

Limits on Migration

**Limit on Tier 2 (General) for
2012/13 and associated
policies**

Migration Advisory Committee

February 2012



Migration Advisory Committee
2nd Floor, Fry Building
2 Marsham Street
London
SW1P 4DF
www.ukba.homeoffice.gov.uk/mac
email: MAC@homeoffice.gsi.gov.uk

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Chairman's foreword



This is our second report concerning limits on non-EU work immigrants. The commissioning letter refers to the Government's target to reduce net immigration (as measured by the

International Passenger Survey) to the tens of thousands, but it states that we must be mindful of the impact of limits on work immigration on economic growth.

The tens of thousands target is not wholly within the control of the Government. There are 3 main immigration routes – work, family and study. And there are 3 main groups – British, EU and non-EU. Therefore, the non-EU work route is just 1 out of 9 cells. And each of these 9 cells has both an inflow and an outflow. The Government has reviewed, or is reviewing, migration policy in a number of areas including work routes, students, family migration and settlement. The non-EU work inflow, which is the main focus of this report, makes a modest contribution to the total net flow.

Major changes to the non-EU work route have already been introduced by the coalition Government. These include: closing Tier 1 General, which allowed highly skilled people to come to the UK without a job offer; closing the post-study work route under which students with a Bachelor's degree or above could remain

in the UK post-graduation without needing a job offer; raising the required skill level for Tier 2 and the pay thresholds for the intra-company transfer route; ratcheting up the English language requirement; and introducing a numerical cap on the numbers permitted to enter under Tier 2 (General) (viz the shortage and Resident Labour Market Test (RLMT) routes).

As a consequence of these measures, and the economic downturn, the Tier 2 (General) inflow is lower than commonly realised. In the year to April 2012 it will be around 10,000. This is equivalent to under 2 per cent of the International Passenger Survey (IPS) inflow. These are the very people who are most likely to contribute to economic growth via, for example, knowledge transfer and consequent inward investment. These migrants also, on average, make a substantial net contribution to the public finances. Therefore, we recommend that the present limit of 20,700 for Tier 2 (General), of which only half is presently being taken up, be maintained at its current level for 2012/13.

Intra-company transfers are the other main component of Tier 2. They are not limited. Some of these transfers are vital, such as the Japanese auto engineer testing cylinder heads made in Japan and training British workers to do such testing. Other types of intra-company transfer have evolved over time, particularly those used for third-party contracting in the information technology

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sector, where it is possible that the UK economy is benefitting in aggregate terms while at the same time some displacement of British workers is occurring. We recommend that the Government keeps such intra-company transfers under strict review and have suggested three methods to cut the numbers if necessary.

Our commissioning letter also requested that the MAC examines and reports on three further issues. First, what would be the consequences of raising the skill level required for entry under Tier 2 from National Qualifications Framework level 4 and above (NQF4+) to the higher level of NQF6+? Second, for intra-company transfers: is the £40,000 pay threshold consistent with the UK's international commitments; is there a case for regional pay thresholds; and do allowances undermine the threshold as a test of skill? Third, should some high-paid jobs be exempt from the RLMT and what regulations should govern the advertising of jobs under the RLMT?

The last 18 months have seen major changes to both the work and study routes. At the time of writing, the

Government is expected to announce its intentions concerning the family route and settlement for Tier 2 migrants. Stakeholders advise us that digesting these alterations to policy is difficult and their implementation is disruptive. Therefore, there is an argument to be made for taking stock of the impact of recent initiatives before making further immediate major changes to Tier 2. But, we emphasise that, although the tens of thousands target is not wholly in the Government's control, further steps under all routes – work, study and family – may well be required if this target is to be met.

The MAC is again indebted to its first-rate secretariat. This is our sixth report in as many months. It required analytical modelling, extensive consultation and coherent thinking. Our secretariat excelled on all these.



Professor David Metcalf CBE

The Migration Advisory Committee and secretariat

Chair



Professor David Metcalf CBE

Members



Dr Diane Coyle OBE



Dr Martin Ruhs



Professor Jonathan Wadsworth



Professor Rob Wilson

UK Commission for Employment and Skills representative



Lesley Giles

Home Office representative



Glyn Williams

The secretariat

Vanna Aldin; Samantha Allen; Anne Ball; Jeremy Clarke; Cordella Dawson; Stephen Earl; Emily Eisenstein; Mark Franks (head of secretariat); Jocelyn Goldthorp; Kyle Magee; Margaret McGrath.

Summary

Introduction (Chapter 1)

1. The Migration Advisory Committee (MAC) is a non-departmental public body comprised of economists and migration experts that provides transparent, independent and evidence-based advice to the Government on migration issues. The questions we address are determined by the Government.
2. Previously we have provided advice on, amongst other matters, the design of Tier 1 and Tier 2 of the Points Based System (PBS) for managed migration, and the first annual limits on Tier 1 and Tier 2 of the PBS.
3. On 19 October 2011, the Minister for Immigration wrote to us asking that we advise the Government on the policy package for Tier 2 of the PBS for 2012/13, including the level of the limit on Tier 2 (General) and whether further changes are needed to Tier 2 in light of the impact of the current limit and associated policies.
4. Our questions from the Government for this review were concerned with four issues: the skill level for Tier 2 of the Points Based System (PBS); the intra-company transfer route; the Resident Labour Market Test (RLMT) route; and the level of the limit on Tier 2 (General).
5. To support this review we issued a call for evidence. It restated the Government's commission and identified

some sub-questions on which we wished to receive partners' views. It was sent to over 1,500 partners and posted on our website.

6. During the call for evidence we met with representatives from over 90 different organisations and received over 130 written submissions of evidence. All of the written and verbal evidence from partners was considered alongside our own data analysis and examination of the relevant theory and literature.

Policy context (Chapter 2)

7. Our review is concerned primarily with three categories of workers under Tier 2 of the PBS: those coming to fill jobs that have been advertised under the RLMT; migrants coming to work in shortage occupations; and migrants using the intra-company transfer route. The first two of those categories make up Tier 2 (General) and, in 2011/12, are subject to an **annual limit of 20,700** on main out-of-country applicants. The intra-company transfer route is not subject to a numerical limit, but was included in the Government's commission.
8. Currently, all successful Tier 2 applicants must be coming to fill a job at a **skill level** equivalent to National Qualifications Framework level 4 and above (NQF4+). In February 2011 we drew up a list of 121 4-digit SOC 2000 occupations considered to be skilled to that level. This list has been used by the Government to determine which

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occupations are sufficiently skilled for Tier 2. The list applies to all Tier 2 applicants and operates alongside, but is distinct from, the shortage occupation list.

9. The **RLMT route** enables an employer to bring in a worker from outside the European Economic Area (EEA) once they have shown that there is no suitably qualified worker from within the UK or the EEA available to fill a specific skilled vacancy. Employers are required to advertise the relevant vacancy through Jobcentre Plus and at least one other medium for at least four weeks. Where this advertising does not produce a suitable resident candidate for the job, the employer is able to sponsor a migrant to fill the position. Applicants under the RLMT must usually be assigned a Certificate of Sponsorship (CoS) by the employer within six months of the recruitment advertisement being placed.

10. Employers can apply to bring in workers from the outside of the EEA without going through the RLMT if the occupation is on the Tier 2 shortage occupation list. This details the occupations and job titles presently held to be experiencing a labour shortage that would be sensibly filled using non-EEA labour either in the whole of the UK or in Scotland only. The content of the list is periodically reviewed for the Government by the MAC.

11. The **intra-company transfer** route is for employees of multi-national companies being transferred to a UK-based branch of the same organisation either on a long-term or short-term basis. Long-term staff must be paid £40,000 or above and are given permission to stay for up to three years, with the possibility of extending for a further two years. Short-term staff must be paid £24,000 or above and are allowed to work in the UK for a maximum of 12 months.

12. The UK is committed to allowing the temporary presence of some intra-company transferees under the World Trade Organisation's (WTO) **General Agreement on Trade in Services** (GATS). Under the UK's commitments in the GATS, the UK is to allow the temporary presence of intra-company transferees where: they are senior managers or specialists; are transferred to the UK by a company established in the territory of another WTO member; and are transferred here in the context of the provision of a service through a commercial presence in the UK.

13. The minimum earnings thresholds under the intra-company transfer route can be met through a combination of salary and allowances for accommodation and subsistence. These allowances include daily payments to cover the additional cost of living in the UK but do not include expenses to cover travel to and from the home country. Travel and subsistence expenditure is not subject to tax if the immigrant is coming for under two years.

14. Successful applicants under Tier 2 may bring **dependants** (children, spouses, civil partners, same sex partners and unmarried partners) into the UK if they can prove that they can maintain them financially. Dependants are not included in the Tier 2 (General) annual limit.

Data context (Chapter 3)

15. Since the UK has emerged from recession, growth in real GDP has remained low but generally positive. However, provisional estimates indicate that real GDP fell by 0.2 per cent during 2011 Q4. Forecasts are subject to considerable uncertainty, but independent economic forecasters predict that GDP growth will be modest in 2012 and 2013.

16. The UK labour market has been adversely affected by the recent recession, resulting in lower employment rates, vacancies and real wages, and higher unemployment rates, claimant unemployment and redundancies. Most labour market indicators are considerably more adverse at present than their pre-recession levels or rates.

17. In the ONS principal population projection, where net migration falls to 200,000 per year by mid-2017, the UK population expands to 73 million in 2035. Under alternative net migration assumptions of 100,000 per year and zero per year respectively, the UK population is projected to be 70 million and 66 million in 2035.

18. Net migration has generally risen over time since the early 1990s, provisionally reaching 245,000 in the 12 months to March 2011. Provisional inflows and outflows of long-term international migrants were 582,000 and 336,000 respectively over this period.

19. The UK Government has committed to reducing annual net migration to the tens of thousands. The ability of the Government to achieve this target will be affected by net migration of UK nationals and other EEA nationals. In terms of migration policy, however, the Government only has direct control over flows of non-EEA national migrants to and from the UK.

20. Net migration of UK nationals and other EU nationals have roughly offset each other in each year since 2000. It is unclear whether this will continue to be the case in future years. The combined net migration of UK nationals and other EU nationals was provisionally 22,000 in the 12 months to March 2011.

21. Around 60 per cent of non-EU migrant inflows are for study reasons, with the remainder split roughly equally

between migrants coming for work reasons and to accompany or join family, partners or main applicants.

