applying for settlement.

### Salary thresholds for experienced workers

- 5.25 For most jobs (exceptions are described below) the threshold for an experienced worker (one who is not a new entrant, described below) is currently set at the higher of £30,000 (what we will call the general threshold) or the 25th percentile of the full-time employee earnings distribution of the given occupation (what we will call the occupation specific threshold). This system can be represented as in Figure 5.4.

Figure 5.4: The existing salary threshold system



- 5.26 The level of the general threshold was recommended by us in our Review of Tier 2, Analysis of Salary Thresholds in July 2015<sup>78</sup>, as the 25th percentile of the earnings distribution of eligible occupations at that time i.e. those skilled at RQF6+ (what we often refer to as high-skilled jobs). However, while the occupational going-rate threshold has risen over time in line with average earnings, the £30,000

<sup>78</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/452805/Review\\_of\\_Tier\\_2\\_-\\_Analysis\\_of\\_salary\\_thresholds.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/452805/Review_of_Tier_2_-_Analysis_of_salary_thresholds.pdf)

has not so that it is now at the 19<sup>th</sup> percentile of the pay distribution for eligible workers.

- 5.27 The £30,000 level of the experienced worker general threshold is justified on the basis of ensuring that the migrant is not reducing the average level of wages in the UK and is likely to have a positive net contribution to the public finances.
- 5.28 The experienced worker occupation specific 'going-rate' salary threshold is based on the 'no undercutting' argument for salary thresholds discussed earlier, although it should be noted that a migrant hired at the minimum allowable salary would be reducing the median full-time level of pay in that occupation because the 25<sup>th</sup> percentile is lower in the distribution than the median. If one wanted to be sure that any migrant hired into an occupation was not reducing median earnings in that occupation, one would have to set the occupational going rate threshold at the median, which would be considerably higher than the current levels.

### Salary thresholds for new entrants

- 5.29 There are lower salary thresholds for new entrants, recognising that pay is lower for less experienced workers. Migrants are currently defined as new entrants if they meet one of the following requirements:
- a. They are switching from a Tier 4 student visa to a Tier 2 (General) work visa;
  - b. They are applying for a role where the employers used a university milkround<sup>79</sup> to satisfy the Resident Labour Market Test;
  - c. They are under the age of 26 on the date of their application.
- 5.30 For most jobs (some exceptions are described below) the threshold for a new entrant is the higher of a general threshold and an occupation specific threshold but set at a lower rate than for experienced workers. Currently the general threshold for new entrants is £20,800 and the occupation specific threshold or the 10<sup>th</sup> percentile of the full-time employee earnings distribution of the given occupation. The new entrant threshold is applicable for three years, after which the migrant has to meet the experienced worker threshold.
- 5.31 The justification for a lower new entrant threshold is that earnings are considerably lower for younger workers so a lower salary threshold will not undercut in this market. And that earnings typically increase rapidly over the first years of a career so that it is reasonable to expect that these workers will be earning more a few years later. It should be noted that stakeholders in some sectors provided examples where currently the level of pay progression is less than might be anticipated, and too little to meet the experienced threshold. However, in the current system the general expectation is that new entrants are given a three-year

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<sup>79</sup> As set out in the Immigration Rules Appendix A *University milkround visits to at least 3 UK universities (or all UK universities which provide the relevant course, whichever is the lower number)*

Certificate of Sponsorship (CoS) and they have to meet the experienced rate if they want to extend their Tier 2 (General) visa after this time.

### Special cases

- 5.32 For twenty largely public sector occupations, the occupation specific 'going rate' thresholds are taken from national pay rates (e.g. NHS pay bands) rather than the 25th percentile from the Annual Survey of Hours and Earnings. These are shown in Table 5.1.

| SOC code | SOC description                                      | Pay scale source                                  |
|----------|--|---|
| 2211     | Medical practitioners                                | NHS Employers Pay and Conditions Circulars 3/2018 |
| 2212     | Psychologists  | Agenda for change                                 |
| 2213     | Pharmacists  | Agenda for change                                 |
| 2214     | Ophthalmic opticians                                 | Agenda for change                                 |
| 2215     | Dental practitioners                                 | NHS Employers Pay and Conditions Circulars 3/2018 |
| 2217     | Medical radiographers                                | Agenda for change                                 |
| 2218     | Podiatrists  | Agenda for change                                 |
| 2219     | Health professionals n.e.c.                          | Agenda for change                                 |
| 2221     | Physiotherapists                                     | Agenda for change                                 |
| 2222     | Occupational therapists                              | Agenda for change                                 |
| 2223     | Speech and language therapists                       | Agenda for change                                 |
| 2229     | Therapy professionals n.e.c.                         | Agenda for change                                 |
| 2231     | Nurses   | Agenda for change                                 |
| 2232     | Midwives   | Agenda for change                                 |
| 2312     | Further education teaching professionals             | Teachers' national pay scales                     |
| 2314     | Secondary education teaching professionals           | Teachers' national pay scales                     |
| 2315     | Primary and nursery education teaching professionals | Teachers' national pay scales                     |
| 2316     | Special needs education teaching professionals       | Teachers' national pay scales                     |
| 2442     | Social workers                                       | Agenda for change                                 |
| 3213     | Paramedics   | Agenda for change                                 |

- 5.33 Most of these occupations are still subject to the £30,000 general threshold for experienced workers and £20,800 for new entrants. However, four occupations receive a full or partial exemption from the £30,000 general threshold. These are Medical Radiographers, Nurses, Paramedics, and Teachers of Maths, Physics, Chemistry, Computer Science and Mandarin. These occupations are subject to the higher of either the appropriate rate or £20,800 in all instances, not just for new

entrants. This exemption entered the system in November 2016 when the minimum rate for experienced workers was raised from £20,800 to £25,000. This exemption was intended to be temporary ending in July 2019 to give them time to adjust. However, it remains in place and will be reviewed by the Home Office ahead of the introduction of the future system.

- 5.34 Pre-registration nurses and midwives can be paid the NHS Agenda for Change Band 3 rate until they achieve their full NMC registration, as long as that is no more than 3 months after the start date of their CoS. Once registered the sponsor must pay them in line with Band 5 rate of pay if they are a nurse, with the £30,000 threshold applying for midwives.
- 5.35 The use of national pay scales can be justified on the grounds that there is lower risk of undercutting for these workers. Pay for these workers is overseen by independent Pay Review Bodies. It should be noted that the practice of placing migrant nurses and teachers on the lower points of these pay scales results in migrants being paid considerably less than similar resident workers, a pay penalty not observed in the private sector. The MAC has documented this over many years, most recently in our Full Review of the Shortage Occupation List<sup>80</sup> report published in May 2019.
- 5.36 There are an additional nine occupations, primarily in PhD level roles, whose appropriate rate has been set based on stakeholder evidence. This includes teaching professionals in higher education. These are shown in Table 5.2.

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<sup>80</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/806331/28\\_05\\_2019\\_Full\\_Review\\_SOL\\_Final\\_Report\\_1159.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/806331/28_05_2019_Full_Review_SOL_Final_Report_1159.pdf)

**Table 5.2: Occupations whose ‘going rate’ is based on other evidence**

| SOC code | SOC description                                 | Pay scale source   |
|----------|---|--|
| 2111     | Chemical scientists                             | Evidence from partners who responded to Migration Advisory Committee in 2011, uplifted based on national changes in earnings                       |
| 2112     | Biological scientists and biochemists           | Evidence from partners who responded to Migration Advisory Committee in 2011, uplifted based on national changes in earnings                       |
| 2113     | Physical scientists                             | Evidence from partners who responded to Migration Advisory Committee in 2011, uplifted based on national changes in earnings                       |
| 2114     | Social and humanities scientists                | Evidence from partners who responded to Migration Advisory Committee in 2011, uplifted based on national changes in earnings                       |
| 2119     | Natural and social science professionals n.e.c. | Evidence from partners who responded to Migration Advisory Committee in 2011, uplifted based on national changes in earnings                       |
| 2311     | Higher education teaching professionals         | Evidence from Universities UK, Universities and Colleges Employers Association and GuildHE in 2011, uplifted based on national changes in earnings |
| 2133     | IT specialist managers                          | New entrant based on ASHE. Experienced worker from Incomes DATA Service 2014, uplifted based on national changes in earnings                       |
| 2412     | Barristers and judges                           | The Bar Council in 2011, uplifted based on national changes in earnings  |
| 2431     | Architects                                      | RIBA uplifted based on national changes in earnings  |

5.37 Architects have different threshold depending on the stage of their training. Some types of electrical engineers in the electricity transmission industry face different thresholds than all other electrical engineers. These special cases often originated in legitimate concerns at a particular time. However, it has left the system rather more complicated to navigate than originally envisioned.

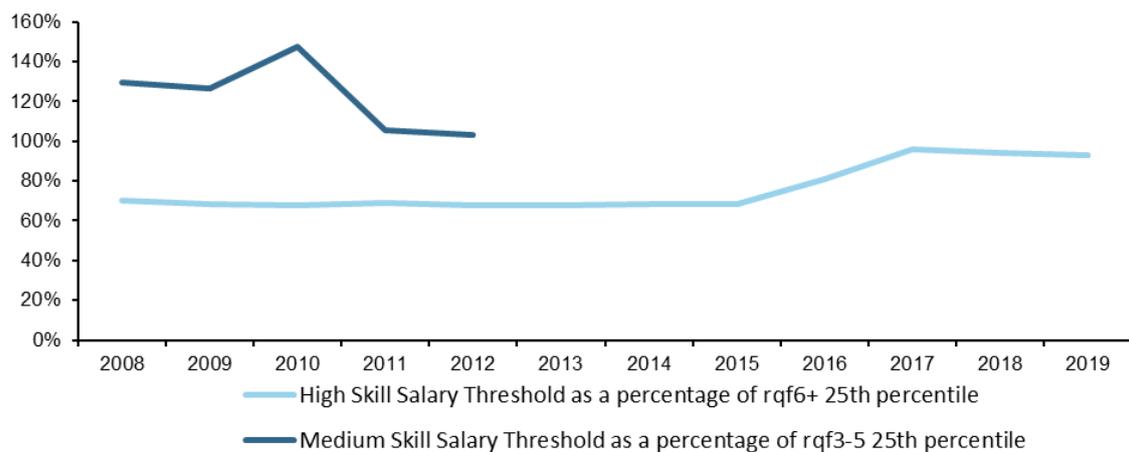
### Evolution of the Tier 2 (General) salary thresholds

5.38 Salary thresholds have been part of the Tier 2 (General) system since its introduction in 2008, though the level and system has changed over time. Initially, the effective salary threshold was often lower for higher-skilled workers compared to medium-skilled workers because Tier 2 (General) started life as a ‘pure’ PBS in which those with PhDs and other qualifications got more points, possibly off-setting having a lower salary. In 2011, the system of salary thresholds moved to a design

like the current system, with a higher of a general salary threshold and an occupation specific going rate. The restriction of Tier 2 (General) to high-skilled occupations in 2012 was followed by increases in the general threshold, from £20,300 in 2013 to £30,000 in 2017.

5.39 The evolution of salary thresholds in nominal and in relation to earnings is shown in Figure 5.5.

**Figure 5.5: Salary Thresholds as a percentage of respective 25th percentile**



Source: ASHE. We have assumed the salary threshold for high-skilled workers to be £20,000 for the period 2008-2010 and the salary threshold for medium-skill workers to be £24,000 for 2008-9 and £28,000 in 2010. This is because the salary threshold varied during this period depending on the skill level when Tier 2 (General) was a PBS with tradeable points. This was from its introduction in November 2008 to April 2011. We assume 10 points for qualifications are given for the high skill threshold (which was equivalent to having earned a bachelors degree) and 0 points for qualifications for the medium skill threshold (which was equivalent to none, or below an appropriate sub degree level qualification). Therefore, to reach 50 points, the high skill threshold required a further 10 points meaning a minimum salary of £20,000, while the medium skill threshold needed at least £24,000 for the remaining 20 points. Given the points recalibration in 2010, the minimum salary for medium skill threshold rose to £28,000 whilst high skill threshold remained at £20,000. In this period salary thresholds were often higher for medium- than high-skilled jobs. From April 2011 onwards, both salary thresholds resort to the flat thresholds set thereafter. The change to RQF6+ in 2013 meant the 'Medium Skill Salary Threshold' no longer existed.

5.40 It is important to note that whilst the high skill salary threshold rose significantly in nominal terms over time – by 50 per cent, from £20,000 in 2008 to £30,000 in 2019 – in real terms, by comparing with the 25<sup>th</sup> percentile of RQF 6+ earnings, the increase has been only 23 per cent.

## International use of salary thresholds

5.41 Salary thresholds are commonly used in other countries. Often there is a requirement for employers to pay the 'prevailing wage' or the 'going rate' though it is often not clear exactly what this means in practice as, unlike the UK which

publishes salary thresholds, establishing that appropriate wages are being paid is left to the discretion of case workers in many countries.

- 5.42 In many countries the threshold varies by occupation or skill level of employment. Some countries also have variation by region. Other countries choose to have a flat rate salary threshold, usually based on a chosen measure within the earnings distribution, for example, the median annual salary. There is significant variation in the levels by country and type of visa.

## Options for salary thresholds

- 5.43 In this section, we consider whether the current variation in salary thresholds should be retained and whether additional types of variation should be introduced. The commission asked us to consider different types of variation including some not in the current system. This is about the principles rather than the level: the appropriate levels are considered in Chapters 6 and 7.
- 5.44 In addition to providing advice on the main salary threshold, we were asked to advise on variations from the minimum salary thresholds including:
- New entrant rates;
  - Occupations on the Shortage Occupation List;
  - Sectors that provide high public value to society and the economy;
  - The role of non-cash remuneration and equity;
  - Part-time workers.
- 5.45 We have considered each of these issues and whether there is a rationale for variation from the minimum salary threshold, drawing both on economic analysis, qualitative and quantitative analysis of stakeholder views. The case for geographical variation in salary thresholds is important and considered separately in Chapter 8.

## Experienced worker rates

- 5.46 We think that some system of salary thresholds should be retained for the reasons set out at the start of this chapter. There is a general principle that they should be linked to the prevailing level of wages in some way. This is done currently for the occupational thresholds but not for the general threshold. This means that whilst the occupational thresholds are updated annually using ASHE data, the general threshold (currently £30,000) does not rise with earnings growth over time. We recommend the use of a formula to derive the general threshold from published data to ensure that salary thresholds are updated in line with the general level of earnings.

**Recommendation: Both the occupation specific and general salary thresholds should be based on the relevant distribution of full-time earnings**

as reported in the Annual Survey of Hours and Earnings (ASHE) and updated annually. The appropriate salary threshold should continue to be the higher of the occupation specific and general threshold.

## New entrant rates

### Design of new entrant rates

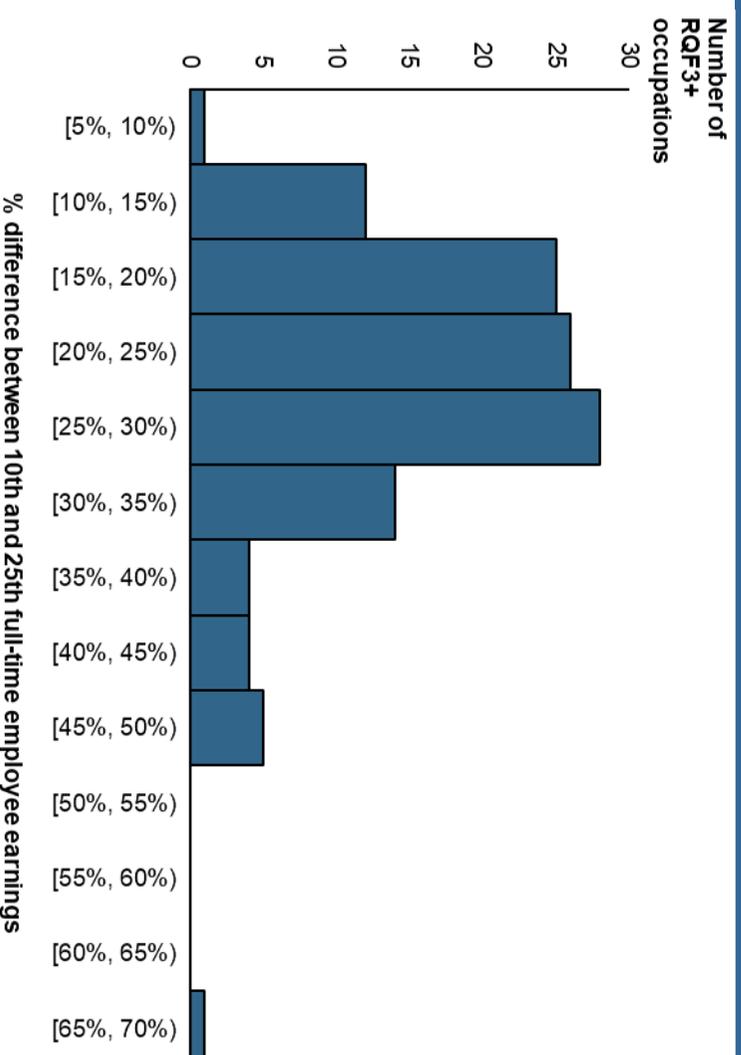
- 5.47 Currently the new entrant rate for the occupation specific going rate threshold is based on the 10th and the experienced worker rate on the 25th percentile, which means the percentage difference between new entrant and experienced rates will vary by occupation. The differences are often very large: for example, the distance<sup>81</sup> between the 10th and 25th percentiles ranges from less than 9 per cent for Groundsmen and greenkeepers to 69 per cent for Quantity surveyors<sup>82</sup>.
- 5.48 This variation may be desirable if different occupations have different rates of pay progression. However, there are also large variations in the distance for the same occupation over time, which does not plausibly reflect differences in pay progression. Rather, this volatility in the measured ratio between the 10th and 25th percentile is caused by the ASHE data being based on relatively small samples in some occupations. Figure 5.6 summarises the volatility across years within occupations. Further analysis on this issue is set out in Annex E.
- 5.49 An additional problem relates to lack of data: the ONS do not produce estimates for the 10th and 25th percentile of every occupation for each year in the Annual Survey of Hours and Earnings due to concerns about the accuracy of the estimates. For example, the 2019 provisional figures published by ONS only offers an estimate for both the 10th and 25th percentiles for 120 out of 237 RQF3+ occupations. In practice, this has meant some occupations have their thresholds determined by different vintages of ASHE.

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<sup>81</sup>  $(25^{\text{th}} \text{ percentile} - 10^{\text{th}} \text{ percentile}) / 10^{\text{th}} \text{ percentile}$

<sup>82</sup> Workers at the 25<sup>th</sup> percentile of the Groundsmen and greenkeepers pay distribution are paid 8.9% more than workers at the 10<sup>th</sup> percentile. If those pay differences could be attributed entirely to experience, this would suggest a relatively low experience premium and slow pay progression for that occupation. Whereas the differential of 69% for Quantity surveyors would indicate a much faster rate of pay growth with experience. However, experience is not the only factor behind those differentials. Differences in the characteristics of employing firms (such as size and product market competition) affect the amount their employees are paid. These firm characteristics might differ more for Quantity Surveyors than they do for Groundsmen and greenkeepers. In that case, Figure 5.6 might be a misleading representation of the extent of differences in experience premia across occupations.

**Figure 5.6: Distribution of % difference between 10<sup>th</sup> and 25<sup>th</sup> full-time earnings percentiles for 120 RQF3+ occupations published by ONS**



Source: ONS - Table 14.7a ASHE 2019 provisional estimates

### 5.50

One solution to these problems is to use a uniform ‘reduction’ parameter in which the experienced worker threshold is reduced by a constant factor across occupations. It would not rely on potentially imprecise and volatile estimates. It would be simpler. However, it is recognised that a single parameter may not reflect differences in pay progression across all occupations.

**Recommendation: The salary thresholds for new entrants should be a single ‘reduction’ percentage applied across both the general experienced worker threshold and the occupation specific experienced worker thresholds.**

### Setting the ‘reduction’ adjustment for new entrants

#### 5.51

The history of how the new entrant rate was set can be found in Annex F. Table 5.3 presents the change in median full-time gross earnings in the years since leaving full-time education for occupations skilled at RQF3+. The rows highlighted in blue show that an individual is regarded as a ‘new entrant’ up to three years after leaving full-time education, under our (2012)<sup>83</sup> definition. The ‘index’ column

<sup>83</sup> See paragraph 5.44 of [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/257273/Tier2-codesofpractise.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/257273/Tier2-codesofpractise.pdf)

indexes the median full-time gross salary for years since leaving full-time education against the overall median of the salary distribution.

**Table 5.3: Change in median salary after leaving full-time education and how this compares to the median salary for occupations skilled at RQF3+**

| Years since leaving education | Median salary | Index (100 = £33,488; median salary) |
|-------------------------------|---------------|--------------------------------------|
| 1                             | £21,500       | 64.1                                 |
| 2                             | £24,000       | 71.7                                 |
| 3                             | £24,000       | 71.7                                 |
| 5                             | £27,000       | 80.6                                 |
| 10                            | £33,000       | 98.6                                 |
| 15                            | £33,000       | 98.6                                 |
| 20                            | £38,000       | 113.5                                |
| 25                            | £40,000       | 119.4                                |
| 30                            | £38,000       | 113.5                                |

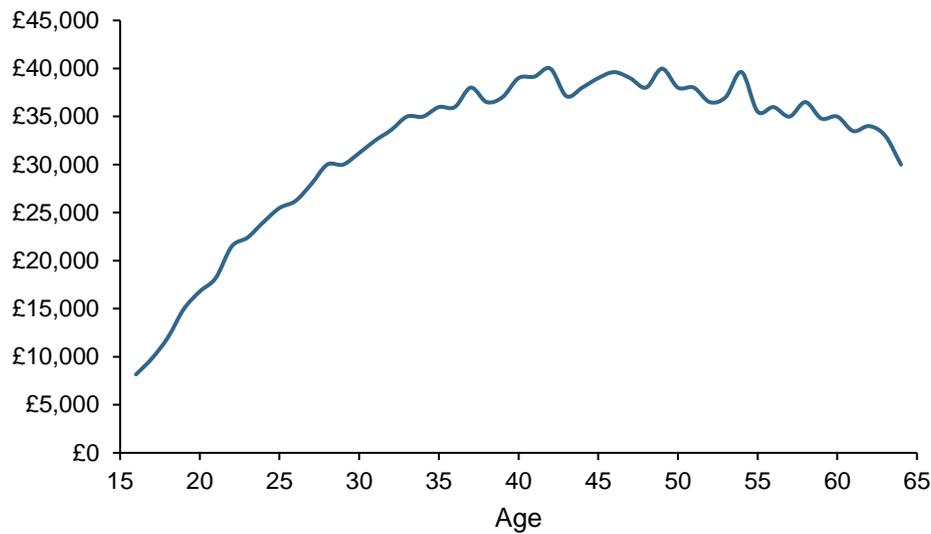
Source: APS (2018)

- 5.52 The index shows that the median a new entrant earns is between 0.64-0.72 times the overall median earnings. These results suggest setting new entrant rates of between 64 per cent and 72 per cent of the general rates. Averaging the 3 highlighted rows gives an index of 67.2, suggesting new entrant rates should be around 70 per cent of the experienced worker rate i.e. a new entrant reduction parameter of around 30 per cent compared to experienced worker rates. Further detail on how pay progression varies by skill level can be found in Annex D.
- 5.53 It is also possible to utilise a differing definition of a 'new entrant': Appendix J of the Immigration rules<sup>84</sup> defines 'new entrants' as those aged under 26 on the date of their application<sup>85</sup>. Using this definition of 'new entrant' will allow us to provide further evidence on the appropriate reduction factor.
- 5.54 Figure 5.7 presents the median salary by age of full-time employees working in occupations skilled at RQF3+. The figure shows that 16-year-olds earn the least, with median earnings of around £8,000 per year, which might be driven by apprenticeship earnings. From 16, median annual earnings steadily increase up to the maximum of £40,000 for those aged 42 and 49. From the age of 54 there is a downward trend in median earnings.

<sup>84</sup> <https://www.gov.uk/guidance/immigration-rules/immigration-rules-appendix-j-codes-of-practice-for-skilled-work>

<sup>85</sup> Appendix J provides an additional definition of a 'new entrant', however it would have been challenging to model this alternative definition given the available data.

**Figure 5.7: Relationship between median gross annual earnings and age for full-time employees in occupations skilled at RQF3+**



Source: APS (2018)

5.55 Looking at ‘new entrants’ as defined by Appendix J, the median earnings of full-time employees aged under 26 working in an occupation skilled at RQF3-6+ is £22,000. This is 0.65 times the overall earnings median. Using this alternative definition of a ‘new entrant’ leads to a conclusion of setting the new entrant rate at around 70 per cent of the experienced worker rate. Both our (2012) definition of a ‘new entrant’ and Appendix J’s definition suggest a similar value of the reduction factor.

**Recommendation: The reduction percentage for new entrants should be set at 30 per cent.**

5.56 On average this would lead to a larger gap between new entrant and experienced worker thresholds than the current system. There are some risks associated with this recommendation. For low levels of the general and occupation specific threshold, application of this rule may result in low new entrant rates. If the route came to be used by large numbers at this low new entrant rate, this recommendation should be re-visited.

### Definition of new entrants

5.57 In 2012, the MAC was asked by the Minister for Immigration to recommend “*specific minimum salaries for both new entrants and experienced employees*”. In our report, MAC (2012)<sup>86</sup> first distinguished the difference between a new entrant

<sup>86</sup> See paragraph 5.44 of [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/257273/Tier2-codesofpractise.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/257273/Tier2-codesofpractise.pdf)

and an experienced employee by defining new entrants as: *“full-time employees who have left full-time education less than three years ago”*.

- 5.58 Some stakeholders expressed the view that the current definition is too narrow, excluding those who would, on a common-sense definition be thought of new labour market entrants. We agree which leads to the following recommendation.

**Recommendation: The definition of a new entrant should be widened to include those who are working towards recognised professional qualifications and those who are moving directly into postdoctoral positions.**

- 5.59 In the CfE responses and during stakeholder engagement, some respondents highlighted the problems caused by migrants on the new entrant rate having only 3 years to earn the experienced worker rate, sometimes a very large gap.

- 5.60 The education sector, in particular, highlighted concerns about the ability to jump from new entrant to experienced applicant thresholds over the three-year time period. One education stakeholder highlighted potential impacts on children’s education if experienced teachers are unable to stay in the UK as an experienced worker. However, it was noted that the Secretary of State for Education has already set the School Teachers’ Review Body a remit to consider how best to phase the introduction of a minimum starting salary of £30,000 per annum for newly qualified teachers by 2022-23. There remain concerns, though, across the sector about how such a jump would be achieved, and equally, what a flatter pay structure, with fewer progression points would mean for teachers working towards settlement.

- 5.61 We note the Government’s announcement in September 2019 to introduce a new ‘Graduate’ route for international students from 2020/21 academic year. This will allow international students who have completed an undergraduate level course to remain in the UK for two years after their studies. They will have the right to work during this period and this should count as part of their period as a new entrant.

- 5.62 Some of the concerns raised by stakeholders should be alleviated by having a wider definition of a new entrant but it is likely that the rate of pay progression required remains challenging in some sectors. Therefore, we have revisited the definition of how long the new entrant threshold should apply leading to the following recommendation based on our judgement.

**Recommendation: The new entrant rate should apply for five years, an extension from the current three-year entitlement. Any time spent on the new post-study work route should count towards the five years of new entrant threshold eligibility.**

- 5.63 There are some risks associated with this recommendation. We would expect pay progression among skilled workers who this route is aimed at and if there are large

numbers entering and remaining at the new entrant threshold, it would be appropriate to review this recommendation.

## Sectors with high public value

- 5.64 Many stakeholders made the case that their sectors have high public value not reflected in the salaries paid. Specific examples highlighted during engagement include the care sector, where social workers and carers have been mentioned as occupations with particular value to society, and the health sector, where in addition to doctors and nurses there are other roles such as pharmacists, physiotherapists, and other allied health professionals, who ‘contribute important expertise to our society’. The wider value of creativity and culture, and the role of musicians, was highlighted as adding value to society separate from economic returns. The particular role of translators, who work across multiple sectors but are not highly paid was also mentioned. In addition, it was highlighted that by definition, translators, often translating from their mother tongue, are more likely to be migrants than workers in other occupations.
- 5.65 Several respondents to the CfE also stressed that certain industries (which were varied in nature, for example social care, farming, charities) benefit society as a whole and have a ‘public value’ but do not pay well. Additionally, the view was expressed that some occupations, particularly those in the arts, religion and heritage, have a cultural value that should be recognised.

*“Cathedrals cannot afford the salaries of commercial enterprises – and the general public would not support them paying large salaries to their workers. ... In common with other employers in the religious and charity sectors, cathedrals should not be disadvantaged by an immigration policy which values money above all else. There should be recognition that often highly skilled people will work in the charity sector for a salary considerably less than they would earn commercially.”*

Representative organisation, multiple sectors represented, multiple regions

*“Charities exist to deliver services for the public benefit. They therefore, by definition, represent a body of employees who deliver high public value, but often for salaries below the national average.”*

Representative organisation, multiple sectors represented, Nationwide

- 5.66 Our 2018 report on EEA Migration in the UK noted the frequent calls for public sector workers to be treated differently on the grounds that the value of the work is not reflected in the salaries paid. We also noted our concern that a lower salary threshold for the public sector fails to address why public sector workers are paid

less than the value of their work. Our recommendation at that time was not to give the public sector special treatment in the migration system.

- 5.67 In the same report and also in our SOL report, we singled out social care as a sector that is struggling to recruit and retain workers. Stakeholder submissions to this commission which highlight significant current skill gaps and the likelihood of increased pressures in the future as demand for care increases with demographic changes. We remain of the view that the very real problems in this sector are caused by a failure to offer competitive terms and conditions, something that is itself caused by a failure to have a sustainable funding model. Although senior carers and some other roles within this sector would become eligible with the extension of the skilled worker route to included medium-skill occupations, this route is not the appropriate one to use to solve the problems this sector faces for low-skilled workers. Many of the problems involve lower-skilled care workers who would not be eligible under this route as they are below RQF3 skill-level.
- 5.68 In Chapter 4, we noted that many responses to our CfE expressed a desire for salary thresholds that vary by sector instead or as well as the variation by occupation of the current system. We believe the system should be based on occupation as now and not sector. In many cases an occupation is employed almost exclusively in one sector, but all sectors employ many different occupations, typically at all skill levels. Where employees in an occupation work in many sectors, the relevant labour market is the occupation. It would be undesirable to have different salary thresholds for the same job according to the sector of the employer.
- 5.69 For those occupations in health and school education where the vast majority of workers are covered by formal publicly-available pay scales, the use of salary thresholds different from these pay scales may make it very difficult to hire migrants. Many of these pay scales are covered by Pay Review Bodies which provides some protection against employers using migrants to undercut the resident labour market. Unless the overall salary thresholds are relatively low, many public sector occupations are essentially excluded from Tier 2 (General). Multiple stakeholders have reinforced this point during the CfE and stakeholder engagement for this commission.
- 5.70 With some exceptions, notably nurses, most of the occupations (see Table 5.1) whose occupation specific threshold is based on national pay scales are also subject to the general threshold. For some public-sector occupations the general threshold is hard to meet, making it effectively impossible for migrants to come under the employer-sponsored route in these occupations. This issue may be exacerbated in some occupations once EEA migrants are also brought under the same system.
- 5.71 Whilst we are generally of the view that the higher threshold encourages upward pressure on wages and that public sector workers salaries should reflect the value

of their work, we are concerned about many public sector occupations and the delivery of public services if migrants were unable to come through the employer-sponsored route in a global migration system. Therefore, unenthusiastically, this leads to the following recommendation.

**Recommendation: National pay scales should be used as the relevant salary thresholds in 24 occupations in health and education instead of both the occupation specific and general thresholds.**

- 5.72 There are risks with this recommendation; the ability to put migrants on the lowest points of pay scales seems to lead to migrants in health and education being paid less than resident workers with equivalent experience. In our Full Review of the Shortage Occupation List<sup>87</sup>, we found that nurses on Tier 2 (General) visas earn about 20 per cent less than other nurses, controlling for characteristics. Therefore, public sector employers should pay particular attention to these practices.
- 5.73 Includes the 20 occupations whose occupation specific rates are currently based on formal pay scales (set out in table 5.4) but also 4 medium-skill occupations that would not become eligible for Tier 2 (General) also brings a number of medium-skill occupations into eligibility. These are listed in Table 5.4 below.

| Table 5.4: Medium skilled occupations subject to pay scales |                                       |                   |
|---|---------------------------------------|-------------------|
| SOC code  | SOC description                       | Pay scale source  |
| 3218  | Medical and dental technicians        | Agenda for change |
| 3219  | Health associate professionals n.e.c. | Agenda for change |
| 6141  | Nursing auxiliaries and assistants    | Agenda for change |
| 6143  | Dental nurses                         | Agenda for change |

### Occupations with alternative pay sources

- 5.74 There are nine further occupations for which the current procedure for setting salary thresholds is anomalous, with pay data for the occupation specific rate within that occupation from sources other than the latest version of ASHE. These are set out in Table 5.5. Some of these differences appear to be due to the ASHE data being unavailable at the 4-digit occupation code even going back many years, others appear to be due to historical policy decisions.

<sup>87</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/806331/28\\_05\\_2019\\_Full\\_Review\\_SOL\\_Final\\_Report\\_1159.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/806331/28_05_2019_Full_Review_SOL_Final_Report_1159.pdf)

**Table 5.5: Additional occupations with pay data source different from ASHE**

| SOC code | Occupation                                      | Source - according to Appendix J   | ASHE 2019 full time employee annual gross earnings |                 | Appendix J salary rates   |
|----------|---|--|--|-----------------|---|
|          |   |  | 10th percentile                                    | 25th percentile |   |
| 2111     | Chemical scientists                             | Evidence from partners who responded to the MAC in 2011, uplifted based on national changes in earnings  | Not available                                      | £26,707         | New entrant: £22,300<br>Experienced worker: £29,000   |
| 2112     | Biological scientists and biochemists           | Evidence from partners who responded to the MAC in 2011, uplifted based on national changes in earnings  | £22,848  | £29,672         | Biomedical scientists working in the health sector: See Table 9<br>Other biomedical scientists:<br>New entrant: £22,300<br>Experienced worker: £29,000  |
| 2113     | Physical scientists                             | Evidence from partners who responded to the MAC in 2011, uplifted based on national changes in earnings  | Not available                                      | £36,495         | New entrant: £22,300<br>Experienced worker: £29,000   |
| 2114     | Social and humanities scientists                | Evidence from partners who responded to the MAC in 2011, uplifted based on national changes in earnings  | Not available                                      | Not available   | New entrant: £22,300<br>Experienced worker: £29,000   |
| 2119     | Natural and social science professionals n.e.c. | Evidence from partners who responded to the MAC in 2011, uplifted based on national changes in earnings  | £27,423  | £32,973         | New entrant: £22,300<br>Experienced worker: £29,000   |
| 2311     | Higher education teaching professionals         | Evidence from Universities UK, Universities and Colleges Employers Association and GuildHE in 2011, uplifted based on national changes in earnings | £33,423  | £40,659         | New entrant: £26,500<br>Experienced worker: £33,000   |
| 2133     | IT specialist managers                          | New entrant based on ASHE. Experienced worker from Incomes DATA Service 2014, uplifted based on national changes in earnings                       | £29,095  | £37,987         | New entrant: £27,000<br>Experienced worker: £42,800   |
| 2412     | Barristers and judges                           | The Bar Council in 2011, uplifted based on national changes in earnings  | Not included in ASHE                               |                 | New entrant: £20,800<br>Pupillage: £20,800<br>Experienced worker (not pupillage): £34,800   |
| 2431     | Architects                                      | RIBA uplifted based on national changes in earnings  | £28,046  | £34,993         | Salary rates:<br>Part 1 graduate: £22,300<br>Part 2 graduate: £24,600<br>Part 3 graduate / newly-registered architect with less than 3 years' experience since registration: £29,000<br>Experienced worker: £33,200 |

5.75 These seem anomalous to us and we think these should be brought under a general framework.

**Recommendation: With the exception of the 24 public sector occupations in health and education, occupations that currently have a different method for setting salary thresholds should be brought within the general framework.**

5.76 The way in which this should be done is different for different occupations. For chemical scientists, biological scientists and biochemists, physical scientists, social and humanities scientists, national and social science professionals n.e.c. where the data is frequently missing due to small numbers, we recommend the occupation specific thresholds are calculated using the latest ASHE microdata. This should use the relevant 3-digit level estimate and apply the average 4-digit discount/premia calculated using pooled years of ASHE data.

5.77 IT specialist managers, architects and higher education teaching professionals should have occupation specific thresholds based on the relevant ASHE data for their occupation. Some of the concerns in this sector about the impact of salary thresholds should be allayed by our recommendations on the expansion of the definition of a new entrant.

5.78 Barristers and judges are not included within the ASHE data at the 4-digit occupation code and we recommend they should instead be subject to the relevant 3-digit occupation code occupation specific threshold from ASHE (241 'Legal professionals').

5.79 Note the 10th percentile is included in Table 5.5 for information to compare against the existing method of calculating the new entrant threshold, though based on our recommendations the new entrant threshold would instead be based on the reduction parameter.

## Part-time workers

5.80 The current Tier 2 rules on salary thresholds apply to actual gross earnings and do not allow pro-rata adjustments for part-time workers. Stakeholders have made the case for part-time workers salaries to be pro-rated for the purposes of salary thresholds, to allow firms to hire migrants on more flexible terms than simply full-time contracts. Stakeholders have noted that a failure to pro-rate salary thresholds might particularly disadvantage women who are more likely to work part-time. The Russell Group highlighted the issue of teaching-only contracts for academics, with 68 per cent of current EU staff at their Institutions who are on teaching only contracts, being part-time.

*"Part-time staff are also likely to be affected by this salary threshold as their annual salary will be lower than their full-time equivalents. This would have a*

*particular impact on academics on teaching-only contracts, who are critical for training a skilled UK workforce.”*

Russell Group response to MAC Commission, 2019

- 5.81 Table 5.6 shows that within the existing workforce the proportions of UK and Non-EU nationals who work part-time is similar, whilst EU nationals have a lower share of part-time workers. Females make up the majority of part-time workers across all nationality groups.

| <b>Table 5.6: Work pattern by nationality group (APS, 2016)</b> |           |           |               |
|---|-----------|-----------|---------------|
|   | <b>UK</b> | <b>EU</b> | <b>Non-EU</b> |
| Proportion of workers who work full-time                        | 74%       | 81%       | 75%           |
| Proportion of workers who work part-time                        | 26%       | 19%       | 25%           |
| Proportion of part-time workers who are female                  | 77%       | 79%       | 60%           |
| Proportion of full-time workers who are female                  | 37%       | 40%       | 36%           |

Source: ONS, APS, 2016. Includes employees and self-employed aged 16-64. Work pattern is determined by respondent.

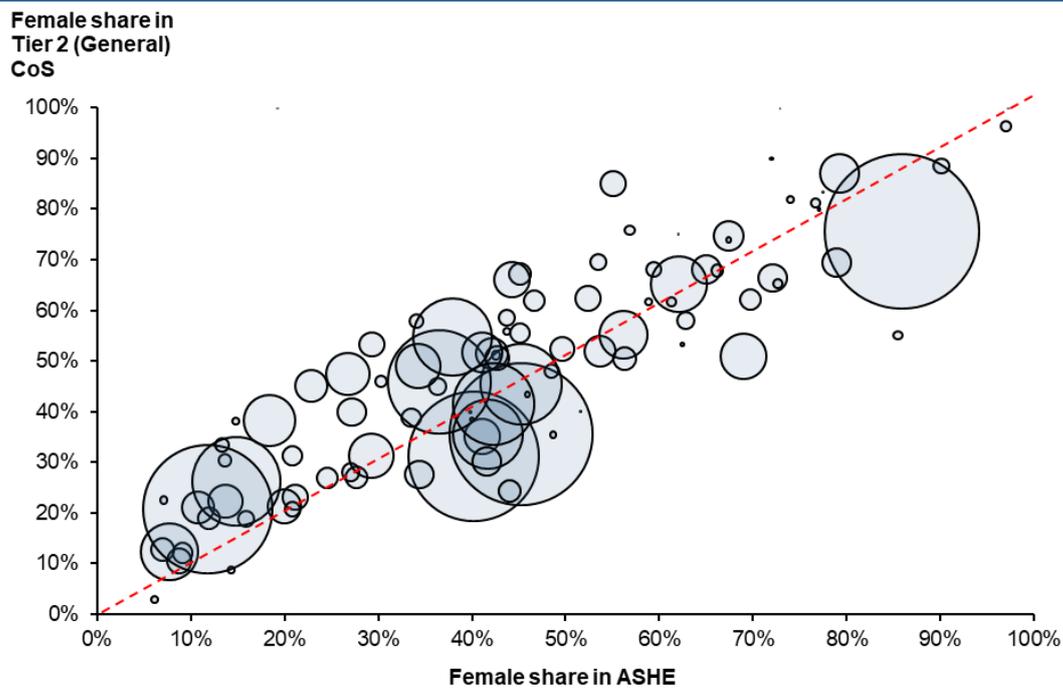
- 5.82 One way of addressing these concerns is to consider whether there is evidence that the current Tier 2 (General) system discriminates against women. We do not currently have significant evidence that there is a large number of migrants who come as a Tier 2 (General) main visa holder and work part-time.
- 5.83 As part of our review of the Shortage Occupation List, we looked at the share of females in Tier 2 (General). We found that for Tier 2 (General) Restricted Certificates of Sponsorship (RCoS) used in 2018, 46 per cent were female. This is in line with the gender split of the overall UK labour market. As would be expected, there is significant variation in the share of females across occupations. For example, nurses accounted for 78 per cent of used RCoS in 2018 compared to 25 per cent of IT professionals.

| <b>Table 5.7: Gender differences by occupation – used RCoS 2018</b> |                            |              |            |                      |             |
|---|----------------------------|--------------|------------|----------------------|-------------|
|   | Tier 2 (General) – All (%) | SOL Only (%) | Nurses (%) | IT Professionals (%) | Doctors (%) |
| Female  | 46                         | 47           | 78         | 25                   | 36          |
| Male  | 54                         | 53           | 22         | 75                   | 64          |

Source: Home Office management information

5.84 We have done a further investigation to look at gender mix within occupations in the current Tier 2 system and the wider labour market. Figure 5.8 plots the female share in current Tier 2 for each eligible occupation against the female share in the ASHE data. The size of the circles represents the number of migrants coming on Tier 2 in that occupation.