22. Approximately 29,700 **intra-company transfer** entry clearance visas were granted in the 12 months to 2011 Q3, and a total of approximately 7,200 **RLMT and shortage occupation** route visas were granted over the same period.

23. Under the annual limit on Tier 2 (General) allocations were granted on a monthly basis, with 4,200 allocations in the first month and 1,500 allocations in subsequent months. Any unused, returned or reclaimed restricted Certificates of Sponsorship are rolled over to the next month. After the allocation in December 2011, 45 per cent of the total restricted CoS available up to that date were allocated. The limit has, therefore, been heavily under-subscribed.

24. Main applicants for the RLMT, shortage occupation and short-term and long-term intra-company transfer routes have higher prospective salaries, on average, than full-time UK employees working in comparably skilled occupations.

Raising the skill level of Tier 2 (Chapter 4)

25. In its question on skill levels for Tier 2 the Government asked us to identify Standard Occupational Classification (SOC) 2000 occupations skilled to National Qualifications Framework level 6 and above (NQF6+). This corresponds to Bachelor's degree level.

26. There are five main indicators that we believe are relevant to assessing the skill of an occupation: the skill level defined in the SOC 2000 hierarchy; formal qualifications; earnings; on the job training or experience required to carry

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out the job; and the level of innate ability required. The first three of the above indicators can be measured using national-level data.

27. To estimate the proportion of jobs in the UK that are skilled to NQF6+, we assumed that this is equal to the percentage of working-age, full-time employees in the UK workforce that are qualified to that level. On the basis of that assumption, we calculate that to be regarded as skilled to NQF6+, an occupation should pass on two out of three of the following indicators:

- **Earnings:** We require median hourly earnings for full-time employees within an occupation to be £15.74 per hour or more. This is measured using the 2011 Annual Survey of Hours and Earnings (ASHE).
- **Formal qualifications:** We require that 34 per cent or more of the workforce within an occupation to be qualified to NQF6+. This is measured using the Labour Force Survey (LFS) 2008 Q4 to 2011 Q3.
- **SOC skill level:** We require an occupation to be classified at level 4 in the SOC 2000 hierarchy (or, if direct translation to SOC 2010 was possible, in the SOC 2010 hierarchy).

28. On the above basis we identified 89 occupations as skilled to NQF6+. A full list of these occupations is provided in Annex B to this report. This differs from the 87 occupations that were found to be skilled to that level in our February 2011 analysis of this issue as follows (all SOC codes quoted relate to SOC 2000):

- We add journalists, newspaper and periodical editors (SOC 3431), public relations officers (SOC 3433), nurses (SOC 3211) and physiotherapists (SOC 3221) to the February 2011 list.

- We remove customer care managers (SOC 1142) and security managers (SOC 1174) from the February 2011 list.

29. Thirty two occupations previously identified as skilled to NQF4+ are found not to be skilled to NQF6+. Employers in the occupations that do not satisfy our NQF6+ criteria were generally hostile to the suggestion of increasing the skill level of Tier 2, citing concerns about the impact on their ability to recruit the people they need and, in many cases, claiming that the relevant occupations are actually skilled to NQF6+. We use five indicators of skill, only three of which can be identified in the national data. Those indicators that we cannot measure may be relevant in some of these cases.

30. There are 13 job titles spread across 10 occupations on the current shortage occupation list where the occupation itself is not on the list of 89 confirmed above as skilled to NQF6+.

31. The list of 121 NQF4+ occupations that currently qualify for Tier 2 accounts for 40 per cent of full-time employment in the UK labour market. By way of comparison, the list of 89 occupations we identify as being skilled to NQF6+ in this report accounts for 33 per cent of full-time employment.

32. According to UK Border Agency management information for April to December 2011 occupations previously found to be skilled to NQF4+ but not now found to be skilled to NQF6+ accounted for 7 per cent of Certificates of Sponsorship used under the Tier 2 (General) and intra-company transfer routes in the period April to December 2011. In other words, 7 per cent of out-of-country migrants through these routes would not have qualified under our NQF6+ list. Ninety three per cent of such migrants would have qualified. The impact of raising the skill level on Tier 2

flows is likely, therefore, to be significant but relatively small.

Intra-company transfers (Chapter 5)

33. A substantial proportion of migration to the UK through Tier 2 is comprised of intra-company transferees, and the share of Tier 2 accounted for by this route has been rising over time. Intra-company transfers per million of the population are particularly high in the UK relative to other Organisation for Economic Co-operation and Development countries.

34. The question put to us comprised three main sub-questions regarding: the £40,000 income threshold and GATS; the scope for regional variation in that threshold; and the current use of allowances under Tier 2.

35. Based on our data analysis and evidence received from our partners there is no clear reason to believe that either increasing or reducing the current **£40,000 threshold** would provide a better fit with the GATS definitions of senior managers and specialists.

36. If the Government wishes to ensure that, in terms of intra-company transfers, it meets its GATS obligations and no more than that through the intra-company transfer route, the UK Border Agency would need to assess individual migrants and the jobs they are entering on a case-by-case basis. This would ideally be according to some set criteria.

37. **Regional differentiation** might be achieved by a minimum salary threshold of above £40,000 for London and the South East, or by a lower rate for other regions or countries of the UK: there should be no automatic presumption in favour of the latter. Analysis of earnings data suggests that, London and the South-East aside, there is little basis for differentiation between other parts of the

UK. Average salaries of long-term intra-company transferees in Scotland and Wales are actually higher than those in London.

38. Wage differences between different regions of the UK will be influenced by: variations in cost of living across different regions; labour shortages in some areas; agglomeration effects (reflecting higher output or productivity of workers in some regions because of increasing returns to proximity and lower costs of production); and compositional effects, where within a given occupation, the average job in one region may be more or less skilled or senior than jobs within the same occupation elsewhere in the UK.

39. Given that cost of living is only one of several factors influencing wage differences between regions, such differences, even within specific sectors and occupations, do not amount to a clear economic case for regional differentiation in the minimum pay threshold. There would also be merit in awaiting the outcome of the independent reviews of local pay in certain public sector occupations, such as teaching and nursing, commissioned by the Government before introducing regional pay thresholds into the Points Based System.

40. In practical terms, it is not clear how a regional threshold could be implemented. A specific issue would be how to account for circumstances where a migrant is registered to a sponsor in one region of the UK but works elsewhere within the UK or EU.

41. We do not, therefore, recommend regional variation in the minimum salary threshold for the intra-company transfer route.

42. On the basis of available evidence we also conclude that there is no clear

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evidence that payment of **allowances** undermined the £40,000 threshold for long-term intra-company transfers as a test of skill.

43. We also examined whether allowances could lead to migrants undercutting UK workers in the labour market. On balance we believe that, while scope for using allowances for the purposes of undercutting does theoretically exist, it is generally the case that in practice such incentives would not exist because employing an intra-company transferee represents a significant cost to a UK employer. On this basis, down-rating allowances in calculating whether the income threshold for intra-company transfers would unfairly penalise those companies who do not abuse the intra-company transfer system. We do not recommend doing this.

44. We were also presented with evidence that a change of policy on allowances may be unnecessary or impractical. Employers cited logistical and possible legal barriers to paying intra-company transferees salary instead of allowances. The UK Border Agency publishes codes of practice that should in principle prevent undercutting already.

45. Nevertheless, even if policy on allowances is not leading to undercutting of UK residents, it may still be that the use of relatively cheap labour in other countries to win UK contracts by firms using the Business Process Outsourcing Model (BPOM) does not represent a net benefit to UK residents. Indeed, some UK workers in information technology occupations will inevitably lose out from the practice, either through labour market displacement or wage suppression. On the other hand, in general equilibrium, the UK economy and labour market might benefit from improved efficiency. On balance, it is difficult to reliably ascertain whether the current

arrangements are economically beneficial in aggregate terms.

46. Furthermore, in addition to tax-exempt allowances, several other issues were raised with us regarding the potential for less tax to be paid in connection with employing intra-company transferees than UK residents. Some partners expressed the belief that there is too little cross-over between Her Majesty's Revenue and Customs (HMRC) and the UK Border Agency when looking at tax and immigration rules. It was not within our remit for this review to look for evidence of inappropriate use of the tax system, and we saw no such evidence. Nevertheless, HMRC and the UK Border Agency should reassure themselves that the intersection between the tax and migration systems is being appropriately monitored and managed, and that there is not scope for employers to act outside either the spirit or letter of the rules.

The Resident Labour Market Test (Chapter 6)

47. We were asked what the impact would be on demand for Tier 2 visas, the resident labour force and employers if the threshold for exemption from the RLMT was lowered from the current £150,000 to somewhere in the range of £70,000 to £100,000.

48. If the threshold was reduced **employers** recruiting within the relevant salary range, who currently take on migrants having satisfied the RLMT requirement, would gain through reduced administration costs. Some other employers recruiting at levels of pay below that salary range may potentially lose out if the limit on Tier 2 (General) was running at close to full capacity, but the net impact on employers would be positive.

49. The first-order direct effect on the **resident labour force** would be negative due to increased competition for jobs, although these negative effects may be partially or fully offset at the aggregate level through dynamic effects resulting from knowledge transfer and specialisation, which has the potential to promote economic growth and creation of new jobs. All other things equal, lowering the threshold would have a neutral or, more likely, positive impact on **Tier 2 flows**, although this effect may be small in magnitude.

50. The extent to which the above effects represent a net benefit or net cost to UK residents depends on their relative magnitudes. Availability of relevant top-down immigration and vacancy data was highly limited. In terms of bottom-up evidence, employers argued in favour of lowering the RLMT threshold. In particular, employers expressed concern about the bureaucracy involved in advertising highly paid jobs in Jobcentre Plus balanced against the very low probability of filling vacancies through that route.

51. However, our analysis suggests that high-salary jobs filled through the RLMT may only account for a small proportion of similarly high-paid jobs advertised in Jobcentre Plus. This contradicts the claim frequently made by employers that high-salary jobs are only advertised in Jobcentre Plus in order to 'tick the box' of having passed the RLMT.

52. Available pay, vacancy and migration data suggest that employers in certain occupations would benefit in particular from a relaxation of the RLMT requirement for highly paid jobs potentially including: management consultants, actuaries, economists and statisticians; finance and investment analysts/advisers; solicitors and lawyers judges and coroners; marketing and

sales managers; and medical practitioners.