**Figure 5.8: Female share of occupations from ASHE and Tier 2 Restricted Certificates of Sponsorship (RCoS)**



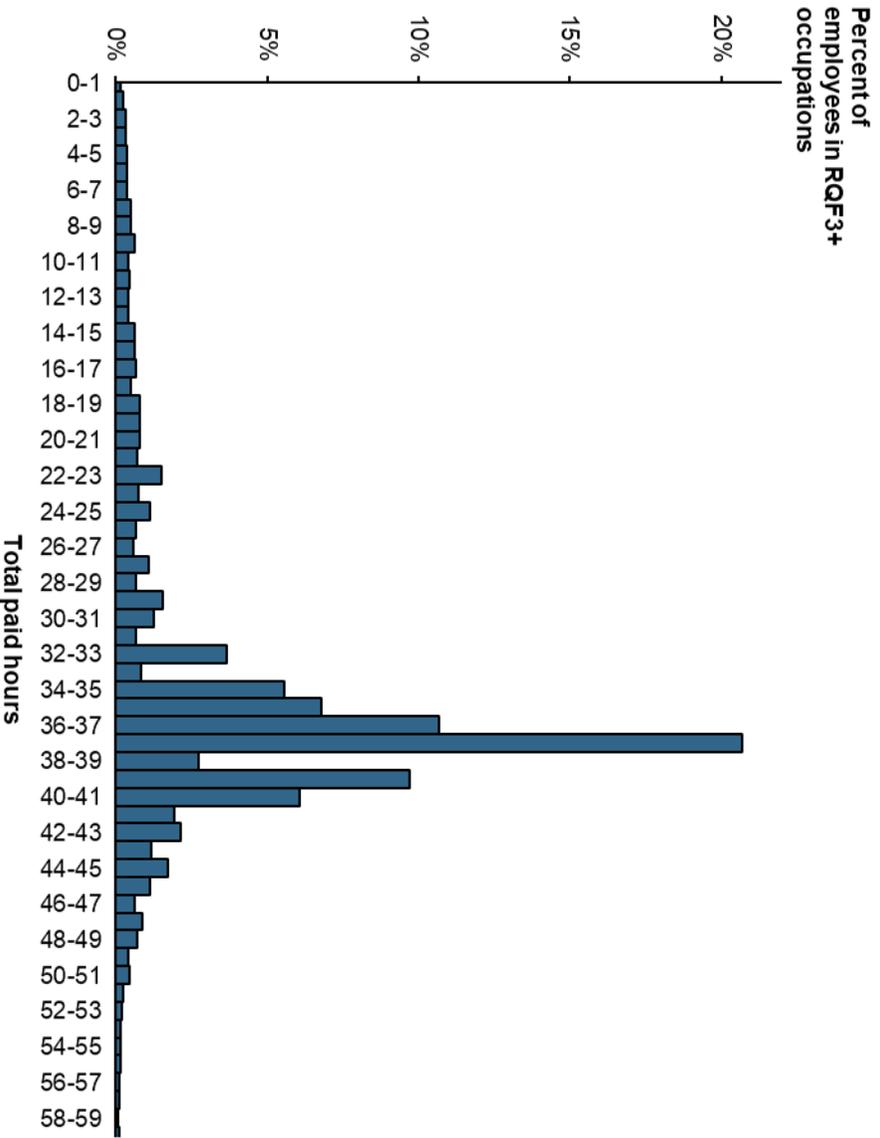
Source: Pooled ASHE observations 2015-2019; Tier 2 (General) Restricted Certificates of Sponsorship used between 6<sup>th</sup> April 2015 and 29<sup>th</sup> March 2019.

5.85 Figure 5.8 shows that the gender mix in Tier 2 is very similar to that in the labour market as a whole though it is higher in some occupations, lower in others. Overall, we applied the proportion of females in each occupation (based on data for all UK employees from ASHE) to the occupational distribution in Tier 2 (General). This found that given the occupational distribution of Tier 2 (General), one would expect 43 per cent of RCoS to be for females. In reality, the 2018 data shows that 46 per cent of RCoS were for females, suggesting that females actually make up a slightly higher proportion of Tier 2 (General) than would be expected given its current occupational mix.

5.86 Roles that are RQF3 and above will be eligible for the skilled worker route under the future system. The ONS define part-time as those working below 30 paid hours per week (or 25 hours for teaching professions). Part-time workers make up 18 per

cent of employee jobs which are defined as RQF3 and above<sup>88</sup>. This proportion is lower than the overall labour market as part-time workers are more concentrated in lower skilled roles. Figure 5.9 shows the distribution of total hours per week for roles which are RQF3 and above.

**Figure 5.9: Distribution of total hours per week for RQF3 and above employee jobs 2019**



Source: ASHE (2019); employees on adult rates whose pay for the survey pay-period was not affected by absence; excludes those working over 60 hours per week.

5.87 There are other arguments against pro-rating salary thresholds. The net fiscal contribution is likely to be lower because the taxes paid are lower but the consumption of public services the same. In addition, there are significant enforcement issues: if salary thresholds were pro-rated there is a risk that some employers might claim a migrant is part-time so lower the salary threshold but then work the migrant more than the claimed hours. It is unlikely that the enforcement mechanism could detect this.

<sup>88</sup> ASHE (2019); employees on adult rates whose pay for the survey pay-period was not affected by absence; full-time employees are defined as those who work more than 30 paid hours per week or those in teaching professions working 25 paid hours or more per week.

5.88 Whilst we respect the right of individuals to work part-time, we do not propose that the immigration system should adjust threshold levels to accommodate part-time working. Adapting the system in this way could result in increased abuse. Where part-time earnings are high enough to meet the full-time threshold, migrants will still be able to enter the UK and work.

**Recommendation: Salary thresholds should not be pro-rated to allow for part-time work.**

5.89 Currently, migrants who are the main applicant on Tier 2 (General) can take maternity leave but have to return to work full-time afterwards. We think the Government should consider more generosity for visa holders switching to part-time work when becoming a parent. There are other specific circumstances, such as someone unexpectedly having caring responsibilities, for which there is currently some discretion in the system.

**Recommendation: The Government should consider more flexibility (i.e. pro-rating salary thresholds) for visa holders switching to part-time work after becoming a parent.**

5.90 While, on balance, we do not think that pro-rating salary thresholds would be sensible, it is striking that very few of the immigration statistics provide a disaggregation by gender to enable others to investigate whether the current system discriminates against women.

**Recommendation: The Home Office should publish breakdowns of entry clearance visas disaggregated by gender on a regular basis.**

## Salary thresholds and SOL for Tier 2 (General) entry

5.91 In the current Tier 2 (General) system some jobs are on a Shortage Occupation List (SOL). Occupations must meet three requirements to be placed on the SOL: skilled (are the jobs skilled to the required level?), shortage (is the job in shortage?), and sensible (is it sensible to try to fill those shortages through migration?). We published a full review of the SOL in May 2019<sup>89</sup>, recommending which highly-skilled occupations (RQF6 level and above, those currently eligible for Tier 2) should be on the UK-wide SOL and some additional occupations for the Scotland-only SOL. These were implemented by the Government in Autumn 2019 Immigration Rules changes. We also recommended that separate SOLs should be established for Wales and Northern Ireland. However, we did not recommend placing any occupations on the Northern Irish or Welsh SOLs at that time.

5.92 Occupations on the SOL currently enjoy some advantages: priority when the Tier

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<sup>89</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/806331/28\\_05\\_2019\\_Full\\_Review\\_SOL\\_Final\\_Report\\_1159.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/806331/28_05_2019_Full_Review_SOL_Final_Report_1159.pdf)

2 (General) cap binds, exemption from the Resident Labour Market Test, and lower visa fees. Under the current rules, inclusion of an occupation on the Shortage Occupation List (SOL) is not linked to lower salary thresholds. As discussed in Chapter 3, occupations on the SOL are currently exempt from the threshold for settlement.

- 5.93 The current commission asks for our advice on whether inclusion on the SOL should be linked to lower salary thresholds for application for Tier 2 (General) on entry.
- 5.94 Our SOL review in May 2019 outlined the reasons for why an occupation might be in shortage. Generally, a shortage is indicative of wages being below the market-clearing level. Given this, allowing occupations on the SOL to have lower salary thresholds could partially exempt them from pressure to increase wages or improve conditions. Instead of solving skills shortages by improving the offer to attract workers into the occupation, this would have the opposite effect of perpetuating or even exacerbating the shortages. This would have distortionary impacts across the labour market where some sectors are disincentivised to make pay or conditions more attractive.

**Recommendation: Occupations on the Shortage Occupation List should not have lower salary thresholds on entry.**

- 5.95 In the new immigration system, Tier 2 (General) eligibility will be expanded to medium-skill occupations (RQF3-5). There is no SOL for medium-skill occupations currently. The MAC does not think it would be a good idea to commission a SOL review in the immediate future for these jobs for two reasons. First, any assessment of current shortages in medium-skill occupations is unlikely to be indicative of shortages in the new immigration system once free movement has ended. We do not see a robust way to accurately and objectively predict future skills shortages. The process of compiling a SOL is lengthy and imperfect given decisions are based on historical data. There are concerns that it does not keep up with the dynamic changes in the labour market or reflect future labour market circumstances. At the same time, the types of jobs that are seen as being in shortage change little over time. In 1965, a White Paper on Commonwealth Immigration proposed that priority in the allocation of work permits should be given to ‘doctors, dentists and trained nurses’, ‘teachers’, ‘graduates in science or technology’ and ‘non-graduates with certain professional qualifications’, a list of priorities not very different from many lists 55 years later. Given many of the same occupations tend to feature almost continually on the SOL this suggests that their presence on that list is not helping to boost salaries.
- 5.96 Second, there is no need to commission a SOL because the proposed abolition of the cap and the RLMT mean that the main advantages of being on the SOL will disappear, leaving only the slightly lower visa fees and the role of the SOL in the

settlement process (in Chapter 3 we recommended a review of the requirements for settlement). The lower visa fee is a very small benefit for the scale of the task of reviewing the SOL and there is less urgency about the role in the settlement process because the advantage accrues to any job that has been on the SOL in the last 6 years.

- 5.97 We would recommend the following course of action in regard to the SOL in the new immigration system. After the system has been in place for sufficient time to see how it is working, there is a first a review of whether the SOL is still needed, and, if so, what should be the advantage from being on the SOL. Only after a conclusion that the SOL is still needed would there be a review of which occupations are on it.
- 5.98 In assessing the future role of the SOL, a possible future alternative that would be less resource-intensive is to have 'priority' jobs such as in healthcare and science with possible benefits such as lower visa fees and automatic fast-track processing of applications.

**Recommendation: We recommend a review of whether the SOL is needed after the new immigration system has been fully introduced.**

- 5.99 We are concerned that this recommendation may be misinterpreted. Labour shortages do exist and have an impact and the migration system should be one way to alleviate them. However, the SOL has limited use in prioritising migrants entering under the route in the future system for which the only benefit is lower visa fees.
- 5.100 We are also conscious that some stakeholders have become accustomed to highlighting their views through stakeholder engagement and the CfE around the SOL and could feel concerned about a lack of voice by our proposal not to review the SOL in the near future. The MAC's intention is to have a programme of engagement with stakeholders that is not just confined to commissions, as we move towards our enhanced future role. The letter from the Chair to the Home Secretary that is published on our website today alongside our report, outlines this plan.

## Role of non-cash remuneration

### Current policy on allowances

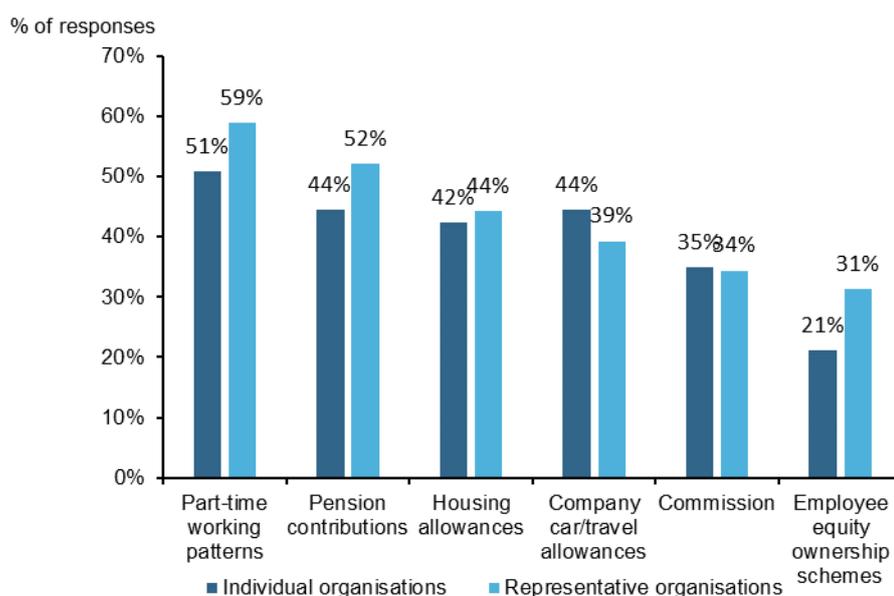
- 5.101 Tier 2 (General) currently permits limited allowances defined as "*allowances which are guaranteed to be paid for the duration of your employment in the UK and would*

be paid to a settled worker in similar circumstances”<sup>90</sup>. This does not include relocation costs, business travel expenses, medical benefits, employer pension contributions or equity shares. Only about 1 per cent of Restricted Certificates of Sponsorship used in 2018 claimed any allowance.

## Allowances

- 5.102 While the analysis suggests that allowances have only played a minor role in enabling a small proportion to reach the salary threshold, the future skilled route will be open to RQF3+ level occupations.
- 5.103 Stakeholders and respondents to the CfE had mixed views about whether or not additional allowances should count towards salary, and if so, which should be included.

**Figure 5.10: Call for Evidence responses: characteristics that should be counted towards the salary for assessing whether an individual meets the threshold**



Base: All respondents: Individual organisations (189), Representative organisations (163). Responses for representative organisations reflected a mixture of the views of businesses/organisations they represented, and the views of the representative organisations themselves.

- 5.104 CfE respondents did not agree that most of the elements asked about should count, with exceptions being part-time working and pension contributions. Almost six in ten representative organisations said part-time working should count, and just over half of individual organisations said the same. Meanwhile, 52 per cent of

<sup>90</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/836921/2019.06.05\\_-\\_MAAP\\_guidance\\_FINAL1.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/836921/2019.06.05_-_MAAP_guidance_FINAL1.pdf)

representative organisations and 44 per cent of individual organisations felt that pension contributions should count. Representative organisations also took a slightly more flexible view than individual organisations on whether employee equity ownership schemes should count towards the threshold (31 per cent of representative organisations said they should, compared to 21 per cent of individual organisations).

5.105 Other elements respondents suggested should count towards the threshold included:

- a. Flexible working where the nature of the job means that hours fluctuate (for example in agriculture);
- b. One-off payments such as payment for the visa application, 'golden hellos';
- c. Non-guaranteed or guaranteed variable payments or salary enhancements such as piece work rates, bonuses, shift/on-call allowances, night/weekend premiums, guaranteed overtime, media fees;
- d. Payments that come from the business but which are necessary for the individual to be employed, such as National Insurance, tools and protective clothing, food while it is impossible for the employee to obtain their own (for example if they are at sea); and
- e. In-kind benefits such as health insurance.

5.106 Other respondents did not want anything other than salary to count towards the threshold, arguing that this risked creating a more complicated system. Indeed, the view was also raised that self-employed people who did not receive any of these benefits should have a lower salary threshold to compensate.

*"None of these are salary. They are what they say they are and should not disguise the salary threshold as direct payment for labour. It confuses the picture and skews the pattern toward complexity of regulation for no good purpose."*

Individual organisation, Public Administration/Education/Health, 10-49 employees, Northern Ireland

*"We believe it would be difficult to fairly monetise different salary packages, and would therefore support only cash salary being counted."*

Individual organisation, Public Administration/Education/Health, 500+ employees, London

5.107 During stakeholder engagement sessions the views were similarly mixed. Some expressed the view that pension contributions should be included, as they were regular components of remuneration. Others reflected that in their sector non-cash remuneration was too informal to be included, e.g. taking home left over food/

products. For others, though, the inclusion of allowances was a risk. It was suggested that in some sectors providing benefits such as accommodation may result in a level of employer control over the migrant. A body associated with the protection of workers, for example, highlighted that in lower skilled occupations, control of housing and transport was sometimes associated with exploitation.

**5.108** We share these concerns, which may lead to adverse consequences for the migrant themselves and for wider labour market flexibility. For example, where employment is tied to allowances for specific accommodation, this represents an additional barrier in the migrant finding a role with another employer. Additionally, there are wider challenges in consistently and accurately incorporating the value of allowances into the salary calculation. We have concerns that giving significant weight to allowances complicates the system and may be prone to non-compliance.

**5.109** In addition, we base our recommendations on salary threshold on percentiles of earnings distributions. These earnings distributions do not include allowances, so if allowances were counted as part of a salary threshold then a migrant would not necessarily be meeting the required level within the earnings distribution which is not in line with our aim to prevent undercutting. The data on earnings including allowances is not available at the level needed to set occupation specific thresholds.

### **Equity shares**

**5.110** As noted above, the case was also made for counting equity shares towards the salary threshold of a Tier 2 (General) applicant. This is a particular theme for start-up businesses who may more frequently remunerate their employees with equity and pay lower cash salaries. To our knowledge, there is only one international example of counting equity towards such purposes. This is likely to be a result of the challenges for a third party to correctly and consistently assess the value of the equity, with a high risk of inaccurate claims.

**5.111** In Australia, there is a small and highly specialised route for start-up sponsors operating in a technology based or STEM related field. The salary threshold is the market rate for that role or 80,000 Australian dollars (around £42,600), whichever is higher. This must include a cash component of at least 53,9000 Australian dollars (around £28,700) which is the Temporary Skilled Migration Income Threshold. It can also include equity to count towards the salary threshold.

**5.112** The skilled worker route encompasses a much wider group of sectors and employees. Whilst we recognise that this may present a barrier to start-ups wishing to employ talented migrants who make an important contribution to the UK, we do not believe there is a fair and robust way assess the value and incorporate equity within the Tier 2 salary threshold design.

5.113 There is a further rule regarding equity for Tier 2 (General), where visa holders cannot own more than 10 per cent of their sponsor's shares (unless they earn over £159,600). This may unnecessarily penalise those in sectors where employee's own equity in their employer such as the creative industries, though may offer some protection from employees essentially sponsoring themselves through this route if the proportion was significantly increased.

**Recommendation: The rules on Tier 2 (General) visa holders owning equity in the employer sponsoring them should be reviewed.**

## Pensions

5.114 Some stakeholders have also argued for employer pension contributions to be included within allowances. We have no data on whether migrants are enrolled in pensions in the private sector and do not see a strong case for this.

**Recommendation: Only salary on the main job should be used to determine whether the salary threshold is met. Allowances, equity and employer pension contributions should not be included.**

## Conclusions

5.115 The main economic rationale for salary thresholds is prevention of undercutting in the labour market i.e. hiring migrant workers at wages below the prevailing domestic level. We have little evidence undercutting is happening, but salaries paid to migrants tend to cluster around existing salary thresholds, suggesting employers would like to pay less if they were able to. Preventing undercutting helps ensure that migrants have a more positive impact on the public finances and supports the UK economy.

5.116 We considered the methodology for setting salary thresholds: we have recommended they should be revised annually in line with ASHE data to reflect changes in the labour market. However, there are a range of, mainly public sector, occupations where salaries may not fully reflect the value of the work undertaken; for example, nurses or teachers, and this group should have their thresholds set by other means, such as nationally negotiated pay scales.

5.117 Salary thresholds should, as now, be lower for new entrants to the labour market: but we recommend a changed approach such that the new entrant rate should be set at 70 per cent of the experienced worker rate. We also suggest widening the definition of a new entrant.

5.118 Salary thresholds should not be pro-rated for part-time work on entry, though government may wish to consider whether it allows migrant workers a lower threshold if they become a parent or carer (if a suitable definition can be agreed) whilst already in the UK.

- 5.119 Salary thresholds should be based on regular salary alone. This is easiest to verify and least open to potential exploitation.
- 5.120 In the next chapter we set out our modelling framework for considering the impacts of different levels and designs of salary thresholds.

## Chapter 6: Impact of Tier 2 (General) salary thresholds

### Summary

- We develop a methodology for assessing the impact of different salary thresholds.
- We apply this methodology to consider what would have been the impact of applying the current salary thresholds in Tier 2 (General) to EEA migrants who have arrived since 2004, taking account of other visa routes.
- This approach is useful for comparing the likely impact of different migration policies but should not be misinterpreted. The EEA migrants who have come to the UK since 2004 have the right to remain in the UK, a right the MAC strongly supports.
- The advantage of such an approach is we can compare this to a known, rather than forecasted, baseline. However the disadvantage is that it doesn't allow us to make predictions about the likely impact of applying salary thresholds after the UK leaves the EU.
- 73 per cent of EEA migrants in 2016-18 who arrived after 2004 are estimated not to have been eligible for a visa if the current Tier 2 (General) salary thresholds had been in force but medium skill occupations were eligible.
- Population and GDP would have been lower with the current salary thresholds and a medium skill threshold in place for EEA migrants since 2004, but GDP per capita and average labour productivity would have been higher. The public finances would have improved, pressures on health, education and social housing would have been lower but pressures on social care higher, the dependency ratio higher and impacts would be larger in some occupations and sectors.
- All these impacts, apart from the ones on immigration, population and GDP, are estimated to be very small.
- The impact would have been larger in London than other parts of the UK. This reflects the greater share of migrants in the London population and labour market.

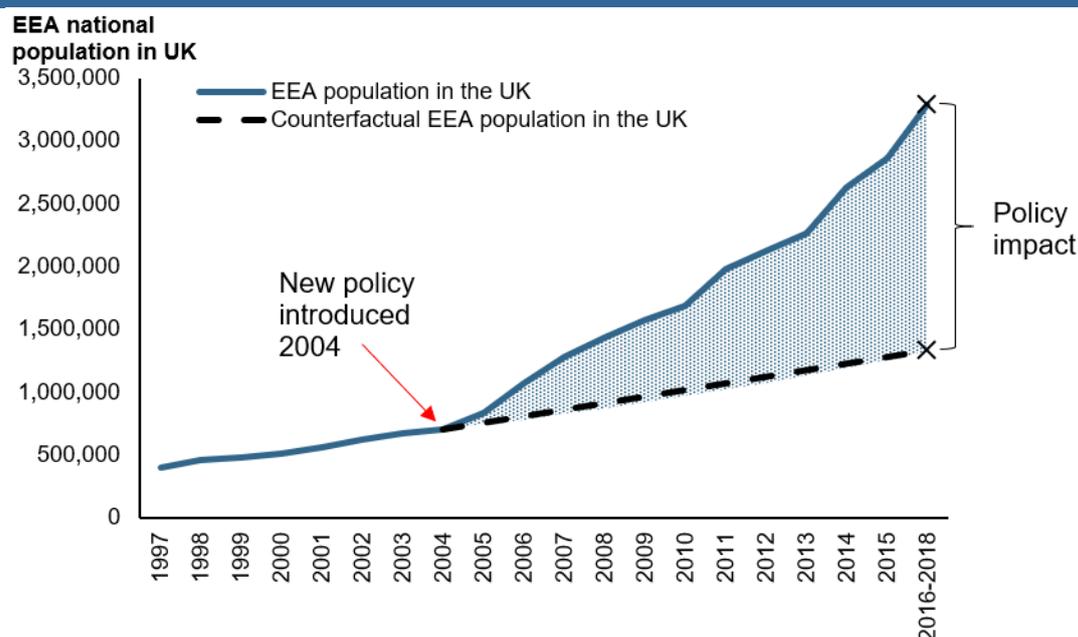
## Introduction

- 6.1 In the previous chapter we explored why salary thresholds might be a useful tool within a selective immigration system and what the objectives of a salary threshold policy might be. We now wish to examine which set of salary thresholds are most likely to meet those objectives. To do this we take an empirical approach. We seek to quantify the impact different salary threshold policies might have on outcomes such as GDP per capita and fiscal contributions.
- 6.2 It is important to note that this is a very difficult exercise. We try to be clear about the assumptions being made and how results might change with different assumptions. Although the results presented below represent our best approximations of the impacts of different salary thresholds, they are all subject to considerable uncertainty and this needs to be borne in mind.
- 6.3 In this chapter, we set out our methodology for quantifying the impact of applying salary thresholds on a number of outcomes of interest. In doing this we use the current Tier 2 (General) salary thresholds as an example case. In Chapter 7 we go on to use this methodology to explore the impacts of alternative salary threshold policies and ultimately make a set of recommendations.

## Modelling methodology

- 6.4 In general, the approach is to compare outcomes under different policy options. Often one of the policy options – perhaps the status quo - is treated as a baseline against which all other policies are compared but there is no particular need to single one policy option out in this way. We use a backward-looking approach to evaluate how the UK would have been different if the UK had deviated from freedom of movement in 2004, looking at outcomes averaged over the three-year period 2016 to 2018. Our exercise is represented graphically in Figure 6.1.

**Figure 6.1 – Illustration of modelling approach**



Source: EEA population from LFS (four quarter averages) and APS, counterfactual population from MAC calculations on 3-year APS 2016-18

6.5 Our approach has the disadvantage that it is not possible to re-write history and those EEA citizens who came after 2004 have the right to remain in the UK, a right we strongly support. Additionally, it does not allow us to make projections of how outcomes might evolve over the coming years. Nonetheless, the backward-looking approach has the advantage that the baseline of free movement is something that actually happened, not a hypothetical scenario. It enables identifying the proportion of the population who actually came to the UK but would not have been able to come if a different policy had been in place. Furthermore, it is a more flexible approach as we have access to detailed characteristics of those EEA nationals that came to the UK since 2004 and so can more easily apply detailed eligibility criteria. Another important point is that the estimated impacts will depend on the date at which the different policies are evaluated. One can see that in Figure 6.1 the estimated difference in the size of the EEA population under the two scenarios is likely to be bigger the further the point of evaluation from the date of policy introduction.

6.6 It is also important to realise that the magnitude of the estimated impacts is also likely to depend on the size of the migration flows. The period after 2004 saw very large changes in the stock of the EEA population. Flows have been falling recently and this is likely to continue in the future even if free movement was retained. This means that even the same policy evaluated the same number of years after introduction is likely to have larger estimated impacts in the backward- compared

to the forward-looking case. This is discussed when discussing the differences in our to that taken in the Immigration White Paper<sup>91</sup>.

- 6.7 Because migration flows are very hard to predict<sup>92</sup> it is important to have a migration policy that works in a wide range of situations. An alternative modelling methodology is what we call the ‘marginal approach’<sup>93</sup>. Consider a small reduction in a salary threshold that allows some migrants to enter the UK who would not otherwise be eligible. If these additional migrants have impacts that are generally positive that would suggest that a lower salary threshold was appropriate. This conclusion may not be dependent on how many other migrants there are, avoiding the need to forecast migration flows.
- 6.8 It is best to use these different modelling methodologies as a means of comparing one policy with another. The numerical impacts are too easily taken out of context.
- 6.9 Changes to the current policy will also impact the future inflows of non-EEA migrants. Assessing changes to non-EEA migration is much harder as, unlike with EEA migration, we have not observed what the world looks like with fewer constraints. Our quantitative modelling focuses on EEA migration and we return to non-EEA migration as a standalone discussion later.
- 6.10 With these caveats in mind we proceed by defining the group we are interested in and then set out a methodology for assessing their eligibility for different visa routes given the data available.

## Modelling eligibility for visa routes

### Whose eligibility?

- 6.11 We identify those individuals that may not have appeared in our dataset had a different immigration policy for EEA nationals existed since 2004. We use the three-year Annual Population Survey (APS), the latest version of which covers the 2016 to 2018 period. This dataset was chosen as it offers more detailed migrant characteristics than something like the Annual Survey of Hours and Earnings (ASHE) and also has a larger sample size than the one-year APS.
- 6.12 We attempt to estimate eligibility of the current stock of EEA migrants<sup>94</sup> under different migration policies. In doing this we can only use the current observed characteristics of the migrants which is likely not to be the same as at entry. Some

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<sup>91</sup> <https://www.gov.uk/government/publications/technical-paper-to-accompany-the-the-uks-future-skills-based-immigration-system-economic-appraisal-annex-b>

<sup>92</sup> <https://www.gov.uk/government/publications/evaluation-of-existing-migration-forecasting-methods-and-models>

<sup>93</sup> For further detail on this approach see Annex H

<sup>94</sup> We do not include Irish nationals in our definition of EEA nationals. For the list of countries included in our definition of EEA see Annex G.

migrants today who are unemployed and appear ineligible may previously have been employed and eligible. Some of those with high earnings today, and so appear currently eligible, may have previously had lower earnings and have been ineligible. In the absence of high-quality longitudinal data it is impossible to address these problems so we proceed under the assumption that eligibility today is a good indicator of eligibility on arrival. We also implicitly assume that length of stay is the same under the counterfactual policy (the hypothetical policy scenario) as it was under Freedom of Movement (FoM). The requirement for this assumption comes from the fact we are applying our methodology to the current stock and do not observe those migrants that came after 2004 and left before 2016.

- 6.13 Given these assumptions we assess the eligibility of the current stock of EEA-migrants for different visa routes, restricting the sample to those who first came to the UK in 2004 or later, the year we start our counterfactual. By removing those we do not find eligible for at least one visa route we generate a counterfactual population to compare to the 'no policy change' baseline of the current population. In the accompanying technical annex we show that our analysis is not sensitive to choosing 2004 as the baseline.
- 6.14 In most MAC publications to date we have used country of birth rather than nationality to define migrant groups, to avoid excluding naturalised migrants. However, as we are interested in eligibility for visas, nationality is the more obvious choice in this case, though in the APS it is self-reported and respondents cannot report dual nationality.
- 6.15 Only around 4 per cent ( $\approx 90k$ ) of EEA-born migrants who first came to the UK since 2004 report having UK nationality, some of these will be naturalised migrants while others may have been lifelong UK nationals who were born in the EEA. Using nationality rather than country of birth (both self-reported) means we will exclude this group. However, using country of birth instead of nationality means we would exclude those EEA-nationals born outside of the EEA. This latter group are numerically larger ( $\approx 220k$ ). We proceed with using nationality as our main EEA-migrant identifier.
- 6.16 While EEA nationality will capture most individuals who would have been affected had a different policy been implemented in 2004, there is also the case of UK-born children of EEA nationals. It is reasonable to assume that they would not have been in the UK if their parents had not been. To the extent these children are reported as EEA nationals in the APS they will be captured by our nationality definition. However, they may report a UK nationality particularly in cases where one of the parents is a UK national. We therefore extend our definition to include UK-born children ( $<18$  years old) who live with at least one (natural) parent who is an EEA-national that came to the UK after 2003 ( $\approx 435k$ ). We assign a half weight to those children who live in a household with two parents only one of whom is an EEA national who arrived since 2004 ( $\approx 240k$ ).

6.17 In total the group we have identified represents around 2.9 million people. Table 6.1 below breaks down this group by their economic status and age. It is important to note that we are considering the impact of migration policy 14 years after its purported introduction. That is not the same as what the impact would be if the policy was in place for a longer period. For example, very few of the EEA-migrants who came after 2004 have yet reached retirement age, something which means that a relatively high proportion of them are in employment and few are receiving pensions. On the other hand, many of them are of an age when they have dependent children, who are also not in employment and are receiving public education. An assessment of future impacts would require inevitably speculative assumptions of how many of these migrants remain in the UK into their retirement, and how well their children will fare in the UK labour market.

**Table 6.1: EEA-migrants who first arrived after 2003 by category (APS 2016-18)**

| Category   | Count            | Share (%)   |
|--|------------------|-------------|
| <b>Working aged (18-64)</b>                          |                  |             |
| Employee   | 1,454,000        | <b>51%</b>  |
| <i>higher-skill</i>                                  | 275,000          | 10%         |
| <i>medium-skill</i>                                  | 350,000          | 12%         |
| <i>lower-skill*</i>                                  | 828,000          | 29%         |
| self-employed  | 260,000          | <b>9%</b>   |
| not employed   | 344,000          | <b>12%</b>  |
| other employed**                                     | 5,000            | <b>0%</b>   |
| <b>Not working aged</b>                              |                  |             |
| older (65+)  | 18,000           | <b>1%</b>   |
| children (<18)                                       | 770,000          | <b>27%</b>  |
| <i>Not UK-born EEA-nationals</i>                     | 335,000          | 12%         |
| <i>UK-born (at least one EEA-national parent)***</i> | 435,000          | 15%         |
| <b>Total</b>   | <b>2,853,000</b> | <b>100%</b> |

Notes: APS 2016-18, Estimates to nearest 1,000, \*Lower-skill also includes occupations excluded from Tier 2 for reasons other than skill e.g. elected representatives, \*\*Other includes those employed on government scheme, unpaid family workers and those without a known status. \*\*\*UK-born children living with only one EEA national parent who arrived after 2003 are given a half weight.

### Eligibility for what?

6.18 In this chapter we consider what would have happened if EEA migrants had faced the current rules Tier 2 (General) after 2004. In doing this we recognize that there are other possible routes by which EEA migrants might have come to the UK. For every individual in the group identified above we assess their characteristics against a set of rules and thresholds to determine if they would be available for at least one of the types of visa routes outlined in the Table 6.2 below:

**Table 6.2: Eligibility criteria by visa type**

| Visa Route                               | How eligibility is assessed  | ...further details  |
|--|--|---|
| <b>Tier 2 (General) – Main Applicant</b> | EEA national adult (18+ years old) in an employee role with annual earnings greater than or equal to relevant threshold and working in an occupation skilled at RQF3 or higher (as per appendix J of current immigration rules)  | <i>See Annex G for details on the earnings data used and how salary threshold are calculated and applied</i>  |
| <b>Tier 2 (General) – Dependant</b>      | <p>EEA national adult currently living with a foreign-national partner (EEA or Non-EEA born) that first came to the UK in the same year as them (or no more than three years earlier)<sup>95</sup> and meets the criteria for <i>Tier 2 (General) - Main Applicant</i>.</p> <p><b>OR</b></p> <p>Child (under 18 years old), not UK-born EEA national, that currently lives with at least one foreign-national parent (who came to UK after 2003) that meets the criteria for <i>Tier 2 (General) - Main Applicant</i>.</p> <p><b>OR</b></p> <p>UK-born child (under 18 years old) of an EEA national (came to UK after 2003) who has at least one foreign-national parent that meets the criteria for <i>Tier 2 (General) – Main Applicant</i></p> | Partner defined as ‘Spouse’, ‘Cohabiting Partner’ or ‘Civil Partner’  |
| <b>Family visa</b>                       | <p>EEA national adult (came to the UK after 2003) who currently lives with a UK national partner who meets the family visa income threshold.</p> <p><b>OR</b></p> <p>EEA national child (came to the UK after 2003) who currently lives with a UK national parent who meets the family visa income threshold.</p> <p><b>OR</b></p> <p>UK-born child of an EEA parent who lives with another parent who is a UK national who meets the family visa income threshold.</p> <p>We do not have an indicator for ILR in the APS so rely on UK nationality – likely underestimates those eligible for the Family route.</p>   | <p>Family visa income threshold is £18,600 + £3,800 for first child + £2,400 each subsequent child.</p> <p><i>For more details on the earnings used to assess eligibility against this threshold see Annex G.</i></p> |
| <b>Tier 4 – Main Applicant</b>           | EEA national adult current studying at university, polytechnic, college full time  | Using APS variable course equal to four   |
| <b>Tier 4 – Dependant</b>                | EEA national adult or EEA national child living with an EEA national partner or parent respectively who is eligible for Tier 4 as a main applicant.  |   |

<sup>95</sup> To reduce the possibility that they met their partner after coming to the UK.

- 6.19 Our analysis holds all visa rules the same except for Tier 2 (General). This means that migrant eligibility will only vary as we change salary thresholds for two of the routes we are assessing, Tier 2 (General) main applicant and Tier 2 (General) dependant. The other routes are there to provide a more realistic assessment of different ways migrants can come to the UK and in so doing to generate more realistic assessments of the potential change in population and labour supply.
- 6.20 The visa routes we consider are not comprehensive. Tier 2 (General) main/dependant, Tier 2 Intra Company Transfer (ICT) short & long main/dependant<sup>96</sup>, Tier 4 (General Student) main/dependant, Family (Partner) and Family (Child) represented 78 per cent of all work/family/study (ex. short term study) visas granted to non-EEA nationals between 2016 and 2018<sup>97</sup> - indicating we are covering the most significant visa routes. We do not explicitly model eligibility for Tier 2 ICT route on the assumption that this route will become less significant in the future system as Tier 2 (General) becomes more accessible.
- 6.21 Furthermore, we do not take account of all the eligibility rules within each route. Notably for Tier 2 (General) main applicants we are not conditioning on migrants having a job offer before coming to the UK. Neither are we taking account of the additional costs associated with coming to the UK under a regulated route like Tier 2 compared to freedom of movement, which can be quite substantial once visa fees, the immigration skills charge and immigration health surcharge are added up. It is also possible that salary thresholds alter the wages of migrants – we reported some evidence for this in Figure 5.1 of Chapter 5.
- 6.22 We are also further assuming that all the employers of the migrants we find eligible as Tier 2 (General) main applicants would have been registered to sponsor migrant workers. Currently this involves applying to the Home Office, paying a licence fee and paying for a certificate of sponsorship every time you sponsor a migrant worker. The Home Office White Paper on the future immigration system pledged to “*reform the sponsorship system to minimise burdens on employers, particularly small and medium sized enterprises*”. The Law Commission produced a report in January 2020 on ‘*Simplification of the Immigration Rules*’<sup>98</sup> that offers many recommendations on how the immigration system as a whole (not just work migration) could be made easier to follow for its users.
- 6.23 In this approach we do not consider other actual and proposed new visas, notably the short-term temporary worker visa described in the White Paper and the 2-year post-study work visa to be introduced in 2020. A brief section at the end of this

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<sup>96</sup> This figure includes ICTs on the assumption that those we identify for Tier 2 (General) would also be eligible for Tier 2 (ICT).

<sup>97</sup> Home Office immigration statistics YE March 2019 – *Table vi\_04: Entry clearance visas granted by category*. Tier 1, Tier 5 represented a further 10%.

<sup>98</sup> <https://www.lawcom.gov.uk/improved-drafting-of-immigration-rules-to-save-government-70-million/>

chapter considers how our conclusions might be changed with the introduction of these visas.

- 6.24 Finally, the APS only asks respondents about their weekly earnings, while salary thresholds have been set using annual figures. We are therefore forced to annualise (multiple by 52) the earnings estimates available to us when assessing whether a migrant meets a given salary requirement.

## Estimating impacts

- 6.25 Once we have ascertained who in our dataset we find eligible for at least one visa route we can then estimate various impacts by comparing our counterfactual population, which excludes those we cannot find a visa route for, with the existing population. The differences between these two populations can give us insights into the impacts of a given salary threshold policy on EEA-migrants and also investigate how that varies across a number of dimensions, like region/country, sector, occupation, age and gender.
- 6.26 The areas of change we look at are listed below:
- a) Immigration
  - b) Population
  - c) Employment
  - d) GDP and GDP/capita
  - e) Wages
  - f) Productivity
  - g) Fiscal
  - h) Public services
  - i) House prices
- 6.27 This list is drawn from the set of outcomes we considered in our September 2018 report on EEA migration. That report also considered some other outcomes such as training, crime and life satisfaction, but we found no impact of EEA migration on them and assume them to be zero here.
- 6.28 In the next section, we illustrate our approach to estimating these impacts by applying them to the case of a medium skill threshold and the current set of Tier 2 (General) salary thresholds.

## Results for the existing Tier 2 (General) salary thresholds and a medium skill threshold

- 6.29 As discussed in Chapter 2 the existing Tier 2 (General) salary thresholds for most workers are set at the higher of £30,000 or the 25th percentile of full-time earnings within a given occupation for experienced workers. For 'new entrants' the equivalent figures are £20,800 or the 10th percentile. Table G1.1 in Annex G outlines how we take account of the deviations from these rules when applying the

relevant thresholds to the individuals in our dataset. This chapter focuses on applying a skills threshold of RQF3 and above (as set out in the Immigration White Paper) and the current levels of salary thresholds under Tier 2 (General). The next chapter looks at alternative salary thresholds.

## a) Migration

- 6.30 Given our modelling framework we are unable to say anything about potential impacts on future migration flows. However when applying the current thresholds and an RQF level 3 skill threshold (the skills level required for the skilled worker route as set out in the Immigration White Paper), we find that approximately 27 per cent of EEA-nationals who arrived since 2004 (and their UK born children) would have been eligible for a visa route given their current characteristics.
- 6.31 Under the assumptions laid out previously we can infer from this that cumulative EEA net migration since 2004 would have been around 70 per cent lower under our counterfactual policy than what actually occurred under freedom of movement.
- 6.32 Table 6.3 breaks down eligibility by visa type, economic status and age. An individual may be eligible for more than one type of visa and so we create an eligibility ordering with Tier 2 (General) Main Applicant at the top and Tier 4 Dependant at the bottom. The table suggests that around 71 per cent of employees in higher-skilled occupations would be eligible under the current Tier 2 (General) salary thresholds with an additional 25 per cent of those in medium-skilled occupations. Around 9 per cent of those in lower-skilled roles would be eligible as dependants of Tier 2 migrants, through a Family visa or as students. This may be an over-estimate if many of these family relationships between EEA and UK citizens would not have formed in the absence of free movement.
- 6.33 In Annex G we conduct a sense check on this methodology for assessing visa eligibility. We do this by applying the same approach used for EEA-migrants to recently arrived non-EEA migrants. These are migrants that would have had to obtain a visa to take up residence in the UK. As such we should find almost all recently arrived non-EEA migrants eligible for at least one visa route. In reality we fail to find a not insignificant minority of recent non-EEA migrants eligible for any of the visa routes we are modelling. It is possible that our approach underestimates the proportion of migrants that would be eligible for at least one visa route.

**Table 6.3: EEA national (+ UK-born children) eligibility for visa routes by economic status and age (APS 2016-18) – current salary and RQF3+ skill thresholds**

| Category   | Share of EEA population of interest | Not eligible | % of group eligible for visas |           |           |                 |            |
|--|-------------------------------------|--------------|-------------------------------|-----------|-----------|-----------------|------------|
|  |                                     |              | T2(G) Main app                | T2(G) Dep | Family    | Tier 4 Main app | Tier 4 Dep |
| <b>Working aged (18-64)</b>                          |                                     |              |                               |           |           |                 |            |
| Employee   | 51%                                 | 71%          | 20%                           | 3%        | 4%        | 3%              | 0%         |
| <i>higher-skill</i>                                  | 10%                                 | 20%          | 71%                           | 3%        | 4%        | 2%              | 0%         |
| <i>medium-skill</i>                                  | 12%                                 | 63%          | 25%                           | 3%        | 5%        | 3%              | 0%         |
| <i>lower-skill*</i>                                  | 29%                                 | 91%          | 0%                            | 2%        | 4%        | 3%              | 0%         |
| self-employed  | 9%                                  | 87%          | 0%                            | 4%        | 4%        | 2%              | 2%         |
| not employed   | 12%                                 | 66%          | 0%                            | 5%        | 6%        | 23%             | 0%         |
| other employed**                                     | 0%                                  | 85%          | 0%                            | 4%        | 4%        | 8%              | 0%         |
| <b>Not working aged</b>                              |                                     |              |                               |           |           |                 |            |
| older (65+)  | 1%                                  | 91%          | 0%                            | 0%        | 9%        | 0%              | 0%         |
| child (<18)  | 27%                                 | 75%          | 0%                            | 14%       | 6%        | 3%              | 3%         |
| <i>Not UK-born EEA-national</i>                      | 12%                                 | 76%          | 0%                            | 11%       | 3%        | 6%              | 3%         |
| <i>UK-born (at least one EEA-national parent)***</i> | 15%                                 | 75%          | 0%                            | 15%       | 7%        | 0%              | 2%         |
| <b>Total</b>   | <b>100%</b>                         | <b>73%</b>   | <b>10%</b>                    | <b>6%</b> | <b>5%</b> | <b>5%</b>       | <b>1%</b>  |

Notes: APS 2016-18, \*Lower-skill also includes occupations excluded from Tier 2 for reasons other than skill e.g. elected representatives, \*\*Other includes those employed on government scheme, unpaid family workers and those without a known status. \*\*\*UK-born children with only one EEA national parent who arrived after 2003 are given a half weight.

## b) Population

- 6.34 The 2016/18 population of the UK would have been 3.2 per cent smaller under this counterfactual scenario compared to the current level, equivalent to about 2 million people. One way of understanding this is that the percentage change in the population from the current (POP) to the counterfactual (POP') is equal to the change in the migrant population from the current (M) to the counterfactual (M') divided by the current total population (POP). Which can in turn be expressed as the percentage change in the migrant population, i.e. the proportion of migrant's ineligible for a visa, multiplied by the share of migrants in the current population.

$$\frac{POP' - POP}{POP} = \frac{M' - M}{POP} = \frac{M' - M}{M} \frac{M}{POP}$$

- 6.35 For example, we find for a medium skills threshold and the current Tier 2 (General) salary thresholds that 73 per cent of the relevant migrant group are ineligible for

any visa route and that the share of EEA nationals who arrived since 2004 (and their UK-born children) in the population is 4.4 per cent. Therefore, the change in population is given by 73 per cent multiplied by 4.4 percent to give 3.2 per cent. For every 1 per cent of the current population accounted for by EEA-migrants we would expect a 0.73 per cent fall in the population under the counterfactual.

- 6.36 The extent of change in population differs across different groups as a result of differences in eligibility for visa routes and differences in current shares of EEA-migrants. Table 6.4 breaks this down by age, sex and geography.
- 6.37 Of note from Table 6.4 is the considerably lower ineligibility rates for 18-24 years olds compared to other groups. This is driven by higher eligibility for Tier 4 visas. The largest impacts on population are for those of working age with only very small effects on the older population. Dependency ratios would be predicted to rise as a result. We can also see that only London, the South East and Scotland have lower ineligibility rates than the overall 73 per cent figure – with London and the South East being around 9 percentage points (ppts) ahead largely as a result of higher eligibility for Tier 2 (General) visas reflecting the higher skilled and higher paid nature of the labour markets in those areas. However, the projected impact is much larger in London because it has a much higher proportion of EEA migrants in its population. The impact on Northern Ireland is very close to the national average but this effect is the combination of the highest ineligibility rate of any region/country (mainly because of its large agri-food sector) together with a lower than average share of EEA migrants in the population. Both Scotland and Wales are estimated to have smaller than average impacts.
- 6.38 The difference in ineligibility rates by gender are small, with men having a 1ppt higher ineligibility rate than the overall 73 per cent level and women a 1ppt lower rate. The higher share of women eligible for a visa reflects the combination of a 4ppt lower eligibility compared to men for Tier 2 (General) Main Applicant visas being offset by higher eligibility for Tier 2 (General) dependant (+2ppts) and Family (+4ppts) routes.
- 6.39 As with many of the impacts we will consider, the magnitude of change in population is of less interest to us than the relative change across characteristics of interest. This is because the magnitude of changes will depend on the choice of baseline, whether historic or projected, and the point in time you decide to evaluate the difference between your baseline and counterfactual – both of which are arbitrary choices. Relative changes however are less likely to depend on these choices.
- 6.40 Furthermore, it is important to remember that the ineligibility rates are determined by the combination of a skill and salary threshold. While the effects of these two policies are not disaggregated here, we will see in Chapter 7 that it is the skills

threshold, independent of the salary threshold, which drives a large proportion of the impacts we present in this chapter.

| <b>Table 6.4 - Change in population from application of RQF3+ skills threshold and current Tier 2 (General) salary thresholds to EEA nationals arriving since 2004</b> |                            |                     |                             |
|--|----------------------------|---------------------|-----------------------------|
| <b>Group</b>   | <b>EEA share (2016-18)</b> | <b>% ineligible</b> | <b>Change in population</b> |
| <b>Age</b>   |                            |                     |                             |
| 0-17   | 5.6%                       | 75.4%               | -4.2%                       |
| 18-24  | 5.3%                       | 61.4%               | -3.2%                       |
| 25-44  | 8.7%                       | 72.2%               | -6.3%                       |
| 45-64  | 1.6%                       | 81.8%               | -1.3%                       |
| 65+  | 0.2%                       | 91.4%               | -0.1%                       |
| <b>Sex</b>   |                            |                     |                             |
| Male   | 4.5%                       | 74.0%               | -3.3%                       |
| Female   | 4.3%                       | 72.0%               | -3.1%                       |
| <b>Region/Nation</b>   |                            |                     |                             |
| North East   | 1.5%                       | 80.1%               | -1.2%                       |
| North West   | 3.0%                       | 79.4%               | -2.4%                       |
| Yorkshire & The Humber   | 3.5%                       | 83.2%               | -2.9%                       |
| East Midlands  | 4.9%                       | 83.1%               | -4.1%                       |
| West Midlands  | 4.1%                       | 79.0%               | -3.2%                       |
| East of England  | 4.7%                       | 76.7%               | -3.6%                       |
| London   | 9.6%                       | 64.4%               | -6.2%                       |
| South East   | 3.7%                       | 63.9%               | -2.4%                       |
| South West   | 3.2%                       | 76.4%               | -2.5%                       |
| Northern Ireland   | 3.6%                       | 88.7%               | -3.2%                       |
| Scotland   | 3.4%                       | 72.7%               | -2.5%                       |
| Wales  | 2.1%                       | 76.7%               | -1.6%                       |

Source: MAC calculations using APS 2016-18; outputs shaded from those of least impact (green) to those of most (red)

### c) Employment

- 6.41 The direct impact of restricting EEA migration flows since 2004 on employment would have been to reduce the number of migrants who came and found employment in the UK. Given the employment patterns of EEA migrants, particularly since 2004, this would have impacted some sectors, occupations and employers more than others. This is shown in tables 6.5-6.7. The magnitude of the changes presented in these tables are not an indication of the size of any expected future adjustments and so conclusions may only be drawn about the relative size of impact between different groups.

**Table 6.5 - Change in employment by occupation from application of RQF3+ skills threshold and current Tier 2 (General) salary thresholds to EEA nationals arriving since 2004**

| 2-digit occupation groups                                 | ONS skill level | EEA share   | % ineligible | Change in employment |
|---|-----------------|-------------|--------------|----------------------|
| <b>All occupations</b>                                    |                 | <b>5.4%</b> | <b>73.1%</b> | <b>-4.0%</b>         |
| Corporate managers & directors                            | 4               | 2.6%        | 32.9%        | -0.9%                |
| Science, research, engineering & technology professionals | 4               | 5.4%        | 54.1%        | -2.9%                |
| Health professionals                                      | 4               | 3.5%        | 22.5%        | -0.8%                |
| Teaching & educational professionals                      | 4               | 1.8%        | 23.2%        | -0.4%                |
| Business, media & public service professionals            | 4               | 3.2%        | 32.5%        | -1.0%                |
| Other managers & proprietors                              | 3               | 3.1%        | 33.4%        | -1.0%                |
| Science, engineering & technology associate professionals | 3               | 4.7%        | 53.0%        | -2.5%                |
| Health & social care associate professionals              | 3               | 2.3%        | 67.6%        | -1.6%                |
| Protective service occupations                            | 3               | 0.9%        | 33.8%        | -0.3%                |
| Culture, media & sports occupations                       | 3               | 4.0%        | 67.2%        | -2.7%                |
| Business & public service associate professionals         | 3               | 3.1%        | 31.0%        | -1.0%                |
| Skilled agricultural & related trades                     | 3               | 1.5%        | 75.5%        | -1.1%                |
| Skilled metal, electrical & electronic trades             | 3               | 4.4%        | 78.4%        | -3.5%                |
| Skilled construction & building trades                    | 3               | 8.0%        | 76.9%        | -6.1%                |
| Textiles, printing & other skilled trades                 | 3               | 10.9%       | 70.6%        | -7.7%                |
| Administrative occupations                                | 2               | 3.4%        | 93.2%        | -3.2%                |
| Secretarial & related occupations                         | 2               | 2.9%        | 81.9%        | -2.4%                |
| Caring personal service occupations                       | 2               | 3.5%        | 82.0%        | -2.9%                |
| Leisure, travel & related personal service occupations    | 2               | 6.8%        | 85.1%        | -5.8%                |
| Sales occupations   | 2               | 4.1%        | 76.4%        | -3.1%                |
| Customer service occupations                              | 2               | 4.3%        | 67.8%        | -2.9%                |
| Process, plant & machine operatives                       | 2               | 17.5%       | 94.9%        | -16.6%               |
| Transport & mobile machine drivers & operatives           | 2               | 8.7%        | 93.6%        | -8.2%                |
| Elementary trades & related occupations                   | 1               | 21.4%       | 96.5%        | -20.7%               |
| Elementary administration & service occupations           | 1               | 12.1%       | 89.5%        | -10.9%               |

Source: ONS SOC 2010 occupational skill places each 2-digit occupation into one of four skill groups with 4 being highest skilled and 1 least skilled; EEA share and ineligibility rates from MAC calculations using APS 2016-18; outputs shaded from those of least impact (green) to those of most (red).

6.42 We can see from table 6.5 that, in general, lower-skilled occupations have both higher shares of EEA migrants and higher shares of ineligible migrants. These combine to result in lower-skilled occupations facing the larger reductions in their labour force under this counterfactual compared to higher skilled ones. Again, this is as a result of the combination of both the skills threshold and salary threshold.

- 6.43 The ineligibility rates for some of the lower skilled 2-digit occupation groups are not quite 100 per cent because there are two 4-digit occupations amongst the 'elementary' groups currently listed in the codes of practice as being skilled to 'RQF 3/lower-skilled', which therefore pass the skills threshold, and also because we find some workers eligible for other routes such as dependants of Tier 2 main applicants or through the family or student routes.
- 6.44 Overall, we estimate that employment of the high-skilled occupations would be around one per cent lower in the counter-factual, medium-skilled employment around three per cent lower and lower-skilled employment around seven per cent lower implying a compositional shift towards higher-skilled employment. However, this is purely a first order compositional change. Changes in immigration flows could also impact the behaviour of workers and firms in ways that influence the skill mix of the economy in the future – we do not consider such dynamic effects here.
- 6.45 Table 6.6 below presents the same analysis but by sector rather than occupation. Again, we see that those sectors with high shares of EEA migrants also have some of the highest ineligibility rates, resulting in larger adjustments to employment. Equally those sectors that experience the largest changes in labour supply tend to be lower productivity, implying a relative shift in employment towards higher productivity sectors. Health, a sector often singled out as being of particular concern is one of the sectors where the predicted impact is smallest though any impact may be of greater concern. Residential and Social care, a sector the MAC has often singled out as being of particular concern, is not one of the sectors predicted to have the largest impact on employment because it has a lower share of EEA migrants in employment than the national average and an ineligibility rate only slightly above the national average. There may be parts of this broad sector where impacts are larger.

**Table 6.6 -Change in employment by industry from application of RQF3+ skills threshold and current Tier 2 (General) salary thresholds to EEA nationals arriving since 2004**

| Industry  | Approx. Output per hour (Whole Economy =100) | EEA share   | % ineligible | Change in employment |
|---|--|-------------|--------------|----------------------|
| <b>All industries</b>                                       | <b>100</b>                                   | <b>5.4%</b> | <b>73.1%</b> | <b>-4.0%</b>         |
| Manufacture of Foods & Beverages (10-11)                    | 101**  | 25.1%       | 91.5%        | -22.9%               |
| Warehousing (52)  | 97   | 17.0%       | 90.2%        | -15.3%               |
| Accommodation & Hospitality (55-56)                         | 48   | 11.7%       | 78.8%        | -9.2%                |
| Non-prof admin & support service activities (77-82 & 95-97) | 67   | 7.5%        | 87.4%        | -6.5%                |
| Construction (41-43)  | 74   | 6.5%        | 87.4%        | -5.7%                |
| Transport (49-51 & 53)                                      | 72   | 6.8%        | 83.7%        | -5.7%                |
| Agriculture (01-03)   | 46   | 5.9%        | 91.3%        | -5.4%                |
| Manufacturing (12-33)                                       | 112  | 7.1%        | 74.6%        | -5.3%                |
| Wholesale & Retail Trade (45-47)                            | 75   | 5.9%        | 81.4%        | -4.8%                |
| Utilities (35-39)   | 221  | 4.4%        | 78.3%        | -3.4%                |
| Residential & Social Care (87-88)                           | 51   | 3.8%        | 75.2%        | -2.9%                |
| Creative Arts & Entertainment (90-93)                       | 66   | 3.0%        | 65.7%        | -2.0%                |
| Professional Services (68-75 & 94 & 99)                     | 195  | 4.0%        | 46.8%        | -1.9%                |
| Higher education (85.4)                                     | 83*  | 5.4%        | 33.3%        | -1.8%                |
| Other education (85.5 & 85.6)                               | 83*  | 2.3%        | 76.9%        | -1.7%                |
| IT (62-63)  | 105  | 5.8%        | 29.9%        | -1.7%                |
| Media & Communications (58-61)                              | 186  | 3.5%        | 44.8%        | -1.5%                |
| Mining Activities (05-09)                                   | 373  | 4.0%        | 37.3%        | -1.5%                |
| Health (86)   | 79   | 2.8%        | 47.0%        | -1.3%                |
| Pre-primary & primary education (85.1 & 85.2)               | 83*  | 1.5%        | 68.4%        | -1.0%                |
| Finance & Insurance (64-66)                                 | 192  | 3.8%        | 25.5%        | -1.0%                |
| Secondary education (85.3)                                  | 83*  | 1.5%        | 58.0%        | -0.9%                |
| Public Administration (84)                                  | 108  | 1.1%        | 34.7%        | -0.4%                |

Notes: SIC 2007 codes in brackets; Output per hour from “Labour productivity by industry division” ONS publication, calculated using 2018 values for “productivity hours” and “output per hour in current prices”; \*Output per hour estimate for whole education sector (SIC 85); \*\*Output per hour estimate includes manufacture of tobacco products (SIC 12); employment and eligibility estimates come from MAC calculations using APS 2016-18; Results ranked from largest to smallest change in employment; outputs shaded from those of least impact (green) to those of most (red).

- 6.46 Finally, we consider how these compositional adjustment to the workforce affect employers of different sizes, see table 6.7 below. This relies on respondents to the APS reporting the size of the employer they work for. These responses tend to overestimate the share of employees working for smaller business. Despite this we find that larger employers experience more significant declines in their workforce due to a lower ineligibility rate for their EEA workers not fully offsetting a higher share of EEA workers relative to smaller firms.

**Table 6.7 -Change in employment by employer size from application of RQF3+ skills threshold and current Tier 2 (General) salary thresholds to EEA nationals arriving since 2004**

| Size of employer (number of employees) | EEA share | % ineligible | Change in employment |
|--|-----------|--------------|----------------------|
| 1-10                                   | 4.1%      | 78.6%        | 3.3%                 |
| 11-49                                  | 5.1%      | 74.4%        | 3.8%                 |
| 50-499                                 | 6.3%      | 72.6%        | 4.6%                 |
| 500+                                   | 5.2%      | 54.0%        | 2.8%                 |

Notes: MAC calculations using APS 2016-18; outputs shaded from those of least impact (green) to those of most (red).

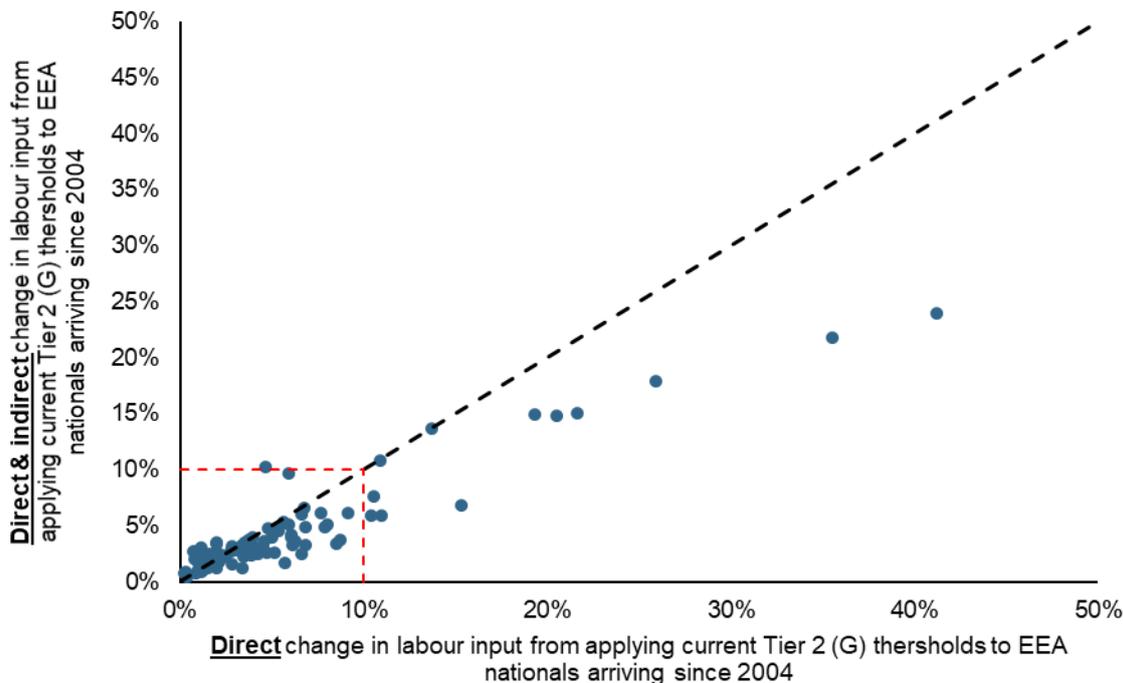
- 6.47 It is important to remember that the reductions in migrant labour supply in certain parts of the labour market presented in this section reflect estimates based on the cumulative impact of a policy over around 14 years. In reality, Employers will continue to be able to hire EEA migrants in the way they do now until the future system is introduced, 2021 at the earliest. The EEA migrants who are already in the UK have the right to stay. The Government’s Immigration White Paper pointed to the introduction of a temporary route for migrants to come and work in the UK without needing to meet the requirements of Tier 2 though the current status of this as government policy is unclear. Taken together, while it is clear that under this policy scenario certain parts of the labour market will face meaningful challenges adjusting to a changing labour supply, these changes will not happen overnight.
- 6.48 As highlighted previously, these changes do not imply anything about impacts on the already resident population – these changes are purely compositional. We have so far not assumed any spill overs from the employment (or not) of EEA workers onto the employment and unemployment prospects of other workers.
- 6.49 In our 2018 report into the impact of EEA workers we concluded the following regarding the impact of EEA workers on the UK-born:
- “There is little evidence of substantial impacts of EEA immigration on the overall employment opportunities of UK-born workers. Where some effect is found, lower-skilled UK-born workers are more likely to lose out while higher skilled workers tend to benefit.”*
- 6.50 Overall it remains our view that, even when viewed over longer periods of time, the impact of immigration on UK workers is small.
- 6.51 Our analysis of sectoral impacts so far takes no account of the interconnections between sectors. All sectors use outputs from other sectors as inputs into their final production. A shock to the labour supply of one sector can therefore have knock-on impacts for other sectors. The source of inputs into each sectors/product final

output is summarised in the ONS produced input-output tables. These tables, and their transformations, can be used to take account of the dependencies between sectors when assessing the reduction in employment under our counterfactual. Figure 6.2 plots the reduction in employment by sector, using the sector/product definitions used in the input-output tables, calculated in the same way as presented in Table 6.6 against the reduction in employment once reliance on other sectors has been taken account of.

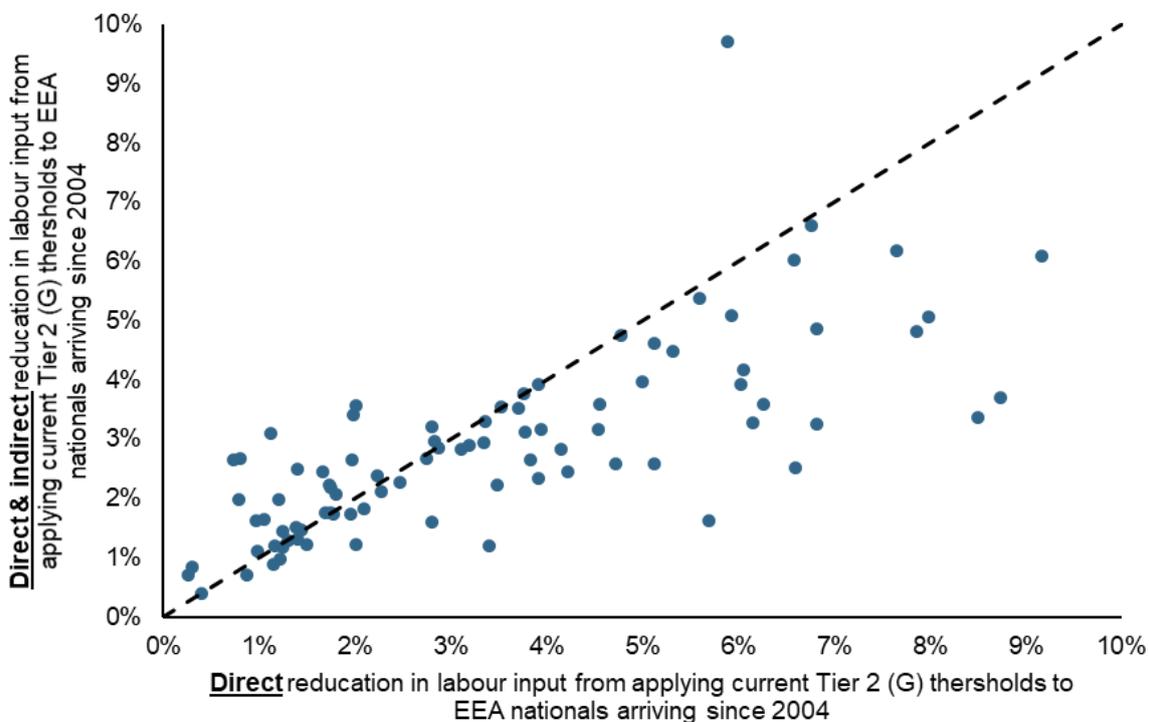
- 6.52 We find that those sectors which experience a larger direct reduction in employment tend to rely on inputs from sectors with smaller direct employment impact, result in a smaller direct and indirect combined impact (y-axis) i.e. they sit below the 45-degree line. Conversely those sectors that experience a smaller direct reduction in employment rely on inputs from sectors with larger direct impacts; increasing the combined impact i.e. they sit above the 45-degree line. Taking account of inter-connections between sectors tends to reduce the variation in impacts across sectors.
- 6.53 Consideration of indirect employment impacts does not result in small direct impacts becoming very large in absolute terms. We therefore conclude that while policy makers should be mindful of the role of supply chains we do not feel the conclusions we come to in this report materially change by considering these indirect effects.

**Figure 6.2 – Direct vs direct + indirect change in employment by industry from application of RQF3+ skills threshold and current Tier 2 (General) salary thresholds to EEA nationals arriving since 2004**

All sectors



Sectors with direct and combined impacts less than or equal to 10% (red box)



Source: MAC calculations using APS 2016-18 and Leontief Inverse from ONS 2015 UK input-output analytical tables.

### c) GDP<sup>99</sup> and GDP per person

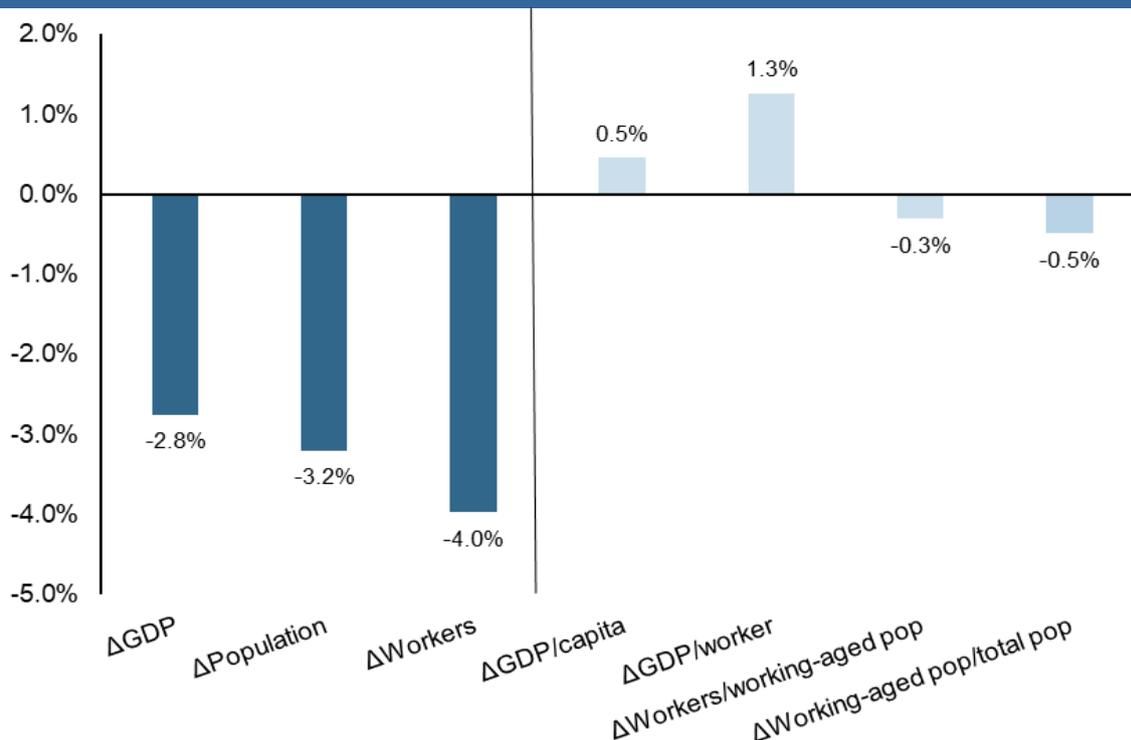
- 6.54 To estimate a GDP impact we need to make some assumptions about how changes in employment translate into changes in output. We do this through the use of a production function which mathematically describes a relationship between labour inputs and economic output. We provide a more detailed technical description of this approach in Annex G.
- 6.55 One key assumption within this production function is the value chosen for the elasticity of substitution between different types of labour. The value of this elasticity describes the extent to which you can substitute one type of labour (defined by the nine major occupation groups in this case) for another when producing a unit of output. It can be shown that predicted changes in wages within a given occupation depend on this value (see Annex G).
- 6.56 If we assume a high degree of substitutability between different types of labour then our production function would similarly imply that changes in the supply of migrant labour would have only minor implications for the wages of other workers. In Annex G we present our efforts to estimate the elasticity of substitution, finding that there is likely a high degree of substitutability.
- 6.57 For the rest of the modelling results we present, both here and in Chapter 7, we assume perfect substitution between different types of labour. This implies no changes in wages in response to changes in labour supply. This means that all of the modelled impacts on GDP will be entirely driven by changes in composition. Or put another way, by construction we assume there are no impacts on the earnings of existing residents.
- 6.58 GDP would have been 2.8 per cent lower a result of the fall in workers employed in the UK economy. However, as mentioned previously population falls by slightly more (3.2 per cent) resulting in a small rise in the level of GDP per person.
- 6.59 GDP per capita is a function of both the output of workers but also the utilisation of working-age individuals in the workforce (i.e. the employment rate) and the share of working-age individuals in the total population. The change in GDP per capita in response can therefore be decomposed into a rise in GDP per worker, as lower paid workers are restricted, offset by a fall in the employment rate, as EEA nationals have a higher employment rate than other groups, and a fall in the share of the population that are working aged, as EEA nationals tend to be younger.

$$\Delta\text{GDP/person} \approx \frac{(\Delta\text{GDP/worker}) \times (\Delta\text{Workers/working-age population})}{\times (\Delta\text{Working-age population/total population})}$$

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<sup>99</sup> Gross Domestic Output (GDP) is a measure of the total output of the economy

**Figure 6.3: GDP impact of current salary thresholds & RQF3+ skill threshold**



Notes: See Annex G for details of GDP production function. Workers defined as individuals with non-zero earnings from employment or self-employment.

- 6.60 The Government’s Immigration White Paper covering the UK’s future immigration system presented an appraisal of the impact of a £30,000 salary threshold and an RQF3+ skills threshold on GDP and GDP per capita. In contrast to our approach, this analysis used a forward-looking methodology projecting out to 2025. They concluded that such a policy could reduce GDP by between 0.4-0.9 per cent and reduce GDP per capita by between 0.1-0.2 per cent in that time frame. The differences in assumptions are discussed in later in this chapter.
- 6.61 Compared to the White Paper estimates our GDP impact is much larger, however this is to be expected give the different time horizons used. Of more interest are the differences in GDP/capita impacts, where our positive finding contrast with that of the White Paper.
- 6.62 Our main take-away, as with many of our findings, is that regardless of the direction of the impact on GDP per capita the magnitudes are generally small. Once again it is important to appreciate how the changes we are presenting, are the result of the cumulative impact of a simulated policy change over some 14 years that resulted in around 2 million fewer people in the UK population. Given the magnitude of the change being assessed, the time over which it is occurring and the significant uncertainties and imprecision involved, a change in level of GDP per person of around ½ of a per cent should be interpreted as a small impact – regardless of the direction.

## d) Wages

- 6.63 As previously highlighted our choice of substitution parameter as part of our GDP modelling means that by construction there are no wage impacts on the individuals unaffected by our counterfactual immigration policy. The only impacts on wages are therefore purely compositional. We present some findings of what the implied impact of wages are when this assumption is relaxed in Annex G.
- 6.64 The compositional effect on median earnings within sectors, regions and occupations will simply be a function of the compositional employment effects presented earlier and the relative earnings of EEA workers in those various categories. These changes tell us little more than we already presented in the earlier employment effects section and say nothing about living standards or the wages of workers already in the UK.
- 6.65 To get a sense of the potential effects of reduced EEA migration on wages we again turn to the empirical estimates we published in our 2018 EEA report. In that report we concluded that on wages:

*“There is little evidence of substantial impacts of EEA immigration on aggregate wages. Again, there is some evidence that lower-skilled workers face a negative impact while higher-skilled workers benefit, however the magnitude of the impacts are generally small.”*

- 6.66 This highlights the relatively small role the evidence suggests immigration plays in determining wages and so the relatively small impact we would expect changes in immigration to have on the earnings of the already resident population.
- 6.67 As mentioned previously, our chosen production function does generate a set of implied changes in the average wages of the nine major occupation groups if we assume something other than perfect substitution between different types of labour. In Annex G we present the implications of making different assumptions about the value of this elasticity. For example, we find that using a substitution parameter ( $\gamma$ ) equal to 0.9 (as opposed to one) results in an increase in wages of 1.2 per cent for “Elementary occupations” and a decrease of 0.2 per cent for “Managers, directors & senior officials”. These are mechanical theoretic predictions arising from our chosen production function and do not represent an assessment of the likely impacts on the wages of different occupation groups.

## f) Productivity

- 6.68 As with employment and wages we reviewed the evidence covering the impact of migrants on productivity in our 2018 EEA report. We concluded that:

*“There is a lot of uncertainty about the impact of immigration on productivity, although most studies conclude there is a positive impact. There is also some evidence to suggest that high-skilled migrants have a more positive effect.”*

- 6.69 The most direct way a more restrictive immigration policy could have impacted productivity since 2004 would have been through a change in the composition of the employed workforce. We do not directly observe the productivity levels of individuals and so cannot directly compute this change under our counterfactual. However, if we assume wages are reflective of individual level productivity then we can see from our earlier estimate of the change in GDP per worker that we would expect the compositional impact on productivity of a more selective migration policy to have been positive.
- 6.70 However, as with wages and employment, this static impact ignores the potential for more dynamic changes and spill-overs. For example, those EEA migrants who came to the UK under freedom of movement but for whom we do not find a visa route under this counterfactual may have brought skills with them that complement UK workers and boosted their productivity. Equally their arrival may have encouraged UK workers to increase their skill level and specialise further, again improving their productivity. Firms may also have reacted in a different way in the absence of these migration flows, changing their decisions around investing in physical and human capital with implications for productivity.
- 6.71 Some studies on the association between the share of migrants in the population and productivity levels find large effects. For example, research commissioned by the MAC in support of our 2018 EEA report<sup>100</sup> found that a one percentage point increase in the share of migrants in the employed population within a Local Authority is associated with almost a three percentage point increase in output per job, implying that migrants are four times as productive as the UK-born, a startling difference if true.
- 6.72 If we take the magnitude of this estimate of the relationship between the share of migrants and levels of productivity literally then the growth in productivity would have been some ten percentage points lower under our counterfactual than under freedom of movement<sup>101</sup>. Such an impact dwarfs any of the changes presented so far and would represent a non-trivial negative impact on living-standards.
- 6.73 However, as we expressed in our 2018 report, we are somewhat sceptical about the magnitude of the empirical findings on the relationship between migration and

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<sup>100</sup> Campo, F., Forte, G. and Portes, J. (2018). *The Impact of Migration on Productivity and Native-born Workers' Training*.

<sup>101</sup> 3.5 percentage point change in share of EEA born migrants in the employed population multiplied by three.

productivity. Despite these studies having no obvious methodological flaws the size of the impacts seem implausible with, in some cases, nearly all or more than all of the UK's growth in productivity in recent decades being ascribed to changes in migrant shares (depending on the estimate used and time period considered<sup>102</sup>). The size of these effects also appear inconsistent with studies which find only small impacts of immigration on wages and the relatively stable labour share of GDP between 2004 and now (at around 54 per cent).

- 6.74 The literature is also not entirely conclusive on the question of whether higher-skilled or lower-skilled migrants have a differential impact on productivity in the receiving country. There is, however, good evidence, that migrants are over-represented in innovative activity<sup>103</sup>. Migrants with strong track records of innovation are likely to be eligible for at least one Tier 2 or Tier 1 style route under all scenarios so the impact is not modelled.
- 6.75 If there is an impact on productivity this effect is very important and likely to outweigh many or most other impacts. However, the evidence base on the impact of migration on productivity is not as strong as it is for other areas of impact. It is the MAC view is that there is no strong evidence for there being large effects - though it is an area where we think more research would be valuable.

## g) Fiscal

- 6.76 As with population changes, in the direct contribution of migrants to the UK's fiscal balance is one of the more mechanical consequences of change in immigration flows. While a migrant's broader contribution to the public finances will depend on the impacts discussed earlier (e.g. wages, employment and productivity) their direct contribution largely depends on their age, employment status, earnings and family structure. For this report, we commissioned Oxford Economics to update their static analysis to Financial Year 17/18 and undertake analysis of the fiscal impacts of a range of salary thresholds, building on our own modelling framework.
- 6.77 In our EEA report, we presented findings which showed EEA migrants on average contributed more to the public finances than the average UK resident adult. The updated analysis uses nationality to define migrants in line with our own modelling. This finds that the average EEA national adult migrant contributed approximately £1,900 more to UK public finances than the average adult resident in the UK.

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<sup>102</sup> ONS figures put actual growth in output per job between 2004 and 2016-18 at around 9%, which is smaller than the implied reduction in productivity growth generated from using the Campo, Forte, Portes impact estimate and the change in the EEA-born share of the employed population under this counterfactual as estimated by the MAC modelling approach.

<sup>103</sup> e.g. Breschi, S., Lissoni, F. and Tarasconi, G. (2014). *Inventor Data for Research on Migration & Innovation: A Survey and a Pilot*. WIPO Economics & Statistics Series Economic Research Working Paper, (17).

- 6.78 This should be taken as approximate estimate of the fiscal contribution, rather than a precise calculation. A detailed description of the methodology and caveats can be found in the full report by Oxford Economics. They also undertake a comparison with published HMRC data on income tax and national insurance contributions which suggests there are issues in sampling of high-income individuals in the Annual Population Survey which is used in the main methodology. We use these results as a broad indication of the likely fiscal impacts.
- 6.79 Oxford Economics have also presented illustrative analysis of hypothetical households with different combinations of earnings of the main household earner. This shows that fiscal contribution varies a lot by income and by the household composition. Whilst the issue of salary thresholds is the focus of this section, it is important to consider that household composition and dependants have a large impact on the fiscal contribution of migrants.
- 6.80 We also commissioned Oxford Economics to undertake fiscal analysis using the same framework as our own eligibility modelling. This methodology allows an estimation of the fiscal impact of different salary threshold scenarios. An important caveat to highlight is that this modelling does not take account of changes in EEA migrants' rights to have recourse to public funds in the future. We have not made any assumptions about changes to this as it is not in the scope of our review. It also does not take into account any income from visa fees, the Immigration Health Surcharge or Immigration Skills Charge.
- 6.81 The analysis from Oxford Economics finds that the application of the RQF3+ skill threshold and current Tier (General) would have a positive impact on public finances of £5bn in 2017/18. However, it is important to note this is the impact compared to the status quo rather than other salary threshold scenarios and considers the eligibility of wider visa routes. This improvement is small when set in the context of being the impact after 14 years of a policy that has a very large impact on migration.

## **h) Public services**

- 6.82 One way of assessing whether changes are likely to increase or lessen pressures on public services is to compare how the changes affect the available workforce and the demand for the services. Many discussions of proposed changes to migration policy only look at likely impacts on the workforce. But the lower predicted population level also affects the number of patients and schoolchildren and whether pressures on public services increase or fall depends on the relative size of these two effects.
- 6.83 These measures of changes in pressures on public services do not necessarily mean that the quality of public services would change as that depends on how resources are allocated. Our EEA report found no evidence that the quality of

health and education has been adversely affected by migration perhaps because resources have been directed to where there are increased pressures. The measures reported below tell us nothing about how the financial resources available for public services change, the results on the fiscal impact presented earlier are informative for that.

- 6.84 For education, the predicted change in the workforce at all levels is around one per cent, smaller than the average impact because both primary and secondary education sectors have a lower share of EEA nationals in their workforce but higher proportion we find eligible for at least one visa route. On the other hand, the number of school-aged children falls by 4.5 per cent in pre-primary/primary and 2.6 per cent for secondary. This suggests that the change would have resulted in less pressure in education.
- 6.85 For health, the workforce is 1.3 per cent lower, smaller than average change again because of a lower EEA share and the relatively high-skilled nature of jobs in the sector and the special treatment of some NHS workers resulting in a high eligibility rate. The change in demand is calculated using estimates of health expenditure by age from the Office for Budget Responsibility (OBR) and assumes similar use of healthcare by migrants and existing residents. The fall in demand is predicted to be larger than the fall in the workforce, suggesting lower pressures on the health care sector under this counterfactual. The predicted reduction in health demand is smaller than the predicted reduction in population because EEA migrants tend to be of an age where health expenditures are relatively low.
- 6.86 On social care the change in workforce is just under three per cent, again lower than the average reduction of four per cent, as a result of a lower EEA share in the social care workforce offsetting a slightly worse eligibility rate. We do not have a clear measure of how the change in the EEA population under this counterfactual will influence the demand for social care. As presented earlier in table 6.4 there is a smaller change in the 65+ population under this counterfactual than the reduction in social care workforce, however only roughly half of social care demand comes from older aged care. Overall however it seems likely that the change in EEA population under this counterfactual reduces the social care workforce more than it alleviates demand. This would increase pressure in social care.
- 6.87 The number of individuals reporting they rent their accommodation from a Local Authority or Housing Association, or live rent free in accommodation provided by such bodies, falls by 3.4 per cent under this counterfactual.
- 6.88 EEA migrants may contribute to the supply of social housing through their presence in the construction workforce. We can get a rough indication of this if we assume that EEA migrants arriving since 2004 contributed to the completion of new social housing units in proportion to their share of the construction workforce. We therefore assume that there would have been a reduction in completions equal to

the reduction in the construction workforce under our counterfactual as outlined in table 6.6 (5.7%). There were approximately 430,000 social housing completions between 2004 and 2017 in the UK resulting in a total stock of around 5 million in 2017<sup>104</sup>. If completions had been 5.7 per cent less over this period, the stock in 2017 would have been around 0.5 per cent lower. As the estimated fall in demand for social housing is greater than the impact on supply, we conclude that there would be fewer pressures on social housing.