53. All other things being equal, we may be less likely to observe displacement of non-migrants by migrant workers in occupations where there is a high vacancy to unemployment ratio. Our analysis shows that, looking at those occupations where the highest proportion of CoS issued are for jobs paying between £70,000 and £150,000, no clear distinction can be drawn between the vacancy to unemployment ratios in such jobs and in all jobs skilled to NQF4+. However, certain such occupations, such as medical practitioners, higher education teaching professionals and finance and investment analysts/advisers have relatively high ratios, potentially indicating that the scope for displacement by migrants in these occupations is relatively small.

54. Economic theory tells us that advertising vacancies improves the efficiency of the job-matching process. Given this, and the paucity of evidence on the likely labour market impact, we do not recommend waiving the RLMT requirement for certain categories of jobs altogether. A reasonable approach would be to exempt jobs above the new, lower, threshold but paid below £150,000 from the requirement to be advertised in Jobcentre Plus to satisfy the RLMT. The requirement for such jobs to be advertised in another appropriate medium should be retained.

55. We additionally suggest that the requirement for employers to wait for four weeks to employ a non-EEA migrant following the initial advertisement is retained (although the job does not necessarily need to be continuously advertised for the whole period). Nevertheless we recognise the arguments made by employers that this requirement may, from time to time,

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hinder their abilities to recruit top global talent. Furthermore, our previous analysis of Jobcentre Plus data probably has limited relevance to jobs that are not typically advertised there. This issue should be kept under review.

56. The impact on Tier 2 flows is expected to closely mirror the impact on resident workers. If employers were to respond to a relaxation in the RLMT rules by increasing their recruitment of non-EEA nationals, then we would expect to observe a corresponding increase in demand for Tier 2 visas, but it would probably be relatively small: only a small proportion of jobs in the labour market pay over £70,000 per annum and no employers reported to us that they regularly fill high-salary jobs using resident workers as a result of complying with the current RLMT requirement.

57. On the basis of strong partner feeling, we also considered PhD-level jobs. The Jobcentre Plus advertisement exemption discussed above should be extended to PhD-level jobs. We also believe that there is a special case, for PhD-level jobs only, for extending the period for which the RLMT can be regarded as satisfied following the unsuccessful advertising of a vacancy from 6 months to 12 months. This would bring policy for all PhD jobs into line with that already in place for research fellows.

The impacts of a limit on Tier 2 (General) (Chapter 7)

58. On the annual limit, we were asked the following question: *“The Government will deliver an improved migration system that commands public confidence and serves our economic interests. It will be more efficient and less open to abuse and will reduce the number of non-EU migrants. The Government is developing policies to meet this objective. As a result of these*

policies the Government anticipates that net migration will be in the tens of thousands in future. In this context, at what level should the limit on Tier 2 (General) be set for 2012, taking account of the economic, labour market, social and public service impacts of the limit; and of the uptake of Tier 2 (General) and intra-company transferee visas in 2011/12?”

59. We considered the impacts of the limit, and Tier 2 migration more generally. Analysis published by us in January 2012 concluded, tentatively, that an extra 100 non-EEA migrants is associated with 23 fewer British residents being employed. The associated displacement of British-born workers between 1995 and 2010 was, in our calculations, around 160,000 of the additional 2.1 million jobs held by migrants, or about 1 in 13.

60. It does not automatically follow, however, that those migrants entering the UK under Tier 2 will displace non-migrants in the labour market, for two main reasons. First, Tier 2 has become significantly more selective in recent years. Second, the findings in Migration Advisory Committee (2012) related to the total impact of all working-age non-EEA migrants, including students, family route migrants, asylum seekers and dependants as well as work-related migrants.

61. Employers generally told us that they employ workers from the domestic labour market where possible, and make efforts to up-skill their own people, before resorting to employing migrant labour. Retaining access to that migrant labour was often seen as essential to their economic success. On the other hand, given take-up under the limit is currently running at approximately half capacity, it is not, in itself, currently a major barrier to employment of skilled migrants.

62. Nevertheless, concerns remain that, if the limit on Tier 2 (General) is substantially reduced in 2012/13, this could have adverse impacts on business and economic growth. Many partners believe that policies limiting migration have, in themselves, reduced migration by generating negative perceptions of the UK as a place to do business, although it is clear that economic conditions have also had an impact. Demand for non-EEA migrants could increase if the

economy picked up. One-off events such as the London Olympics may also have some impact on demand for work visas.

63. Partners also expressed discontent regarding the difficulty in keeping up with the pace of recent change in the immigration system and the administrative burdens associated with interacting with the system.

| Scenarios for analysis of limit on Tier 2 (General) in 2012/13 | | | |
|--|---------------------------|---------------------------|---------------------------|
| | Scenario 1 | Scenario 2 | Scenario 3 |
| Target | 50,000 | 99,000 | 99,000 |
| Time to achieve | 3 years, ending (2014/15) | 3 years, ending (2014/15) | 5 years, ending (2016/17) |

Calculating the level of the limit (Chapter 8)

64. To calculate the potential limit on Tier 2 (General), we used a similar arithmetic approach to that used for our advice on the level of the first annual limit in 2010. We developed three modelling scenarios, summarised in the table below, based on our consideration of two issues:

- What does the Government’s ‘tens of thousands’ objective for net migration imply for a single-point estimate for a target level? For our work it is necessary to assume a precise target.
- Over what timeline will reductions be made? In our previous work net migration was assumed to reach the desired level by the end of the current Parliament. However, reductions could be made over a longer time horizon.

- What should the trajectory for the reductions be? We assume that proportionate reductions will be made to Tier 2 each year until the ‘tens of thousands’ objective is achieved.
- Given incomplete and not entirely up-to-date data, what constitutes a reasonable estimate for the baseline level of migration from which reductions will need to be made? We assume, for simplicity and in the context of uncertainty, that those components of net migration that the Government cannot control will continue at current levels.
- What constitutes a reasonable distribution of reductions across the various routes of entry into the UK? We assume Tier 2 (General) will account for a share of the reduction in net migration that is proportionate to its estimated share of the immigration inflow.

65. Some further issues needed to be considered before we could model arithmetic scenarios:

66. Under these assumptions, the maximum number of Tier 2 visas available in 2012/13 for Tier 2 (General) and intra-company transfer visa main

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applicants ranges in our three scenarios between 36,400 and 42,300.

67. If take-up of Tier 2 (General) and intra-company visas continued at recent levels in 2012/13 this would imply 39,400 visas issued through those routes in 2012/13. This is within the ceiling implied by the scenario that assumes the most modest and gradual reduction in net migration, with a target of 99,000 by 2016/17.

68. Given recent visa trends and the current UK economic climate, it is plausible that flows through the intra-company route and Tier 2 (General) will remain fairly stable even in the absence of policy change. As such, maintaining the limit at its current level in 2012/13 does not necessarily conflict with Tier 2 making proportionate contributions towards an objective to reduce net migration to the tens of thousands.

69. Nevertheless, being fully confident of Tier 2 making a proportionate contribution to reducing net migration to the ‘tens of thousands’, especially if it is to be achieved over the lifetime of this Parliament, requires either a reduction in the limit on Tier 2 (General), other action to reduce flows through that route by increasing its selectivity, measures to reduce flows through the intra-company transfer route, or some combination of such actions. Therefore, there is a tension between achieving greater certainty of Tier 2 making a proportionate contribution to achieving the Government’s net migration objective and the potential economic impacts of doing so.

70. Furthermore, it is important to note that a reduction in inflows alone will not, in the long-term, lead to a one-for-one reduction in net migration through these routes. A fall in the inflow will, in future years, feed through to reduced migrant outflow and thus dampen any effects of

reduced immigration on net migration. We can crudely estimate the possible scale of this effect. It is difficult to predict accurately, and is contingent on future Government policies that will affect average migrant duration in the UK. But it could have a significant impact on net migration in the long-term. Understanding how long migrants stay in the UK, and the proportions that settle permanently, is key to understanding how net migration relates to long-term changes in the composition of the UK population.

Conclusions (Chapter 9)

71. Conclusions relating to the specific questions we were asked about the skill level for Tier 2, the intra-company transfer route and the RLMT route are discussed above. Below we discuss conclusions relating to the limit on Tier 2 (General) and associated policies to reduce net migration.

72. Given that the limit is currently heavily under-subscribed, it would need to be cut substantially in order to be certain of there being any impact on net migration. On the basis of partner evidence, there is a risk that a cut in the limit of such a magnitude would be economically damaging in terms of promoting the UK as an attractive place to invest and do business. The reduction in the numbers would also reduce tax revenues from Tier 2 migrants, who tend to be relatively highly paid. In addition, there is limited data so far available to allow us to reliably assess the impact of policy changes that have already been made. Therefore, we believe that the limit should stay at its current level of 20,700.

73. If the limit is to be reduced at all, this should be in line with the gentler of the trajectories set out in this report. This would help to mitigate any adverse effects resulting from lowering the limit by allowing more time for the labour market and economy to adjust, and for

employers to take further action to upskill the resident workforce and reduce their dependence on migrant labour.

74. Under such a trajectory, the 2012/13 limit would be 12,600 if Tier 2 (General) assumed the entire burden of the required reduction in Tier 2. It could be higher, or even remain at 20,700, if sufficient action was taken to reduce flows through the intra-company transfer route.

75. Any reduced limit on Tier 2 should be accompanied by policies that promote selectivity, which could include raising the minimum pay threshold for Tier 2 (General) and raising the required skill level for Tier 2 to NQF6+, or action in relation to individual routes as discussed below.

76. Intra-company transfers into the UK are very high, relative to the size of the population, by international standards. This route should account for a substantial share of any reduction in Tier 2 migration that the Government deems necessary. One potential option is to put in place stricter rules for use of the route by third-party contracting firms. However, there is an argument for waiting until further data are available before making further major changes to this route.

77. Some occupations have been on the shortage occupation list for a number of years and it does not follow that occupations with structural labour shortages (caused by a lack of trained, skilled, experienced labour) should be on the shortage occupation list for all time. Similarly, shortages due to limited public funding can be addressed in the long-term, even if this involves a reallocation of limited public funding across public service occupations. One option would be to put in place a maximum period for which occupations and job titles can remain on the shortage occupation list.

78. Tier 2 only accounts for a small proportion of net migration. Further changes to that tier can only make a limited contribution towards reducing net migration to the ‘tens of thousands’. The details, and therefore possible impacts, of some future migration policy decisions beyond Tier 2 are not known at the time of submitting this report. Lack of certainty regarding future trends in UK and EU net migration add further complexity. Still further uncertainty relates to UK and global economic prospects. Nevertheless, on the basis of currently announced policies, it is likely that further action will be required in relation to routes other than Tier 2 for migration from outside the European Economic Area (EEA) to make substantial progress towards the Government’s objective.