- 6.89 The impact on public services discussed here, as with the impact on fiscal contributions presented earlier, only represents a snap-shot in time. Ultimately the impact of migrants on the provision of, and demand for, public services will evolve as the characteristics of migrant cohorts themselves also evolve through ageing, forming new households, performing well or less well in the UK labour market etc.
- 6.90 Furthermore, the estimates presented here should be viewed as secondary in importance to the estimated change in net fiscal contributions as those effects determine how much money there is for public services.

**Table 6.9 - Change in workforce and demand for public services under RQF3+ skills threshold and current Tier 2 (General) salary thresholds**

| <b>Education</b>  |       |
|---|-------|
| % change in pre-primary & primary education workforce (SIC 85.1 85.2) | -1.0% |
| % change in primary school aged children (4-11 years old)             | -4.5% |
| % change in secondary education workforce (SIC 85.3)                  | -0.9% |
| % change in secondary school aged children (12-18 years old)          | -2.6% |
| <b>Health</b>   |       |
| % change in health workforce (SIC 86)                                 | -1.3% |
| % change in health costs (OBR 2016*)                                  | -2.3% |
| <b>Social care</b>  |       |
| % change in social care workforce (SIC 87-88)                         | -2.9% |
| <b>Social housing</b>   |       |
| % change in numbers with social housing landlord                      | -3.4% |
| % change in social housing stock                                      | -0.5% |

Notes: MAC calculations using APS 2016-18; \*Office for Budget Responsibility "Fiscal sustainability and public spending on health" July 2016 Chart 2.3.

<sup>104</sup>Housing statistics from MHCLG, Scottish Government and StatsWales and Department for Communities Northern Ireland. Total number of new completions exclude those for 2004 in Northern Ireland due to lack of available data. Social housing includes those provided by Local Authorities, Housing Associations and other registered social housing providers.

## i) House prices

6.91 In our 2018 EEA report we concluded that:

*“There is some evidence that migration has increased house prices. This impact is higher in areas with more restrictive planning policies where it is harder for the housing stock to increase in line with demand.”*

6.92 We expanded an existing academic study<sup>105</sup> and estimated that a one percentage point increase in the migrant share of the population leads to about a one per cent rise in house prices. Under this counterfactual the foreign-born share of the population falls by around 2.4 percentage points implying a 2.4 per cent reduction in house prices. However, as ever, it is important to note that the estimated relationship between migrant population share and house prices is sensitive to choice of specification and is subject to uncertainty.

6.93 Migrants can contribute to housing supply through their work in the construction sector. As noted in table 6.6 EEA nationals who arrived since 2004 represent a higher share of the construction workforce, at around 6.5 per cent, than they do on average. We also know that EEA migrants are a particularly important source of labour in the London construction sector. We found in previous analysis of self-assessment tax returns that nationals from the EU new member states represented 55 per cent of self-assessment filers who indicated they worked in the construction industry in London.

## Summary of findings

6.94 So far, we have laid out our analytical approach to understanding what impacts a more selective immigration policy applied to EEA nationals might have. We have used the example of the current set of Tier 2 (General) salary thresholds and a medium-skill requirement as an example policy to demonstrate this.

6.95 We can summarise the insights garnered from this exercise in the following way:

- EEA migration would have been significantly lower had thresholds been in place since 2004.
- In aggregate the direct compositional impacts of this reduction would have been reasonably modest across measures such as employment and GDP per capita.
- The magnitude of these direct compositional impacts differ between different groups (such as occupations and industries) as a result of variance in

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<sup>105</sup> Sa (2015)

modelled eligibility rates and differences in shares of workforce or population accounted for by EEA migrants (arriving since 2004).

- Those parts of the labour market (defined by occupation or industry) which currently have a higher shares of EEA nationals in their workforce also tend to be have higher concentrations of lower-skilled and lower-paid jobs and so will likely experience more significant adjustments in the face of skill and salary thresholds.
- In line with the findings in our 2018 EEA report, the indirect or spill-over impacts of this change on outcomes such as wages and productivity are also likely to be modest.

## Non-EEA migration in the future system

6.96 So far we have considered how the present might look different had we applied a RQF3+ skills threshold and the current set of salary thresholds to EEA migrants arriving in the UK since 2004. In Chapter 7 we will go on to investigate the impact of a wide array of salary threshold policies. In both cases we have not attempted to account for any differences such changes might have made to non-EEA migration.

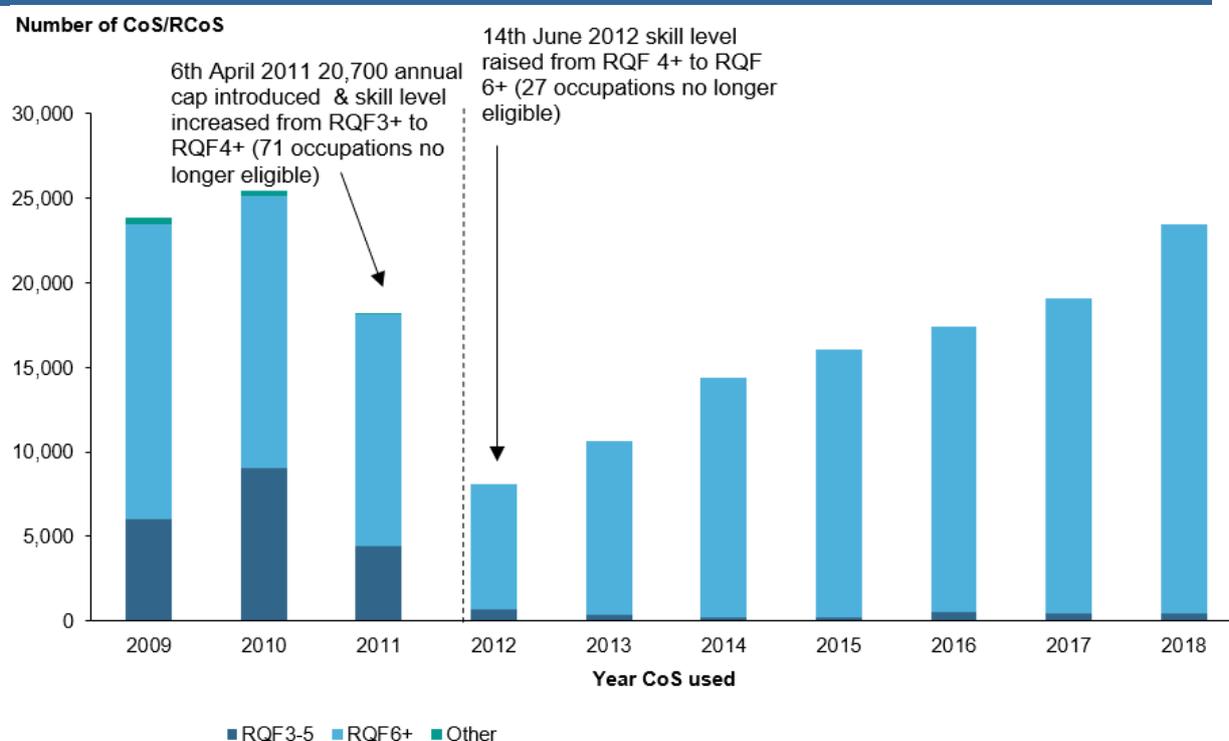
6.97 There are a number of reasons why one might expect an increase in non-EEA migration under a reduction in skills threshold and any reduction in salary thresholds from their current levels:

- i) The expansion of the skilled worker route to include medium skilled jobs would increase the number of non-EEA workers eligible. This would be expansionary even if free movement of people for EEA migrants, and current salary thresholds, were retained;
- ii) The ending of free movement for EEA migrants and bringing EEA and non-EEA migrants under one immigration system alters the relative costs of hiring EEA compared to non-EEA migrants. Under freedom of movement, employers can hire EEA migrants without the costs which are attached to hiring non-EEA migrants such as a sponsorship license fee, Immigration Skills Charge and the time it takes to go through the visa application process. When EEA migrants are brought under the same system as non-EEA migrants, the relative cost of EEA migrants increases compared to non-EEA migrants (even if the absolute cost for the latter group doesn't change). For medium and high skilled migrants, this may make non-EEA migrants relatively more attractive compared to the status quo.

## Historical changes

- 6.98 Tier 2 (General) has changed over time to become more restrictive, with higher skill level minimum salary thresholds. Prior to 2012 medium skilled jobs were eligible for Tier 2 (General) so a time series of entry via this route gives some indication of demand for non-EEA migrants from employers at that skill level and during that time (of course, it may not act as a predictor of future levels of migration for a variety of reasons, including the economic conditions at the time). In April 2011, the skills threshold was increased from RQF3 to RQF4. In the following year, the skill level was raised again from RQF4 to RQF6.

**Figure 6.4 – Tier 2 (General) over time**



Source: Home Office management information; CoS matched using 4-digit occupation code to skills levels outlined in current appendix J.

- 6.99 Figure 6.4 shows how the number of Certificates of Sponsorship (CoS) changed over time during this period. It suggests that the increase in skill level reduced the demand for non-EEA migrants through Tier 2 (General), though over time the numbers have continued to increase which have been limited by the cap. The general salary threshold has also increased during this period (as set out in Chapter 5), with the largest increases in 2016 (from £20,800 to £25,000) and 2017 (from £25,000 to £30,000). Volumes of CoS have continued to rise despite the increases in the general salary threshold.

6.100 Figure 6.4 shows that when Tier 2 (General) was open to medium-skilled occupations (RQF3-5), they made up between 24 per cent and 35 per cent of CoS. The majority of CoS were used in high-skilled occupations (RQF6+). Table 6.10 shows that chefs and care assistants were the largest users of Tier 2 (General) from medium-skilled occupations when it was open to that level. At the time the occupational classification used was SOC2000 which had a single code for chefs/cooks and a single one for all care assistants. The current occupational classification, SOC2010, has separate codes for chefs (RQF3) and cooks (RQF2), and for senior care assistants (RQF3) and care assistants (RQF2). Whilst it does not feature in the top 10 most used occupations, ‘restaurant and catering establishment managers and proprietors’ was the next most used medium-skilled occupation between 2009 and 2011 making up between 1 per cent and 2 per cent of used CoS during these years. This may give an indication of where non-EEA migration could increase when medium-skilled occupations are made eligible for Tier 2 (General) again. As we discussed in our review of the SOL<sup>106</sup>, chefs and cooks were reclassified in 2011 which reduced the number of chefs that were eligible for Tier 2 (General). Skilled chefs are currently eligible as an exception, with some specific restrictions on pay, experience and employer.

6.101 Nurses, doctors, IT professions and science professionals, some types of business analysts and teachers have consistently been the highest users of Tier 2 (General), both when it was open to medium-skilled and also since it has been restricted to only high-skilled occupations. See our review of the SOL for further detail on recent usage<sup>102</sup>.

**Table 6.10: Tier 2 (General) usage 2009-2012, most used occupations**

| SOC Name                                     | RQF level | 2009 | 2010 | 2011 |
|--|-----------|------|------|------|
| Nurses                                       | 6         | 14%  | 10%  | 6%   |
| Medical practitioners                        | 6         | 9%   | 9%   | 11%  |
| Chefs/Cooks                                  | 3         | 7%   | 12%  | 8%   |
| Scientific researchers                       | 6         | 6%   | 4%   | 5%   |
| Care assistants and home carers              | 3         | 5%   | 10%  | 4%   |
| Secondary education teaching professionals   | 6         | 4%   | 3%   | 2%   |
| Software professionals                       | 6         | 4%   | 5%   | 7%   |
| Researchers n.e.c.                           | 6         | 4%   | 4%   | 5%   |
| Finance and investment analysts and advisers | 6         | 3%   | 4%   | 5%   |
| Higher education teaching professionals      | 6         | 3%   | 2%   | 3%   |
| Management consultants and business analysts | 6         | 2%   | 2%   | 4%   |

Notes: Includes occupations that were in the top 10 most used between 2009-2011.

Source: Home Office management information

<sup>106</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/806331/28\\_05\\_2019\\_Full\\_Review\\_SOL\\_Final\\_Report\\_1159.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/806331/28_05_2019_Full_Review_SOL_Final_Report_1159.pdf)

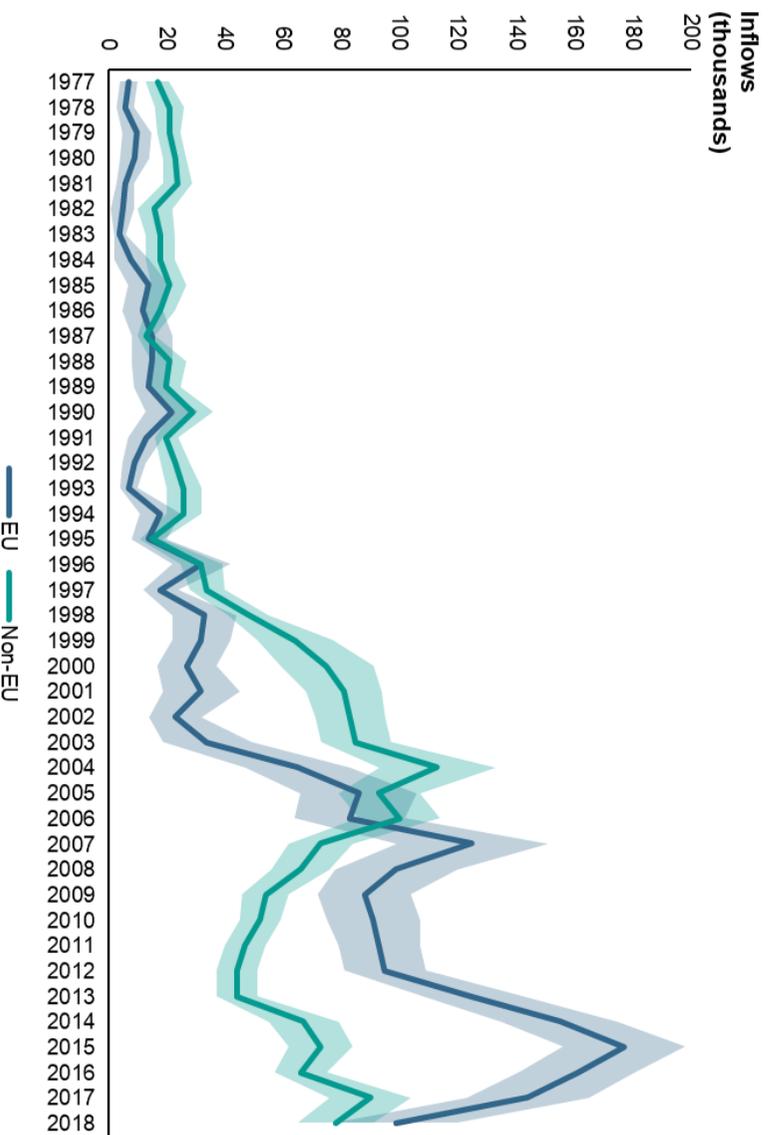
- 6.102 The employment of non-EEA medium-skill migrants in Tier 2 (General) was in the context of free movement for EEA workers. If access to EEA migrants becomes more costly or restrictive, there might be a substitution away from EEA towards non-EEA migrants. If demand for EEA and non-EEA migrants are not linked then raising the cost or restricting EEA migrants has no impact on the demand for non-EEA migrants. Similarly raising the cost of a non-EEA migrant would have no impact on demand for EEA migrants. It is possible that the demand for EEA and non-EEA migrants are linked. Assessing the extent of this is challenging and is an area where further research could be valuable.
- 6.103 Figure 6.5 shows the inflows of EU and non-EU migrants coming for work between 1977 and 2018. The increase in EU inflows in 2004 coincides with the period of accession of the A8 countries<sup>107</sup>. At around the same time the numbers of non-EU work inflows decreased, which may suggest some degree of substitutability between these two groups. However, set against this is the fact that the share of EU migrants coming to the UK reporting working in a lower-skilled 'manual and clerical' occupation prior to migrating increased after A8 accession while the share of non-EU inflows reporting the same stayed largely stable<sup>108</sup>. This observation may indicate that lower-skilled EEA migrants did not displace lower-skilled non-EEA migrants. Without more detailed data, it is hard to draw any definitive conclusions from this.

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<sup>107</sup> Czech Republic; Estonia; Hungary; Latvia; Lithuania; Poland; Slovakia; Slovenia

<sup>108</sup> *International Passenger Survey* Table 3.13, ONS

**Figure 6.5 – EU and non-EU Work Related Migration Inflows**



Notes: ONS International Passenger Survey (IPS) Table 3.08; inflows by citizenship by main reason for migration; 95% confidence intervals presented as shaded regions.

### Estimating non-EEA migration

6.104 There are a number of other organisations who have considered non-EEA migration after EU exit. Most of these examples are where assumptions have been made on future non-EEA migration as part of a broader analysis of the economic impacts of EU exit. Additionally, most of the studies do not explicitly differentiate between EU and non-EU migration. The exception to this is Portes and Forte (2019)<sup>109</sup> who looked at migration in Wales and also included some analysis of the UK as a whole. Under a flat £30,000 salary threshold they assume that over 10 years, net migration of EU migrants earning below £30,000 reduces by 75 per cent and net migration of EU migrants earning over £30,000 reduces by 50 per cent. For non-EU migrants earning over £30,000, they assume an increase of 20 per cent. They assume no change to the non-EU migrants earning below £30,000.

6.105 Portes and Forte also model a £20,000 salary threshold. Under this scenario, they assume that over 10 years the net migration of EU migrants earning below £20,000 decreases by 75 per cent and for those earning over £20,000 net migration reduces

<sup>109</sup> [https://www.wcpp.org.uk/wp-content/uploads/2019/03/FINAL-WCPP-report\\_Immigration-in-Wales-post-Brexit.pdf](https://www.wcpp.org.uk/wp-content/uploads/2019/03/FINAL-WCPP-report_Immigration-in-Wales-post-Brexit.pdf)

by 50 per cent. They assume that for non-EU migrants earning over £20,000, there is an increase of 20 per cent in net migration over 10 years.

- 6.106 A report by the think tank ‘The UK in a Changing Europe’ looking at the economic impacts of certain Brexit proposals also provided an assessment of a ‘restrictive’ and a ‘liberal’ migration scenario<sup>110</sup>. The report shares an author with Portes and Forte study and so for the ‘restrictive’ scenario broadly shares the assumptions regarding changes in migration as described earlier. However, under the ‘liberal’ scenario they assume EU migration reduces by two thirds for those earning less than £30,000 and EU migration decreases by one third for those earning £30,000 or more. They also assume non-EU migration increases by 10 per cent for those earning less than £30,000 and increases by 50 per cent for those earning more than £30,000.
- 6.107 NIESR (2018)<sup>111</sup> undertook an economic analysis of EU exit looking at a range of issues including migration. Under the scenario of the UK remaining in the EU, they assumed net migration follows the ONS principal population projections of approximately 200,000 per annum. In a ‘no deal’ EU exit scenario they assume that net migration follows the ONS low migration variant (of approximately 100,000 per annum) and under a ‘deal’ scenario they assume a reduction of 50,000 immigrants, three-quarters of whom are working age.
- 6.108 The Bank of England’s (2018)<sup>112</sup> analysis of EU exit assumes net migration (including EU, non-EU and UK nationals) of 100,000 per annum in a ‘deal’ scenario, stating the reason as it is *“in line with the upper bound of the Government’s stated migration policy”* which was in place at that time. They also account for further effects on net migration resulting from macroeconomic influences, where unemployment and lower expected GDP growth make the UK a less attractive destination for migrants. In a ‘disruptive no deal’ scenario, they assume net migration is 30,000 per annum and in a ‘disorderly no deal’ scenario net migration is minus 100,000 per annum.
- 6.109 The IMF (2018)<sup>113</sup> assume a £20,500 minimum salary threshold under the ‘Free Trade Agreement’ scenario with net migration of around 125,000 per year in 2030 and a smooth path from the ONS principle population projection to that level. In a ‘World Trade Organisation’ scenario, they assume a more restrictive migration policy with net migration of 100,000 in 2030.

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<sup>110</sup> <https://ukandeu.ac.uk/johnsons-brexits-leaves-uk-economy-worse-off-than-mays/>

<sup>111</sup> <https://www.niesr.ac.uk/sites/default/files/publications/NIESR%20Report%20Brexit%20-%202018-11-26.pdf>

<sup>112</sup> <https://www.bankofengland.co.uk/-/media/boe/files/report/2018/eu-withdrawal-scenarios-and-monetary-and-financial-stability.pdf?la=en&hash=B5F6EDCDF90DCC10286FC0BC599D94CAB8735DFB>

<sup>113</sup> [https://www.elibrary.imf.org/view/IMF002/25571-9781484384596/25571-9781484384596/25571-9781484384596\\_A001.xml?lang=en&redirect=true](https://www.elibrary.imf.org/view/IMF002/25571-9781484384596/25571-9781484384596/25571-9781484384596_A001.xml?lang=en&redirect=true)

- 6.110 These studies highlight the challenges in forecasting migration, particularly in the context of EU exit which will influence the behavioural factors affecting whether migrants come to the UK and the wider economic climate affecting the attractiveness of the UK as a destination particularly for migrant workers. Since the 2016 EU referendum, there have already been significant decreases in EEA immigration despite no change in current policy. Work related immigration of EU citizens was 92,000 in Year ending March 2019, down from 190,000 Year ending June 2016<sup>114</sup>, a decline most marked among A8 countries so probably mostly affecting lower-skilled and medium-skilled workers.
- 6.111 In 2015, the MAC commissioned a comprehensive study<sup>115</sup> on forecasting migration which concluded “*migration is a very complex and multi-dimensional process, responding to many different drivers, so its forecasting is extremely difficult*”. Migration policy is one of the many factors which affect the flows and characteristics of migrants coming to the UK. Other drivers include employment prospects, wage differentials, demographic factors and social networks. Forecasts of migration also tend to have a high degree of uncertainty due to uncertainty about the future (which is of particular importance in the context of EU exit and how future policies such as trade may affect demand for labour), data limitations (accuracy of the data sources available) and uncertainty related to a single forecasting method.
- 6.112 Whilst we would expect an increase in non-EEA migration, given these factors we do not attempt to predict future non-EEA migration flows as they will be affected by a wide range of factors including and beyond migration policy. We highlight this as an issue the Government may wish to consider when making the decision on the policy, if numbers of migrants is an important factor in that decision. Our recommendations are based on our objective of maximising the welfare of the resident population and therefore we focus our recommendations on whether a migrant will make a positive contribution to the UK.

## Interactions with other routes

- 6.113 The analysis presented so far has been of changes to Tier 2 (General) taking account, as best we can, of other existing migration routes. There are other proposed new routes in the future immigration system that may interact with the skilled worker route.
- 6.114 The Immigration White Paper included a proposal for a temporary work route, though at the time of writing the report it is not clear whether this will go ahead or be replaced by a sector-based approach which was discussed during the election campaign. The temporary work route set out in the Immigration White Paper would

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<sup>114</sup><https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/datasets/migrationstatisticsquarterlyreportprovisionallongterminternationalmigrationltimestimates>

<sup>115</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/467405/Migration\\_Forecasting\\_report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/467405/Migration_Forecasting_report.pdf)

enable individuals (but not their dependants) from some countries deemed to be of low-risk to come to the UK for up to a year without the need for a job offer. At the end of their stay in the UK there would be a cooling-off period before the individual could return to the UK and no opportunity to switch in country into other visas such as Tier 2 (General).

- 6.115 This is intended as a transitory measure to ease the transition for some sectors that have come to rely on lower-skilled EEA migrants when free movement ends. The Immigration White Paper proposals suggest that as the visa is given to an individual and is not dependent on having a job offer, this scheme would be open to workers at all skill levels and would have no minimum salary threshold beyond the minimum wage.
- 6.116 Such a route would likely attract lower-skilled workers from the low risk countries. The more the route is used for this, the lower the implied reduction in lower-skilled migration in our modelling. This is likely to slightly reduce the estimated increase in GDP per capita from moving to the new system though it would offer protection to lower-wage employers.
- 6.117 The route could also be used by employers hiring workers into medium and high skill jobs. The fact that there are no salary thresholds may make this attractive, but the 12-month limit combined with the cooling-off period and the inability to move to another work visa means it would be unlikely to be an attractive route for employers looking to hire workers on a permanent basis.
- 6.118 There is likely to be pressure to change the 12-month limit, the cooling-off period and the inability to move to other visas, because these are artificial restrictions that may force employers to let experienced workers go when they want to continue to employ them. This route could also have impacts on the incentive to train staff and could increase the churn of workers in sectors which have historically employed low skilled migrants. There are some circumstances where a 12-month limit may not be sensible: there may be lower-skilled jobs where it is very hard to recruit and retain resident workers so there is a shortage of these workers.
- 6.119 If sector-based routes were introduced, this may also lower the implied reduction in lower-skilled migration in our modelling. We have previously recommended against separate sector-based routes for low-skilled migrants to encourage employers to compete on wages and working conditions to make their sectors more attractive (with the exception of seasonal agricultural workers). This was discussed in our EEA report where we said “...workers should have the option to be mobile across sectors and occupations and there is no case for giving privilege to some lower-skilled sectors over others in access to labour”<sup>16</sup>.

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<sup>16</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/741926/Final\\_EEA\\_report.PDF](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/741926/Final_EEA_report.PDF)

- 6.120 The other proposed new visa is the ‘Graduate’ visa giving all graduates of UK HE institutions the right to remain in the UK and work in any job for 2 years after graduation. Staying beyond that would require moving onto a different visa. This is a return to the scheme in place until 2012. It may make the UK a more attractive destination for international students, some of whom may work while studying. Some will stay and work after graduation. Although this scheme is intended to provide access for employers to skilled graduate workers, past experience suggests it may also increase the supply of lower-skilled migrants. In our 2018 report on international students it was of concern to us that many students, especially non-EEA masters students, seemed to be working in jobs paying little more than the minimum wage even under the current more restrictive regime. We would expect this scheme to also result in a smaller reduction in migration across all skill levels than our modelling implies.
- 6.121 One of the aims of the future immigration system is to make the inflow of migrants more skilled than currently. The likely impacts depend on the extent to which this objective is achieved which will be influenced by a wide range of factors, many hard to quantify. How the other migration routes described here work is one factor but not the only one. Also important is how non-EEA migration responds to the extension of eligibility to medium-skill workers and the intended reduction in administrative costs, and how EEA migration responds not just to the change in skill eligibility and salary thresholds but also to the fact that the process of hiring an EEA migrant will become more difficult and costly.

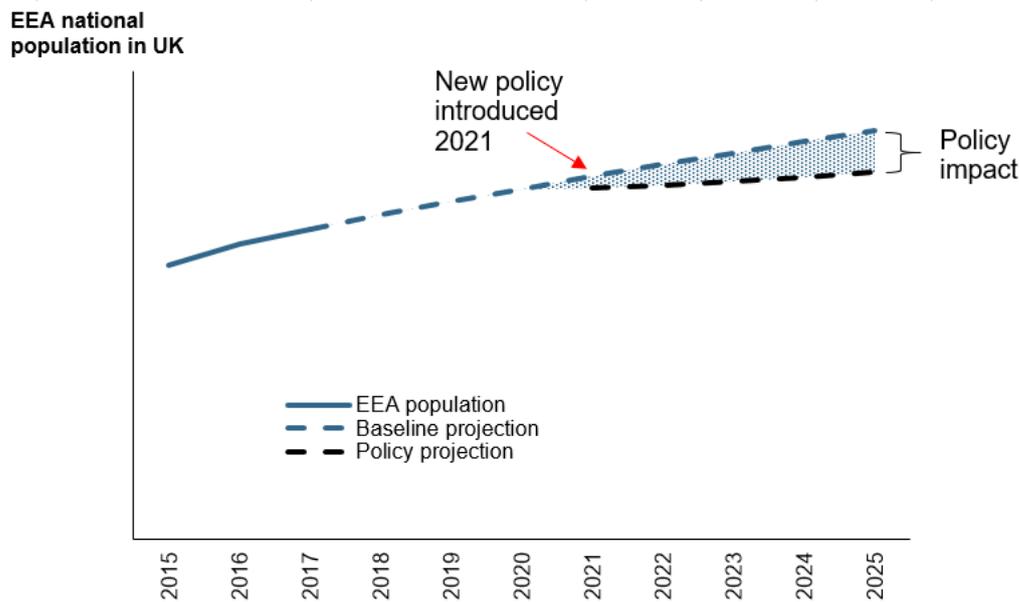
### **HMG migration modelling approach**

- 6.122 The modelling in the Home Office Immigration White Paper<sup>117</sup> used HMG economic migration models. It compared EEA migration under a baseline of continued free movement against the application of an RQF3+ skills threshold and £30,000 salary threshold over the first five years of the policy, from 2021 onwards, evaluating the cumulative impacts of the two policies in 2025. The HMG modelling approach projects EEA work immigration taking into account the economic and demographic determinants of migration from the EU whilst outflows are modelled based on ONS data about length of stay of EU migrants. This requires a projection of the level and mix of EEA migration. An illustration of HMG modelling approach is represented in Figure 6.6.

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<sup>117</sup> <https://www.gov.uk/government/publications/the-uks-future-skills-based-immigration-system>

Figure 6.6 – Illustration of HMG modelling approach



- 6.123 We agreed a Memorandum of Understanding (MoU) with the Home Office and HM Treasury to use these analytical models for this commission, which was consistent with our independence and avoided us reinventing the wheel on some of the technical modelling, where we think the HMG approach is a sensible one, We have undertaken our own analysis using these models and all results and views expressed are the MAC's work; technical verification that the models have been used correctly has been provided by Home Office and HMT, but they have had no input into conclusions. This is used to complement our own modelling by testing our policy conclusions against another methodology. We are grateful to Home Office and HM Treasury for enabling this.
- 6.124 The detail of their approach is set out in the technical paper<sup>118</sup> published alongside the Immigration White Paper. Minor changes have been made to the models since the publication of the technical paper which are primarily updates to more recent data with small impacts on results, including updating the data to calculate the baseline. The updates also enable modelling of a new entrant threshold and occupation specific threshold.
- 6.125 Our modelling approach and the HMG modelling approaches are not directly comparable as they are trying to answer different questions. We still think it is useful to consider whether the results from our approach are robust to different methodologies. There are three important differences between our approach and the HMG modelling approach to highlight:

<sup>118</sup> <https://www.gov.uk/government/publications/technical-paper-to-accompany-the-the-uks-future-skills-based-immigration-system-economic-appraisal-annex-b>

- There are significant differences in our approach, which models wider visa routes, whereas the HMG models focus on worker migration (not family or student migration). Our approach includes Tier 2 (General), Family visas and Tier 4 to determine eligibility of the broader migration system. We use the Annual Population Survey data of the stock of migrants who have arrived since 2004 to determine the eligibility of Tier 2 (General) dependants looking at the actual household structures. The HMG modelling approach focuses on worker migration and dependants of those workers. It projects the flows of EEA workers and applies a dependant ratio of 0.13 based on flows data from the International Passenger Survey. It assumes student net migration remains constant. These differences mean we would expect that our modelling of the wider system would result in a larger reduction in migration and therefore larger impacts on the population numbers;
- We use backward-looking analysis to understand the impacts if a different policy had been implemented historically. The HMG modelling approach uses forward-looking analysis projecting future migration and estimating the impacts of a policy in the future. The magnitude of impact resulting from the policy will be different as even in the absence of a policy change, EEA migration flows were higher between 2004 and present relative to the future flows projected in the HMG modelling approach;
- We use a different production function linking changes in employment by occupation to changes in GDP. We use a value of gamma (a measure of the elasticity of substitution between different types of labour) of one, as we have estimated and discussed in Annex G. The HMG modelling approach assumes a value of gamma of 0.23<sup>119</sup>. This makes little difference in practice. Our modelling assumes that the contribution of migrants to GDP within 1-digit occupation codes is proportional to their wage, while the HMG modelling approach assumes that the contribution to GDP is the same for all workers within a 1-digit occupation. As salary thresholds have a greater effect on those with lower earnings, this means that our predictions of changes in GDP from reductions in migration are slightly smaller than those in the HMG modelling approach.

6.126 The HMG modelling approach applies characteristics of the stock of EEA workers currently in the UK (without restrictions on year of arrival) to future flows of EEA workers. In practice the forward-looking and backward-looking approaches are not so different because the difficulty of predicting the characteristics of migrants often leads to the assumption that they have the same characteristics as the current

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<sup>119</sup> This implies a value of sigma of 1.3. For more detail see: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/759763/28\\_November\\_EU\\_Exit\\_Long-Term\\_Economic\\_Analysis\\_Technical\\_Reference\\_Paper.PDF](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/759763/28_November_EU_Exit_Long-Term_Economic_Analysis_Technical_Reference_Paper.PDF)

stock. In our backward-looking modelling approach, we use the characteristics of the current stock of EEA migrants who have arrived since 2004.

- 6.127 We have presented the detail and results of our analysis using the HMG modelling approach in Annex H. Whilst the magnitudes of GDP and GDP per capita impacts vary between the two modelling approaches, which is to be expected given the differences in approach we outlined above, the ordering of impacts for different salary threshold scenarios is the same in both approaches. The ordering of the impacts of different scenarios is the important aspect to focus on when considering the level of salary thresholds. We believe our policy conclusions on salary thresholds are robust to different modelling frameworks.
- 6.128 We would expect the magnitudes of impact to vary as the backward-looking approach includes wider immigration routes, whereas the HMG modelling approach focuses on worker migration. As set out above, we would also expect the magnitude of impact in the backward-looking approach to be larger as EEA work migration flows were higher in the backward-looking period than we expect them to be in the future (even in the absence of a policy change). For these reasons, we find the magnitude of the GDP and population impacts in our backward-looking approach are larger than in the impacts when we use the HMG modelling approach.
- 6.129 The backward-looking approach results in small, positive GDP per capita impacts, as there is a larger reduction in population than reduction in GDP. Our analysis using the HMG modelling approach results in small, negative GDP per capita impacts. This is likely driven by the differences in how we model the wider system and dependants and the production function. As our approach models the wider system, we apply restrictions to students and family members as well as Tier 2 workers and dependants. As non-workers do not add to GDP reducing the number of non-workers reduces population, but GDP does not change hence GDP per capita increases. Due to these differences, one should not compare GDP per capita impacts for the same salary thresholds across the methodologies. It is useful to compare different scenarios of salary thresholds using the same methodology. We find that the ordering of impacts across salary threshold scenarios is the same across both modelling frameworks, providing reassurance that our policy conclusions are likely to be robust.

### **The marginal approach**

- 6.130 Both the approach taken in the HMG modelling and in our backward-looking modelling for this report, try to assess the impact of a policy by having an estimate of the size of the population affected by the introduction of a policy. The marginal approach provides an estimate of the impact of the policy but the method requires an estimate of what will happen in the baseline and the mix of migrants on entry, both variables that are very hard to forecast. Although the method gives an

estimate of the likely impact of the policy under the assumptions made, there is a risk that different conclusions might be reached for different scenarios. The magnitude of the effects will depend on the size of the population affected by the policy, but it is also possible that the comparison of policies would also be affected. It is also challenging to understand what is driving the results in this methodology.

- 6.131 Here we describe an alternative approach, what we call the marginal approach, which considers how an outcome is likely to be affected by small changes in eligibility rules such as a salary threshold. To give an example, suppose no migrants have no dependants so are all in 1-person worker households and the salary threshold is currently £25,000. An increase in the salary threshold to £26,000 will mean that some migrants that would have been admitted with a threshold of £25,000 are no longer eligible for a visa. Given these migrants are earning less than the average full-time salary (about £30,000 including imputed earnings for the self-employed) we know that this change must increase average full-time earnings without having to make any assumption about the numbers of migrants affected by the change. That is the advantage of the marginal approach, however it comes with the disadvantage of not delivering an estimate of the overall impact of the policy change. More detail on the marginal approach is in Annex J.
- 6.132 The impact on different outcomes will generally be different. Including part-timers, average earnings are about £27,000 so that an increase in the threshold from £25,000 to £26,000 would still increase average earnings but by a smaller amount than the impact on average full-time earnings. The change would reduce GDP per capita because average labour income across workers and non-workers is about £13,000 (the contribution to GDP is assumed proportional to labour earnings), so the change in policy lowers GDP by removing some migrants with above average earnings.
- 6.133 In reality, using the marginal method is not as simple as the example of single workers without dependants implies. Migrants admitted under Tier 2 (General) have the right to bring dependants some of whom work (without any restriction on the skill level of that job and the earnings in it) and some of whom do not. Those who do work can work in any job at any salary. We define the primary earner in the household as the person who is working in a job at skill level RQF3 and above and with the highest earnings. If they are eligible for Tier 2 (General), the whole household is. In migrant households where the primary earner earns £25,000 there are on average 0.9 other workers with average earnings of £18,000 and 1.1 non-workers, both adults and children. Annex J presents this information for other income levels.
- 6.134 These factors are important in assessing the likely impact of any salary threshold. One important consequence is that the relationship between salary threshold and average earnings is no longer straightforward. The salary threshold that maximizes

average full-time earnings will be higher than the level of average earnings because the secondary earners, on average, earn less than the primary earners.

6.135 An additional complication comes from the static nature of the analysis. By definition a migrant eligible for Tier 2 must currently be in work and has to be in work until they obtain indefinite leave to remain (typically after 5 years). But they may subsequently not always be in employment (so not generating GDP through work) even while of working age and may eventually retire. These considerations can mean that the average lifetime contribution to GDP may be very different from the current contribution. A 30 year-old earning £20,000 is currently raising GDP per capita but if they have a 30 year working career when they are employed 80% of the time (and whether they do may depend on the rules for permanent settlement) always earning £20,000 followed by a 20-year retirement, their average lifetime earnings would be under £10,000 meaning that they probably reduce GDP per capita. On the other hand, if they have rapid earnings growth their contribution may be larger. These effects may be very important but it is very hard to quantify them in the absence of good longitudinal studies of migrants in the UK. This is an area where the MAC actively seeks to improve the evidence base but we have been unable to negotiate access to relevant data sets for this report.

## Conclusions

- 6.136 This chapter has described a methodology for assessing the impact of different salary thresholds.
- 6.137 We apply this methodology to consider what would have been the impact of applying the salary thresholds in Tier 2 (General) to EEA migrants who have arrived since 2004, taking account of other visa routes.
- 6.138 This approach is useful for comparing the likely impact of different migration policies but should not be misinterpreted. The EEA migrants who have come to the UK since 2004 have the right to remain in the UK, a right the MAC strongly supports.
- 6.139 The advantage of such an approach is we can compare this to a known, rather than forecast, baseline, but the disadvantage is that it doesn't allow us to make predictions about the likely impact of applying salary thresholds after the UK leaves the EU.
- 6.140 73 per cent of EEA migrants in 2016-18 who arrived after 2004 are estimated not to have been eligible for a visa if the current Tier 2 (General) salary thresholds had been in force but medium skill occupations are eligible.
- 6.141 Population and GDP would have been lower with the current salary thresholds and a medium skill threshold in place for EEA migrants since 2004, but GDP per capita and average labour productivity would have been higher. The public finances

would have improved, pressures on health, education and social housing would have been lower but pressures on social care higher, the dependency ratio higher and impacts would be larger in some occupations and sectors.

- 6.142 All these impacts, apart from the ones on immigration, population and GDP, are estimated to be very small.
- 6.143 The impact would have been larger in London than other parts of the UK. This reflects the greater share of migrants in the London population and labour market.
- 6.144 In the next chapter we examine a range of alternative designs and levels of salary thresholds using the methodology described in this chapter and go on to make recommendations about our preferred approach.

## Chapter 7: Alternative salary threshold policies and recommendations

### Summary

- Using the MAC modelling described in the previous chapter, we considered the impact of different levels and structures of salary thresholds on a range of outcomes such as population size, GDP and GDP per capita.
- The largest impacts of the proposed new system come as a result of restricting eligibility to workers in medium-skilled and high-skilled jobs, the RQF3+ threshold. The impact of varying salary thresholds is much smaller. None of the impacts suggests there is a single, ideal, set of thresholds and there are some trade-offs to be made between alternatives
- Having examined a large (initially over 2,900, before moving to a narrower set of alternatives to illustrate trade-offs) range of options we recommend retaining the current structure for salary thresholds, where the relevant salary threshold for an experienced worker is the higher of an occupation specific threshold and a general threshold.
- Having examined a large (initially over 2,900, before moving to a narrower set of alternatives to illustrate trade-offs) range of options we recommend retaining the current structure for salary thresholds, where the relevant salary threshold for an experienced worker is the higher of an occupation specific threshold and a general threshold.
- We recommend the occupation specific threshold for experienced workers should be maintained at the 25th percentile of the full-time annual earnings distribution.
- We also recommend the general threshold should be set at the 25th percentile of the full-time annual earnings distribution for all Tier 2 (General) eligible occupations. But, in light of the change in the range of eligible occupations (from RQF6 to RQF3+), this new threshold should fall by around £4,400 from the current £30,000 to around £25,600 (in 2019).
- A range of occupations, largely in health and education, whose occupation specific thresholds are based on bargained pay scales should not face the general threshold. We recommend the list of eligible occupations should be amended.

- There should be more adequate monitoring and evaluation of how the system is working. When large changes are made it is vital to ensure that any emerging issues are identified and dealt with in a timely way.

## Defining alternative salary threshold policies

7.1 Now that we have seen the range of possible impacts the imposition of the current salary thresholds on EEA-migrants could have (in a backward-looking setting). We now want to apply the same methodology to alternative policy choices to help us ascertain how different choices may lead to different outcomes.

7.2 As described in chapter 5, the current system of salary thresholds for experienced workers employed in occupation  $j$  can be represented as:

$$\mathbf{max}(\mathit{general\ threshold}, \mathit{occupation\ specific\ threshold}_j)$$

7.3 Currently the general threshold is set at £30,000 and the occupation specific threshold (sometimes referred to as the ‘going rate’) is set at the 25th percentile. This system is represented diagrammatically in Figure 5.4. The commission asked us to consider the three methods for calculating salary thresholds:

- i) a single minimum salary threshold, potentially with some flexibilities to set a lower rate;
- ii) the current arrangement of a combination of a minimum salary threshold and a ‘going rate’;
- iii) an approach which focuses only on the ‘going rate’ for an occupation.

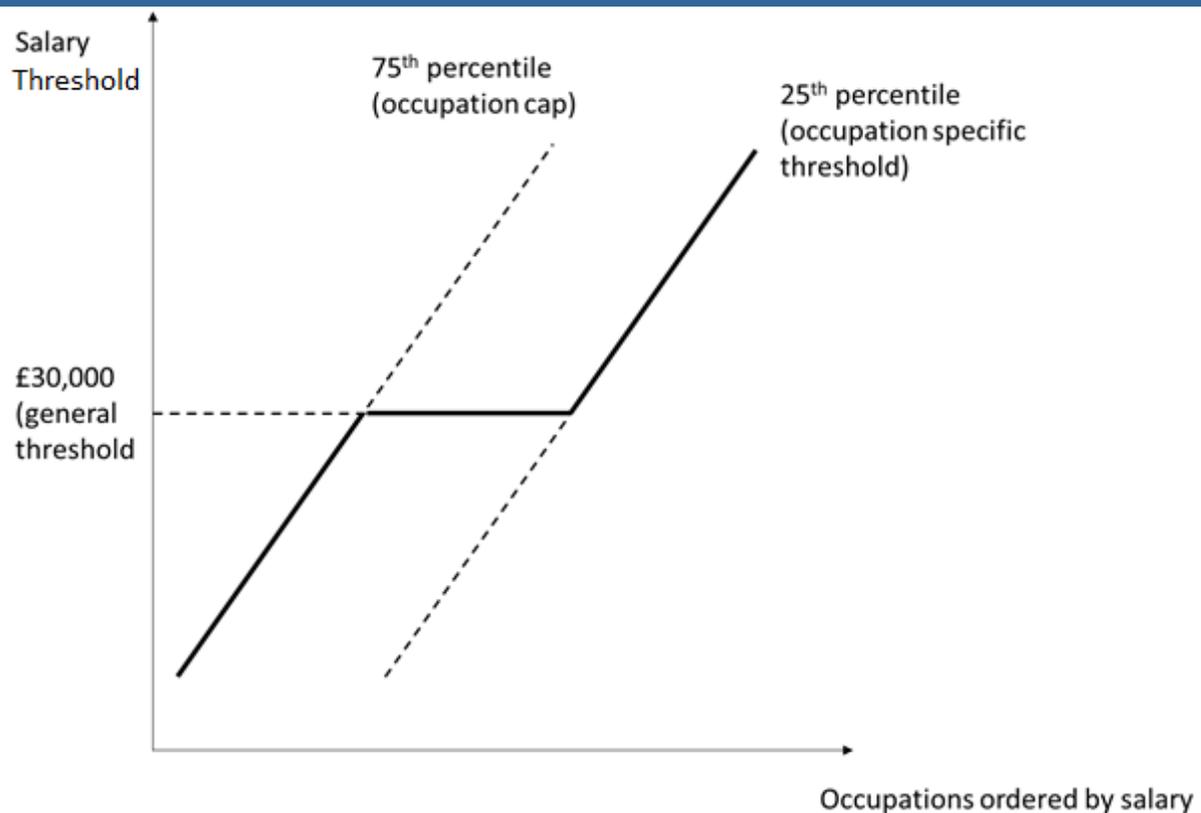
7.4 To this list we also add the idea of an occupation cap which caps the threshold applied to a given occupation at a certain point in that occupation’s full-time earnings distribution. Naturally the occupation cap would have to be set at a higher point in the earnings distribution than the occupation specific threshold. This approach could be used in conjunction with the current general and occupation specific thresholds as laid out below.

$$\mathbf{min}(\mathit{occupation\ cap}_j, \mathbf{max}(\mathit{general\ threshold}, \mathit{occupation\ specific\ threshold}_j))$$

7.5 The motivation for this addition is the observation that under the current arrangements employers have to pay at least the general threshold amount (£30,000) for experienced hires but that this may be unrealistic in some occupations, so that while they may be eligible on paper, in practice the system is of little use for them. An occupation cap would mean that if the general threshold is high relative to earnings in an occupation then the relevant threshold becomes the cap which is linked to the level of earnings in that occupation. This would ensure that at least some vacancies within each eligible occupation could be filled using

the Tier 2 (General) system. This additional threshold becomes more relevant the higher the general threshold is. As a hypothetical example, if a general threshold was set at £30,000 and the occupation cap was set at the 75th percentile, if the 75th percentile of the earnings distribution was £25,000 then the £25,000 would be the salary threshold for that occupation. This is shown below in Figure 7.1.

**Figure 7.1: The current experienced worker salary threshold system with an occupation cap set at the 75<sup>th</sup> percentile**



7.6 Each of the approaches to setting salary thresholds we have been asked to look at can be thought of as a special case of the equation presented above. We use that equation to define the range of policies we consider.

7.7 In line with our discussions in Chapter 5 we set each threshold element as a percentile from an earnings distribution, in particular:

- The general threshold is set as a percentile from the full-time earnings distribution amongst all eligible occupations (i.e. those skilled to RQF level 3 and above)<sup>120</sup>.

<sup>120</sup> In the modelling we present in this chapter, unless made clear otherwise, we calculate the general threshold including those occupations recommended to be subject to pay scale thresholds.

- The occupation specific threshold and occupation cap are set as a percentile of the full-time earnings distribution within a given occupation.

7.8 Also in line with the discussions in Chapter 5 we apply the following features to each new policy scenario:

- ‘New entrants’ receive a 30 per cent reduction to the threshold they face.
- Selected occupations instead face a threshold that is simply the appropriate pay band from the relevant public sector pay scale<sup>121</sup>.

7.9 Setting each element of the threshold equation between the 10th and 90th percentiles of the relevant distributions at 5 percentile increments combined with the constraint that the occupation cap must be set at a higher percentile than the occupation specific threshold and allowing for each of the three elements to be missing in certain scenarios result in a total of 2,925 possible threshold policies.

7.10 In the next section we present some modelled outcomes across these 2,925 scenarios to show how they vary across different policy choices. We then focus on a narrower set of possible policies to illustrate the trade-offs policy makers face.

### How outcomes vary by policy choice

7.11 As we have three threshold choices (general, occupation specific and occupation cap) there are four dimensions of variation for each impact we wish to consider, which makes it difficult to present graphically. To overcome this we reduce the three threshold choices into one summary measurement for each policy scenario by calculating the average threshold applied to EEA national employees (arriving since 2004), this allows us to plot the relationship between outcomes and a single representation of the thresholds applied under each of the 2,925 scenarios. This summary measure can be thought of as a measure of the restrictiveness of the given policy scenario, which can be plotted along the horizontal axis.

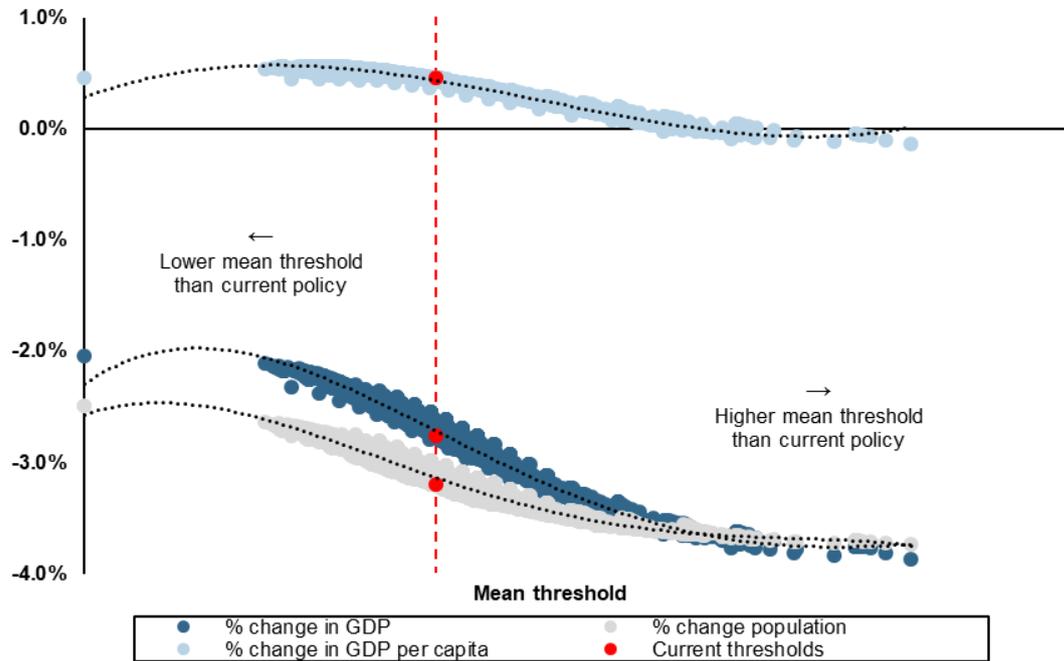
7.12 Figure 7.2 below displays this approach for the case of population, GDP and GDP per capita as well as separately for GDP per capita and its component parts.

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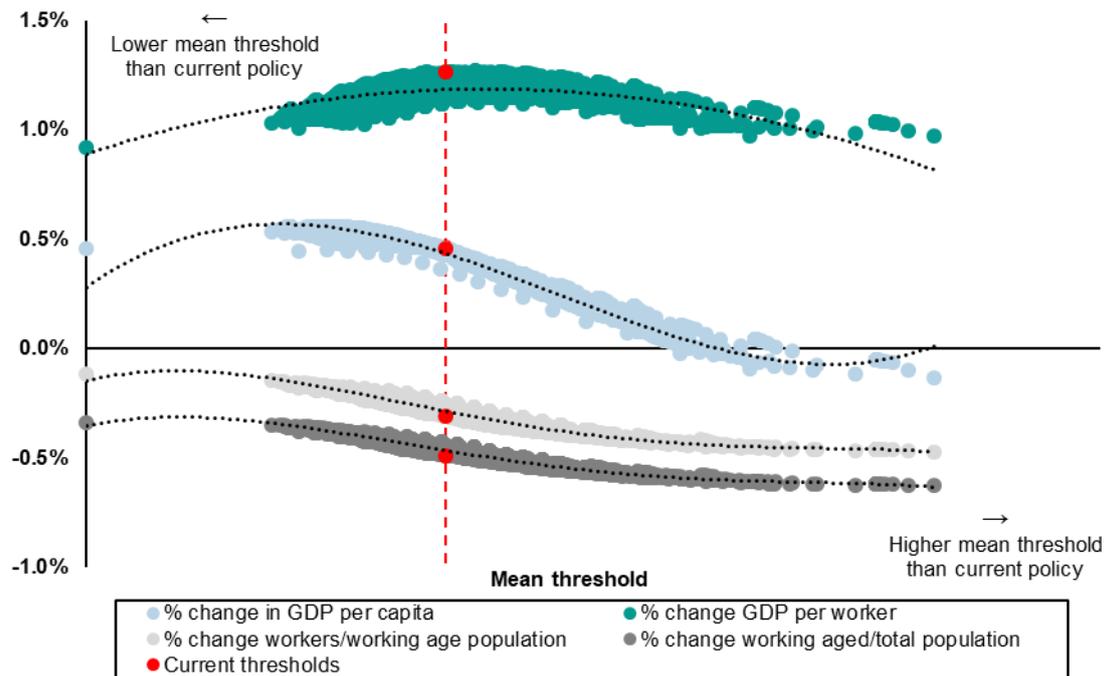
<sup>121</sup> In practical terms we apply a threshold of £0 to these ‘pay scale’ occupations on the assumption that a significant share of migrants in these occupations will be covered by these pay scales and that by definition they must be meeting them.

**Figure 7.2 – Impact**

**Population, GDP and GDP per capita impacts**



**GDP per capita and components of change**



Source:MAC calculations using APS 2016-18; polynomial trendlines included

7.13 The outcomes plotted on the far left of the chart, touching the vertical axis, represent a policy with a mean threshold of £0 i.e. only a skills threshold is applied to Tier 2 (General) (along with the other visa routes set out in Chapter 6). This shows how a lot of the change in the outcomes presented is driven by the application of a medium (RQF level 3 and above) skills threshold rather than the

salary thresholds. For example a skills threshold on its own would have reduced the population by 2.5 per cent, GDP by 2.0 per cent and therefore increased GDP per capita by 0.5 per cent compared to our baseline.

- 7.14 These results intuitively show that policies with higher average salary thresholds, have larger impacts on population and on output than less restrictive policies. Similarly, the GDP per capita impact is less positive for policies with higher mean thresholds though the estimated differences are all very small. GDP per worker exhibits a somewhat quadratic relationship with mean threshold, rising up until a mean threshold in the region of £30,000 before falling again. However, the variation in the impact on GDP per worker for a given level of is much wider than for the other outcomes plotted, as can be seen by the wider dispersion around the trend line. The tight relationship for the other outcomes suggests that the combination of thresholds chosen (general, occupation and cap) have relatively little impact on macro level outcomes other than through the average level threshold they generate.
- 7.15 The results in Figure 7.2 are for the particular baseline of the flows in EEA migrants from 2004 onwards evaluated in 2016-18 i.e. 12-14 years after a policy change. It is important to know whether the conclusions are likely to be robust to different baselines with different levels of migration or evaluated at different time horizons. The actual numbers will almost certainly depend on these but what is relevant for the design of policy is whether the comparisons between different policies remain the same.
- 7.16 The marginal approach described in the previous chapter is one way to check the likely robustness of conclusions. It provides a series of ready-reckoners for when one would expect a policy to lower or raise a particular outcome and the marginal approach seems to work well. Using the marginal approach, the proposed restriction of eligibility to medium and higher-skilled jobs can be understood to raise GDP per capita because the estimated per capita contribution of lower-skilled migrants is below the current average. On the other hand a higher salary threshold in the range we consider is predicted to reduce GDP per capita because the average earnings of all those affected by a higher salary threshold is above the current average. However, not all salary thresholds considered reduce estimated GDP per worker because one needs a salary threshold of about £30,000 to ensure that the average salaries of migrants admitted is above average earnings.
- 7.17 This means that there are reasons to think that our conclusions are likely to be robust to different baseline flows. But, as explained in the previous chapter, all of this analysis is static: ideally one would take a longer-term perspective in which not all migrants admitted for work are always in work, some might have a lot of pay progression, some might retire here. It is very hard to quantify all of these risks but they should be borne in mind.

- 7.18 As explained in Chapter 6, these estimates of change in GDP and GDP per capita do not tell us anything about changes in the welfare of the resident population nor do aggregate impacts tell us about how impacts might differ across sectors, occupations, regions and individuals across dimensions such as employment, wages and population. Although we have estimated impacts on a wide range of outcomes for all the 2,925 scenarios identified, it is not feasible to present all the results of this modelling. While these are instructive of the shape of the relationship between outcomes and threshold level they can be cumbersome to interpret.
- 7.19 For this reason, we present here a narrower range of twenty-one salary threshold options. This list was arrived at by considering what might be realistic policy options given where we are starting from. This meant keeping the occupation specific threshold no higher than the current 25th percentile and keeping the general threshold at levels that would imply values of between around £19,000 and £34,000. The details of these scenarios along with the proportions of EEA employees (arrived since 2004) for whom each of the three thresholds 'bind' and the average level of the threshold applied to that group are presented in the table below.
- 7.20 The 'binding' values show that scenario six and fourteen turn out to be identical in practice as the occupation cap does not bind for any occupation.

| Table 7.1 – Salary threshold policies to be modelled and compared |         |               |          |                               |               |          |                                    |   |
|---|---------|---------------|----------|-------------------------------|---------------|----------|------------------------------------|---|
| Policy  | Value   |               |          | % Binding on EEA <sup>1</sup> |               |          | Average threshold EEA <sup>2</sup> | Description   |
|   | General | Occ. specific | Occ. Cap | General                       | Occ. specific | Occ. Cap |                                    |   |
| 1   | 10th    | .             | .        | 100%                          | 0%            | 0%       | £19,100                            | General threshold only.   |
| 2   | 25th    | .             | .        | 100%                          | 0%            | 0%       | £25,100                            |   |
| 3   | 35th    | .             | .        | 100%                          | 0%            | 0%       | £28,600                            |   |
| 4   | 50th    | .             | .        | 100%                          | 0%            | 0%       | £34,100                            |   |
| 5   | .       | 25th          | .        | 0%                            | 100%          | 0%       | £25,900                            | Occupation specific threshold only.   |
| 6   | 10th    | 25th          | .        | 24%                           | 76%           | 0%       | £26,500                            | Higher of general or occupation specific threshold.                                 |
| 7   | 25th    | 25th          | .        | 56%                           | 44%           | 0%       | £28,800                            |   |
| 8   | 35th    | 25th          | .        | 62%                           | 38%           | 0%       | £30,900                            |   |
| 9   | 50th    | 25th          | .        | 87%                           | 13%           | 0%       | £35,000                            |   |
| 10  | 10th    | 25th          | 50th     | 16%                           | 76%           | 8%       | £26,300                            | Higher of general or occupation specific, capped at median for occupation.          |
| 11  | 25th    | 25th          | 50th     | 28%                           | 44%           | 28%      | £27,500                            |   |
| 12  | 35th    | 25th          | 50th     | 20%                           | 38%           | 41%      | £28,200                            |   |
| 13  | 50th    | 25th          | 50th     | 27%                           | 13%           | 60%      | £29,400                            |   |
| 14  | 10th    | 25th          | 75th     | 24%                           | 76%           | 0%       | £26,500                            | Higher of general or occupation specific, capped at 75th percentile for occupation. |
| 15  | 25th    | 25th          | 75th     | 46%                           | 44%           | 28%      | £28,300                            |   |
| 16  | 35th    | 25th          | 75th     | 39%                           | 38%           | 23%      | £29,600                            |   |
| 17  | 50th    | 25th          | 75th     | 51%                           | 13%           | 36%      | £32,000                            |   |
| 18  | 10th    | .             | 50th     | 92%                           | 0%            | 8%       | £18,900                            | General threshold capped at median for occupation.                                  |
| 19  | 25th    | .             | 50th     | 72%                           | 0%            | 28%      | £23,700                            |   |
| 20  | 35th    | .             | 50th     | 59%                           | 0%            | 41%      | £26,000                            |   |
| 21  | 50th    | .             | 50th     | 40%                           | 0%            | 60%      | £28,500                            |   |

Notes: Percentiles of RQF3+ occupations ASHE 2019 £ equivalents, 10th=£19.9k, 25th=£26.1k, 35th=£29.8k, 50th=£35.6k;

<sup>1</sup> % binding calculated over EEA nationals who came to the UK on or after 2004 who are currently employees in an RQF3+ occupation, but not employed in an occupation subject to pay scale rules. Data source: APS 2016-18

<sup>2</sup> Average thresholds calculated excluding 24 occupations subject to pay scales. Calculated as a weighted average using percentiles from ASHE 2019 (full-time, adult rate, employed in the same job for 12 months) and shares of total EEA national employees (arriving since 2004) by occupation and whether new entrant age (<26) or not taken from APS 2016-18.

**7.21** Choosing a salary threshold requires clear objectives. MAC has always based its recommendations on the welfare of the resident population taking account of the fact that there are likely to be different impacts on different groups. We have typically considered a range of outcomes in making this assessment and arriving

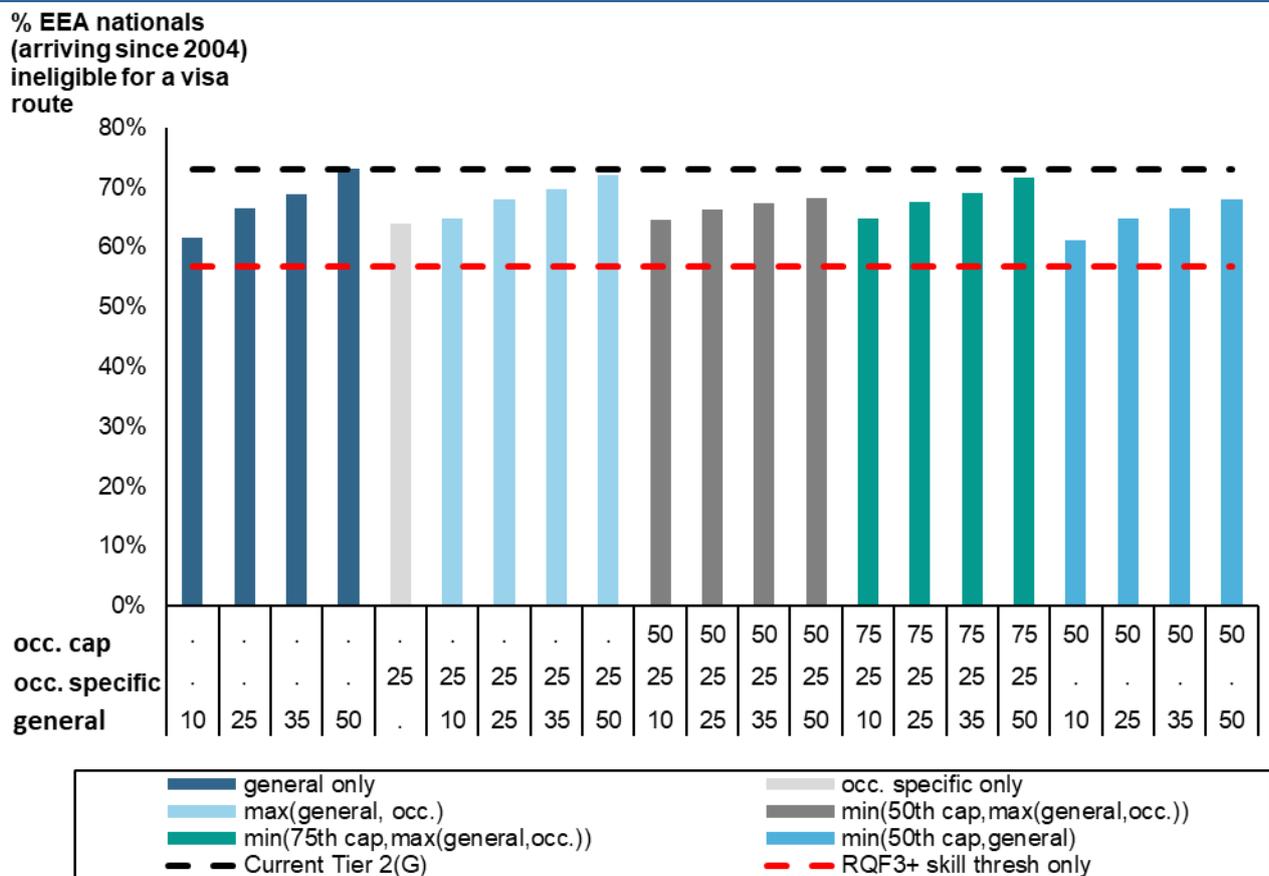
at our recommendations. Inevitably this involves trade-offs and others might come to different conclusions given those trade-offs if they have different outcomes. We do make recommendations but also try to be clear about the trade-offs involved.

7.22 In the sub-sections that follow we evaluate the impact of each of the twenty-one options against the outcomes analysed in Chapter 6.

### Immigration numbers

7.23 Using our modelling framework we are unable to say anything about potential impacts on future migration flows. Instead we can say what proportion of EEA national migrants arriving in the UK since 2004 we find eligible for a visa route on the basis of their current characteristics. This gives a very crude indication of the potential impact of EEA migration flows. Figure 7.3 below shows this outcome across the twenty-one scenarios as well as for the application of the current non-EEA thresholds (detailed in Chapter 6) and for the application of only an RQF level 3 skills threshold with no salary threshold.

**Figure 7.3: Proportion of EEA nationals arriving in the UK since 2004 found ineligible for a visa route given their current (2016-18) characteristics by salary threshold policy**



Source: MAC calculations using APS 2016-18

- 7.24 Figure 7.3 shows how all of our twenty-one policy options result in a smaller share of our EEA group of interest being found ineligible for a visa route than the current Tier 2 (General) thresholds. Interestingly the difference between those policies using a single general threshold and those using a combination of general and occupation specific thresholds exhibit largely similar ineligibility rates. Those policies with an occupation cap at the 75th percentile look indistinguishable from similar policies with no cap, however those with a cap at the 50th percentile have lower ineligibility rates. More broadly a skills threshold along with the requirements of the routes other than Tier 2 are on their own (i.e. without a salary threshold) responsible for the majority of those EEA migrants we find ineligible.
- 7.25 The predictable outcome of this is that salary threshold policies with higher average threshold values will reduce migrant numbers more than those with lower thresholds, but that it is the skill eligibility requirement that drives most of the result.

### **GDP and GDP per capita**

- 7.26 As we have previously highlighted there is an important distinction to make between the impact of immigration on GDP and GDP per capita and its impact on the welfare of the resident population. Immigration can influence the former purely through altering the composition of the population and those in work. For there to be implications for the welfare of the resident population there need to be 'spill overs' onto the existing population through changes in measures like employment prospects, wages and productivity of the already resident population. In Chapter 6 we summarized our conclusions from our 2018 EEA report that about these 'spill overs' are likely to be quite small meaning that any impacts on GDP per capita are from composition effects and do not represent how the living standard of existing residents are affected.
- 7.27 The impacts on GDP, GDP per capita (and components of change) for each of the twenty-one scenarios plus the current Tier 2 thresholds and skills only threshold in table 7.2 below.

**Table 7.2 – Impact on GDP, GDP per capita and components of change from applying different salary threshold policy scenarios to EEA migrants arriving in the UK since 2004**

| Policy                              | Threshold values |               |          | GDP   | GDP per capita | Components of GDP per capita change |                         |                           |
|-------------------------------------|------------------|---------------|----------|-------|----------------|-------------------------------------|-------------------------|---------------------------|
|                                     | General          | Occ. specific | Occ. Cap |       |                | GDP per worker                      | Workers/working-age pop | Working-age pop/total pop |
| 1                                   | 10th             | .             | .        | -2.2% | 0.55%          | 1.1%                                | -0.16%                  | -0.36%                    |
| 2                                   | 25th             | .             | .        | -2.4% | 0.54%          | 1.2%                                | -0.22%                  | -0.42%                    |
| 3                                   | 35th             | .             | .        | -2.5% | 0.51%          | 1.2%                                | -0.25%                  | -0.45%                    |
| 4                                   | 50th             | .             | .        | -2.8% | 0.44%          | 1.2%                                | -0.31%                  | -0.49%                    |
| 5                                   | .                | 25th          | .        | -2.3% | 0.52%          | 1.1%                                | -0.19%                  | -0.39%                    |
| 6                                   | 10th             | 25th          | .        | -2.3% | 0.52%          | 1.1%                                | -0.20%                  | -0.40%                    |
| 7                                   | 25th             | 25th          | .        | -2.5% | 0.51%          | 1.2%                                | -0.24%                  | -0.43%                    |
| 8                                   | 35th             | 25th          | .        | -2.6% | 0.49%          | 1.2%                                | -0.27%                  | -0.46%                    |
| 9                                   | 50th             | 25th          | .        | -2.7% | 0.46%          | 1.2%                                | -0.29%                  | -0.47%                    |
| 10                                  | 10th             | 25th          | 50th     | -2.3% | 0.52%          | 1.1%                                | -0.20%                  | -0.39%                    |
| 11                                  | 25th             | 25th          | 50th     | -2.4% | 0.52%          | 1.2%                                | -0.22%                  | -0.41%                    |
| 12                                  | 35th             | 25th          | 50th     | -2.5% | 0.51%          | 1.2%                                | -0.23%                  | -0.42%                    |
| 13                                  | 50th             | 25th          | 50th     | -2.5% | 0.49%          | 1.2%                                | -0.24%                  | -0.43%                    |
| 14                                  | 10th             | 25th          | 75th     | -2.3% | 0.52%          | 1.1%                                | -0.20%                  | -0.40%                    |
| 15                                  | 25th             | 25th          | 75th     | -2.5% | 0.52%          | 1.2%                                | -0.24%                  | -0.43%                    |
| 16                                  | 35th             | 25th          | 75th     | -2.5% | 0.50%          | 1.2%                                | -0.26%                  | -0.45%                    |
| 17                                  | 50th             | 25th          | 75th     | -2.7% | 0.46%          | 1.2%                                | -0.29%                  | -0.47%                    |
| 18                                  | 10th             | .             | 50th     | -2.2% | 0.55%          | 1.1%                                | -0.16%                  | -0.36%                    |
| 19                                  | 25th             | .             | 50th     | -2.3% | 0.55%          | 1.1%                                | -0.20%                  | -0.39%                    |
| 20                                  | 35th             | .             | 50th     | -2.4% | 0.53%          | 1.2%                                | -0.22%                  | -0.41%                    |
| 21                                  | 50th             | .             | 50th     | -2.5% | 0.50%          | 1.2%                                | -0.24%                  | -0.43%                    |
| Current Tier 2 (General) thresholds |                  |               |          | -2.8% | 0.46%          | 1.3%                                | -0.31%                  | -0.49%                    |
| RQF level 3 skills threshold only   |                  |               |          | -2.0% | 0.46%          | 0.9%                                | -0.11%                  | -0.34%                    |

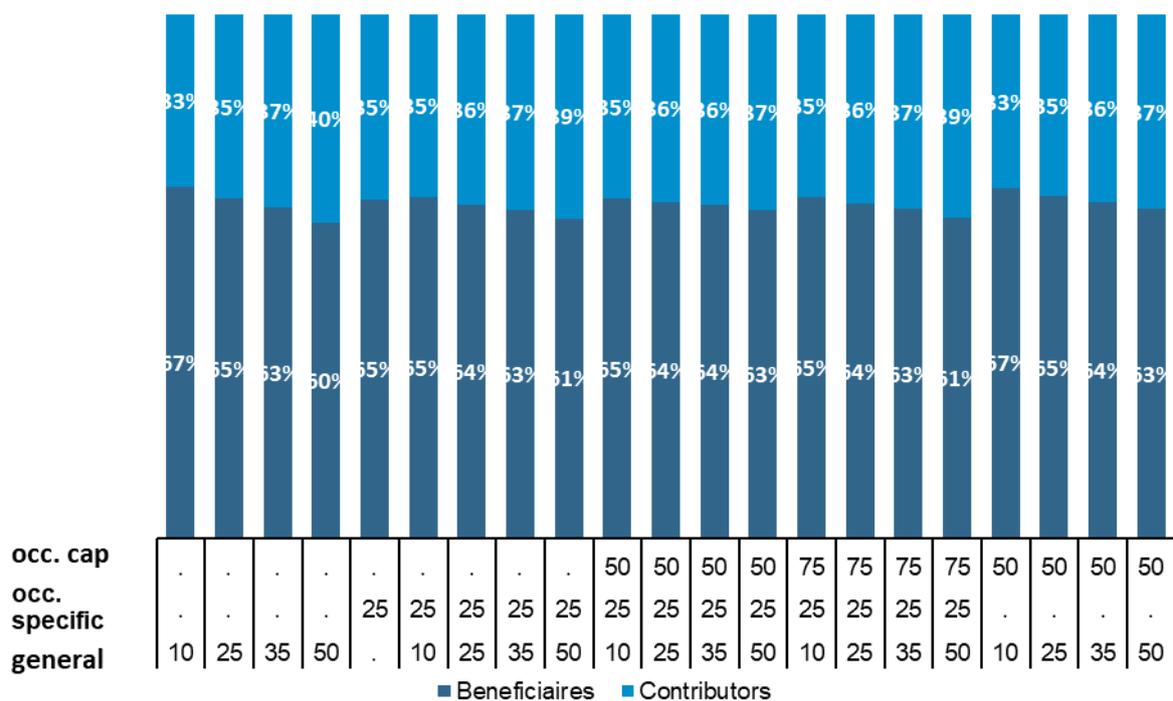
Notes: MAC calculations using APS 2016-18; GDP and GDP per capita impacts shaded from least impact (green) to most (red)

7.28 The skill eligibility restriction is the policy change that has the largest impact; the impact of different salary thresholds is tiny. As we saw in figure 7.1, the policies with lower average threshold levels have smaller negative impacts on GDP and larger positive impacts on GDP per capita. This is as a result of smaller negative impacts on the numbers of workers and the size of the working aged population, not being fully offset by a smaller positive change in GDP per worker.

## Impact on the Public Finances

7.29 Figure 7.4 below shows the proportion of net beneficiaries and contributors under the range of scenarios. Under all scenarios, most of the EEA migrants who would be ineligible are estimated to be net beneficiaries i.e. receiving more in benefits that they pay in taxes. However, at higher levels of salary threshold a greater proportion of the ineligible group are net fiscal contributors i.e. those migrants you would want to admit if your goal was to maximise the fiscal benefit for the state.

**Figure 7.4: Share of EEA migrants, arriving since 2004, estimated to be ineligible for a visa route under different salary threshold policies that are net fiscal contributors/beneficiaries**



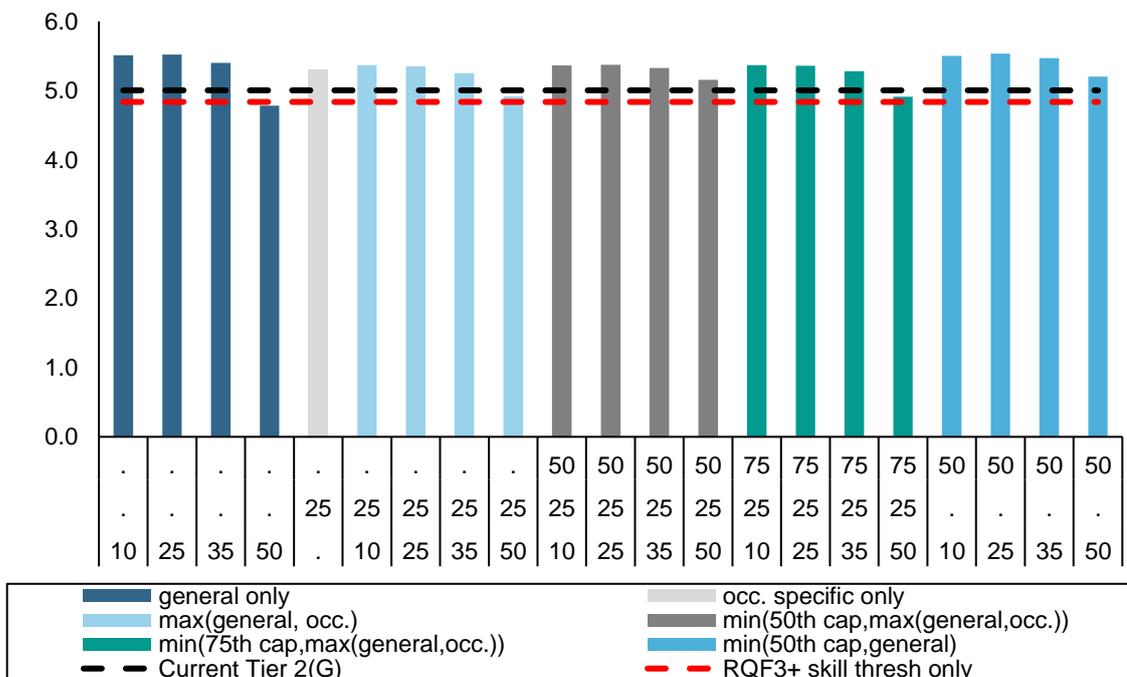
Source: Oxford Economics

7.30 The more negative the net fiscal contribution of the ineligible migrant group the more positive the impact on the public finances of applying that policy. Figure 7.5 below shows that in all scenarios there is a positive fiscal gain. Applying salary thresholds onto of an RQF3+ skills threshold and the requirement of employment of Tier 2 (General) initially delivers additional fiscal benefits, but this begins to reduce in size when the level of salary threshold increases, with our most restrictive scenarios delivering a smaller benefit than a skills threshold would on its own. However, the estimated fiscal impacts of different salary thresholds are very small in the context of total government spending. They are also the result of a cumulative policy over some 14 years, so any immediate fiscal impacts of a change in policy would be minimal.

- 7.31 Overall the takeaway here is that the majority of any net fiscal gain is coming from the application of the skills threshold: the requirement to have at least one household member in a medium or high-skilled job. The application of salary thresholds can improve the fiscal outcomes to a relatively small extent, but if set too high will begin to turn away too high a share of net fiscal contributors ultimately reducing the size of the fiscal gain.
- 7.32 The largest difference between the scenarios we have modelled is £0.74bn. In the context of current UK total government spending this represents about 0.09 per cent, showing the choice of salary threshold within this range only has a very small fiscal impact.

**Figure 7.5: Impact on Public Finances of Different Salary Thresholds**

Change in public finances (£, billions)



Source: Oxford Economics

- 7.33 Our commission also asked us to consider the impact over the short, medium and long-term. It is hard to do this precisely because the estimates are likely to be very sensitive to a number of assumptions about which we have very little information. For example, over a much longer period than we consider here some of the EEA migrants who are currently working age will retire or become unemployed and the fraction who remain in the UK then will have a large impact on their fiscal position but is very hard to estimate. Similarly, the children of these migrants will become of working age and the net fiscal contribution of them will depend on how well they do in the labour market.

## Pressure on public services

- 7.34 The impact on the funds available to fund public services is largely covered by the fiscal impact. If the migrants granted entry through Tier 2 (General) on average make a positive fiscal contribution to the exchequer that means not only will there be enough additional resources to cover any increase in demand for services but that there will be more resources per person to spend, benefiting the resident population.
- 7.35 However, the mechanism through which any fiscal boost gets distributed to public services is subject to political choices, administrative processes and time lags. Also of interest are the more direct impacts on supply of (largely through contributions to the workforce) and demand for services as a result of changes in the migrant population. Following our approach in Chapter 6 we present the change in these measures of supply and demand for public services for each policy scenario in table 7.3.
- 7.36 These impacts can be understood in the following way. The impact of the skill eligibility restriction on the number of workers in the health sector is small but the large reduction in immigration reduces predicted health expenditure more. As the salary threshold rises it impacts the number of patients and associated health spending more than it does workers. This will in part be because several important occupations in the health sector have been subjected to a pay scale exemption in these scenarios and so effectively face no salary threshold at all.
- 7.37 In social care, low pay and the occupational skill composition of the industry mean that the ineligibility rates among EEA migrants are high – although the overall impact is relatively small given the share of EEA migrants. The workforce impact increases at a steady rate as salary threshold rise. We have not attempted to estimate the change in demand for social care but it is likely to be small given the younger demographic of EEA migrants. Direct pressures on social care are therefore predicted to increase somewhat.
- 7.38 In education the predicted reduction in the number of school age children is always larger than the predicted reduction in the number of teachers. For Higher Education we are unable to make an assessment of the potential change in student numbers as other policies, namely the application of international fees, are also relevant. In our modelling we assume that any EEA migrants currently studying full-time at a higher or further education institution are eligible for a Tier 4 visa. The effect of this assumption would be that there is little impact on student numbers across all policy scenarios. As a result we only present the impact on employment within the Higher Education sector, which is naturally large for higher salary thresholds.
- 7.39 In social housing EEA migrants are more likely to be tenants than to have contributed to the construction of new social housing, largely because there have

been very low levels of construction. As a result pressure of social housing could ease a small amount.

7.40 As highlighted in Chapter 6 it is important to acknowledge these impacts are inherently back of the envelope in nature and only represent a snap-shot in time. Migrants' contribution to and demand for public services will change as the characteristics of cohorts evolve over time. Furthermore, it is migrants' net fiscal contribution that ultimately determines the resources available to meet any change in demand.