79. In terms of such routes within the PBS, foreign students coming through Tier 4 have a major and positive impact on net migration to the UK. We recognise the inherent tension in Government objectives: non-EU students are often argued to be an important export industry that cross-subsidises British students, therefore raising the human capital of British residents. Nevertheless, students from outside the European Economic Area contribute substantially to net migration. There is scope for further examination of whether, and to what extent, foreign student tuition fees boost the UK economy and, crucially, how UK residents ultimately benefit from that.

80. The Government has also recently consulted on rules on employment-related settlement of PBS migrants, Tier 5 and Overseas Domestic Workers and on the family route. At the time of submitting this report, announcements of policy in relation to these issues are yet to be made, and they have the potential to affect net migration: for example, in terms of annual International Passenger

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Survey inflow, the family route is similar in magnitude to work-related migration.

Chapter 1 Introduction

1.1 The Migration Advisory Committee

1.1 The Migration Advisory Committee (MAC) is a non-departmental public body comprised of economists and migration experts that provides transparent, independent and evidence-based advice to the Government on migration issues. The questions the Committee addresses are determined by the Government.

1.2 Previously we have provided advice on the design of Tier 1 and Tier 2 of the Points Based System (PBS) for managed migration, and the first annual limits on Tier 1 and Tier 2 of the PBS. In 2011 and early 2012, we advised on:

- occupations and job titles skilled to National Qualifications Framework level 4 and above for Tier 2 and the shortage occupation route (Migration Advisory Committee, 2011a and 2011b);
- a revised shortage occupation list for use in Tier 2 of the PBS (Migration Advisory Committee, 2011c);
- settlement of migrants through Tier 1 and Tier 2 of the PBS and the maintenance

requirement for sponsoring a family member from outside the European Economic Area (EEA) (Migration Advisory Committee 2011d and 2011e); and

- transitional access to the UK labour market for nationals of Bulgaria and Romania (Migration Advisory Committee 2011f);
- the impacts of immigration and their interpretation in cost-benefit analyses of Government policy (Migration Advisory Committee 2012).

1.2 Scope of this report

1.3 On 19 October 2011, the Minister for Immigration wrote to us asking that we advise the Government on the policy package for Tier 2 for 2012/13, including the level of the limit on Tier 2 (General) and whether further changes are needed to Tier 2 in light of the impact of the current limit and associated policies. The commission said:

“The Government will deliver an improved migration system that commands public confidence and serves our economic interests. It will be more efficient and less open to abuse and will reduce the number of non-EU migrants. The

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Government is developing policies to meet this objective. As a result of these policies the Government anticipates that net migration will be in the tens of thousands in future. In this context, at what level should the limit on Tier 2 (General) be set for 2012, taking account of the economic, labour market, social and public service impacts of the limit; and of the uptake of Tier 2 (General) and intra-company transferee visas in 2011/12?

Is the £40,000 minimum salary threshold for intra-company transfers seeking to stay for 12 months or longer an appropriate proxy test to ensure that migrants meet the General Agreement on Trade in Services (GATS) definition of senior Managers and Specialists? The MAC is asked to provide economic rather than legal advice when considering the compatibility of the definition. Should the £40,000 be a national rate or allow for regional variations in pay? Current policy allows the £40,000 threshold to be met through a combination of salary and allowances. Does the inclusion of non-salary remuneration undermine the use of the £40,000 threshold as a proxy test of skill level?

In order to allow the Government to identify an appropriate skill level for Tier 2, can the MAC confirm the list of occupations in Table B1 of its February 2011 report on the list of skilled occupations in Tier 2, i.e. those occupations skilled to National Qualification Framework level 4 and above (NQF4+) but not to National Qualification Framework level 6 and above (NQF6+), undertake a review of

the non-NQF6+ job titles currently on the shortage list and estimate the impact on numbers of migrants in Tier 2 if the skills bar were raised to NQF6+?

Currently jobs paid more than £150,000 are exempt from the Resident Labour Market Test (RLMT) requirement in recognition of the fact that, at that level, there will be little threat of disturbance to the resident labour market and such jobs are likely to be more global in character. If that threshold were lowered to a range of £70,000-£100,000, what would be the impact on demand for Tier 2 visas, the resident labour force and employers?" (Letter from Minister for Immigration to Chair of Migration Advisory Committee secretariat.)

1.4 In response to the terms of the Government's commission, this report focuses on migration under Tier 2 of the PBS: the level of the annual limit and specific policy issues relating to skill levels and the operation of the Resident Labour Market Test (RLMT) and intra-company transfer routes.

1.5 Some of the analysis in this report looks at individual occupations. For the most part, we use the Standard Occupational Classification (SOC) 2000. The more recent SOC 2010 classification is also used in some of the analysis. At the most detailed (4-digit or unit group) level the SOC 2000 divides the labour market up into 353 different occupations. Within each of those occupations are various specific job titles. References to occupations in this report relate to

4-digit occupations in the SOC 2000, unless otherwise stated.

1.3 Previous MAC work on Tier 2

- 1.6 We have previously considered various aspects of Tier 2 policy in our reports to the Government. In 2008, we developed a methodology to identify which occupations are skilled and experiencing labour shortages that are sensible to address using migrant labour (Migration Advisory Committee, 2008a). Later that year, we published the first recommended shortage occupation lists for the UK and for Scotland (Migration Advisory Committee 2008b). We have periodically reviewed the shortage occupation lists, most recently in September 2011 (Migration Advisory Committee 2009a, 2009b, 2010a, 2010b, 2011b and 2011c).
- 1.7 In September 2009 we published a review of Tier 2 and dependants, in which we made recommendations regarding the design and operation of the intra-company transfer and RLMT routes of Tier 2.
- 1.8 In November 2010, we published 'Limits on Tier 1 and Tier 2 for 2011/12 and supporting policies' (Migration Advisory Committee 2010c) in response to a Government commission asking how it might achieve its aim of reducing net immigration through controls on Tier 1 and 2. Having considered our recommendations, and responses to its own parallel consultation, the Government introduced an annual limit on Tier 2, meaning from 6 April 2011 to 5 April 2012 a maximum of 20,700 people from outside the EEA can

come to work in the UK under Tier 2 (General) (excluding those earning £150,000 or more, intra-company transfers, in-country applicants and dependants).

- 1.9 In February 2011 we published a report on occupations skilled to NQF4+ for Tier 2 (Migration Advisory Committee, 2011a). The resulting list of NQF4+ occupations provides the basis for the list of occupations that currently qualify for the intra-company transfer, RLMT and shortage occupation routes of Tier 2. In the same report, for illustrative purposes, we also assessed which occupations may be deemed to be skilled to NQF6+. In March 2011 (Migration Advisory Committee, 2011b) we assessed which of the job titles on the then shortage occupation list, but not in NQF4+ occupations, were nevertheless skilled to that level.
- 1.10 In October 2011, we published a review of settlement rights of migrants under Tier 1 and Tier 2, examining the economic effects of removing or restricting settlement rights for such migrants, and potential criteria for identifying the most economically important migrants (Migration Advisory Committee, 2011d).
- 1.11 The limit on Tier 2 had only been in place for seven months when the Government commissioned us to carry out this review. This relatively short length of time, combined with data lag, means that there are only limited data relating to the period when the limit has been in operation. Ideally the analysis presented in this report would have been done

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when more complete data were available in order to better understand the impact of the changes made to the policies described above. However, the Government wishes to determine the level of the limit for 2012/13 in time for a new limit to be implemented in April 2012 and therefore requires advice now on which to base this decision.

1.4 MAC call for evidence

1.12 Alongside our analysis of quantitative data, we carried out a call for evidence to collect the views and opinions of partners. In this report 'corporate partners', or just 'partners', refers to all parties with an interest in our work or its outcomes, so private and public sector employers, trade unions, representative bodies and private individuals are included within this term. While the focus of the report is on Tier 2, the analysis and evidence from corporate partners also takes into account the wider migration context.

1.13 The call for evidence was launched on 26 October 2011 and closed on 21 December 2011. Our call for evidence document restated the Government's commission and identified some sub-questions on which we wished to receive corporate partners' views. The document was sent to over 1,500 partners and posted on our website.

1.14 In order to help us answer the Government's questions, we devised a set of sub-questions in our call for evidence. These were:

- "What has been the impact of the annual limit on Tier 2 (General) of 20,700 in 2011/12

on the UK economy and labour market? What would be the impacts of setting a limit below the 2011/12 level in 2012/13?

- *Why has uptake of Tier 2 (General) visas consistently been below the implied monthly limit during 2011? Do you expect the level of uptake of such visas to change in the future, and why?*
- *What responses to the limit on Tier 2 (General) migration have been considered and put in place by employers, including measures to recruit from, and train, the UK workforce?*
- *If intra-company transfers were strictly limited to the GATS definition of senior managers and specialists, what impact would that have on employers? Is £40,000 per year a reasonable minimum pay threshold for such jobs, or should this threshold be higher? Should it vary amongst different regions of the UK and why?*
- *Does the current inclusion of non-salary remuneration (allowances) in the £40,000 pay threshold for the intra-company transfer route undermine the validity of that threshold as a test of skill? Does it actually or potentially create an unfair advantage to migrants and their employers as discussed in Box 3.2 in Section 3 and, if not, why not?*
- *Can the methodology used to identify the skill levels of*

occupations, discussed in Section 3 of this call for evidence, and in our report 'Analysis of the Points Based System: List of occupations skilled to NQF level 4 and above for Tier 2' (Migration Advisory Committee, February 2011), be improved, and if so how?

- *Are any of the occupations listed in Table A.2 skilled to National Qualifications Framework level 6 or above (NQF6+)? Are any of the occupations listed in Table A.1 not skilled to NQF6+? In either case please supply evidence to support your view.*
- *What would be the economic impact of raising the minimum skill level for the intra-company transfer, RLMT and shortage occupation route from NQF4+ to NQF6+?*
- *What would be the impact on employers and the economy of lowering the threshold for exemption from the RLMT from the current level of £150,000 per year to somewhere in the range of £70,000 to £100,000 per year?*
- *What would be the impact on the UK labour market, including on employment opportunities of UK workers, of making the above change?"*

1.15 We hosted two public events in London to discuss our commission and attended or hosted further events in Scotland, Northern Ireland and several English regions. During the call for evidence we met with

representatives from over 90 different organisations. A list of those we met with, and who have not requested anonymity, is provided in Annex A to this report.