**Table 7.3 – Changes in the supply and demand of select public services resulting from the application of immigration policies to EEA migrants arriving in the UK since 2004**

| Policy                              | Threshold values |                  |                  | Education            |         |      |                        |         |      |                     | Health <sup>4</sup> |         |      | Social Care <sup>5</sup> | Social Housing <sup>6</sup> |         |      |
|-------------------------------------|------------------|------------------|------------------|----------------------|---------|------|------------------------|---------|------|---------------------|---------------------|---------|------|--------------------------|-----------------------------|---------|------|
|                                     |                  |                  |                  | Primary <sup>1</sup> |         |      | Secondary <sup>2</sup> |         |      | Higher <sup>3</sup> | Dem-and             | Sup-ply | Net  | Sup-ply                  | Dem-and                     | Sup-ply | Net  |
|                                     | General          | Occ. specific    | Occ. Cap         | Dem-and              | Sup-ply | Net  | Dem-and                | Sup-ply | Net  | Supply              |                     |         |      |                          |                             |         |      |
| 1                                   | 10 <sup>th</sup> | .                | .                | -3.9%                | -0.8%   | 3.1% | -2.4%                  | -0.5%   | 1.9% | -1.2%               | -1.9%               | -0.7%   | 1.3% | -2.2%                    | -3.0%                       | -0.4%   | 2.6% |
| 2                                   | 25 <sup>th</sup> | .                | .                | -4.2%                | -0.9%   | 3.2% | -2.4%                  | -0.6%   | 1.8% | -1.3%               | -2.1%               | -0.7%   | 1.3% | -2.4%                    | -3.2%                       | -0.5%   | 2.7% |
| 3                                   | 35 <sup>th</sup> | .                | .                | -4.3%                | -0.9%   | 3.3% | -2.5%                  | -0.6%   | 1.9% | -1.4%               | -2.1%               | -0.8%   | 1.4% | -2.5%                    | -3.3%                       | -0.5%   | 2.8% |
| 4                                   | 50 <sup>th</sup> | .                | .                | -4.5%                | -1.0%   | 3.6% | -2.5%                  | -0.8%   | 1.8% | -1.7%               | -2.3%               | -0.8%   | 1.4% | -2.6%                    | -3.4%                       | -0.5%   | 2.9% |
| 5                                   | .                | 25 <sup>th</sup> | .                | -4.1%                | -0.8%   | 3.2% | -2.4%                  | -0.6%   | 1.8% | -1.6%               | -2.0%               | -0.7%   | 1.3% | -2.3%                    | -3.1%                       | -0.4%   | 2.6% |
| 6                                   | 10 <sup>th</sup> | 25 <sup>th</sup> | .                | -4.1%                | -0.9%   | 3.2% | -2.4%                  | -0.6%   | 1.8% | -1.6%               | -2.0%               | -0.7%   | 1.3% | -2.3%                    | -3.1%                       | -0.4%   | 2.6% |
| 7                                   | 25 <sup>th</sup> | 25 <sup>th</sup> | .                | -4.2%                | -1.0%   | 3.3% | -2.4%                  | -0.6%   | 1.8% | -1.7%               | -2.1%               | -0.7%   | 1.4% | -2.5%                    | -3.2%                       | -0.5%   | 2.8% |
| 8                                   | 35 <sup>th</sup> | 25 <sup>th</sup> | .                | -4.3%                | -1.0%   | 3.3% | -2.5%                  | -0.7%   | 1.8% | -1.7%               | -2.2%               | -0.8%   | 1.4% | -2.5%                    | -3.3%                       | -0.5%   | 2.8% |
| 9                                   | 50 <sup>th</sup> | 25 <sup>th</sup> | .                | -4.5%                | -0.9%   | 3.6% | -2.5%                  | -0.8%   | 1.7% | -1.7%               | -2.2%               | -0.8%   | 1.4% | -2.6%                    | -3.3%                       | -0.5%   | 2.9% |
| 10                                  | 10 <sup>th</sup> | 25 <sup>th</sup> | 50 <sup>th</sup> | -4.1%                | -0.9%   | 3.2% | -2.4%                  | -0.6%   | 1.8% | -1.6%               | -2.0%               | -0.7%   | 1.3% | -2.3%                    | -3.1%                       | -0.4%   | 2.6% |
| 11                                  | 25 <sup>th</sup> | 25 <sup>th</sup> | 50 <sup>th</sup> | -4.2%                | -0.9%   | 3.3% | -2.4%                  | -0.6%   | 1.8% | -1.6%               | -2.1%               | -0.7%   | 1.3% | -2.4%                    | -3.2%                       | -0.5%   | 2.7% |
| 12                                  | 35 <sup>th</sup> | 25 <sup>th</sup> | 50 <sup>th</sup> | -4.2%                | -0.9%   | 3.3% | -2.5%                  | -0.6%   | 1.8% | -1.6%               | -2.1%               | -0.7%   | 1.3% | -2.4%                    | -3.2%                       | -0.5%   | 2.7% |
| 13                                  | 50 <sup>th</sup> | 25 <sup>th</sup> | 50 <sup>th</sup> | -4.3%                | -0.9%   | 3.4% | -2.5%                  | -0.7%   | 1.8% | -1.8%               | -2.1%               | -0.8%   | 1.3% | -2.4%                    | -3.2%                       | -0.5%   | 2.7% |
| 14                                  | 10 <sup>th</sup> | 25 <sup>th</sup> | 75 <sup>th</sup> | -4.1%                | -0.9%   | 3.2% | -2.4%                  | -0.6%   | 1.8% | -1.6%               | -2.0%               | -0.7%   | 1.3% | -2.3%                    | -3.1%                       | -0.4%   | 2.6% |
| 15                                  | 25 <sup>th</sup> | 25 <sup>th</sup> | 75 <sup>th</sup> | -4.2%                | -0.9%   | 3.3% | -2.4%                  | -0.6%   | 1.8% | -1.7%               | -2.1%               | -0.7%   | 1.4% | -2.5%                    | -3.2%                       | -0.5%   | 2.7% |
| 16                                  | 35 <sup>th</sup> | 25 <sup>th</sup> | 75 <sup>th</sup> | -4.3%                | -0.9%   | 3.4% | -2.5%                  | -0.7%   | 1.8% | -1.7%               | -2.1%               | -0.8%   | 1.4% | -2.5%                    | -3.3%                       | -0.5%   | 2.8% |
| 17                                  | 50 <sup>th</sup> | 25 <sup>th</sup> | 75 <sup>th</sup> | -4.5%                | -0.9%   | 3.5% | -2.5%                  | -0.7%   | 1.8% | -1.8%               | -2.2%               | -0.8%   | 1.4% | -2.6%                    | -3.3%                       | -0.5%   | 2.8% |
| 18                                  | 10 <sup>th</sup> | .                | 50 <sup>th</sup> | -3.9%                | -0.8%   | 3.1% | -2.4%                  | -0.5%   | 1.9% | -1.2%               | -1.9%               | -0.7%   | 1.2% | -2.2%                    | -3.0%                       | -0.4%   | 2.5% |
| 19                                  | 25 <sup>th</sup> | .                | 50 <sup>th</sup> | -4.1%                | -0.9%   | 3.3% | -2.4%                  | -0.6%   | 1.8% | -1.3%               | -2.0%               | -0.7%   | 1.3% | -2.3%                    | -3.1%                       | -0.5%   | 2.7% |
| 20                                  | 35 <sup>th</sup> | .                | 50 <sup>th</sup> | -4.2%                | -0.9%   | 3.3% | -2.5%                  | -0.6%   | 1.9% | -1.4%               | -2.1%               | -0.7%   | 1.3% | -2.3%                    | -3.2%                       | -0.5%   | 2.7% |
| 21                                  | 50 <sup>th</sup> | .                | 50 <sup>th</sup> | -4.3%                | -0.9%   | 3.4% | -2.5%                  | -0.7%   | 1.8% | -1.7%               | -2.1%               | -0.8%   | 1.3% | -2.4%                    | -3.2%                       | -0.5%   | 2.7% |
| Current Tier 2 (General) thresholds |                  |                  |                  | -4.5%                | -1.0%   | 3.5% | -2.6%                  | -0.9%   | 1.7% | -1.8%               | -2.3%               | -1.3%   | 1.0% | -2.9%                    | -3.4%                       | -0.5%   | 2.9% |
| RQF level 3+ skills threshold only  |                  |                  |                  | -3.6%                | -0.7%   | 2.9% | -2.2%                  | -0.5%   | 1.7% | -1.0%               | -1.8%               | -0.6%   | 1.1% | -2.1%                    | -2.8%                       | -0.4%   | 2.3% |

<sup>1</sup> Pre-primary and primary education; Supply = % change employment SIC 85.1 85.2; Demand = % change 4-11 year old pop

<sup>2</sup> Secondary education; Supply = % change employment SIC 85.3; Demand = % change 12-18 year old pop

<sup>3</sup> Higher education; Supply = % change employment SIC 85.4

<sup>4</sup> Health; Supply = % change employment SIC 86; Demand = % change in health spending (OBR age profile for health spending)

<sup>5</sup> Social Care; Supply = %change employment SIC 87 SIC 88

<sup>6</sup> Social Housing; Supply = % change in number reporting they rent, or live rent free in, accommodation provided by local authority or housing association; Demand = reduction in construction sector employment (SIC41-43) applied to social housing completions 2004-2017

Notes: MAC calculations using APS 2016-18; Health spending by age estimates from Office for Budget Responsibility 'Fiscal sustainability and public spending on health' July 2016 Chart 2.3; outputs shaded from most positive (green) to least positive (red).

## Distributional impacts

### High-public value employment

- 7.41 The letter commissioning this report asked us to consider impacts on, and potential mitigations for, “*sectors that provide high public value to society and the economy but which might not necessarily pay as high wages*”. As described, such sectors, or more generally jobs, provide additional public value that is not always reflected in their wage.
- 7.42 The most obvious examples of these might be public sector jobs like health and social care workers and teachers, whose work has significant positive spill-over effects (‘externalities’). Without an educated and healthy workforce, other sectors would struggle to continue producing their output at the same level of efficiency as they currently do.
- 7.43 Other private sector examples of ‘high-public value’ jobs might include those associated with scientific research and, some argue, the creative arts. Scientific research can have large spill-overs, helping to form the basis of new goods and services that are not always captured by the scientists and technicians who conducted the original research.
- 7.44 In the past we have expressed some concern that arguments seeking to give special dispensation to certain occupations, namely public sector ones, because they are lower-paid but higher-value. Often these arguments fail to address the reasons why they might be lower-paid. We have expressed this concern most forcefully in the case of social care, highlighting it as a concern both in our EEA and more recent Shortage Occupation List reports. In general, our view is that issues of low pay should be treated as such and not as an issue for the immigration system to adjust for and in some sense embed.
- 7.45 As we have already considered impacts on public services, both financial and through changes in demand and supply, and given the ill-defined nature of the ‘high public value but low paid’ issue we instead focus more generally on which occupations, industries and regions will face the most significant adjustments under each of the policy options we are investigating.

### The impacts on occupations and sectors

- 7.46 As we showed in Chapter 6 (Tables 6.5 and 6.6) lower-skilled occupations and lower-productivity sectors tend to both have higher share of EEA migrants and a lower share of EEA migrant eligible for a visa route. This pattern of course remains true across the twenty-one scenarios we are currently considering. There are too many occupation, industry and policy combinations to present the full modelling outputs so we restrict ourselves to one example of each type of threshold

mechanism using a general threshold set at a 25th percentile of eligible occupations as the baseline choice.

7.47 Table 7.4 and 7.5 overleaf respectively present the change in employment by 2-digit occupation groups and by broad industry classification for the subset of policy options. The key insights from these tables are that:

- i) The application of an RQF level 3+ skills threshold naturally drives almost all of the employment change in the lower skilled occupation groups. Applying a lower salary threshold will therefore not be beneficial to employers looking to fill vacancies in those sorts of jobs. Those employers would be better catered for by the Government's proposed temporary lower-skilled route.
- ii) Even with no salary thresholds and only a skills threshold there will still be an impact on employment within occupation groups wholly or largely eligible. This is due to the requirement to be an employee, rather than self-employed, to meet the Tier 2 (General) main applicant criteria. Our eligibility methodology does not attempt to account for various Tier 1 routes that some self-employed migrants may be able to use. However, these are currently relatively small routes with very specific entry criteria and so are, in their current form, unlikely to limit this effect significantly.
- iii) The use of an occupation cap appears to have relatively little impact on the changes in employment, at least at this 2-digit level of aggregation. This is particularly true when the cap is set at the 75<sup>th</sup> percentile of an occupation's earnings distribution. The difference in employment impacts between policy 5 and 15 (as defined in Table 7.1) are virtually indistinguishable. The one occupation group where a cap set at the median does appear to make a difference is for 'Secretarial and related occupations' where the impact reduces from 6.5 per cent to 5.0 per cent.
- iv) An occupation specific threshold set at the 25<sup>th</sup> percentile results in smaller employment effects for lower-skilled occupation than a general threshold set at the 25<sup>th</sup> percentile of eligible occupations; however the opposite is true for higher skilled occupations.
- v) The difference in employment impacts by industry across different policies is even less than for occupations, likely reflecting the more aggregated groupings.

7.48 Ultimately there are no get out of jail free cards. There is an inherent trade-off between a more selective immigration policy, with the associated benefits on outcomes like the public finances and labour productivity, and an immigration policy that reduces the disruption faced by employers highly reliant on EEA workers. Seeking to reduce that disruption through very low salary thresholds will

undermine the objectives of a selective system while not necessarily making the situation much better for those employers in lower-paid lower-productivity industries where it is the skills threshold that bites the hardest.

| Table 7.4 – Change in employment by 2-digit occupation group by applying immigration restrictions on EEA migrants arriving in the UK since 2004 |    |   |               |              |           |                     |                                     |                                     |                         |
|---|----|---|---------------|--------------|-----------|---------------------|-------------------------------------|-------------------------------------|-------------------------|
| Occupation (2-digit SOC group)  |    | Policy options – all thresholds set at the relevant 25 <sup>th</sup> percentile unless otherwise stated |               |              |           |                     |                                     |                                     |                         |
|   |    | RQF3+ skills thresh only  | Current T2(G) | General only | Occ. only | Max (general, occ.) | Min (50th cap, Max (general, occ.)) | Min (75th cap, max (general, occ.)) | Min (50th cap, general) |
|   |    |   |               | 2            | 5         | 7                   | 11                                  | 15                                  | 19                      |
| Corporate managers and directors  | 11 | -0.2%   | -0.9%         | -0.5%        | -0.6%     | -0.7%               | -0.7%                               | -0.7%                               | -0.5%                   |
| Science, research, engineering and technology professionals   | 12 | -0.7%   | -1.7%         | -1.1%        | -0.9%     | -1.1%               | -1.1%                               | -1.1%                               | -1.1%                   |
| Health professionals  | 21 | -0.3%   | -1.2%         | -0.6%        | -1.1%     | -1.1%               | -1.1%                               | -1.1%                               | -0.6%                   |
| Teaching and educational professionals  | 22 | -0.3%   | -0.8%         | -0.4%        | -0.4%     | -0.4%               | -0.4%                               | -0.4%                               | -0.4%                   |
| Business, media and public service professionals  | 23 | -0.2%   | -0.6%         | -0.3%        | -0.4%     | -0.4%               | -0.4%                               | -0.4%                               | -0.3%                   |
| Other managers and proprietors  | 24 | -0.3%   | -1.1%         | -0.6%        | -1.0%     | -1.0%               | -1.0%                               | -1.0%                               | -0.6%                   |
| Science, engineering and technology associate professionals   | 31 | -0.2%   | -2.5%         | -1.4%        | -1.3%     | -1.4%               | -1.4%                               | -1.4%                               | -1.4%                   |
| Health and social care associate professionals  | 32 | -0.4%   | -1.6%         | -0.8%        | -0.6%     | -0.8%               | -0.8%                               | -0.8%                               | -0.8%                   |
| Protective service occupations  | 33 | -0.1%   | -0.3%         | -0.2%        | -0.2%     | -0.2%               | -0.2%                               | -0.2%                               | -0.2%                   |
| Culture, media and sports occupations   | 34 | -1.7%   | -2.7%         | -2.4%        | -2.2%     | -2.4%               | -2.4%                               | -2.4%                               | -2.3%                   |
| Business and public service associate professionals   | 35 | -0.1%   | -1.0%         | -0.5%        | -0.6%     | -0.7%               | -0.7%                               | -0.7%                               | -0.5%                   |
| Skilled agricultural and related trades   | 41 | -2.1%   | -2.6%         | -2.4%        | -2.3%     | -2.4%               | -2.4%                               | -2.4%                               | -2.3%                   |
| Skilled metal, electrical and electronic trades   | 42 | -1.7%   | -2.3%         | -2.0%        | -2.0%     | -2.0%               | -2.0%                               | -2.0%                               | -2.0%                   |
| Skilled construction and building trades  | 51 | -0.6%   | -1.1%         | -1.0%        | -0.8%     | -1.0%               | -1.0%                               | -1.0%                               | -1.0%                   |
| Textiles, printing and other skilled trades   | 52 | -0.7%   | -3.1%         | -2.1%        | -1.7%     | -2.1%               | -2.1%                               | -2.1%                               | -2.1%                   |
| Administrative occupations  | 53 | -6.3%   | -7.4%         | -7.2%        | -6.8%     | -7.2%               | -7.1%                               | -7.2%                               | -7.1%                   |
| Secretarial and related occupations   | 54 | -0.8%   | -8.9%         | -6.5%        | -3.4%     | -6.5%               | -5.0%                               | -6.5%                               | -5.0%                   |
| Caring personal service occupations   | 61 | -2.1%   | -2.9%         | -2.4%        | -2.2%     | -2.4%               | -2.3%                               | -2.4%                               | -2.3%                   |
| Leisure, travel and related personal service occupations  | 62 | -4.9%   | -5.8%         | -5.2%        | -5.2%     | -5.3%               | -5.2%                               | -5.3%                               | -5.2%                   |
| Sales occupations   | 71 | -2.4%   | -3.1%         | -2.9%        | -2.6%     | -2.9%               | -2.8%                               | -2.9%                               | -2.8%                   |
| Customer service occupations  | 72 | -2.1%   | -2.9%         | -2.6%        | -2.5%     | -2.6%               | -2.6%                               | -2.6%                               | -2.6%                   |
| Process, plant and machine operatives   | 81 | -15.8%  | -16.6%        | -16.3%       | -16.3%    | -16.5%              | -16.4%                              | -16.5%                              | -16.3%                  |
| Transport and mobile machine drivers and operatives   | 82 | -7.8%   | -8.2%         | -8.0%        | -7.9%     | -8.0%               | -8.0%                               | -8.0%                               | -8.0%                   |
| Elementary trades and related occupations   | 91 | -19.2%  | -20.7%        | -20.4%       | -19.7%    | -20.4%              | -20.1%                              | -20.4%                              | -20.1%                  |
| Elementary administration and service occupations   | 92 | -9.4%   | -10.8%        | -10.6%       | -9.8%     | -10.6%              | -10.0%                              | -10.3%                              | -10.0%                  |

Notes: MAC calculations using APS (2016-18); outputs shaded from least impact (green) to most (red).

**Table 7.5 – Change in employment by industrial classification by applying immigration restrictions on EEA migrants arriving in the UK since 2004**

| Industry (SIC)  | Policy option            |               |              |           |                     |                                     |                                     |                         |
|---|--------------------------|---------------|--------------|-----------|---------------------|-------------------------------------|-------------------------------------|-------------------------|
|   | RQF3+ skills thresh only | Current T2(G) | General only | Occ. only | Max (general, occ.) | Min (50th cap, Max (general, occ.)) | Min (75th cap, Max (general, occ.)) | Min (50th cap, general) |
|   |                          |               | 2            | 5         | 7                   | 11                                  | 15                                  | 19                      |
| Agriculture (SIC 01-03)   | -3.9%                    | -5.4%         | -5.0%        | -4.3%     | -5.0%               | -4.8%                               | -5.0%                               | -4.8%                   |
| Mining Activities (SIC 05-09)                                   | -1.2%                    | -1.5%         | -1.4%        | -1.3%     | -1.4%               | -1.4%                               | -1.4%                               | -1.4%                   |
| Manufacture of Foods & Beverages (SIC 10-11)                    | -19.3%                   | -22.9%        | -21.5%       | -20.2%    | -21.8%              | -21.1%                              | -21.8%                              | -20.9%                  |
| Other Manufacturing (SIC 12-33)                                 | -3.5%                    | -5.3%         | -4.5%        | -4.3%     | -4.7%               | -4.6%                               | -4.7%                               | -4.4%                   |
| Utilities (SIC 35-39)   | -3.0%                    | -3.4%         | -3.2%        | -3.1%     | -3.2%               | -3.2%                               | -3.2%                               | -3.1%                   |
| Construction (SIC 41-43)  | -4.7%                    | -5.7%         | -5.4%        | -5.2%     | -5.5%               | -5.4%                               | -5.5%                               | -5.3%                   |
| Wholesale & Retail Trade (SIC 45-47)                            | -3.8%                    | -4.8%         | -4.5%        | -4.3%     | -4.6%               | -4.4%                               | -4.5%                               | -4.4%                   |
| Transport (SIC 49-51 & 53)                                      | -5.1%                    | -5.7%         | -5.4%        | -5.3%     | -5.4%               | -5.4%                               | -5.4%                               | -5.3%                   |
| Warehousing (SIC 52)  | -14.2%                   | -15.3%        | -14.6%       | -14.6%    | -14.7%              | -14.7%                              | -14.7%                              | -14.6%                  |
| Accommodation & Hospitality (SIC 55-56)                         | -5.0%                    | -9.2%         | -8.1%        | -6.3%     | -8.1%               | -7.0%                               | -7.7%                               | -6.9%                   |
| Media & Communications (SIC 58-61)                              | -1.0%                    | -1.5%         | -1.2%        | -1.2%     | -1.2%               | -1.2%                               | -1.2%                               | -1.2%                   |
| IT (SIC 62-63)  | -0.9%                    | -1.7%         | -1.3%        | -1.5%     | -1.5%               | -1.5%                               | -1.5%                               | -1.3%                   |
| Finance & Insurance (SIC 64-66)                                 | -0.5%                    | -1.0%         | -0.7%        | -0.8%     | -0.9%               | -0.8%                               | -0.9%                               | -0.7%                   |
| Professional Services (SIC 68-75 & 94 & 99)                     | -1.1%                    | -1.9%         | -1.4%        | -1.6%     | -1.7%               | -1.7%                               | -1.7%                               | -1.4%                   |
| Non-prof admin & support service activities (SIC 77-82 & 95-97) | -5.7%                    | -6.5%         | -6.2%        | -6.1%     | -6.2%               | -6.1%                               | -6.2%                               | -6.1%                   |
| Public Administration (SIC 84)                                  | -0.2%                    | -0.4%         | -0.3%        | -0.2%     | -0.3%               | -0.3%                               | -0.3%                               | -0.3%                   |
| Education (SIC 85)  | -0.8%                    | -1.2%         | -1.0%        | -1.0%     | -1.1%               | -1.0%                               | -1.1%                               | -1.0%                   |
| Health (SIC 86)   | -0.6%                    | -1.3%         | -0.7%        | -0.7%     | -0.7%               | -0.7%                               | -0.7%                               | -0.7%                   |
| Residential & Social Care (SIC 87-88)                           | -2.1%                    | -2.9%         | -2.4%        | -2.3%     | -2.5%               | -2.4%                               | -2.5%                               | -2.3%                   |
| Creative Arts & Entertainment (SIC 90-93)                       | -1.6%                    | -2.0%         | -1.9%        | -1.8%     | -1.9%               | -1.8%                               | -1.9%                               | -1.8%                   |

Notes: MAC calculations using APS (2016-18); outputs shaded from least impact (green) to most (red).

## Impacts on different regions and countries of the UK

- 7.49 We devote the next chapter to the issue of geographical variation in salary thresholds and so do not cover it here.

## Summary of findings

- 7.50 Higher salary thresholds can help to lower immigration inflows, achieve better fiscal outcomes (to a point) and shift the composition in the economy towards higher paid occupations and higher productivity sectors. However, higher salary thresholds may lead to potentially difficult adjustments for certain sectors and negative impacts if productivity impacts do turn out to be significant regardless of skill level.

## Recommendations

- 7.51 As previously mentioned, it is not possible to objectively identify an 'optimal' salary threshold. The differences in modelled outcomes for different thresholds presented in this chapter suggest that, within the range of options we have considered, the average impacts are small. Moreover, the distributional consequences across occupations and sectors are not radically different for different options. In this sense no option stands out head and shoulders above the others when considering the potential policy aims laid out previously.
- 7.52 In the recommendations that follow we therefore rely not only on the modelled impacts but also stakeholder evidence and our own view of the trade-off between simplicity and complexity in setting immigration rules. This process of narrowing down the set of plausible options to a single recommendation is as much an art as a science and we recognise that others may reasonably draw the line in a different place depending on the importance they place on different objectives.
- 7.53 The recommendations which follow are for the experienced worker threshold. As discussed in Chapter 5 we recommend that the new entrant threshold always be 70 per cent of the relevant experienced worker threshold.

## The occupation specific threshold

- 7.54 This is currently set at the 25th percentile of the relevant occupational distribution, the primary purpose of which is a protection against undercutting in any individual occupational labour market. It is not a complete protection against undercutting because a migrant hired at the threshold is still lowering average wages in that occupation. Nonetheless we do not see argument for raising this threshold.
- 7.55 Some of these thresholds are already quite high (e.g. Aircraft pilots and flight engineers at £69,600) with the possible consequence that some highly-paid potential migrants would not meet the threshold and not obtain a Tier 2 (General)

visa. These migrants would, if admitted, make a large positive contribution to the public finances, possibly be good for productivity/innovation and raise GDP per capita. If one is very concerned about this issue one could have an overall upper bound on salary thresholds meaning that the salary threshold would be below the 25th percentile in some occupations. This might exacerbate any problem of undercutting but that may be less of an issue in higher paid occupations, as workers able to fill those posts are scarcer and therefore benefit from a stronger bargaining position.

- 7.56 However, if this upper bound was set at the 75th percentile of the earnings distribution for eligible jobs (currently about £48,000) this would only affect 9 out of 213 RQF3+ occupations not subject to pay scale thresholds<sup>122</sup>; accounting for approximately 1.9 per cent of employees among those occupations (ASHE 2019). Given the small numbers, we concluded that, on balance, this would not be worth the complication.
- 7.57 Overall, we see no reason to deviate from the level of the current occupation specific threshold. It strikes a balance between acting as a protection against undercutting while not placing the threshold too high as to turn away potentially beneficial migrants from being able to fill vacancies in the UK.

**Recommendation: The occupation specific threshold should be the 25<sup>th</sup> percentile of the full-time annual earnings distribution for that occupation (some exceptions listed below).**

- 7.58 ONS currently publish the 25<sup>th</sup> percentile for this distribution where they regard the estimate as reliable. There were 64 eligible occupations not subject to pay scales<sup>123</sup> for which no 25<sup>th</sup> earnings percentile estimate was made available in the latest ONS release due to concerns about reliability, mostly because these are small occupations. This poses a practical issue for the implementation of these thresholds.
- 7.59 Prior to the implementation of the new immigration system we suggest the Home Office works with the MAC to agree a methodology to generate reasonable estimates for these occupations, leveraging previous years data and/or alternative data sources.

## The general threshold

- 7.60 The occupation specific threshold is only the relevant threshold if it is above the general threshold, currently set at £30,000 for experienced workers. Originally this was set at the 25th percentile of the earnings distribution for eligible occupations,

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<sup>122</sup> Calculated using ASHE 2019 micro data. If using published ASHE estimates then only 4 out of 122 RQF3+ occupations not subject to pay scales with enough data to calculate a threshold have a 25<sup>th</sup> occupational percentile above £48,300.

<sup>123</sup> After accounting for our recommended changes in skill levels

currently the higher-skilled occupations (RQF level 6 and above). Though, because it has not been up-rated in line with the growth in earnings, £30,000 is now slightly below the 25<sup>th</sup> percentile for RQF6+ occupations.

- 7.61 The justification for a general threshold is that it avoids the problem with occupational thresholds highlighted previously; that a migrant in one occupation might be admitted with lower earnings than in another even though the higher earning migrant would contribute more to the public finances and have a more positive effect on GDP per capita. The £30,000 threshold is also close to median full-time annual earnings for all employees so helps to raise average earnings in the UK labour market. Though it is well above the level needed to ensure migrants a positive compositional change in GDP per capita because it only affects workers. The £30,000 threshold is likely to ensure a positive net fiscal contribution. Our EEA report presented estimates of around £30,000 for the average break-even point of household income for EEA-migrants (highly dependent on household composition), with the equivalent figure being somewhat higher for non-EEA-migrants at around £38,000. The difference being the result of non-EEA migrants having, on average, more dependents and those dependents less likely to be in work.
- 7.62 Table 7.6 below sets out what threshold different percentiles of the RQF3+ earnings distribution would currently imply for the level of the general threshold.

| Table 7.6 – Potential values for general threshold |                       |   |
|--|-----------------------|---|
| Percentile   | All RQF3+ occupations | RQF3+ occupations excluding those subject to pay scales |
| 10 <sup>th</sup>                                   | £19,900               | £19,900   |
| 20 <sup>th</sup>                                   | £24,300               | £24,200   |
| 25 <sup>th</sup>                                   | £26,100               | £26,000   |
| 30 <sup>th</sup>                                   | £28,000               | £27,900   |
| 35 <sup>th</sup>                                   | £29,800               | £29,800   |
| 40 <sup>th</sup>                                   | £31,600               | £31,600   |
| 45 <sup>th</sup>                                   | £33,500               | £33,600   |
| 50 <sup>th</sup>                                   | £35,600               | £35,800   |
| 75 <sup>th</sup>                                   | £48,300               | £49,900   |
| 90 <sup>th</sup>                                   | £70,000               | £72,500   |

Notes: ASHE (2019); full-time employees on adult rates who have been in the same job for more than one year.

- 7.63 There is a logical argument that, as a general threshold will not apply to those occupations whose salary thresholds will have recommended be based on public sector pay scales, then those 24 occupations should be excluded from the calculation of the general threshold. In the modelling we have presented so far we have not calculated the general threshold in such a way. However, for the impacts

we present for our final recommended threshold later in this chapter we do make this change.

7.64 Although the current level of this threshold is appropriate for the high-skilled workers currently eligible for Tier 2 (General), we received many representations from employers that it is likely to be very high for some medium-skill occupations that would become eligible for Tier 2 (General), especially in lower-wage parts of the UK. A £30,000 threshold is at the 35th percentile for all medium- and high-skilled full-time employees, and the 55th percentile for medium-skill (RQF levels 3 & 4) full-time employees alone (AHSE 2019).

7.65 For these reasons we recommend using the 25th percentile of the full-time earnings distribution for all Tier 2 (General) eligible workers to set the general threshold.

**Recommendation: The general threshold should be set at the 25<sup>th</sup> percentile of the full-time annual earnings distribution for all Tier 2 (General) eligible occupations (excluding those occupations whose salary threshold is based on public sector pay scales).**

7.66 The interaction of the general and occupation specific thresholds mean that the effective threshold is higher, on average, for higher-skilled than medium-skilled jobs. This is appropriate as a protection against undercutting in all occupations. Some stakeholders suggested to us that there should be a lower general salary threshold for medium than higher-skilled jobs. We do not think that is appropriate as the contribution to the public finances and the GDP per capita is likely to depend on the salary of the migrant and not the skill level. A lower general threshold for medium-skill workers would mean admitting a medium-skilled migrant while refusing entry to another who is both higher-skilled and higher-paid, we do not think this is desirable.

7.67 In 2019, this threshold would be £26,000 based on the current definition of RQF3+ occupations. Although this is our recommendation, we acknowledge that setting the appropriate level is not an exact science and this salary threshold could be somewhat higher or lower without having very dramatic impacts on the economy as a whole in line with the results on predicted impacts presented earlier in this chapter.

7.68 There are some considerations that the Government might place more or less importance on than us and this might lead them to set somewhat higher or lower salary thresholds. We do not think that a salary threshold above £30,000 would be advisable, which is currently the 35th percentile. Similarly, applying something like £20,000, which is around the percentile currently used to set the new entrant rate (10<sup>th</sup> percentile), to all workers including experienced hires seems too low to us.

- 7.69 In favour of a somewhat higher threshold would be the argument that, at the margin, the 25th percentile is probably slightly fiscally negative once one takes into account that breakeven income levels for non-EEA are likely to be higher than for EEA migrants. Though much of the fiscal consideration only becomes relevant after settlement which allows access to public funds. The downside risk on future employability may also be higher once one goes to lower earnings levels and there is little upside benefit. A higher threshold would also have the impact of reducing the level of immigration if that was a concern for the Government.
- 7.70 In favour of a lower threshold is the argument that the £26,000 would be much higher than the 25th percentile for some occupations and that there are probably very small positive GDP per capita effects from lowering the salary threshold although negative productivity effects. Although these estimates do not factor in either pay progression or the fact that, after settlement many lower-paid workers would be expected to have periods of non-employment.
- 7.71 Given how hard it is to predict the exact impact of any change, the Government should monitor how the system is working and be prepared to make changes quickly if problems emerge.

**Recommendation: There should be more adequate monitoring of how migrants are faring in the UK labour market after entry and ongoing review of the impacts of the recommendations on levels of salary thresholds.**

## Defining eligible occupations

- 7.72 If eligibility for Tier 2 (General) is extended to medium-skill occupations (NQF level three and above) the classification of occupations into NQF level two or NQF level three becomes important in a way it is not currently.
- 7.73 The current methodology for assessing the RQF skill level of 4-digit occupations is a MAC designed approach based on three top-down indicators (ONS skill level, qualifications and earnings) and bottom-up evidence from stakeholders<sup>124</sup>.
- 7.74 The current skill definitions are dated and have not been constructed with the current situation in mind. The MAC defined which occupations were skilled to RQF3+ (then NQF3+) in its first Shortage Occupation List review back in 2008<sup>125</sup>. It then set out those occupations skilled to RQF4+ and also those skilled to RQF6+ in a standalone 2011 report<sup>126</sup>. Finally, the MAC produced the current list of RQF6+

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<sup>124</sup> For more detail see MAC 2012 *Analysis of the points-based system: Tier 2 at NQF level 6*; <https://www.gov.uk/government/publications/analysis-of-the-points-based-system-tier-2-at-nqf-level-6>

<sup>125</sup> <https://www.gov.uk/government/publications/recommended-shortage-occupation-lists-for-the-uk-and-scotland-sep-2008>

<sup>126</sup> <https://www.gov.uk/government/publications/analysis-of-the-points-based-system-tier-2-at-nqf-level-4>

occupations using SOC 2010 in 2012<sup>127</sup>. It was the Home Office who updated the SOC 2000 lists of RQF3 and RQF4 occupations to be compatible with SOC 2010<sup>128</sup>. This was done as the lower skills thresholds were still relevant for those Tier 2 (General) migrants who entered before the threshold was raised to RQF6+ in June 2012. The underlying principle is that skill is related to the length of time taken to acquire the skills necessary to do a job: it is not, as sometimes alleged, a statement about the value of a job.

- 7.75 The current codes of practice include the concept of 'borderline' jobs, which existed when the Tier 2 (General) route was first introduced. These are jobs skilled to RQF3+ that sit within 4-digit occupations that are overall not considered to be skilled to RQF3+. These show up in the current codes of practice as occupations with skills levels of 'RQF3/lower-skilled'.
- 7.76 There are currently two occupations which are in the lowest skilled ONS category (1 out of 4) but which are listed as 'RQF3/lower-skilled' in the current codes of practice. These are 'Fishing and other elementary agriculture occupations n.e.c.' and 'Waiters and waitresses', we recommend that these are not made eligible for Tier 2 (General). The large majority of workers in these occupations are in low-wage positions that require little training.
- 7.77 We are conscious that both agriculture and fishing and hospitality are sectors from which we hear the most and this will reduce their access to some migrants through Tier 2 (General). There are some more skilled occupations in these sectors that remain eligible but Tier 2 (General) is for medium/high-skilled workers and there are other schemes that can and should be used for lower-skilled workers, namely the Seasonal Agricultural Workers Scheme (that we recommended re-introducing in our EEA report) and the temporary workers scheme proposed in the White Paper or whatever is in its place. If these schemes are to be of benefit they need to be up and running when the new immigration system is introduced.
- 7.78 There are a number of occupations from within the 'Skilled trades occupations' major group (major group 5) which are not set to become eligible when Tier 2 (General) is expanded to include medium-skilled jobs. We recommend making all occupations from within this group eligible, with the exception of Cooks (chefs are eligible). The additional occupations are:
- Air-conditioning and refrigeration engineers, Rail and rolling stock builders and repairers, Skilled metal, electrical and electronic trades supervisors, Carpenters and joiners, Glaziers, window fabricators and fitters, Plasterers,

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<sup>127</sup> <https://www.gov.uk/government/publications/analysis-of-the-points-based-system-tier-2-at-nqf-level-6>

<sup>128</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/143809/soi-cop-skilled-workers.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/143809/soi-cop-skilled-workers.pdf)

Floorers and wall tilers, Painters and decorators, Construction and building trades supervisors.

7.79 Finally, three out of the five 'Childcare and Related Personal Services' (minor group 612) would not become eligible under the new system. 'Nursery nurses and assistants' and 'Playworkers' would become eligible but 'Childminders and related occupations', 'Teaching assistants' and 'Educational support assistants' would not. This inherently feels arbitrary and so we recommend adding them to the list of eligible occupations for the new system.

**Recommendation: We recommend adding/removing the following occupations from the list of RQF3+ occupations**

- **Add:** Air-conditioning and refrigeration engineers, rail and rolling stock builders and repairers, skilled metal, electrical and electronic trades supervisors, carpenters and joiners, glaziers, window fabricators and fitters, plasterers, floorers and wall tilers, painters and decorators, construction and building trades supervisors, childminders and related occupations, teaching assistants and educational support assistants.
- **Remove:** Fishing and other elementary agriculture occupations n.e.c. and waiters and waitresses.

7.80 These changes would increase the coverage of employees from around 59 per cent to 61 per cent (APS 2016-18; main jobs only), however it makes almost no difference to the coverage of current non-UK national employees (50.8 per cent to 51 per cent).

7.81 Accounting for the changes in the eligibility of occupations we have recommended and excluding those occupations subject to pay scales from the calculation, the general threshold we recommend was equivalent to £25,600 in 2019.

7.82 A new occupational classification, SOC2020, is planned and will be used in key ONS surveys from 2021. At that point a full review of skill levels should be conducted.

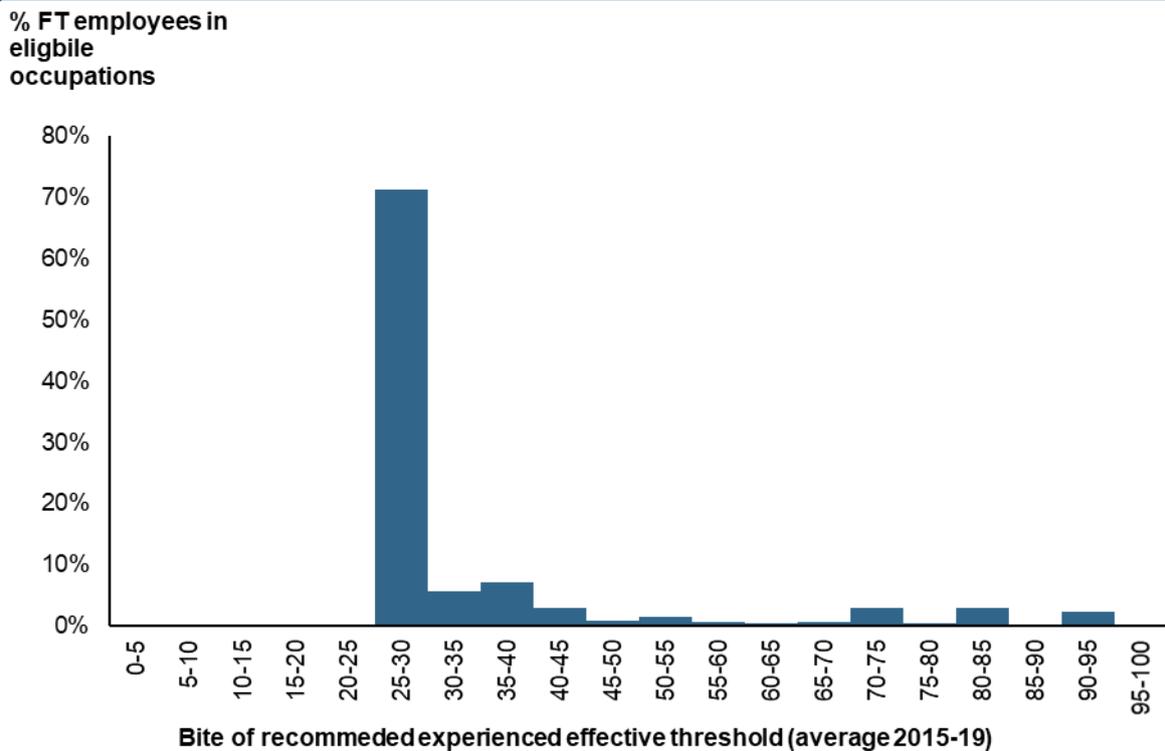
## High-impact sectors

7.83 One way to assess the overall implications of our recommended thresholds is to provide a view, across all occupations, of the percentile where the threshold binds. Where the occupation specific threshold is binding this must be the 25<sup>th</sup> percentile by construction while it will be higher when the general threshold is binding.

7.84 Using data from ASHE we calculate our proposed general threshold (25<sup>th</sup> percentile of eligible occupations) and occupation specific thresh for each of the years between 2015 and 2019. We then assess by year where in each 4-digit

occupations full-time earnings distribution that value lies and whether it is above or below the 25<sup>th</sup> percentile. Averaging these values across the years for each occupation provides a reasonable measure of where in the effective threshold is in the pay distribution. Figure 7.6 below plots the distribution of the effective percentile (five-year average) under our recommendations weighted by full-time employees in eligible occupations (excluding those subject to pay scale thresholds) taken from ASHE 2019.

**Figure 7.6 –Distribution of occupation ‘bite’ of recommended experienced effective threshold weighted by 2019 full-time employees in eligible occupations**



Notes: MAC caluations using ASHE 2015-2019

- 7.85 Figure 7.6 shows that the effective experienced threshold will be at the 25<sup>th</sup> percentile for around 70 per cent of full-time employees and below the 50<sup>th</sup> percentile for around 85 per cent. We think this strikes a reasonable balance. Of course, this is not necessarily representative of the distribution incoming migrants will face, as they may seek employment in occupations at a different rate to the overall share of employment.
- 7.86 However, there are a small number of occupations where the effective percentile is much higher in the current pay distribution. These are the jobs where the impact of our proposals is likely to be greatest and it is important to look closely at them. Table 7.7 below list the twenty occupations where our proposed experienced worker threshold would be hardest for employers to meet.

**Table 7.7 – Top 20 eligible occupations (4-digit SOC) by bite of recommended experienced general threshold**

| Occupation |   | RQF level | Average decile of experienced threshold (ASHE 2015-19) | Median full-time earnings (ASHE 2019) | Number of full-time employees (APS 2016-18) | Non-UK national share of FT employees (APS 2016-18) |
|------------|---|-----------|--|---------------------------------------|---|---|
| 6121       | Nursery nurses and assistants                   | 3         | 90th   | £17,000                               | 124,000                                     | 5%  |
| 6125       | Teaching assistants                             | 3         | 90th   | £17,100                               | 176,000                                     | 5%  |
| 5433       | Fishmongers and poultry dressers                | 3         | 90th   | £18,900                               | 8,000                                       | 30%   |
| 6126       | Educational support assistants                  | 3         | 90th   | £16,200                               | 93,000                                      | 5%  |
| 6123       | Playworkers                                     | 3         | 80th   | £17,500                               | 6,000                                       | 5%  |
| 3443       | Fitness instructors                             | 3         | 80th   | £19,200                               | 19,000                                      | 15%   |
| 5443       | Florists  | 3         | 80th   | x                                     | x   | x   |
| 5432       | Bakers and flour confectioners                  | 3         | 80th   | £19,400                               | 17,000                                      | 20%   |
| 6131       | Veterinary nurses                               | 3         | 80th   | £20,600                               | 13,000                                      | 5%  |
| 5114       | Groundsmen and greenkeepers                     | 3         | 80th   | £19,900                               | 24,000                                      | 0%  |
| 5113       | Gardeners and landscape gardeners               | 3         | 80th   | £20,500                               | 46,000                                      | 5%  |
| 5431       | Butchers  | 3         | 80th   | £22,000                               | 25,000                                      | 30%   |
| 6139       | Animal care services occupations n.e.c.         | 3         | 70th   | x                                     | 22,000                                      | 0%  |
| 6146       | Senior care workers                             | 3         | 70th   | £20,300                               | 67,000                                      | 10%   |
| 5441       | Glass & ceramics makers, decorators & finishers | 3         | 70th   | £21,300                               | 6,000                                       | 5%  |
| 7215       | Market research interviewers                    | 3         | 70th   | x                                     | x   | x   |
| 5212       | Moulders, core makers and die casters           | 3         | 70th   | £21,900                               | x   | x   |
| 5112       | Horticultural trades                            | 3         | 70th   | £19,700                               | 9,000                                       | 15%   |
| 6122       | Childminders and related occupations            | 3         | 70th   | £21,400                               | 21,000                                      | 25%   |
| 5434       | Chefs   | 3         | 70th   | £22,900                               | 186,000                                     | 30%   |

Notes: "x" – not reported due to small sample size; median full-time earnings rounded to nearest £100, number of full-time employees rounded to nearest 1,000 and non-UK national share of full-time employees rounded to nearest 5%; RQF skill levels incorporate recommended changes to level 2/3 boundary; statistics shaded from those associated with smallest impact (green) to largest (red).

**7.87** As highlighted previously the impact on an occupation is not only a function of the threshold they face but also on the dependence of the occupation on non-UK national labour, on the share of employees versus the self-employed and on the age structure and hence eligibility for new entrant reductions – amongst other factors that we do not account for. Table 7.8 replicates the exercise undertaken

earlier for table 7.4 but at the 4-digit occupation level and for the thresholds we are recommending. It also presents the impact under no salary threshold. By definition the occupations we present meet the skills threshold, however to be eligible for Tier 2 (General) you must be an employee. Therefore, even without a salary threshold there will be some impact on occupations. This explains the presence of 'Dental practitioners' on this list for example, as that occupation has a high incidence of self-employment.

7.88 We find many of the same occupations in both table 7.7 and 7.8 reflecting the association, noted previously, that occupations who might struggle to meet a salary threshold tend to also be more reliant on EEA national labour than others.

**Table 7.8 - Top 20 eligible occupations by change in employment from application recommended salary thresholds to EEA nationals arriving since 2004**

| Occupation  | RQF skill level | EEA share | % ineligible | Change in employment | Change in employment no salary threshold |
|---|-----------------|-----------|--------------|----------------------|--|
| Fishmongers and poultry dressers                    | 3               | 24%       | 80%          | -19%                 | 0%                                       |
| Construction and building trades n.e.c.             | 3               | 12%       | 90%          | -11%                 | -9%                                      |
| Butchers  | 3               | 17%       | 59%          | -10%                 | 0%                                       |
| Childminders and related occupations                | 3               | 11%       | 92%          | -10%                 | -10%                                     |
| Painters and decorators                             | 3               | 10%       | 95%          | -10%                 | -10%                                     |
| Glaziers, window fabricators and fitters            | 3               | 10%       | 96%          | -9%                  | -9%                                      |
| Upholsterers  | 3               | 13%       | 72%          | -9%                  | -3%                                      |
| Chefs   | 3               | 15%       | 55%          | -9%                  | 0%                                       |
| Bakers and flour confectioners                      | 3               | 10%       | 82%          | -8%                  | -2%                                      |
| Tailors and dressmakers                             | 3               | 12%       | 70%          | -8%                  | -2%                                      |
| Carpenters and joiners                              | 3               | 9%        | 93%          | -8%                  | -8%                                      |
| Dental practitioners                                | 6               | 12%       | 66%          | -8%                  | -8%                                      |
| Weavers and knitters                                | 3               | 13%       | 58%          | -7%                  | 0%                                       |
| Textiles, garments and related trades n.e.c.        | 3               | 8%        | 94%          | -7%                  | 0%                                       |
| Bricklayers and masons                              | 3               | 10%       | 73%          | -7%                  | -3%                                      |
| Florists  | 3               | 8%        | 82%          | -7%                  | 0%                                       |
| Welding trades                                      | 3               | 13%       | 51%          | -7%                  | -1%                                      |
| Glass and ceramics makers, decorators and finishers | 3               | 7%        | 91%          | -7%                  | -5%                                      |
| Veterinarians                                       | 6               | 16%       | 42%          | -7%                  | -1%                                      |
| Vehicle body builders and repairers                 | 3               | 10%       | 60%          | -6%                  | -2%                                      |

Notes: MAC calculations using APS 2016-18; outputs shaded from those with smallest impact (green) to most (red)

- 7.89 It is very important to interpret the 'change in employment' numbers appropriately. Those occupations with the highest predicted decline are likely to be the most affected. However, the magnitude of the predicted change should definitely not be interpreted as the impact from the moment of the introduction of any new system. It is an estimate of how much lower employment would have been in 2016-18 with a policy introduced in 2004 i.e. it is, at best, an estimate of the impact after 14 years. A predicted employment fall of 13 per cent would then represent employment growth 1 per cent per annum lower than in the baseline.
- 7.90 It may be more important to consider the impact at sectoral rather than occupational level as this is a better measure of the pressures facing some employers. Table 7.9 below presents the twenty industries (by 2-digit SIC) that our modelling methodology highlights as facing the largest employment impact from our proposed thresholds. Among these industries are those that we have mentioned earlier in this chapter, such as those allied with the broader food manufacturing, warehousing and hospitality industries. However, there are also some industries with above average median full-time earnings in this top twenty list, such as 'construction of buildings' and 'manufacture of machinery and equipment n.e.c'. The former appears due to its relatively high share of EEA migrants in its workforce combined with a very high share of self-employed workers (close to 40%). The latter appears, despite relatively high wages, primarily due to its high share of EEA migrants. Furthermore, at this low level of aggregation the outputs of our modelling methodology are subject to even greater degrees of uncertainty.

**Table 7.9 -Top 20 industry divisions by change in employment from application recommended salary thresholds to EEA nationals arriving since 2004**

| Industry division<br>(2 digit SIC 2007)                                     | Numbers employed | Median full-time employee earnings (ASHE 2019) | EEA share | % ineligible | Change in employment   |                            |
|---|------------------|--|-----------|--------------|------------------------|----------------------------|
|   |                  |  |           |              | Recommended thresholds | RQF3+ skill threshold only |
| Manufacture of food products  | 320,000          | £24,300  | 28%       | 88%          | -25%                   | -22%                       |
| Warehousing and support activities for transportation                       | 390,000          | £33,600  | 17%       | 86%          | -15%                   | -14%                       |
| Accommodation   | 370,000          | £21,000  | 17%       | 74%          | -12%                   | -9%                        |
| Activities of households as employers of domestic personnel                 | 50,000           | x  | 13%       | 83%          | -11%                   | -10%                       |
| Manufacture of rubber and plastic products                                  | 150,000          | £26,700  | 12%       | 90%          | -10%                   | -9%                        |
| Services to buildings and landscape activities                              | 660,000          | £24,000  | 12%       | 87%          | -10%                   | -10%                       |
| Waste collection, treatment and disposal activities; materials recovery     | 120,000          | £31,900  | 9%        | 98%          | -9%                    | -8%                        |
| Construction of buildings   | 870,000          | £36,300  | 10%       | 86%          | -8%                    | -7%                        |
| Wholesale trade, except of motor vehicles and motorcycles                   | 780,000          | £29,300  | 10%       | 81%          | -8%                    | -7%                        |
| Manufacture of other non-metallic mineral products                          | 90,000           | £30,100  | 10%       | 79%          | -8%                    | -6%                        |
| Food and beverage service activities  | 1,340,000        | £21,000  | 10%       | 67%          | -7%                    | -4%                        |
| Postal and courier activities   | 330,000          | £29,000  | 8%        | 87%          | -7%                    | -6%                        |
| Manufacture of wood and of products of wood and cork...                     | 70,000           | £25,700  | 8%        | 82%          | -7%                    | -6%                        |
| Manufacture of furniture  | 80,000           | £24,200  | 11%       | 61%          | -7%                    | -5%                        |
| Manufacture of textiles   | 60,000           | £22,100  | 7%        | 90%          | -6%                    | -4%                        |
| Office administrative, office support and other business support activities | 220,000          | £27,700  | 7%        | 85%          | -6%                    | -5%                        |
| Manufacture of paper and paper products                                     | 50,000           | £30,800  | 8%        | 71%          | -6%                    | -6%                        |
| Manufacture of machinery and equipment n.e.c.                               | 280,000          | £35,100  | 9%        | 68%          | -6%                    | -4%                        |
| Manufacture of motor vehicles, trailers and semi-trailers                   | 210,000          | £32,700  | 9%        | 64%          | -6%                    | -5%                        |
| Crop and animal production, hunting and related service activities          | 310,000          | £24,600  | 6%        | 87%          | -5%                    | -4%                        |

Notes: "x" – not reported due to small sample size; estimates from MAC calculations using APS 2016-18 unless otherwise stated; numbers employed by industry rounded to nearest 10,000; median full-time employee earnings rounded to nearest £100; outputs shaded from smallest impact (green) to largest (red).

- 7.91 The final column shows the predicted fall in employment if only the skill threshold is imposed and there are no salary thresholds on medium and higher-skilled jobs. For most sectors, the predicted change in employment is similar to the previous column which also models salary thresholds at our recommended levels. This implies that it is the skill eligibility condition more than the salary threshold that is affecting these sectors because they have a high share of low-skill workers. If the Government is very concerned about the likely impact on these sectors, we believe it would be better to address this through the proposed temporary work route than to have lower salary thresholds in Tier 2 (General), a visa intended for skilled workers.
- 7.92 If the Government does want to address this issue through salary thresholds, we recommend that this is done through the use of the occupation cap rather than lowering the general threshold.

### Occupation cap

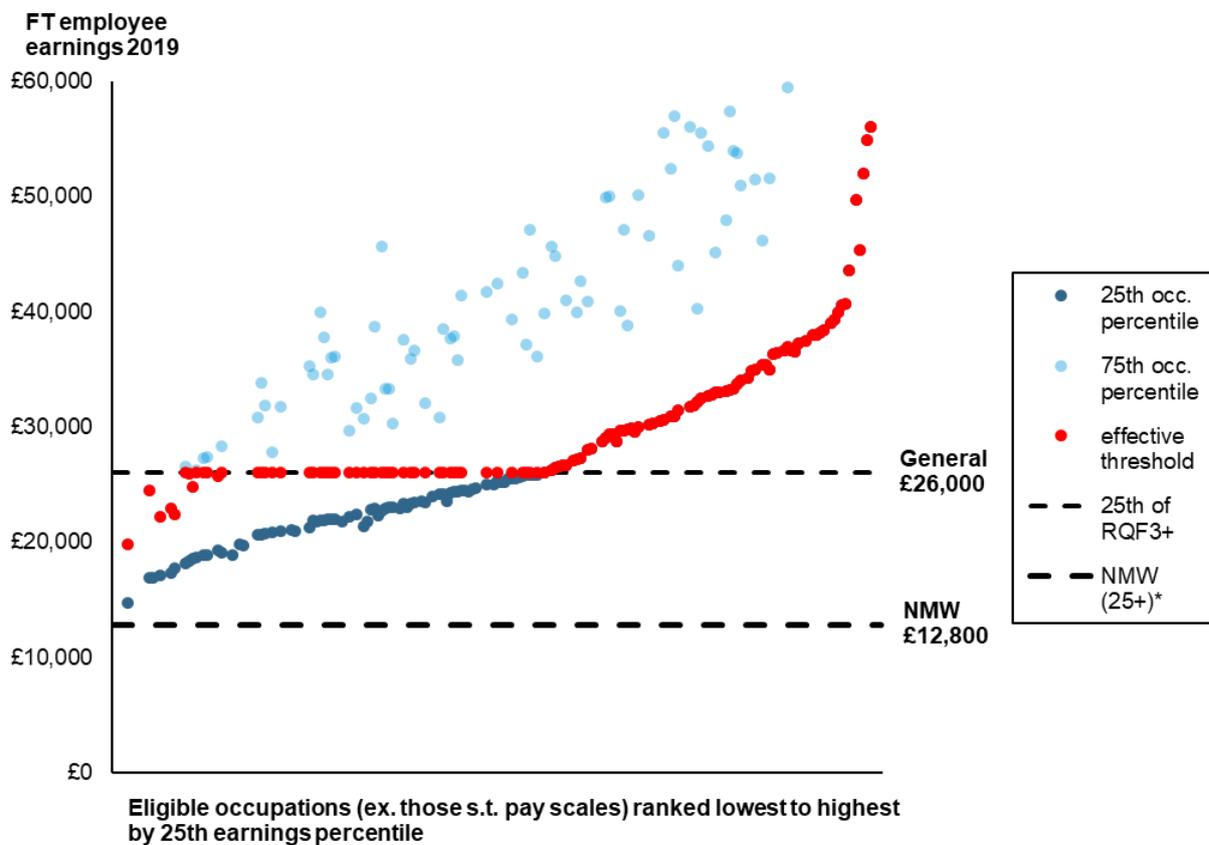
- 7.93 The role of the occupation cap is to prevent the general threshold from resulting in salary requirements that are unachievable for some lower paying occupations. If the occupation cap is set at the 75<sup>th</sup> percentile this would apply if the general threshold exceeds that level. With the occupation specific and general thresholds set at their 25<sup>th</sup> percentiles respectively there are likely to be around 20 out of 213 RQF3+ occupations not subject to pay scale thresholds<sup>129</sup> for which this would be above the 75<sup>th</sup> percentile. This equates to approximately 3.8 per cent of employees among those occupations (ASHE 2019).
- 7.94 Figure 7.7 below describes this graphically using the published ASHE 2019 data for an occupation specific and general threshold set at the 25<sup>th</sup> percentiles of the relevant distributions and an occupation cap set at the 75<sup>th</sup> percentile. It shows how an occupation cap set at the 75<sup>th</sup> percentile acts as a safety value for relatively few occupations.

**Recommendation: If the Government is concerned about the impact of the general threshold on lower-wage medium-skill occupations, we recommend the use of an occupational cap to be set at the 75<sup>th</sup> percentile. We do not recommend this given the level of the general threshold we propose.**

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<sup>129</sup> Using the ASHE microdata for the years 2011 to 2019 there are 20 4-digit occupations where the 25<sup>th</sup> percentile of eligible occupations was above their individual 75<sup>th</sup> percentile in at least four out of the nine years considered. For a list of occupations that are likely to benefit from an occupation cap see table 7.7.

**Figure 7.7 – Effective salary threshold for occupation specific and general thresholds set at 25<sup>th</sup> percentiles of relevant distributions (ASHE 2019)**



Notes: \*National Minimum Wage annual pay equivalent calculated using £8.21 National Living Wage rate for 25+ at 30 hours per week (in line with ASHE definition) and 52 weeks per year. Source: Table 14.7a ASHE 2019 ONS, estimates rounded to nearest £100

## Conclusions

- 7.96 Using the MAC modelling described in the previous chapter, we considered the impact of different levels and structures of salary thresholds on a range of outcomes such as population size, GDP and GDP per capita.
- 7.97 The largest impacts of the proposed new system come as a result of restricting eligibility to workers in medium-skilled and high-skilled jobs, the RQF3+ threshold. The impact of varying salary thresholds, whether design or level, is much smaller. None of the impacts suggests there is a single, ideal, set of thresholds and there are some trade-offs to be made between alternatives.
- 7.98 We recommend retaining the current structure for salary thresholds, where the relevant salary threshold for an experienced worker is the higher of an occupation specific threshold and a general threshold:
- The occupation specific threshold for experienced workers should be maintained at the 25th percentile of the full-time annual earnings distribution.

- The general threshold should be set at the 25th percentile of the full-time annual earnings distribution for all Tier 2 (General) eligible occupations, but with a revised range of eligible occupations. This new threshold will then fall by around £4,400 from the current £30,000 to around £25,600 (in 2019).

7.99 For occupations having their occupation specific thresholds based on bargained pay scales they should continue to not face the general threshold.

7.100 There should also be more adequate monitoring and evaluation of how the system is working. When large changes are made it is vital to ensure that any emerging issues are identified and dealt with in a timely way.

7.101 This chapter has considered structure and level of a national salary threshold against a number of different criteria. In the next chapter we consider whether there should be regional variation in salary thresholds.

## Chapter 8: Geographical variation in salary thresholds

### Summary

- The MAC was asked to consider whether salary thresholds should vary by region. Stakeholders had a range of views on this. Some preferred the simplicity of a single national threshold, others wanted variation to take account of local labour market conditions, with more than half of those responding to our Call for Evidence (CfE) saying they felt salary thresholds should vary by location.
- Salaries vary by geography; in London they are higher (by around a quarter) than the UK average, in Wales and Northern Ireland they are lower (by around 10 per cent) and in Scotland they are similar to the UK as a whole. Variation of salaries within regions is often larger than between regions.
- Regional salary thresholds can alter outcomes relative to a single national threshold and if there was to be regional variation the strongest economic case is for salary thresholds that are considerably higher in London and slightly lower in the rest of the UK. However, this could increase, rather than reduce, the variation in regional impacts of salary thresholds because London has a much higher share of migrant workers.
- Regional salary thresholds also bring more complexity and may be relatively harder to enforce within the migration system, particularly as the UK is geographically small, making it is easy to live in one region and work in another.
- We do not believe any system of regional salary thresholds is optimal; there should be a single national salary threshold. This is line with the approach taken by the Low Pay Commission on the minimum wage. We also don't want to institutionalise some parts of the UK as 'lower wage'; regional inequalities should be addressed through equalising wages.
- There is also a possible case for varying thresholds in Northern Ireland, whose economic position is distinctive. On balance the MAC agreed not to recommend a different salary threshold, but future consideration could be given to this.
- We also recommend government may want to pilot, and evaluate, some variation in salary thresholds within remote areas, as these places may face more complex challenges in recruitment and retention of workers.

## Introduction

- 8.1 The commission on salary thresholds said that the MAC should:

*“...consider whether the conclusions they reach in relation to levels of salary thresholds are applicable to the whole of the United Kingdom or whether there is a need for greater regional variation...because...the immigration system must serve the best interests of the whole of the United Kingdom...”*

Letter from the Home Secretary to Professor Manning, 24 June 2019

- 8.2 This is not the first time the MAC has been asked to consider this question. In the past, the MAC has always recommended against regional variation in salary thresholds for the reasons set out below:

*“We do not recommend regional variation in salary thresholds – any such variation would be a higher threshold for London and the South East rather than lower thresholds for other countries and regions.”*

MAC EEA-workers in the UK Labour Market 2018

*“For now we are content that there are no major regional variations that may require more urgent attention, particularly as the 25th percentile allows sufficient consideration of pay levels outside of London.”*

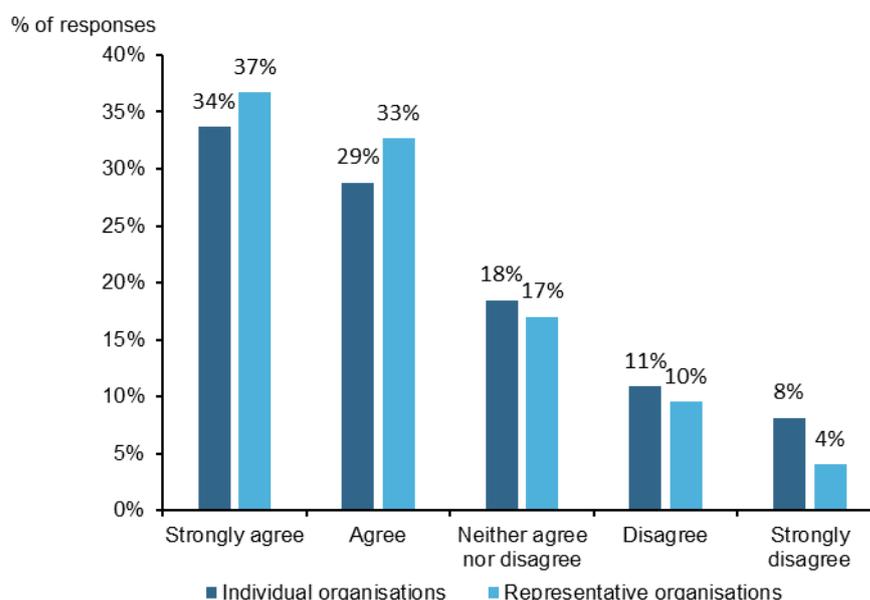
MAC Tier 2 – Analysis of Salary Thresholds 2015

- 8.3 Some stakeholders continue to make the case for geographical variation, and it is right that the MAC continues to assess the evidence on this topic.

## Stakeholder and CfE views of geographical variation

- 8.4 There was support for geographical variation of salary thresholds amongst CfE respondents with more than half of individual organisations strongly agreeing (34 per cent) or agreeing (29 per cent) that salary thresholds should be varied by geography (Figure 8.1). This was slightly higher for representative organisations (37 per cent strongly agreed and 33 per cent agreed). However, geographical variations were not as strongly supported in comparison to variations by sector and occupation (see Figures 4.11 and 4.12). Unlike with sector and occupation, there was also a substantial minority that disagreed or were neutral.

**Figure 8.1: Call for Evidence responses: extent to which respondents said salary thresholds should vary by geographical area**



Base: All respondents: Individual organisations (184), Representative organisations (147). Responses for representative organisations reflected a mixture of the views of businesses/organisations they represented, and the views of the representative organisations themselves.

- 8.5 There were two main arguments put forward for geographical variation in salary thresholds. First, that salary thresholds should reflect differences in the level of wages with the concern being that a UK-wide threshold is unduly influenced by higher wages in London and the South East. Second, that the needs of different parts of the UK are different and this should be taken account of in setting salary thresholds.
- 8.6 Some arguing for geographical factors to be taken account of in setting salary thresholds did not call for variation, just that the UK-wide level should be set at an appropriate level for all parts of the UK.
- 8.7 The CBI and CIPD were among the stakeholders who were not necessarily supportive of the idea of geographical variation. The CBI, for example, cited that variations by region could lead to higher thresholds for London and the South East, and this was a less favourable outcome than keeping a single national threshold. For the CIPD, geographical variation adds complexity for employers with multiple sites in various regions of the UK and inhibits labour mobility.
- 8.8 The CBI stated in their CfE response:

*“The MAC has been asked to consider regional variations before and concluded this would more likely lead to a higher salary threshold for London and the South East, rather than a lower threshold for other regions and nations. This is not what*

*businesses across the UK's regions and nations are calling for. Therefore, retaining the existing principle of salary thresholds based on national pay distributions would be preferable to this outcome."*

8.9 The CIPD stated that:

*"we also don't support the idea of regional variation in salary thresholds because employers tell us that it would be difficult to administer, especially those with multiple sites across the UK, with the possible exception of Scotland. This is consistent with CIPD survey data (CIPD Labour Market Outlook, Winter 2017/18), which showed that a UK-wide immigration system post-Brexit would be more popular with employers (41 per cent) than sector (13 per cent) or regional (5 per cent) schemes. Employers in Scotland were more likely to favour a regional immigration policy (19 per cent) than employers from elsewhere in the UK, but they were still more likely to support a UK-wide approach to post-Brexit immigration (29 per cent)."*

8.10 In some cases, acknowledging the extra complexity inherent in different variations, respondents expressed a wish to prioritise other variations, such as sectoral, over variation by region.

*"Members were strongly of the view that thresholds varied by region or country would be impractical and too difficult to manage in practice. Variations by sector were supported, and/or variations by sector and occupation. If thresholds were to vary by region, then thresholds would have to be set at a lower level to accommodate all sectors."*

Representative organisation, multiple sectors, Nationwide

8.11 UNISON and the TUC also strongly disagreed with the idea of regional thresholds on the grounds that this could encourage undercutting:

*"We believe people should be paid for the job they do, not where they live. Setting the pay thresholds lower for migrants recruited into jobs in certain regions may encourage employers to situate themselves in lower paying regions, encouraging undercutting."*

TUC and UNISON responses to MAC Commission 2019

8.12 Others, including the BCC, and stakeholders representing rural areas and specific geographies argued for explicit regional variation.

*“Any skilled salary threshold must take into consideration regional salary differentials and reflect the realities of local economies throughout the English regions and the devolved nations.”*

BCC response to MAC Commission, 2019

- 8.13 Arguments relating to the need for London to be treated differently to the rest of the UK centred on the much higher salaries being paid in London.

*“Survey respondents agreed that there should be some aspect of variance in salary thresholds. .... The UK games industry is not concentrated in London but spread all across the UK in clusters of creative hubs – from Newcastle to Belfast – with highly skilled talent in all four nations.... It is crucial, therefore, that there is at least appropriate regional variation to reflect the differences in salary levels and living costs across the UK.”*

Representative organisation, Other services, Nationwide

- 8.14 In stakeholder meetings it was stated multiple times that London (and the South East) distort average wages, and that therefore one option would be to take them out of the equation and have a ‘London specific’ and ‘everywhere else’ threshold. Those stakeholders representing areas outside of London also argued that they were reliant on SMEs, which would be less likely to have the capacity/ability to engage with the Tier 2 (General) system or to pay salary levels required by the entry/settlement thresholds. As women tend to earn less than men, stakeholders in all three Devolved nations said that the salary threshold would have the potential to affect women disproportionately. Scottish Government, amongst others, also said that salary levels did not vary widely across the UK, but did regionally within individual nations.

*“While there is not a significant degree of variation between the UK and Scotland, there is noticeable regional variation across the UK.”*

Scottish Government’s response to the MAC Call for Evidence, 2019

- 8.15 For those representing businesses and individuals in London, some argued that the cost of living is high, so visa fees may impact those towards the lower end of the threshold disproportionately (one would assume this would also apply to lower earners outside London).

## The varying needs of different geographical areas

- 8.16 On the argument that regions and nations away from London have different needs, this was often made in relation to the Devolved nations, and English regions, but also about general types of geography e.g. coastal or rural where stakeholders and CfE respondents felt that different economic conditions prevailed. Among stakeholders making points like these were the Convention of Scottish Local Authorities (COSLA), Mid-Ulster Council, the Northern Ireland Tourism Alliance (NITA), South Lakeland District Council and the Welsh NHS Confederation.

*“The key ask from councils was flexibility built into the immigration system that can take account of economic diversity and recognises the demographic challenges within Scotland, and, indeed, in other parts of the UK. The immigration system should be responsive to national and regional requirements, and, most crucially, should accommodate Scottish local authority areas and their specific needs.”*

COSLA response to MAC Commission, 2019

*“It is important that a new immigration system includes the voice of devolved administrations which sit within a different context to that of England.”*

Welsh NHS Confederation response to MAC Commission, 2019

*“Given the particular circumstances within Northern Ireland and the unique geographic location having a shared border with the Republic of Ireland, a flexible, regional approach with weighting for specific region and roles should be included within the reforms.”*

NITA response to MAC Commission, 2019

- 8.17 In rural/coastal areas across the UK (e.g. Cumbria, Dorset) and across the Devolved nations, CfE respondents implied that workers and residents often do not have the same ‘lifestyle’ needs as in more urban areas and salaries are lower, so the salary threshold is very out of step with the local market as rural areas tend to pay lower salaries and have a lower cost of living, which means that the salary threshold looks very high compared to local salaries. Another argument set out was that demographics may be different e.g. an ageing population in Cumbria, Wales and Scotland, for example. Therefore, it was implied that it is more difficult to attract skilled workers and that there is more employer resistance to measures designed to restrict inward migration to the area.

*“Scotland has a distinctive demographic with an ageing population and static working age population. The new immigration system should reflect these*

*distinctive differences across the UK. In some locations there are simply not enough people in the resident workforce pool. This is not a question of sector or industry – it's about demographics, sparsity of population, lack of rural housing and out-migration of young people. This is a particular issue for regions such as the Highlands and Islands... Any future system must be flexible to accommodate the needs of the economy and population in different regions of the country."*

Representative organisation, multiple sectors, Scotland

- 8.18 Some noted that there is rural depopulation across the UK, even where the UK population is rising as a whole, and said that the ageing population of those who remain, and consequent high employment rates of those of working age, means that without recruiting from outside the UK workforce it is not possible to recruit the labour required. This was also not a situation many expected to change (Wales's working age population is set to decrease, for example). The Scottish Government noted that one fifth of its population is located rurally.
- 8.19 Generally, labour shortages were said to be common in rural areas across multiple sectors that these areas rely on, including agriculture/fisheries, healthcare, travel/tourism, arts/culture, food and drink. These were also sectors that do not pay particularly well, which leaves them more vulnerable to a salary threshold, although many jobs within them would not meet the RQF3+ skills level required to be eligible. The Welsh Government, though, stated that a salary threshold of £30,000 would also affect professional occupations such as academia and vets.
- 8.20 All the Devolved Administrations (in the case of Northern Ireland this was the NI Civil Service as there was no sitting Executive) emphasised the need for more inward migration to support their economies and drive growth. Some stated that aspects of the Australian and Canadian systems, whereby individual states can nominate and recruit migrants according to local needs, could be a possibility in the UK. Especially for areas where there are already devolved powers and hence have the governance structures to manage this type of differentiated approach. This would be welcomed by Scottish Government, who in their response to this Commission stated:

*"The establishment of the Scottish Parliament reflected an acceptance of the need for a differentiated approach to policy making in Scotland across a range of key issues... The existence of the Scottish Government and the Scottish Parliament ensures that there are existing governance and accountability mechanisms to manage such policy differentiation."*

Scottish Government response to MAC Commission, 2019

- 8.21 The next section of this chapter turns to examine the context of each Devolved nation in turn, beginning with Northern Ireland.

## Devolved Administrations

### Northern Ireland

- 8.22 Northern Ireland (NI) is the only nation of the UK which shares a land border with a member of the EU, and this proximity to the Republic of Ireland (ROI) has raised particular challenges for its labour market and economy. In the three years to June 2019, there was a 26 per cent decrease in the stock of EU26 migrant workers in NI (falling from 54,000 to 40,000<sup>130</sup>). By contrast, the ROI saw an increase of 10 per cent<sup>131</sup> in the stock of EU26 workers in this same period (rising from 201,000 to 220,000). The Federation of Small Business NI reported<sup>132</sup> this decrease to be down to the prospect of being at a competitive disadvantage compared to ROI counterparts amongst its members.

*“As the only UK region sharing a land border with the EU, this provides an attractive route for EU migrant workers to move to the Republic of Ireland which will retain freedom of movement. The Republic of Ireland also does not carry the currency fluctuation risks of NI’s sterling based economy, is the only other English speaking EU member state and has higher average wages than NI.”*

NICS response to MAC Commission, 2019

*“It has been agreed that NI will have Customs Union/Single Market type arrangement with the EU with respect to the movement of goods, unlike the rest of the United Kingdom. This arrangement necessitates the provision of level playing field arrangements in the all-island economy. Under existing arrangements, competitors in Ireland will have access to EEA labour without any minimum salary conditions, giving a serious competitive advantage and risks businesses moving operations to ROI.”*

Representative organisation, multiple sectors represented, Northern Ireland

- 8.23 In addition, stakeholder engagement revealed that due to the reported labour shortages and the loss of access to EU labour, many companies were considering relocating to the ROI and a subset of these had already registered there. The

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<sup>130</sup> NICS response to the MAC Commission, 2019 quoting NISRA labour force survey (LFS) Q2 2016-Q2 2019

<sup>131</sup> Figures mentioned in FSB NI, Northern Ireland Civil Service and Northern Ireland Chamber of Commerce responses to our call for evidence

<sup>132</sup> FSB NI response to MAC call for evidence, 2019

Northern Ireland Chamber of Commerce cited the Q3, 2019 NI Chamber/BDO survey, where it stated:

*“1 in 5 members have expanded investment plans outside Northern Ireland and that has largely involved setting up/registering a business in the Republic of Ireland.”*

NICC response to MAC Consultation, 2019

## Northern Ireland’s labour market

- 8.24 Northern Ireland has lower unemployment rates (2.9 per cent compared to the UK average of 3.9 per cent for June-August 2019), but also has the second lowest employment rate of 71.5 per cent and the highest economic inactivity rate of 26.4 per cent<sup>133</sup>. The Federation of Small Business NI and NICS make the case that this low unemployment coupled with high economic inactivity could indicate that the supply of labour within NI is constrained and partly explains their high dependence on migrant labour. NI’s Industrial Strategy includes plans to reduce the economic inactivity and increase labour market participation, but there are concerns that the current skills shortages being faced by sectors such as agri-food, transport, social care and IT will be worsened when freedom of movement ends. *“The most recent Employer Skills Survey also notes that the prevalence of skills shortages in NI has increased by 7 per cent since 2015, the most significant increase among all UK nations”*<sup>134</sup>.
- 8.25 The NI Strategic Migration Partnership referred to the previously-stated aims of the NI Executive to grow the region’s economy as NI has a lower skills profile, high public sector employment and low Gross Value-Added growth compared to the rest of the UK.
- 8.26 The FSB NI reported that the composition of the private sector labour market in NI is dominated by small and medium-sized enterprises (SMEs), representing the highest concentration of SMEs of all the regions in the UK. According to FSB NI, SMEs provide 75 per cent of all private sector jobs in NI and employ more people than both large businesses and the public sector combined. They go on to state that this proportion is significantly more than for the UK as a whole, where SMEs employ about 60 per cent of the private sector workforce. They also note that SMEs account for over 70 per cent of turnover in the private sector in NI compared to the UK where the contribution of SMEs to private sector turnover is around 50 per cent. Later in this chapter we examine the wage differentials for RQF3+ occupations by nation.

<sup>133</sup> Figures mentioned in FSB NI and NICS’ responses to our Call for Evidence

<sup>134</sup> NISMP response to Call for Evidence, 2019

## EU labour in Northern Ireland

- 8.27 The Northern Ireland Civil Service provided evidence that the composition of the NI migrant labour market differs to the rest of the UK, with a greater proportion of migrants in Northern Ireland (65 per cent) being drawn from EU26 (which excludes ROI) compared to the UK as a whole (40 per cent)<sup>135</sup>.

*“It is therefore clear that NI’s labour market, even at the most fundamental structural level, is more exposed to policy changes that impact on the flow of EU workers”*

NICS response to MAC Call for Evidence, 2019

- 8.28 The share of EU labour varies considerably between sectors within NI, and these sectors will be disproportionately affected by any changes to the flow of EU workers.

*“According to the LFS, the sectors with the highest share of EU workers are manufacturing, distribution and hotel and restaurants. In 2018 these sectors accounted for over half (54 per cent) of EU26 jobs”*

NICS response to MAC Call for Evidence, 2019

- 8.29 NI stakeholder views of the temporary worker route proposed in the Immigration White Paper were largely agreed that it would prove challenging to use in practice. Most were concerned that the visa would lead to lost development opportunities as workers would be trained up and then forced to go home after a year. This message was consistent across sectors from logistics to social care.

- 8.30 If there is no feasible route for NI to mitigate the reduction in EEA labour, stakeholders worried that current shortages faced in social care for lower-skill roles would be further exaggerated. In all Devolved nations it was mentioned by stakeholders that the high numbers of EEA professionals working in the care sector, the ageing workforce and existing shortages were particular issues.

## Scotland

- 8.31 Issues raised by Scottish stakeholders centred on the need for migration to maintain population growth, the salary threshold amount in comparison to salaries paid, the increased impact a £30,000 threshold would have on Scotland if extended to RQF3+ and EU migrants, and the potential effects on rural areas.

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<sup>135</sup> NICS response to our CfE, quoting NISRA Labour Force Survey (LFS) statistic, 2018.

## Scotland's population

- 8.32 As with Northern Ireland, Scottish evidence, from Scottish Government and Scottish Enterprise among others, pointed to current and expected demographic change, and to the crucial role EU migration currently plays in rebalancing the ageing population and driving population growth (which was expected to be slower than in the rest of the UK over the next 25 years) more generally.

*“Scotland’s population growth has and continues to be reliant on net in-migration – and it is this net in-migration which in turn is a key driver of economic growth. It is forecast that there will be no increase in Scotland’s population over the next 25 years without immigration (most of which are non-UK EU nationals). It is therefore vital that the future immigration system acknowledges its role in supporting wider economic growth.”*

Highlands and Islands Enterprise response to MAC Commission 2019

*“The comparison of Scotland's age structure to that of the UK shows that the share of baby boomers is larger in the Scottish population and the relative size of the youngest age groups is smaller than in the UK's total population (Figure 5.10). Population ageing is thus going to be more pronounced in Scotland than in the UK as a whole.”*

Scottish Government, *UK immigration policy after leaving the EU: impacts on Scotland's economy, population and society*, 28 Feb 2019, submitted alongside their submission to MAC Commission 2019

- 8.33 Despite the currently growing population in Scotland referenced by several stakeholders, the Scottish Government pointed out that this was not uniform across Scotland, and that rural areas were experiencing depopulation even at current levels of migration.

*“Scotland’s population is facing significant challenges including depopulation in rural areas... While our population grew in the last year, 14 of our local authorities experienced depopulation.”*

Scottish Government response to MAC commission, 2019

- 8.34 Scottish Enterprise and others indicated that much of the population growth had so far been driven by EU nationals. As in Northern Ireland, stakeholders pointed to the consequent high rates of EU nationals within the workforce (although Irish nationals make up a high proportion of these).

*“There are 140,000 EU nationals across low, medium and high skilled jobs in Scotland’s economy; making up 6 per cent of our workforce. There are particular sectors, regions and occupations that have higher than average (>6 per cent) concentrations of EU nationals, leaving them particularly vulnerable to Brexit.”*

Scottish Enterprise response to MAC commission, 2019

## Future economic growth in Scotland

- 8.35 Skills Development Scotland’s *Brexit Evidence Base*, submitted in response to the CfE, indicates that most expected jobs growth is likely to be in urban, rather than rural, areas. Rural areas were expected to have very low levels of employment growth, with demographic change and population loss meaning that most openings were expected to come as a result of replacement demand.

*“Future jobs growth in Scotland is expected to be driven by Edinburgh and Glasgow cities. These two RSA regions are expected to account for 83 per cent of the net additional jobs in Scotland to 2027. Rural areas are expected to have fewer jobs in 2027, including the Highlands and Islands, Dumfries and Galloway and Borders.”*

Skills Development Scotland response to MAC commission, 2019

- 8.36 As noted above in the quote at 8.32 from Scottish Enterprise, maintaining levels of inward migration was important in ensuring economic growth in Scotland, and that it was crucial to design the future immigration system with this in mind.

## Salary thresholds in Scotland

- 8.37 Scottish stakeholders believed that the proposed salary threshold of £30,000 was too high and, while the proposal to extend the skills threshold to RQF3+ was welcomed, it was felt that if the salary level remained the same, little benefit would be experienced as a result. Scottish Enterprise quoted the median salary in Scotland as being £23,833 in 2018 (although this is for full-time and part-time workers) and the Scottish Government’s Expert Advisory Group found that around 63 per cent of all employees in Scotland earn less than £30,000. The salary threshold requirements for settlement were also thought to be too high, and in some sectors to require an unrealistic rate of pay progression. Within this, stakeholders pointed to considerable sectoral and regional variation across Scotland.

*“There are also significant salary differentials across Scotland’s local authorities. Only 16% of employee earnings in Na h-Eileanan Siar earn above £30,000, ranging to 50% in East Renfrewshire.”*

Scottish Government response to MAC Commission, 2019

*“Average salaries in Highland are around 3% below the Scottish Average, which in turn lags behind areas such as London, the South East and East of England. On average a worker in Highland will earn only 81% of what a London worker earns... Situations will arise when areas such as London and the South East will be able to attract migrants to fill a certain type of vacancy, while areas such as Highland will be prevented from filling the equivalent post by the threshold.”*

Highland Council response to MAC Commission, 2019

- 8.38 Scottish Government also provided a detailed description of the sectors they see as being particularly impacted by salary thresholds (particularly if these are to apply to EU nationals), which included health and social care, cultural and creative industries and education.
- 8.39 In common with other stakeholders, Scottish Government requested that factors other than the financial contribution of migrants be taken into consideration, such as the social or public value of their roles, or their contribution to sustaining rural communities.

*“A migrant’s financial contribution cannot be conflated with the value that individuals bring to Scotland. Migrants working in Health and Social Care make public contribution that greatly exceeds their net financial contribution. It is essential that financial information is not the only metric used to measure value within our immigration policy. Any Points-Based System should account for the positive externalities of roles in Health and Social Care, in our rural communities and across Scotland.”*

Scottish Government response to the MAC Commission, 2019

*“This means an appropriate migration policy with thresholds that do not disproportionately impact on the Highland area is critical not just for the area’s future growth, but simply to maintain current population levels and continue to provide essential public services.”*

The Highland Council response to the MAC Commission, 2019

- 8.40 The submission from Scottish Government also put forward the need for migration policy to be devolved and, failing that, a specific Scottish visa to address what they

see as Scotland's distinct needs, or a formal role for the Scottish Government in setting the Scottish SOL.

- 8.41 Some of the additional suggested changes to the UK's migration system were out of scope for this report, or have already been addressed by the UK Government, such as the abolition of the net migration target and the introduction of a post-study work route.

## Wales

- 8.42 Many of the concerns raised by Welsh stakeholders mirror those raised by the rest of the UK. These mainly revolved around the impact that the end of freedom of movement will have on recruitment, growth and productivity in the Welsh economy.

### Population in Wales

- 8.43 Whilst all countries in the UK have an ageing population, stakeholders reported that the situation in Wales was particularly challenging. The Welsh Government reinforced this point and referenced the latest ONS national population projections<sup>136</sup> which suggest a longer-term (from 2024 onwards) population decrease for Wales.

*“Wales, like the rest of the UK, faces the challenge of demographic change, with an ageing population. However, the challenges are significantly more acute in Wales than elsewhere, with slower growth in the overall population but faster growth in the over 65s; meanwhile, the 16-64 population is projected to shrink by 5% by 2039 (ONS, 2015).”*

Welsh Government, *Brexit and Fair Movement of People*, 2017

- 8.44 Stakeholders were concerned that the reduction in the future flows of migrant workers due to EU exit is likely to exacerbate this issue. However, it should be noted that StatsWales data shows that EU migrants make up just 2.6 per cent of the Welsh population compared to the 5.2 per cent representation for the UK overall<sup>137</sup>, suggesting that Wales is likely to be less proportionately affected by a reduction in migration flows from the EU, relative to the UK as a whole.

### Salary thresholds in Wales

<sup>136</sup><https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/bulletins/nationalpopulationprojections/2018based>

<sup>137</sup> Welsh Government, *Brexit and Fair Movement of People*. Source: StatsWales (June 2016) based on data from Labour Force and Annual Population Surveys. This data is based on country of birth.

8.45 Analysis conducted for the Wales Centre for Public Policy<sup>138</sup> estimated the impacts of introducing a £30,000 salary threshold (the detail of assumptions in this paper are covered in Chapter 6). This study find that migrants make up a lower proportion of full-time workers than the UK as a whole, though a higher proportion of migrants in Wales would not meet a £30,000 salary threshold. This study estimates there would be between a 1 per cent and 1.5 per cent reduction in GDP over 10 years in Wales, compared to between 1.5 per cent and 2 per cent reduction for the UK overall.