1.16 We received over 130 written submissions of evidence. All of the written and verbal evidence from partners was considered alongside our own data analysis and examination of the relevant theory and literature. A list of those who supplied evidence, and who have not requested anonymity, is provided in Annex A to this report.

1.5 Structure of the report

1.17 Chapters 2 and 3 of this report provide the relevant policy and data context. Chapter 4 discusses raising the skill level for Tier 2 to NQF6+, and provides analysis of the potential impact of increasing the skill level. Chapter 5 considers the intra-company transfer route and Chapter 6 provides analysis of, and evidence on, the Resident Labour Market Test. Chapter 7 discusses the economic, labour market, social and public service impacts of Tier 2 migration and the limit, presenting evidence from partners and previous research. Chapter 8 discusses the arithmetical calculation of an annual limit for Tier 2 (General) for 2012/13. Our conclusions are presented in Chapter 9. Annex A lists those partners with whom we consulted. Annex B lists those occupations skilled to NQF6+ level. Annex C provides information on gross annual salary distributions as discussed in Chapter 5.

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1.6 Thank you

- 1.18 We are grateful to all our partners who responded to our call for evidence and to those who engaged with us at meetings and events. We are particularly grateful to those partners who organised or hosted events on our behalf.

Chapter 2 Policy context

2.1 Introduction

2.1 This chapter looks at aspects of Tier 2 of the Points Based System (PBS) that are related to the issues discussed in the rest of this report. In doing so it highlights the most relevant policy changes that have come into effect since we previously reviewed annual limits in Migration Advisory Committee (2010c). It is not a comprehensive overview of the whole of Tier 2.

2.2 The Points Based System

2.2 The PBS for migration to the UK from outside the European Economic Area (EEA) consists of five tiers. Tier 2 is the focus of this report. The Tier 2 (General) route applies to two categories of skilled workers: those coming to fill jobs that have been advertised under the Resident Labour Market Test (RLMT), and those coming to take-up jobs on the Government's shortage occupation list. For clarity of exposition, we sometimes refer to the RLMT route and shortage route as distinct routes in this report. Tier 2 also contains three other routes: the intra-company transfer route, the ministers of religion and sportsperson routes. The intra-

company transfer route, although not included in the limit, was included in the Government's commission and is therefore discussed here. Neither the ministers of religion nor the sportsperson routes are subject to numerical annual limits and are not discussed in detail in this report.

2.3 Following an announcement by the Home Secretary in November 2010, from 6 April 2011 Tier 2 (General) has been subject to an annual limit for 2011/12 of 20,700 places for out-of-country main applicants. The limit operates by restricting the number of Certificates of Sponsorship (CoS) that are available to an annual total of 20,700. In addition, there is a limit on the number of CoS that can be issued each month. Undersubscribed CoS roll over to the next month.

2.4 All applications for restricted CoS must score a minimum of 32 points from the table below. When the monthly allocation of restricted CoS is oversubscribed by eligible applications, the UK Border Agency will collate and prioritise applications using the points scored in Table 2.1.

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Table 2.1: Certificate of Sponsorship (CoS) allocation points table

| Route | Points | Salary (mandatory) | Points |
|--|--------|----------------------|--------|
| Shortage occupation list | 75 | £20,000 to £20,999 | 2 |
| PhD level posting and Resident Labour Market Test (RLMT) | 50 | £21,000 to £21,999 | 3 |
| RLMT | 30 | £22,000 to £22,999 | 4 |
| | | £23,000 to £23,999 | 5 |
| | | £24,000 to £24,999 | 6 |
| | | £25,000 to £25,999 | 7 |
| | | £26,000 to £26,999 | 8 |
| | | £27,000 to £27,999 | 9 |
| | | £28,000 to £31,999 | 10 |
| | | £32,000 to £45,999 | 15 |
| | | £46,000 to £74,999 | 20 |
| | | £75,000 to £99,999 | 25 |
| | | £100,000 to £149,999 | 30 |

Note: Minimum of 30 points required for the route and 2 points for the salary requirement. Jobs with a salary of £150,000 or over are exempt from the limit.

Source: UK Border Agency (2011)

2.5 The list of PhD level jobs includes all jobs in the following 4-digit Standard Occupational Classification (SOC) 2000 codes, regardless of whether the individual holds a PhD or not:

- 1137 – Research and Development Managers.
- 2111 – Chemists.
- 2112 – Biological Scientists and Biochemists.

- 2113 – Physicists, Geologists and Meteorologists.
- 2311 – Higher Education Teaching Professionals.
- 2321 – Scientific Researchers.
- 2322 – Social Science Researchers.
- 2329 – Researchers not elsewhere classified.

2.6 This chapter briefly describes the criteria used to identify successful

applicants under each of the Tier 2 (General) and intra-company transfer routes and focuses in particular on aspects of the criteria that are considered in the rest of this report. So there is a greater focus on skill and salary levels, for instance, than on other criteria such as knowledge of English.

2.3 Tier 2 skill level

2.7 All successful Tier 2 applicants must be coming to fill a job at a skill level equivalent to National Qualifications Framework level 4 and above (NQF4+) and be paid at least the 'appropriate rate' that would be paid to a skilled resident worker doing similar work¹ (the appropriate rate requirement specifies that Tier 2 migrants must be paid at least the salary that would be paid to a resident worker in a similar job; these rates are identified from relevant salary surveys and are set out in codes of practice published by the UK Border Agency). This does not mean that the person employed to fill the job must be educated to NQF4+ level, but that the work the person will do is pitched, broadly speaking, at NQF4+ level. The Government terms these NQF4+ occupations 'graduate-level' occupations.

2.8 In 2011, we drew up a list of 4-digit SOC 2000 occupations (discussed in more detail in Chapter 4) considered to be skilled to NQF4+ (Migration Advisory Committee 2011a). This list has been used by the Government to determine which

occupations are sufficiently skilled to qualify under Tier 2. The list applies to all applicants under Tier 2 and operates alongside, but is distinct from, the shortage occupation list.

2.9 The NQF4+ list was developed by assessing all 4-digit SOC occupations against three top-down indicators of skill: SOC skill level; earnings; and formal qualifications. Threshold values were set for each indicator. To pass as skilled to NQF4+, an occupation had to equal or exceed at least two out of three thresholds.

2.10 The threshold values to identify occupations that are skilled to NQF4+ were calculated as:

- **SOC skill level:** occupation classified at skill level 4 (the highest of the four skill levels) in the SOC 2000 hierarchy.
- **Earnings:** median hourly earnings for full-time employees within an occupation of £13.40 per hour or more.
- **Formal qualifications:** 41 per cent or more of the workforce within an occupation qualified to NQF4+.

2.11 Applying these thresholds resulted in a list of 121 occupations which are skilled to level NQF4+.

2.12 The implications of adopting a stricter definition of 'graduate-level' of National Qualifications Framework level 6 or above (NQF6+) were calculated as an illustrative exercise in Migration Advisory Committee (2011a). This analysis is discussed further, and updated, in Chapter 4.

¹ Sportspersons and ministers of religion are exempt from this requirement.

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2.13 The shortage occupation list also contains some job titles that have been assessed as being at NQF4+ even though the overall occupation is not skilled to that level.

2.4 Resident Labour Market Test

2.14 The RLMT route enables an employer to bring in a worker from outside the EEA once they have shown that there is no suitably qualified worker from within the UK or the EEA available to fill a specific skilled vacancy. Employers are required to advertise the relevant vacancy through Jobcentre Plus and at least one other medium stated in the relevant occupational code of practice (for example, in a trade magazine) for at least four weeks, at a level of earnings deemed reasonable by the UK Border Agency for that job. Where this advertising does not produce a suitable resident candidate for the job, the employer is able to sponsor a migrant to fill the position. Applicants under the RLMT must usually be assigned a CoS within six months of the recruitment advertisement being placed. This is extended to 12 months for research fellows working at Higher Education Institutions, and 48 months for posts recruited via a university milk round.

2.15 Jobcentre Plus advertising is not required for university milk round recruitment, but employers must visit a minimum of three UK universities, and advertise on a graduate recruitment website and at least one other medium stated in the relevant code of practice.

2.16 Jobs attracting a salary of £150,000 or more are exempt from both the RLMT and the limit on Tier 2. The rationale for this exemption is that, at that level of salary, there will be little threat of disturbance to the resident labour market and such jobs are likely to be more global in character.

2.17 Migrants coming under the RLMT are given permission to stay in the UK for up to three years, which can be extended for a further two years if certain conditions are met. After five years, at the time of writing, migrants under the RLMT route can apply for settlement in the UK.

2.5 Shortage occupation list

2.18 Employers can apply to bring in workers from the outside of the EEA without going through the RLMT if the occupation to be filled is on the Government's Tier 2 shortage occupation list. This details the occupations and job titles presently held to be experiencing a labour shortage that would be sensibly filled using non-EEA labour either in the whole of the UK or in Scotland only. The content of the list is recommended by the MAC and those recommendations are revised periodically, most recently in September 2011 (Migration Advisory Committee, 2011c). The current Tier 2 shortage occupation list has been operational since November 2011.

2.19 For an occupation or job title to be recommended for inclusion on the shortage occupation list it must be:

- **skilled** to the required skill level for Tier 2 (currently NQF4+);
- experiencing a **shortage** of labour; and
- demonstrably **sensible** to fill these shortages using labour from outside the EEA.

2.20 As with the RLMT route, migrants coming to work in a shortage occupation are given permission to stay in the UK for up to three years. This can be extended for a further two years, at which point, at the time of writing, migrants can apply for settlement.

2.6 Intra-company transfers

2.21 The intra-company transfer route is for employees of multi-national companies being transferred to a UK based branch of the same organisation either on a long-term basis or for short visits.

2.22 As well as the Tier 2 skill requirement, intra-company transfers also have to meet the following salary requirements (salary bands are before tax (gross) and yearly):

- Long-term staff: paid £40,000 and above and at least the appropriate rate.
- Short-term staff: paid £24,000 and above and at least the appropriate rate.
- Persons in the UK as an intra-company transferee under the rules in place before 6 April 2011 must be paid at least the appropriate rate.

2.23 Migrants paid £24,000 or more but below £40,000 are allowed to come to the UK for a maximum of

12 months. We refer to such migrants as ‘short-term’ intra-company transferees. Migrants paid £40,000 or more are given permission to stay for up to three years, with the possibility of extending for a further two years. We refer to these migrants as ‘long-term’ intra-company transferees. The pay thresholds apply equally to all regions and countries of the UK. Regardless of their duration of visa or length of stay, migrants are not able to re-apply for an intra-company transfer for 12 months after leaving the UK. The intra-company transfer route does not lead to settlement.

2.24 The UK is committed to allowing the temporary presence of some intra-company transferees under the World Trade Organisation’s (WTO) General Agreement on Trade in Services (GATS). The GATS extends to the service sector the system for merchandise trade set out in the General Agreement on Tariffs and Trade, but with some differences to reflect the different nature of services trade. The GATS entered into force in January 1995.

2.25 The GATS sets out four possible modes, or ways, of providing services between WTO members. Mode 4 is concerned with the temporary movement of natural persons, for example intra-company transferees, and is defined in Article 1.2 (d) of GATS as being *“the supply of a service... by a service supplier of one Member, through presence of natural persons of a Member in the territory of another Member”*. The other three modes are: Mode 1 - cross-border supply; Mode 2 -

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consumption abroad; and Mode 3
- supply via commercial presence.

2.26 Under the UK's commitments in the GATS, the UK is to allow the temporary presence of intra-company transferees where: they are senior managers or specialists (sets out how these are defined within GATS); are transferred to the UK by a company established in the territory of another WTO member; and are transferred here in the context of the provision of a service through a commercial presence in the UK. The worker has to have been employed by the sending business for at least one year. The UK is committed to allow this without applying an economic needs test, such as the RLMT.

2.27 A small number of partners have raised concerns about Mode 4 and, specifically, the EU and India negotiations on a Free Trade

Agreement (FTA) launched in 2007 and the possible implications for the economic welfare of UK residents. The argument was put to us that better access to the Indian market for multinational financial services companies was being pursued at the cost of greater access to the UK labour market for Indian nationals, with potentially adverse consequences for employment of UK residents. These concerns are heightened by our partner's understanding that Mode 4 does not allow for a numerical cap to be put on migration. It was suggested that, although the trade deal would be with the EU, the UK would be the largest destination for any additional migration resulting from it. It follows that, all other things being equal, any increased migration resulting from a trade agreement that lasted for one year or longer would increase net migration to the UK.

Box 2.1: Definitions of managers and specialists

The UK's commitments in the General Agreement on Trade in Services (GATS) define senior managers as:

"Persons working in a senior position within a juridical person², who primarily direct the management of the establishment, receiving general supervision or direction principally from the board of directors or stockholders of the business or their equivalent, including: directing the establishment or a department or sub-division of the establishment; supervising and controlling the work of other supervisory, professional or managerial employees; having the authority personally to hire and fire or recommend hiring, firing or other personnel actions."

The UK's commitments in the GATS define specialists as:

"Persons, working within a juridical person, who possess uncommon knowledge essential to the establishment's service, research equipment, techniques or management. In assessing such knowledge, account will be taken not only of knowledge specific to the establishment, but also of whether the person has a high level of qualification referring to a type of work or trade requiring specific technical knowledge, including membership of an accredited profession."

² A juridical person is any legal entity duly constituted or otherwise organised under applicable law.

- 2.28 At the time of writing we do not have specific information on the likelihood, magnitude or nature of potential future migration resulting from the EU and India negotiations and other future trade agreements, nor the timescale over which they may occur. Therefore, even if doing so was within our remit for this report, we would be unable to comment in detail on the likely impacts. Negotiations on this FTA are expected to be concluded in early 2012. At the time of writing, the EU report that negotiations are in a crucial phase of trying to find mutually acceptable solutions to the outstanding issues. Further work is required on tariffs, services and procurement. EU studies state that the more ambitious the FTA, the more beneficial it will be and that, in the short run, India is expected to gain €5bn Euros and the EU over €4bn (EU press release, 2011).
- 2.29 Chapter 5 of this report looks at the issue of applying a suitable pay threshold to the GATS definitions for senior managers and specialists. The different categories of Mode 4 service suppliers are not defined in the text of the GATS itself but in the schedules of the WTO members (although these are an integral part of the agreement). This means different WTO members could define, for example, intra-company transferees, differently to each other – there is no central definition agreed by all. We considered how other WTO members have interpreted the GATS definitions and what measures they used to see if jobs meet these definitions.
- 2.30 We contacted the relevant authorities in Australia, Belgium, Canada, Germany and the USA. On the basis of the information we obtained, it appeared that other countries apply the GATS definition in a way broadly analogous to that suggested by the question put to us in the Government's commission e.g. describing senior managers as persons with responsibility for setting the direction of the organisation.
- 2.31 Officials in some countries made the point that their interpretation of the GATS definition did not always match the rules under which intra-company transfers took place, with the intra-company transfer rules being more generous.
- 2.32 Some countries reported that they did not apply a salary threshold as a measure of whether a job met the GATS definition and rather relied upon the fact that anyone whose job met the definition would be paid a salary commensurate with that and commensurate with other similar jobs. By contrast, we understand that Germany has a minimum salary threshold for specialists and executive personnel with special professional experience and that this threshold is equal to the contribution assessment ceiling of the general pension scheme, presently €67,200 per year (at the time of writing equivalent to around £56,000). We further understand that there are plans to reduce this threshold to €48,000 (at the time of writing equivalent to around £40,000).

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2.7 Allowances under the intra-company transfer route

2.33 The minimum earnings thresholds under the intra-company transfer route can be met through a combination of salary and allowances for accommodation and subsistence. These allowances include daily payments to cover the additional cost of living in the UK but do not include expenses to cover travel to and from the home country. Travel and subsistence expenditure is not subject to tax if the immigrant is coming for under two years.

2.34 Within the long-term staff category, allowances made available solely for the purpose of accommodation can only be counted to make up to 30 per cent of the total gross salary package. This means that the migrant's salary and other (non-accommodation) allowances must be at least 70 per cent of the maximum package that is taken into account. Due to the higher costs of short-term accommodation, accommodation allowances up to 40 per cent of the gross salary are permitted for applicants in the short-term staff sub-category. This means that the migrant's salary and other (non-accommodation) allowances must be at least 60 per cent of the maximum package that is taken into account.

2.35 We previously questioned whether the use of allowances for intra-company transfers creates the potential for undercutting of UK workers (Migration Advisory Committee, 2009c). This issue is looked at further in Chapter 5.

2.8 Other criteria for Tier 2

2.36 As well as coming to take-up a job that is skilled to the level required, applicants under Tier 2 (General) also need to prove a proficiency in the English language. In 2011, the minimum level of English language proficiency for Tier 2 (General) applicants was increased from basic to intermediate (also known as independent) level, otherwise referred to as B1 on the Common European Framework of Reference. This framework aims to describe the levels of proficiency required by existing standards, tests and examinations in order to facilitate comparisons between different systems of qualifications. There are six levels divided into basic, intermediate and advanced:

- Basic User: A1 and A2.
- Independent User: B1 and B2.
- Proficient User: C1 and C2.

2.37 The definition of B1 states that users can understand the main points of clear standard input on familiar matters regularly encountered in work, school, and leisure; can deal with most situations likely to arise whilst travelling in an area where the language is spoken; can produce simple connected text on topics which are familiar or of personal interest; and can describe experiences and events, dreams, hopes and ambitions and briefly give reasons and explanations (Council of Europe, 2001).

2.38 Applicants under the intra-company transfer route do not need to pass an English language

requirement on entry to the UK. They must show that they speak English to a Basic User (A1) standard if they apply to extend their stay in the UK beyond three years. The definition of A1 is that users can understand and use familiar everyday expressions and very basic phrases aimed at the satisfaction of needs of a concrete type; can introduce him or herself and others and can ask and answer questions about personal details such as where he or she lives, people he or she knows and things he or she has; and can interact in a simple way provided the other person talks slowly and clearly and is prepared to help.

- 2.39 Before a migrant can apply to come to, or remain in, the UK under Tier 2, they must have a sponsor that wishes to employ them. To sponsor a migrant, employers must first apply for a licence from the UK Border Agency. Once an organisation has been granted a sponsor licence under Tier 2 they are able to assign CoS to migrants who wish to come to, or stay in, the UK to work. The UK Border Agency decides how many CoS an employer is allowed to assign.
- 2.40 For migrants, being assigned a CoS is an essential part of qualifying for entry clearance (if they are outside the UK) or leave to remain (permission to extend their stay while in the UK). A CoS is not an actual certificate or paper document, but is a virtual document, similar to a database record.
- 2.41 Successful applicants under Tier 2 may bring dependants (children, spouses, civil partners, same sex

partners and unmarried partners) into the UK if they can prove that they can maintain them financially. Dependants are not included in the Tier 2 (General) annual limit.

2.9 Other changes to the Points Based System

- 2.42 As well as introducing an annual limit on Tier 2 and increasing the skills threshold for Tier 2 to NQF4+, the Government has made other recent changes to the PBS to contribute to the Government's aim of reducing net migration.
- 2.43 From 6 April 2011, the Tier 1 (General) route was closed for in-country applicants (having previously been closed for out-of-country applicants). New provisions were introduced for the investor and entrepreneur routes and a new exceptional talent route was subsequently introduced from 9 August 2011.
- 2.44 The new Tier 1 exceptional talent route is for migrants who are internationally recognised as world leaders, or potential world leaders, in science or the arts. A designated competent body must endorse entry through this route. There is a limit of 1,000 on endorsements between 9 August 2011 and 5 April 2012 and these have been assigned to the designated competent bodies in two phases: 500 were available from 9 August to 30 November 2011, and the second batch of 500 is available from 1 December 2011 to 5 April 2012.
- 2.45 In March 2011 the Home Secretary announced a series of policy changes to Tier 4 and Tier 1 Post Study Work route (PSWR).

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Tier 1 (PSWR), which allows students two years to seek employment in the UK after their course ended, will be closed from April 2012. Non-EEA migrants graduating from a UK university with a recognised degree, post-graduate certificate of education, or professional graduate diploma in education will be able to switch from Tier 4 into Tier 2, subject to meeting the requirements for that tier. They will need a job offer, but the employer will not be required to demonstrate that the RLMT has been met, nor will they be subject to the annual limit on Tier 2 (General). The job offer must still be in an occupation skilled to the requisite level, or a job on the shortage occupation list.