*“There is little case for differentiation in migration policy between Wales and the rest of the UK. Wage levels, and hence the proportion of immigrants likely to be affected, as well as the sectors and occupations most at risk, are similar in Wales to the UK outside London and the South-East.”*

Portes, J. and Forte, G. *Migration in Wales: The impact of post-Brexit policy changes*, Feb 2019

8.46 These findings need to be considered alongside views, such as from the Welsh NHS Confederation (see quotes below paragraph 8.16), that the specific context of Wales should be acknowledged in the new system.

8.47 Concerns were also raised about retaining the £30,000 salary threshold, which many Welsh stakeholders across multiple sectors and industries argued was too high and makes it difficult for businesses to recruit migrants. The report for the WCPP estimated the impacts of reducing the salary threshold to £20,000 using the same methodology. The findings showed that whilst GDP per capita impacts would remain substantial, a lower salary threshold would mitigate them to some extent<sup>139</sup>.

## Evidence on regional/national differences in earnings

8.48 Table 8.1 presents the variation in median earnings between the regions and countries of the UK. It shows that median full-time earnings for RQF3+ occupations are highest in London, at around £44,400 and lowest in the North East of England at around £31,200. Table 8.2 also shows the differences at the 25th percentile, as the previous chapter recommended using this level in setting salary thresholds.

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<sup>138</sup> [https://www.wcpp.org.uk/wp-content/uploads/2019/03/FINAL-WCPP-report\\_Immigration-in-Wales-post-Brexit.pdf](https://www.wcpp.org.uk/wp-content/uploads/2019/03/FINAL-WCPP-report_Immigration-in-Wales-post-Brexit.pdf)

<sup>139</sup> [https://www.wcpp.org.uk/wp-content/uploads/2019/03/FINAL-WCPP-report\\_Immigration-in-Wales-post-Brexit.pdf](https://www.wcpp.org.uk/wp-content/uploads/2019/03/FINAL-WCPP-report_Immigration-in-Wales-post-Brexit.pdf)

**Table 8.1: Median annual full-time earnings by Region/DA and Index, RQF3+ occupations**

| Region/DA                           | Median earnings (£) | UK (£35,200=1) |
|-------------------------------------|---------------------|----------------|
| <b>United Kingdom (exc. London)</b> | <b>£33,600</b>      | <b>0.95</b>    |
| <b>United Kingdom (inc. London)</b> | <b>£35,200</b>      | <b>1.00</b>    |
| North East                          | £31,200             | 0.89           |
| North West                          | £32,700             | 0.93           |
| Yorkshire & The Humber              | £32,100             | 0.91           |
| East Midlands                       | £32,300             | 0.92           |
| West Midlands                       | £33,500             | 0.95           |
| East                                | £34,900             | 0.99           |
| London                              | £44,400             | 1.26           |
| South East                          | £37,000             | 1.05           |
| South West                          | £32,600             | 0.93           |
| <b>Wales</b>                        | <b>£31,800</b>      | <b>0.90</b>    |
| <b>Scotland</b>                     | <b>£33,900</b>      | <b>0.96</b>    |
| <b>Northern Ireland</b>             | <b>£31,900</b>      | <b>0.91</b>    |

Source: ASHE (2019); RQF level definitions incorporate recommended changes; occupations subject to pay scales excluded from calculations; figures rounded to nearest £100; index based on unrounded figures.

**Table 8.2: 25<sup>th</sup> Percentile annual full-time earnings by Region/DA and Index, RQF3+ occupations**

| Region/DA                           | 25 <sup>th</sup> Percentile earnings (£) | UK (£25,600=1) |
|-------------------------------------|--|----------------|
| <b>United Kingdom (exc. London)</b> | <b>£24,800</b>                           | <b>0.97</b>    |
| <b>United Kingdom (inc. London)</b> | <b>£25,600</b>                           | <b>1.00</b>    |
| North East                          | £23,000                                  | 0.90           |
| North West                          | £23,900                                  | 0.93           |
| Yorkshire & The Humber              | £24,000                                  | 0.94           |
| East Midlands                       | £24,100                                  | 0.94           |
| West Midlands                       | £24,900                                  | 0.97           |
| East                                | £25,900                                  | 1.01           |
| London                              | £31,800                                  | 1.24           |
| South East                          | £26,800                                  | 1.04           |
| South West                          | £24,200                                  | 0.94           |
| <b>Wales</b>                        | <b>£23,500</b>                           | <b>0.92</b>    |
| <b>Scotland</b>                     | <b>£25,500</b>                           | <b>1.00</b>    |
| <b>Northern Ireland</b>             | <b>£23,400</b>                           | <b>0.92</b>    |

Source: ASHE (2019); RQF level definitions incorporate recommended changes; occupations subject to pay scales excluded from calculations; figures rounded to nearest £100; index based on unrounded figures.

- 8.49 It is also worth bearing in mind that the variation presented in Tables 8.1 and 8.2 is not a like-for-like comparison. Differences in median earnings across the UK will in part be driven by differences in industrial, occupational and skill mix.
- 8.50 Some stakeholders argued that these figures understate the regional variation in private-sector earnings because public sector wages vary less across the UK.
- 8.51 Figure 8.3 shows the differences in the 25th percentile of private and public sector earnings for occupations skilled at RQF3+. If we were looking at the whole labour market, we would expect public sector earnings to be somewhat higher than private sector because the fraction of skilled workers is higher in the public than the private sector. However, as we are focused on medium skilled occupations and above, and have excluded several significant public sector occupations as they will be subject to pay scale thresholds only and not a general threshold, we actually find the opposite. The largest difference is in London and the smallest is in Wales. The two areas where public sector earnings are higher than private sector among this subset of occupations at the 25<sup>th</sup> percentile are Northern Ireland and Scotland.

**Table 8.3: 25th Percentile annual full-time earnings by Region/DA and Public/Private sector, RQF3+ occupations**

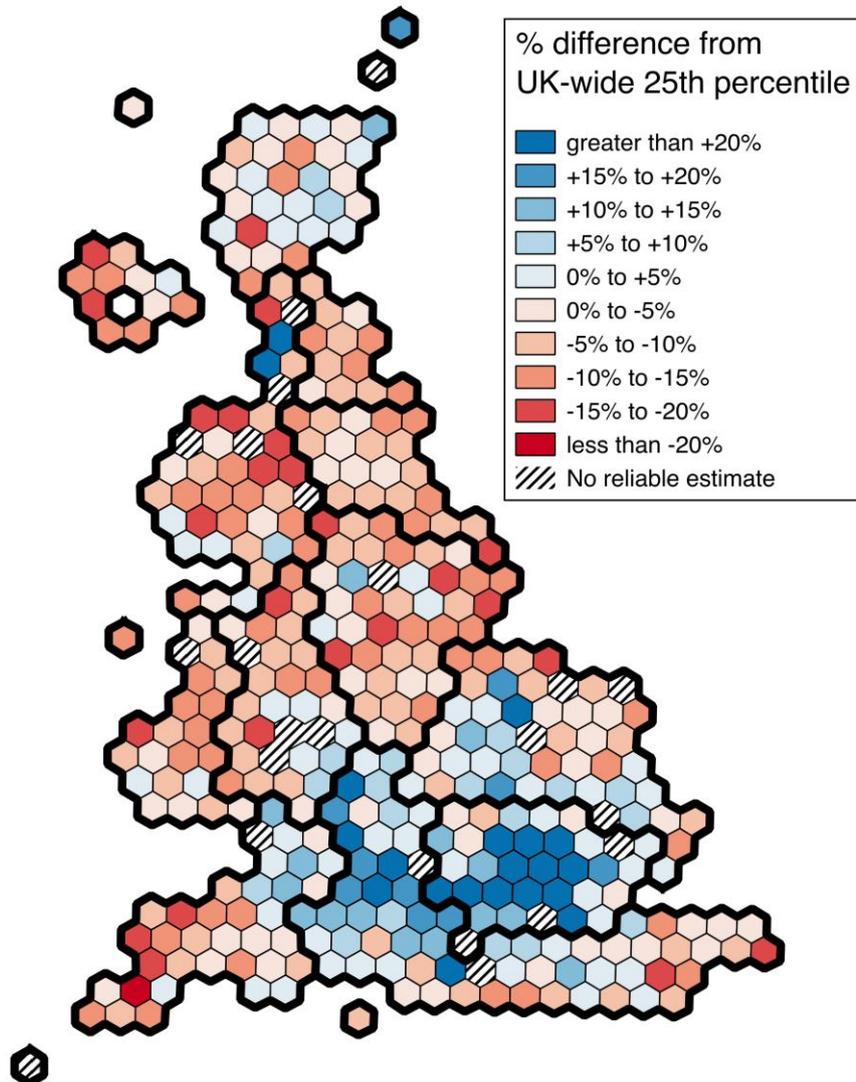
| Region/DA               | 25th Percentile |                |                |
|-------------------------|-----------------|----------------|----------------|
|                         | Public Sector   | Private Sector | Difference     |
| <b>United Kingdom</b>   | <b>£24,200</b>  | <b>£26,000</b> | <b>-£1,800</b> |
| <b>Wales</b>            | <b>£23,300</b>  | <b>£23,400</b> | <b>-£100</b>   |
| <b>Scotland</b>         | <b>£26,900</b>  | <b>£25,300</b> | <b>£1,700</b>  |
| <b>Northern Ireland</b> | <b>£25,700</b>  | <b>£22,800</b> | <b>£2,900</b>  |
| North East              | £21,700         | £23,800        | -£2,200        |
| North West              | £22,800         | £24,200        | -£1,400        |
| Yorkshire & The Humber  | £22,200         | £24,400        | -£2,200        |
| East Midlands           | £21,700         | £24,500        | -£2,800        |
| West Midlands           | £23,800         | £25,300        | -£1,500        |
| East                    | £24,100         | £26,200        | -£2,100        |
| London                  | £28,700         | £32,600        | -£4,000        |
| South East              | £23,800         | £27,300        | -£3,500        |
| South West              | £23,100         | £24,700        | -£1,600        |

Source: ASHE (2019); RQF level definitions incorporate recommended changes; occupations subject to pay scales excluded from calculations; "Not for profit" and "Unclassified" enterprises not included; figures rounded to nearest £100; no level of uncertainty is presented but figures should be treated with caution given the level of disaggregation; all estimates based on sample sizes in excess of 800.

- 8.52 There are important differences in earnings within regions and countries that are generally bigger than those between regions and countries. Figure 8.1 shows the percentage difference from the UK 25th percentile of annual full-time employee earnings by local authority (all occupations). The higher level of earnings in London

and the South East are clear but it also shows that within each region and Devolved nations there is substantial variation at the local authority level.

**Figure 8.2: Map of % difference from UK 25<sup>th</sup> percentile of annual full-time employee earnings by Local Authority (all occupations)**



Source: ASHE 2018 Table 7.7a & Table 7 (NI).7a

**8.53** Table 8.4 presents similar data to that in Figure 8.2. Using published data, we compare the percentage difference in the 25<sup>th</sup> percentile of full-time earnings between the lowest and highest paid local authority in each region/nation to the percentage difference between the 25<sup>th</sup> percentile for the whole region/nation and the equivalent UK wide measure. This data covers all occupations at all skill levels as disaggregating results at low levels of geography for only a subset of occupations (e.g. RQF3+) results in greater numbers of unreliable estimates.

8.54 It shows that for all regions and nations of the UK the difference in the lowest and highest paid local authority is larger than the difference between the earnings at the region/nation level and at the whole UK level.

**Table 8.4 – Difference in earnings within regions and nations of the UK and compared to UK wide earnings**

| Geography                | 25th percentile full-time annual employee earnings |                |                 | Difference          |                     |
|--------------------------|--|----------------|-----------------|---------------------|---------------------|
|                          | Overall  | Lowest paid LA | Highest paid LA | Within <sup>1</sup> | vs. UK <sup>2</sup> |
| <b>United Kingdom</b>    | <b>£21,870</b>                                     | <b>£17,270</b> | <b>£38,323</b>  | <b>122%</b>         | <b>0%</b>           |
| <b>England</b>           | <b>£22,014</b>                                     | <b>£17,270</b> | <b>£38,323</b>  | <b>122%</b>         | <b>1%</b>           |
| North East               | £20,356  | £18,307        | £22,110         | 21%                 | -7%                 |
| North West               | £20,609  | £17,982        | £28,667         | 59%                 | -6%                 |
| Yorkshire and The Humber | £20,541  | £19,035        | £22,192         | 17%                 | -6%                 |
| East Midlands            | £20,508  | £17,613        | £26,469         | 50%                 | -6%                 |
| West Midlands            | £20,955  | £18,970        | £24,299         | 28%                 | -4%                 |
| East of England          | £22,072  | £18,856        | £26,752         | 42%                 | 1%                  |
| London                   | £27,299  | £20,980        | £38,323         | 83%                 | 25%                 |
| South East               | £23,049  | £18,025        | £27,645         | 53%                 | 5%                  |
| South West               | £21,099  | £17,270        | £23,462         | 36%                 | -4%                 |
| <b>Wales</b>             | <b>£20,447</b>                                     | <b>£18,201</b> | <b>£22,402</b>  | <b>23%</b>          | <b>-7%</b>          |
| <b>Scotland</b>          | <b>£21,808</b>                                     | <b>£18,563</b> | <b>£23,677</b>  | <b>28%</b>          | <b>0%</b>           |
| <b>Northern Ireland</b>  | <b>£20,504</b>                                     | <b>£18,128</b> | <b>£22,418</b>  | <b>24%</b>          | <b>-6%</b>          |

Notes: Table 7.7a and Table (NI).7a ASHE (2019); (1) % difference between highest and lowest paid local authority; (2) % difference between region/nation and UK 25<sup>th</sup> percentile.

## Evidence on Regional Impacts of Salary Thresholds

8.55 The earnings differentials documented here do not mean that the impact of a UK-wide uniform salary threshold would be largest in the lowest-wage region. The reason is that the proportion of workers that are migrants is also important. Table 8.5 shows the estimated impact on employment by region and country of imposing salary thresholds at the 25th percentile as proposed in the previous chapter. The fraction of migrants who would no longer be eligible is larger in the lower-wage parts of the UK, but the share of migrants in total employment is largest in London, the highest-wage part of the UK.

**Table 8.5 - Reduction in employment from recommended thresholds by region of work**

| Region/DA               | EEA share | % ineligible | Change in employment |
|-------------------------|-----------|--------------|----------------------|
| North East              | 2.0%      | 72.1%        | 1.4%                 |
| North West              | 3.8%      | 72.3%        | 2.7%                 |
| Yorkshire & The Humber  | 4.1%      | 76.7%        | 3.1%                 |
| East Midlands           | 6.4%      | 82.2%        | 5.3%                 |
| West Midlands           | 4.7%      | 76.9%        | 3.6%                 |
| East of England         | 7.5%      | 70.5%        | 5.3%                 |
| London                  | 10.6%     | 56.4%        | 6.0%                 |
| South East              | 4.6%      | 64.2%        | 2.9%                 |
| South West              | 4.1%      | 68.8%        | 2.8%                 |
| <b>Wales</b>            | 2.7%      | 71.7%        | 1.9%                 |
| <b>Scotland</b>         | 4.3%      | 65.5%        | 2.8%                 |
| <b>Northern Ireland</b> | 4.9%      | 80.9%        | 3.9%                 |

Notes: MAC calculations using APS 2016-18; all employed (employees + self-employed); outputs shaded from smallest (green) to largest (red).

- 8.56 We can also use our methodology to estimate the impacts of our recommendations on GDP and GDP per capita for each region and country of the UK. This is what we present in Table 8.6 below.

**Table 8.6 – Change in GDP, GDP per capita and components by English region and Devolved Administrations from applying recommended thresholds to EEA nationals arriving since 2004**

| Region/DA               | GDP   | GDP per capita | Components of GDP per capita change |                         |                             |
|-------------------------|-------|----------------|-------------------------------------|-------------------------|-----------------------------|
|                         |       |                | GDP per worker                      | Workers/working-age pop | Working - age pop/total pop |
| North East              | -1.0% | 0.2%           | 0.5%                                | -0.1%                   | -0.2%                       |
| North West              | -1.8% | 0.4%           | 1.0%                                | -0.3%                   | -0.2%                       |
| Yorkshire & The Humber  | -2.5% | 0.3%           | 0.6%                                | -0.2%                   | -0.2%                       |
| East Midlands           | -4.0% | -0.1%          | 1.4%                                | -0.8%                   | -0.7%                       |
| West Midlands           | -2.5% | 0.6%           | 1.1%                                | -0.1%                   | -0.4%                       |
| East of England         | -3.7% | -0.4%          | 1.7%                                | -1.5%                   | -0.5%                       |
| London                  | -3.3% | 2.5%           | 2.8%                                | 0.3%                    | -0.7%                       |
| South East              | -2.0% | 0.2%           | 1.0%                                | -0.5%                   | -0.3%                       |
| South West              | -2.1% | 0.1%           | 0.7%                                | -0.1%                   | -0.5%                       |
| <b>Wales</b>            | -1.4% | 0.1%           | 0.5%                                | -0.2%                   | -0.2%                       |
| <b>Scotland</b>         | -1.9% | 0.4%           | 0.9%                                | -0.2%                   | -0.3%                       |
| <b>Northern Ireland</b> | -2.7% | 0.3%           | 1.3%                                | -0.6%                   | -0.4%                       |

Notes: MAC calculations using APS 2016-18; change in workers calculated on region of work; change in population calculate on region of residence; outputs shaded from most positive (green) to least positive (red).

8.57 There is significant regional variation in GDP impacts, with the East Midlands, the East of England and London facing the largest drops in output. However, on a per capita basis London performs the best as a result of a larger increase in GDP per worker and a marginal increase in the share of workers in the working-age population.

### Options for geographical variation in salary thresholds

8.58 There are several ways geographical variation could be introduced into the system of salary thresholds. The index column in Table 8.2 showed the implied reduction/increase in salary thresholds by region and country compared to UK wide earnings. For example, comparing earnings to the overall UK 25<sup>th</sup> percentile, and applying an adjustment factor in much the same way we have suggested for new entrants, would result in salary thresholds being increased by 24 per cent in London and 4 per cent in the South East, kept the same in Scotland but reduced by between 3 per cent and 10 per cent across the other regions and countries. Having a different salary threshold for each part of the UK would result in the system being much more complex to understand and pose a number of enforcement and compliance issues in checking whether employers can freely move employees

around the UK. The benefits of a differentiated system at the regional/country level would be small as many of the pay differentials are themselves relatively small.

- 8.59 However, one might consider a simpler system of regional salary thresholds focused on the largest pay differentials. Also as shown in Table 8.1 the largest pay differential is between London and the rest of the UK, so the first option we consider is a different salary threshold between London and the rest of the UK. In both the private and public sectors, it is common for firms to pay employees higher salaries as a London weighting so this would not be out of line with current practices.
- 8.60 The consequence of adjusting thresholds to be in line with earnings differentials would be that thresholds would be 24 per cent higher in London than the salary thresholds discussed in the previous chapter and 3 per cent lower in the rest of the UK. The general threshold, which would be £25,600 on a UK-wide basis, would be replaced by a threshold of £31,800 in London and £24,800 in the rest of the UK. The consequence of a different salary threshold would be a much higher threshold in London and a slightly lower threshold in the rest of the UK.
- 8.61 The difference in the impact of this system on employment and GDP outcomes as compared to a national system is shown in Table 8.7 below. The differences in outcomes in most regions/countries of the UK would be small because the difference in salary thresholds is small. The largest impact is in London where the salary threshold would be considerably higher. This policy would have the effect of increasing differences in the regional impacts of salary thresholds on changes in employment and GDP because London is the part of the UK with the highest share of migrants.

**Table 8.7 - change in impacts from applying adjustments to London and rest of UK salary thresholds**

| Region/DA               | ppt. change in impact from regional thresholds |                |                      |
|-------------------------|--|----------------|----------------------|
|                         | GDP  | GDP per capita | Change in employment |
| North East              | 0.03   | -0.02          | 0.03                 |
| North West              | 0.01   | 0.00           | 0.01                 |
| Yorkshire & The Humber  | 0.03   | 0.01           | 0.03                 |
| East Midlands           | 0.00   | 0.00           | 0.00                 |
| West Midlands           | 0.02   | 0.01           | 0.02                 |
| East of England         | 0.12   | 0.11           | 0.13                 |
| London                  | -0.55  | -0.03          | -0.71                |
| South East              | 0.03   | 0.01           | 0.04                 |
| South West              | 0.04   | 0.01           | 0.04                 |
| <b>Wales</b>            | 0.00   | 0.00           | 0.00                 |
| <b>Scotland</b>         | 0.01   | 0.01           | 0.01                 |
| <b>Northern Ireland</b> | 0.06   | 0.03           | 0.07                 |

Notes: MAC calculations using APS 2016-18; thresholds in London increased by 24% and thresholds elsewhere reduced by 3% compared to outcomes presented in tables 8.4 and 8.5; outputs shaded from most positive (green) to least positive (red).

- 8.62 The other possible system of regional differences in thresholds we considered were different levels for Devolved Administrations. Earnings in Scotland are very close to the UK average so the application of the same percentile to the Scottish earnings distribution would result in salary thresholds that are very similar to those in the rest of the UK. We acknowledge the desire of the Scottish Government for immigration to become a devolved rather than a reserved matter, a question on which the MAC takes no position seeing it as a political rather than an economic question. We also discuss below the argument that Scotland should have a threshold set at a lower percentile than the rest of the UK because it faces greater demographic challenges.
- 8.63 The submission of the Welsh Government argued for salary thresholds to be lower in general but did not request a specific Welsh salary threshold. Earnings in Wales are about 10 per cent lower than the UK average, though it is similar to some English regions e.g. the North East. For these reasons we do not think a Welsh salary threshold is desirable.
- 8.64 The case of Northern Ireland is arguably different. It has a land border with an EU country across which labour is more mobile, and a sea border with the rest of the UK which makes its labour market more distinct. We have modelled what the impact of a Northern Irish salary threshold would be. Set at the 25th percentile this would be around 9 per cent lower than the threshold for the rest of the UK. For the general threshold this would currently be £23,400.

- 8.65 The impact of setting the general threshold based on the 25<sup>th</sup> percentile of eligible occupations for England, Scotland, Wales and Northern Ireland separately is shown in Table 8.8. As expected, the main beneficiary from this change is Northern Ireland.

**Table 8.8 - change in impacts from calculating general threshold separately for England, Scotland, Wales and Northern Ireland**

| Region/DA               | ppt. change in impact from regional thresholds |                |                      |
|-------------------------|--|----------------|----------------------|
|                         | GDP  | GDP per capita | Change in employment |
| North East              | 0.00   | 0.00           | 0.00                 |
| North West              | -0.01  | -0.01          | -0.01                |
| Yorkshire & The Humber  | -0.02  | -0.01          | -0.02                |
| East Midlands           | -0.01  | -0.01          | -0.02                |
| West Midlands           | -0.01  | 0.00           | -0.01                |
| East of England         | -0.02  | 0.00           | -0.03                |
| London                  | 0.00   | 0.01           | -0.01                |
| South East              | -0.01  | 0.00           | -0.01                |
| South West              | -0.01  | 0.00           | -0.01                |
| <b>Wales</b>            | 0.04   | 0.00           | 0.05                 |
| <b>Scotland</b>         | 0.00   | 0.00           | 0.00                 |
| <b>Northern Ireland</b> | 0.22   | 0.06           | 0.26                 |

Notes: MAC calculations using APS 2016-18; outputs shaded from most positive (green) to least positive (red).

## Demographic Issues

- 8.66 Both the Scottish and Welsh Governments argued that salary thresholds should be lower on the basis that a less restrictive migration policy could help with the challenges of an aging population. They noted that this affects all parts of the UK but is more pronounced in Scotland and Wales.
- 8.67 Some stakeholders called for salary thresholds to be determined by area type e.g. rural/coastal/remote areas citing evidence that these are often, though not always, the lowest wage parts of the UK and areas that have particular problems of population decline. These stakeholders stated that, even in parts where population is rising, it is aging and with high working age employment rates, without recruiting from outside the UK workforce, it is not possible to get the labour required.
- 8.68 The Scottish Government said in their input into our EAA report that this issue of population decline should be “*off-set with higher immigration*”. The Scottish Government also made the point in their current CfE response that until comparatively recently it was a nation of emigration, not immigration, and that migration is needed to redress this balance.

- 8.69 Our Interim EEA report noted “*the small effect of migration on dependency ratios*” because migrants themselves age<sup>140</sup>.

*“Demography rarely changes sharply at administrative or political borders. This is equally true when it comes to migration and population change”.*

*“While a working-age migrant reduces the share of the old in the population today, they will eventually become old themselves and contribute to the size of the old age population later on. Rises in the pension age have a much larger impact on dependency ratios though face the challenge of increasing employment rates among older workers.”*

- 8.70 There are particular problems faced by more remote areas and the MAC is sympathetic to trying to address these through a pilot. Though, as we also noted in our Interim EEA report, any such policy is more likely to be successful if there are attempts “*to address the factors that make people leave these areas*”.

## Recommendations

- 8.71 We have considered regional salary thresholds and can see the arguments on both sides and on balance, we have concluded that the relevant salary thresholds should apply across the UK. This is in line with previous MAC recommendations but also in line with other bodies such as the Low Pay Commission<sup>141</sup> that has always recommended a UK-wide minimum wage. Although there are some economic arguments for regional variation these are not large enough to justify the added complexity of regional variation in salary thresholds. We would also not want to institutionalise some parts of the UK as ‘lower wage’; regional inequalities should be addressed through equalising wages.
- 8.72 If there was to be regional variation the strongest economic case is for salary thresholds to be considerably higher in London and slightly lower in the rest of the UK. This would likely have the impact of increasing not reducing the variation in the regional impact of salary thresholds because London has a much higher share of migrants.
- 8.73 There is also a possible case for Northern Ireland whose economic position is distinctive given its land border with the EU. The estimated impacts on Northern Ireland are mostly the result of the skill eligibility rule given the importance of the agri-food industry there. On balance, the dominant view within the MAC was to not recommend a different salary threshold for NI, but future consideration could be

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<sup>140</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/741926/Final\\_EEA\\_report.PDF](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/741926/Final_EEA_report.PDF)

<sup>141</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/856590/LPC\\_Report\\_2019.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/856590/LPC_Report_2019.pdf)

given to this special case, especially if Northern Ireland's position with respect to the EU single market and customs union is different from the rest of the UK.

8.74 In our report on the Shortage Occupation List, we expressed a sympathetic view about the problems faced by the more remote parts of the UK. We recommended that the Government consider a Remote Areas Pilot Scheme. In the Government's response to our review of the SOL, they noted this pilot was an idea they were intending to pursue<sup>142</sup>. We hope they will carry through with this pilot, and it should involve all Devolved Administrations. Part of this scheme might be lower salary thresholds for these areas. We are sceptical about whether any such scheme will solve the problems faced by these areas, because migrants may not want to stay in these areas for much the same reasons as they struggle to retain those who are born there. We do think it is worth piloting, because the small numbers likely to be involved could make a big difference to the remote areas but pose only small problems for the rest of the UK if the scheme turns out not to be successful. As always, any such scheme should only be done with a full evaluation to understand its effectiveness and impacts.

8.75 Our recommendations are summarised as:

**Recommendation: The relevant salary thresholds should apply across the UK.**

**Recommendation: There should be a separate pilot visa for 'remote' areas of the UK, part of which could be lower salary thresholds for migrants into those areas. This should only be done with a full evaluation to understand its effectiveness and impacts.**

## Conclusions

8.76 The MAC were asked to consider whether salary thresholds should vary by region. Stakeholders had a range of views on this. Some preferred the simplicity of a single national threshold, others wanted variation to take account of local labour market conditions.

8.77 Salaries do vary by geography, with earnings being higher in London than the UK average (by around a quarter), Wales and Northern Ireland having lower earnings (by around 10 per cent) and earnings in Scotland being similar to the UK as a whole. There is also variation of salaries within regions and nations, which are often larger than variation between region and nations.

8.78 We considered the impact of regional salary thresholds and our models showed the impact of a single UK threshold is not necessarily largest in the lowest salary

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<sup>142</sup> <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-07-23/HCWS1803/>

regions as impacts crucially depend on the share of workers in a region who are migrants.

- 8.79 Having regional salary thresholds can alter outcomes relative to a single national threshold. If there was to be regional variation, then the strongest economic case is for salary thresholds that are considerably higher in London and slightly lower in the rest of the UK. However, this is likely to increase, rather than reduce, the variation in regional impacts as London has a much higher share of migrant workers.
- 8.80 Regional salary thresholds also bring more complexity and may be relatively harder to enforce within the migration system, particularly as the UK is geographically small, making it is easy to live in one region and work in another.
- 8.81 We do not believe any system of regional salary thresholds is optimal; there should be a single national salary threshold. This is line with the approach taken by the Low Pay Commission on the minimum wage. We also do not want to institutionalise some parts of the UK as 'lower wage'; regional inequalities should be addressed through equalising wages.
- 8.82 However, there is a possible case for varying thresholds in Northern Ireland, whose economic position is distinctive (since it has a land border with the EU). On balance the MAC agreed not to recommend a different salary threshold, but future consideration could be given to this.
- 8.83 We also recommend government may want to pilot, and evaluate, some variation in salary thresholds within remote areas, as these places may face more complex challenges in recruitment and retention of workers.
- 8.84 Our final chapter summarises our recommendations and conclusions.

## Conclusions and Recommendations

### Summary

- This chapter brings together our recommendations. They are grouped and ordered according to what makes most sense rather than the order in which they are presented in the report. The detailed reasoning and evidence can be found in the main report.
- In some cases, the recommendation consists of a general principle and a specific application of that principle. We split the recommendation in two parts as the Government may want to accept the general principle but not the specific application.
- Throughout the report we refer to routes in the existing immigration system, such as Tier 2 (General). Our recommendations are based on the existing terminology and are intended to apply to the equivalent routes in the future system, even though these may be rebranded and restructured.

### Points-based systems (Chapters 1, 2 and 3)

- 9.1 We considered how a points-based system could be used to admit skilled migrants with a job offer on entry, without a job offer on entry, and for settlement.

#### For Those with a Job Offer

- 9.2 The main work route for those with a job offer is Tier 2 (General). This started life as a points-based system with tradeable points in which applicant strength in one area could offset weakness in another. It evolved to be simpler and a points-based system only in the sense that it is a selective system: applicants have to satisfy all relevant criteria including meeting a minimum skill requirement and a salary threshold where the points are not tradeable. The existing points attached to characteristics in Tier 2 (General) serve no purpose though do no harm either. They could be removed.

- 1. Recommendation:** We recommend retaining the existing framework for Tier 2 (General).

Chapter 3

## For Those without a Job Offer

9.3 The Tier 1 (Exceptional Talent) visa is currently a way to enter the UK labour market based on skills without the requirement to have a job offer. This evolved from Tier 1 (General) which was a pure points-based system with tradeable points and no job offer requirement. Tier 1 (General) was shut down because it was felt to be ineffective in selecting migrants who did well in the labour market. We came to the view that Tier 1 (Exceptional Talent) is too narrow and not well designed to attract the types of migrants who might come to the UK without a job offer but have exceptional talent or promise. If the Government would like to have a points-based system on entry, it should consider modifying Tier 1 (Exceptional Talent). One should proceed with caution to avoid the mistakes made with Tier 1 (General) and limit the size of the programme using a points-based system to decide which migrants should have priority. Ongoing monitoring and evaluation of any changes is essential.

**2. Recommendation:** If government wants to have a PBS route on entry, it should consider modifying Tier 1 (Exceptional Talent) in the following way:

- There should be an overall annual cap on those admitted;
- The route should operate on an expression of interest basis creating a pool of migrants interested in coming to the UK;
- There should be a monthly draw from this pool with those selected invited to submit a full application;
- The selection of those invited to apply should be based on those who have the highest number of points in the pool using a points-based system with tradeable points;
- There should also be an absolute minimum number of points;
- Points should be given for characteristics that the Government wants to attract through this route and for whom other routes are not suitable;
- Among the characteristics that the Government might want to consider in assigning points are:
  - Qualifications with a rigorous process to assess the quality of qualifications and not just the level;
  - Age;
  - Extra points for having studied in the UK;
  - Priority areas such as STEM and creative skills.
- Changes should only be made if data is collected on the outcomes of migrants on this route, with monitoring and evaluation of the route.

Chapter 3

## For Settlement

- 9.4 The current path to indefinite leave to remain via Tier 2 (General) requires meeting a settlement income threshold unless one is in a job that has been on the Shortage Occupation List. We have found it impossible to evaluate the current system, and recommend a pause in planned changes pending a review of the paths to settlement.

**3. Recommendation:** There should be an immediate pause in the proposed increases to the settlement threshold.

Chapter 3

**4. Recommendation:** We recommend a review of the requirements for settlement, to establish a clearer picture of how it is currently working and possible changes that could be made.

Chapter 3

## Salary thresholds in Tier 2 (General)

- 9.5 These recommendations for changes are in addition to those made in our earlier report on EEA Migration and accepted in the Immigration White Paper, namely expansion of eligibility to include medium-skill occupations (RQF3+), abolition of the cap and the Resident Labour Market Test. These recommendations are also made in the context of our recommendation that the general structure of Tier 2 (General) be retained.
- 9.6 We think salary thresholds are important to prevent undercutting in the resident labour market, to make it more likely that migrants contribute to the public finances and to support the ambition to make the UK a high-wage, high-skill, high-productivity economy.

## General and Occupation specific salary thresholds (Chapters 4, 5 and 6)

- 9.7 Our view is that both the general and the occupation specific thresholds should be set at the 25th percentile of the relevant full-time earnings distribution. The occupation specific threshold would be set as today but the general threshold would be lower reflecting the expansion to include medium-skill jobs: using 2019 figures the general threshold would be about £25,600. Our modelling suggests this strikes a reasonable balance between different outcomes though there are trade-offs and some may choose to put a different weight on different outcomes. For

example, a government very concerned about the impact of the new immigration system on low-wage sectors might want to use a salary threshold lower than the general threshold.

- 9.8 For some public sector occupations in the NHS and schools, we recommend using national pay scales as the relevant salary threshold. We also make a number of recommendations to tidy up the existing system.

**5. Recommendation:** Both the occupation specific and general salary thresholds should be based on the relevant distribution of full-time earnings as reported in the Annual Survey of Hours and Earnings (ASHE) and updated annually. The appropriate salary threshold should continue to be the higher of the occupation specific and general threshold.

[Chapter 5](#)

**6. Recommendation:** The occupation specific threshold should be the 25<sup>th</sup> percentile of the full-time annual earnings distribution for that occupation.

[Chapter 7](#)

**7. Recommendation:** The general threshold should be set at the 25<sup>th</sup> percentile of the full-time annual earnings distribution for all Tier 2 (General) eligible occupations.

[Chapter 7](#)

**8. Recommendation:** National pay scales should be used as the relevant salary thresholds in 24 occupations in health and education instead of both the occupation specific and general thresholds.

[Chapter 5](#)

**9. Recommendation:** If the Government is concerned about the impact of the general threshold on lower-wage medium-skill occupations, we recommend the use of an occupational cap to be set at the 75<sup>th</sup> percentile. We do not recommend this given the level of the general threshold we propose.

[Chapter 7](#)

**10. Recommendation:** There should be more adequate monitoring of how migrants are faring in the UK labour market after entry and ongoing review of the impacts of the recommendations on levels of salary thresholds.

Chapter 7

### Regional variation (Chapter 8)

- 9.9 The MAC considered the different arguments for and against regional salary thresholds. Outside of London, differences in earnings across regions are not large enough to justify the extra complication. Earnings differences within regions and devolved administrations are larger than those between them. Institutionalising some parts of the UK as ‘lower wage’ also does not seem to be the right way to reduce regional inequalities. On balance, the MAC decided against regional variation in salary thresholds. As in our Shortage Occupation Report, the MAC remains of the view that the distinctive problems of remote areas would be better handled through a specific visa for them.

**11. Recommendation:** The relevant salary thresholds should apply across the UK.

Chapter 8

**12. Recommendation:** There should be a separate pilot visa for ‘remote’ areas of the UK, part of which could be lower salary thresholds for migrants into those areas. This should only be done with a full evaluation to understand its effectiveness and impacts.

Chapter 8

### Part time workers, allowances and equity (Chapter 5)

- 9.10 We did not find evidence that the current Tier 2 (General) system discriminates against women, though there could be more flexibility for existing visa holders to switch to part-time work after becoming a parent. Enforcement becomes more difficult should pro-rating, and forms of compensation other than salary, be allowed.

**13. Recommendation:** Salary thresholds should not be pro-rated to allow for part-time work.

Chapter 5

**14. Recommendation:** The Government should consider more flexibility (i.e. prorating salary thresholds) for visa holders switching to part-time work after becoming a parent.

Chapter 5

**15. Recommendation:** Only salary on the main job should be used to determine whether the salary threshold is met. Allowances, equity and employer pension contributions should not be included.

Chapter 5

**16. Recommendation:** The rules on Tier 2 (General) visa holders owning equity in the employer sponsoring them should be reviewed.

Chapter 5

#### Priority or Shortage Occupations (Chapter 5)

- 9.11 It is unclear whether there is any benefit to continuing the Shortage Occupation List (SOL) for medium and high-skilled jobs in a future immigration system without a cap or a RLMT as proposed. The MAC does not support lower salary thresholds for occupations on the SOL: there should be upward pressure on wages in jobs in shortage so lower salary thresholds for roles in shortage would be perverse. The MAC does not think it is a good idea to commission a review of the SOL itself in the immediate future, as any assessment of current shortages is unlikely to be indicative of shortages when the new immigration system is in place and once free movement has ended.

**17. Recommendation:** Occupations on the Shortage Occupation List should not have lower salary thresholds for entry.

Chapter 5

**18. Recommendation:** We recommend a review of whether the SOL is needed after the new immigration system has been fully introduced.

Chapter 5

**19. Recommendation:** National pay scales should be used as the relevant salary thresholds in 24 occupations in health and education instead of both the occupation specific and general thresholds.

**Chapter 5**

## New Entrants (Chapter 5)

- 9.12 Salary thresholds are lower for new entrants because salaries are generally lower for them and faster pay progression can be expected. Currently the new entrant thresholds are set at the 10th percentile, leading to a lot of variation relative to the experienced worker threshold. The current definition of a new entrant does not always meet a common-sense definition of one and the expected rate of pay progression is demanding: we recommend changes to deal with these issues.

**20. Recommendation:** The salary thresholds for new entrants should be a single 'reduction' percentage applied across both the general experienced worker threshold and the occupation specific experienced worker thresholds.

Chapter 5

**21. Recommendation:** The reduction percentage for new entrants should be set at 30 per cent.

Chapter 5

**22. Recommendation:** The definition of a new entrant should be widened to include those are working towards recognised professional qualifications and those who are moving directly into postdoctoral positions.

Chapter 5

**23. Recommendation:** The new entrant rate should apply for five years, an extension from the current three-year entitlement. Any time spent on the new post-study work route should count towards the five years of new entrant threshold eligibility.

Chapter 5

- 9.13 Our recommendations on salary thresholds would mean that the new entrant general threshold would be £17,900 (to the nearest £100). There are risks with this. There may not be a problem if very few migrants are paid salaries this low and those that are have rapid pay progression. But if there were large numbers of migrants entering and remaining on these salaries, we would want to review our recommendations in the light of this evidence. Collecting data to be able to do that review is critical.

## Eligible Occupations (Chapter 7)

- 9.14 The proposed expansion of Tier 2 (General) to include medium-skill jobs means that the boundary between low and medium-skill jobs becomes important in a way it is not now. A full review should be conducted when SOC2020 is introduced but, meanwhile, we recommend some changes.

**24. Recommendation:** We recommend adding/removing the following occupations from the list of RQF3+ occupations

- **Add:** Air-conditioning and refrigeration engineers, Rail and rolling stock builders and repairers, Skilled metal, electrical and electronic trades supervisors, Carpenters and joiners, Glaziers, window fabricators and fitters, Plasterers, Floorers and wall tilers, Painters and decorators, Construction and building trades supervisors, Childminders and related occupations, Teaching assistants and Educational support assistants.
- **Remove:** Fishing and other elementary agriculture occupations n.e.c. and Waiters and waitresses.

Chapter 7

## Data Issues (Chapter 3)

- 9.15 In our report on EEA migration in 2018, we highlighted that the availability and access to data remain serious constraints to our work. This has also been the case for this review where we have not had access to the data which would have enabled further analysis on important issues. As an evidence-based body, we are concerned that the issues accessing data hamper our ability to use the most appropriate and robust data in order to undertake analysis to inform our recommendations. We continue to use the best data available to us along with the vital evidence provided by stakeholders.
- 9.16 There are a number of administrative data sets that are held across government that would have allowed us to look further into some areas covered in this report which unfortunately we were unable to access. Often the timings to respond to our commissions from government do not allow sufficient time to negotiate access to datasets which could be essential to unlocking further analysis. We intend to continue to negotiate access to datasets which will be valuable to a range of issues on migrants and migration policy. These could be used within future relevant commissions and as part of the analysis we choose to undertake as our enhanced future role.

9.17 The introduction of the future immigration system provides an opportunity to focus on how data can be used to understand the impacts of changes to migration policy. The past shows that there has not been adequate monitoring or evaluation of specific visa routes, which makes learning from past experience to feed into future policy very challenging. The future global system brings fundamental changes and it is essential that data is collected on migrant outcomes by visa route in order to assess these changes.

**25. Recommendation:** The Government and ONS should seek to link datasets across government to allow a better understanding of the employment outcomes of migrants, for the purposes of research whilst ensuring confidentiality.

Chapter 3

**26. Recommendation:** The Government should invest in a data set designed to link migrants with subsequent outcomes to be used for the evaluation of all visas.

Chapter 3

**27. Recommendation:** The Home Office should ensure it retains historical data on migration routes in a usable format for future analysis.

Chapter 3

**28. Recommendation:** The Home Office should publish breakdowns of entry clearance visas disaggregated by gender on a regular basis.

Chapter 5

Migration Advisory Committee report

<https://www.gov.uk/government/organisations/migration-advisory-committee>

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