2.46 Other changes to Tier 4 included: an increase in the required language level for degree students; a requirement that all sponsor institutions have highly trusted status; and removal of work rights for students not at universities and publicly funded further education colleges. Additionally, in the future, under Tier 4 only postgraduate students at universities and Government sponsored students will be allowed to bring their dependants to the UK. The changes are being phased in during 2011 and 2012.

2.47 Following commissions from the Government, we reviewed employment related settlement and the family migration route in 2011. Our reports (Migration Advisory Committee 2011d and 2011e) suggested a number of changes that the Government could make to the rules governing settlement and the family route.

On settlement, we made the following recommendations:

- Tier 1 exceptional talent migrants should proceed to settlement after five years, subject to the initial entry arrangements for the route being rigorous and kept under close review.
- A simple pay level threshold be used as the primary selection criteria for deciding which Tier 2 RLMT and shortage occupation route migrants can settle permanently in the UK or remain beyond five years.
- Migrants using the sportsperson route should be subject to the same pay criterion as migrants under the Tier 2 RLMT and shortage occupation routes in order to extend their stay beyond five years.
- The minimum pay threshold for remaining in the UK for beyond five years for migrants in the Tier 2 shortage occupation, RLMT, and sportsperson routes should be set at the time of entry to Tier 2. Following entry it should only be adjusted for price inflation or changes in average pay according to a set formula.

2.48 In relation to the family route, we recognised that family migration involved a range of complex social, legal and moral issues but, on the basis of economic considerations alone, the income threshold to sponsor a spouse or partner could be set between

£18,600 and £25,700 gross per year.

- 2.49 At the time of writing, the Government is considering our reports and has yet to announce what, if any, action it will take. As well as commissioning us to look into these areas, the Government also ran its own consultations during 2011 on employment related settlement, Tier 5 and overseas domestic workers (Home Office, 2011e), and on the family route (Home Office, 2011f).
- 2.50 This chapter has provided policy context to the issues we consider in later chapters of this report. The following chapter provides data context including available data on the UK economy and on usage of the PBS.

Chapter 3 Data context

3.1 Introduction

3.1 This chapter provides the data context to this report. First, it provides an overview of the current state of the UK economy and labour market. Second, it focuses on recent trends in net migration and its impact on UK population growth. Third, this chapter considers migration through the Points Based System (PBS), focusing upon the Tier 2 (General) and intra-company transfer routes.

3.2 The UK economy

3.2 Figure 3.1 presents one-quarter and four-quarter growth of **real Gross Domestic Product (GDP)** in the UK since the beginning of 1975. Prior to the recent recession, the UK experienced a sustained period of real GDP growth between 1992 and 2007. Real GDP contracted by 7.1 per cent between 2008 Q1 and 2009 Q2. This is the worst recession experienced by the UK since the Second World War (Joyce and Sibieta, 2011).

3.3 Since emerging from recession, the UK economy has generally maintained positive but modest economic growth. However, provisional estimates indicate that real GDP fell by 0.2 per cent during 2011 Q4 (Office for

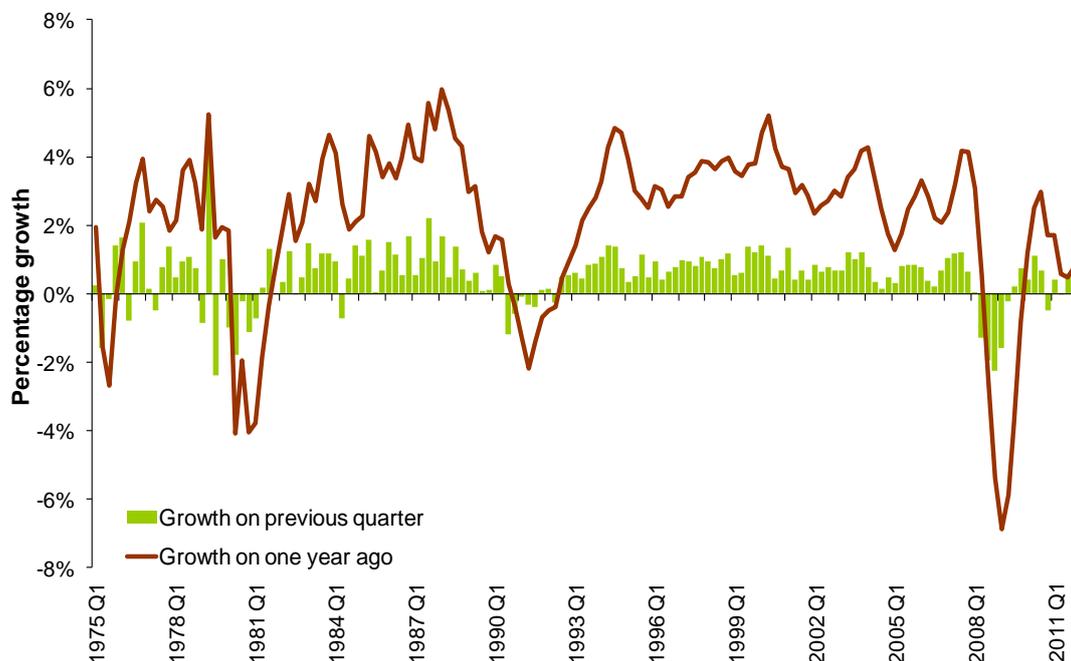
National Statistics, 2011a). The Office for National Statistics (ONS) (2011b) attributes this reduction to weaknesses in the production and construction sectors, in addition to the public sector strike on 30 November 2011. Provisional estimates indicate that real GDP grew by 0.8 per cent during 2011 (Office for National Statistics, 2011a).

3.4 The Office for Budget Responsibility (OBR) (2011) forecast slow growth in real GDP in the short- and medium-term. According to the OBR report, this is because the Eurozone sovereign debt crisis has not yet been resolved, contributing to high borrowing costs for UK banks and low business and consumer confidence. In addition, high inflation has contributed to lower real wages, reducing household consumption. The OBR forecast real GDP growth of 0.7 per cent in 2012, rising to 3.0 per cent annual growth by 2015. HM Treasury (2012) compiles forecasts for the UK economy from a range of financial and economic institutions. The averages of these forecasts suggest that real GDP will grow by 0.4 per cent in 2012. Developments in the economy since the publication of these forecasts have suggested that

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growth will be, if anything, weaker than predicted last autumn.

Figure 3.1: One-quarter and four-quarter growth of real Gross Domestic Product, UK, 1975 Q1 to 2011 Q4



Notes: Seasonally adjusted, chained volume measure, constant 2008 prices. The 2011 Q4 estimate is provisional.

Source: Office for National Statistics (2011a), 1975 Q1 to 2011 Q4.

3.3 The UK labour market

3.5 Figure 3.2 presents growth in **average weekly earnings** between March 2001 and November 2011. Year-on-year growth in nominal average regular earnings (excluding both bonuses and arrears of pay) and nominal average total earnings (including bonuses but excluding arrears of pay) have been positive in recent quarters but below pre-recession levels. As these data include both part-time and full-time workers, some of the observed reduction in nominal wages may reflect an increase in the proportion of workers in part-time employment. Year-on-year growth in real average earnings has been negative or zero since December

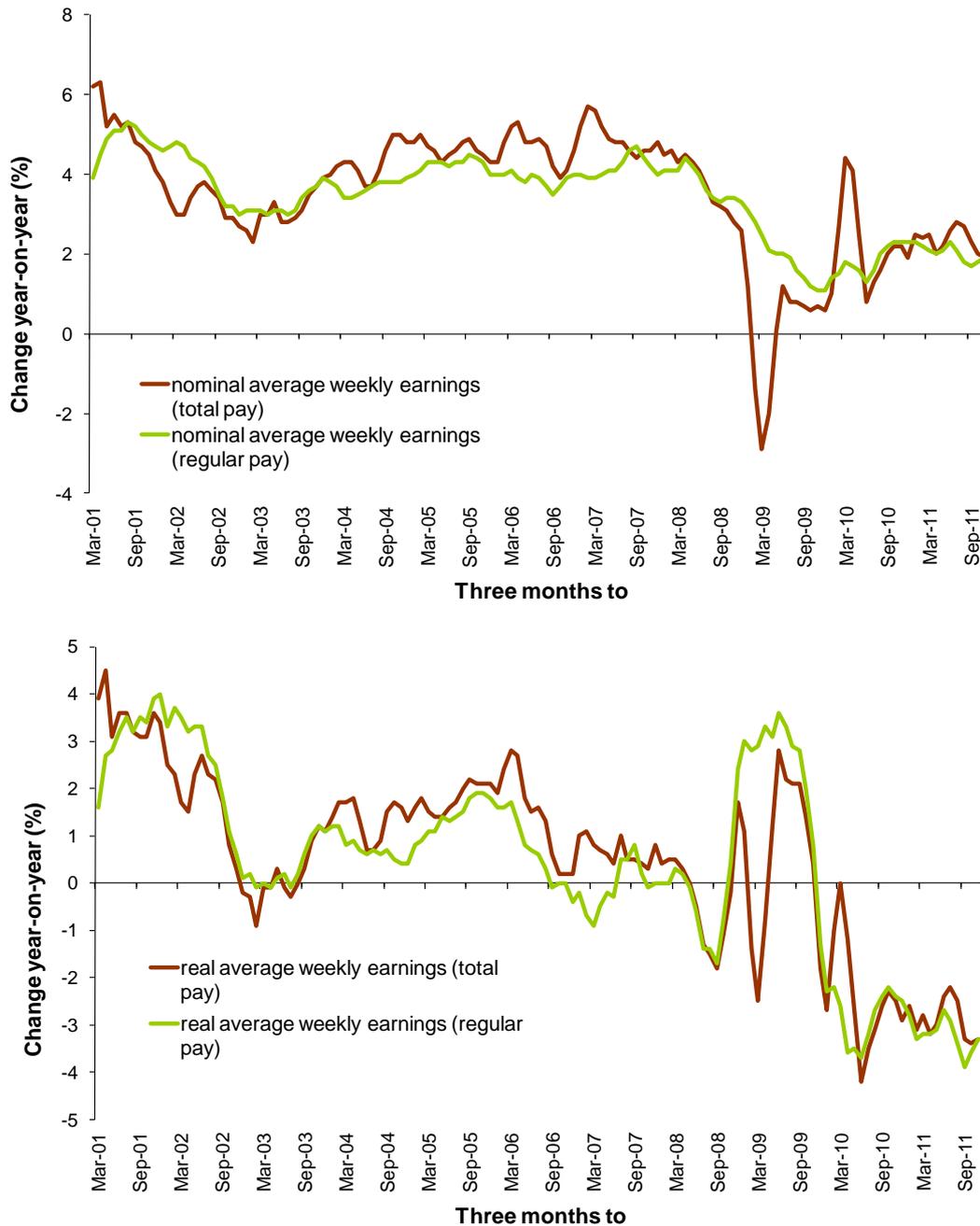
2010, due to high UK inflation rates.

3.6 A study by the Institute of Fiscal Studies (Joyce and Sibieta, 2011) found that, as well as real earnings, state benefits and tax credits also fell in real terms during the financial year 2010-11. This is estimated to have led to a fall in median net household income of 3.5 per cent, the largest single-year fall in 30 years.

3.7 As shown in Figure 3.3, the UK **employment rate** fell to a recent low of 70.2 per cent in the three months to September 2011. The employment rate rose modestly to 70.3 per cent in the three months to November 2011; however, it remains substantially below its

recent peak of 73.0 per cent in the three months to May 2008.

Figure 3.2: Year-on-year growth in average nominal and real weekly earnings: total and regular pay, Great Britain, March 2001 to November 2011



Notes: Average weekly total earnings includes bonuses but excludes arrears of pay. Average weekly regular earnings exclude both bonuses and arrears of pay. The estimates are three month averages and have been seasonally adjusted. Average weekly earnings are calculated by dividing the total amount paid by the total number of employees paid in Great Britain. The growth rate is equal to average weekly earnings over a three month period against the same three month period 12 months ago. Real earnings have been estimated using data from the Retail Price Index (RPI), which are not seasonally adjusted.

Sources: Office for National Statistics (2011a), March 2001 to November 2011.

Figure 3.3: UK working-age employment rate, January 1990 to November 2011



Notes: Seasonally adjusted. The employment rates are those calculated in the three months to the date shown. The employment rate is calculated from the Labour Force Survey and is given by the number of working-age individuals, defined as both men and women aged 16-64, who did at least one hour's paid work in the week prior to their LFS interview, or who have a job that they are temporarily away from, as a proportion of the working-age population.
Source: Office for National Statistics (2011a), January 1990 to November 2011.

3.8 As noted by Gregg and Wadsworth (2010), the employment rate throughout the most recent recession remained higher than might have been expected based on the experience of previous recessions in the UK. The authors cited a combination of high levels of firm profitability prior to the recession, supportive monetary and fiscal policies, and reductions in real producer wages (that is, the real-term reduction in wage costs faced by employers) as the main reasons for this smaller impact of the recession on the UK employment rate.

3.9 Total UK employment for individuals aged 16 and over was 29.12 million in the three months to November 2011 (Office for National Statistics, 2011a). The

OBR forecast in November 2011 that UK employment would rise modestly from 29.1 million in 2012 to 29.2 million in 2013 (Office for Budget Responsibility, 2011). From 2013 onwards, the OBR forecast that employment will increase in response to above-trend output growth rates, rising to 30 million in 2016.

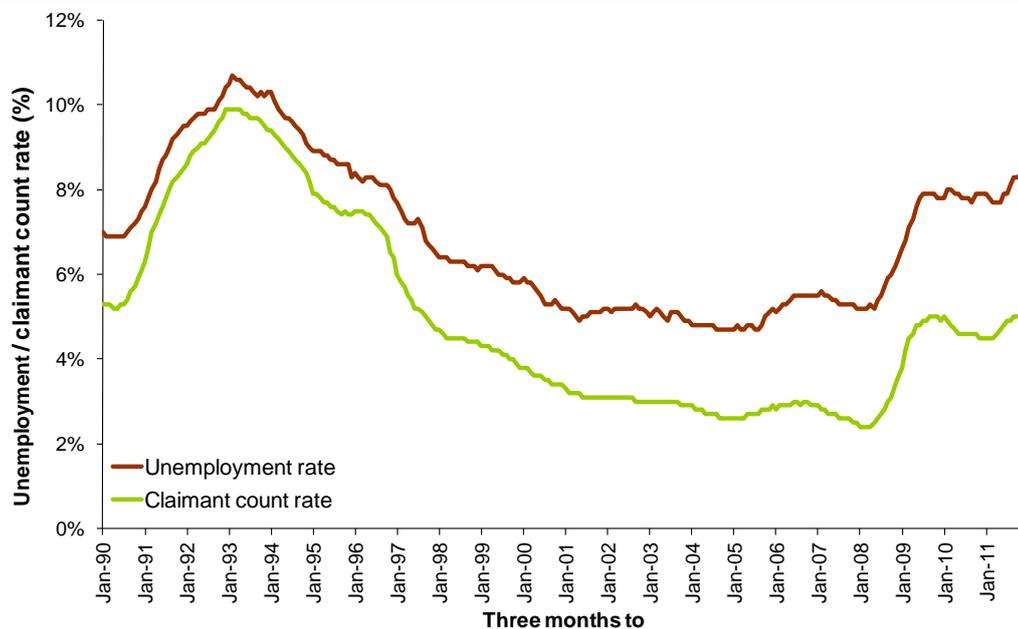
3.10 The **unemployment rate** as defined by the International Labour Organisation (ILO) and the **claimant count rate** (measuring claimants of Jobseeker's Allowance) reached recent highs of 8.4 per cent and 5.0 per cent in the three months to December 2011 respectively, as shown in Figure 3.4. Both the unemployment rate and the claimant count rate are

considerably higher than their pre-recession values. The OBR (2011) forecasts that the ILO unemployment rate will peak at 8.7 per cent in 2012, declining to 6.2 per cent in 2016.

- 3.11 The ILO measure of unemployment rose to 2.7 million in the three months to December 2011, its highest level since 1994. The number of claimants receiving Jobseeker's Allowance was 1.6

million in December 2011. The OBR forecast that the claimant count will rise to 1.8 million in 2013, falling to 1.2 million by 2016. These forecasts are comparable to the average of those from a range of financial and economic institutions compiled in January 2012 by HM Treasury (2012), which suggests that claimant unemployment will rise to 1.8 million in 2012.

Figure 3.4: UK unemployment rate and claimant count rates, January 1990 to December 2011



Notes: Seasonally adjusted. The unemployment rates are those calculated in the three months to the date shown. The definition of unemployment is internationally agreed and recommended by the International Labour Organisation. Individuals are defined as unemployed if they are without a job, want a job, have actively sought work in the last four weeks and are available to start work in the next two weeks; or are out of work, have found a job and are waiting to start it in the next two weeks. The unemployment rate is calculated from the LFS and is given as a proportion of the economically active population (those who are in employment or unemployment) who are unemployed. The claimant count consists of all people between the ages of 18 and State Pension age claiming Jobseeker's Allowance at Jobcentre Plus local offices. They must declare that they are not employed but are capable of, available for and actively seeking work during the week their claim is made. The claimant count rate is the number of claimants expressed as a percentage of the sum of claimants and workforce jobs (mid-year estimates).

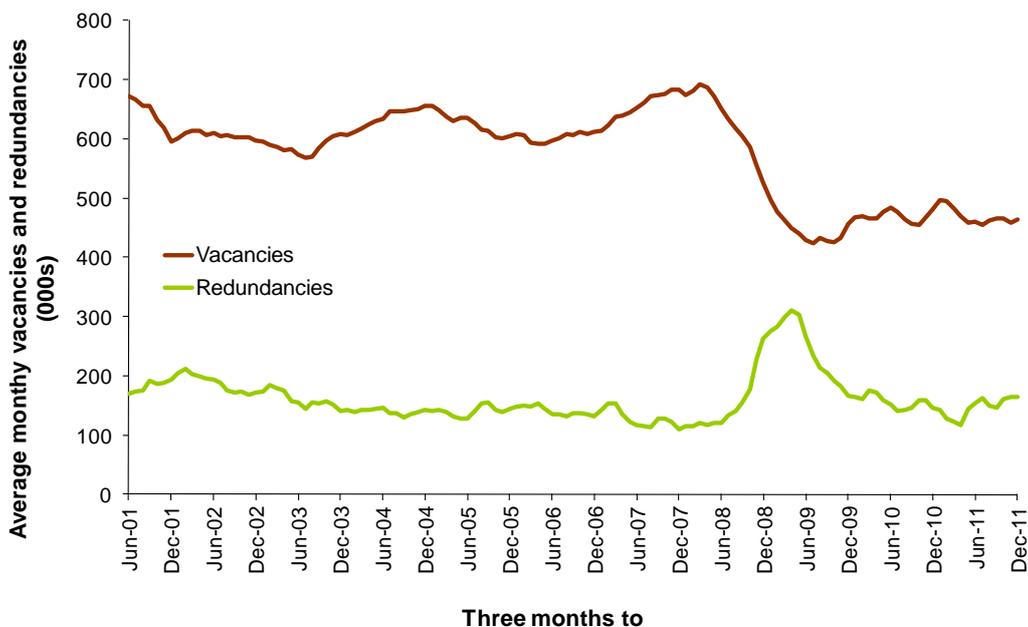
Source: Office for National Statistics (2011a), January 1990 to December 2011.

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3.12 According to the latest ONS Vacancy Survey, there were 464,000 **vacancies** per month on average in the UK during the three months to December 2011, as shown in Figure 3.5. The number of vacancies fell from a peak of 692,000 per month on average in the three months to March 2008 to a low of 424,000 per month on average in the three months to July 2009. Vacancies have increased modestly since July 2009, but remain substantially below pre-recession levels.

Redundancies typically peak in the midst of a recession. As shown in Figure 3.5, the number of redundancies in the UK peaked at 310,000 per month on average over the three months to April 2009, up from a recent low of 109,000 per month on average over the three months to December 2007. Redundancies have since declined to 164,000 per month on average over the three months to December 2011, representing almost a return to pre-recession levels.

Figure 3.5: Average monthly vacancies and average monthly redundancies, June 2001 to December 2011



Notes: Seasonally adjusted. Total redundancies are estimated from the Labour Force Survey and describe the number of people who have been made redundant or taken voluntary redundancy in the month of the survey or in the two calendar months prior to this. Total vacancies are estimated from the monthly Vacancy Survey, which asks employers how many vacancies they have in total for which they are actively seeking recruits from outside their organisation, for example, by advertising or interviewing. The data for both total vacancies and redundancies are monthly averages for the three months to the date shown. Source: Office for National Statistics (2011a), June 2001 to November 2011.

3.13 The Chartered Institute for Personnel and Development (CIPD) reports in its *Labour Market Outlook for Autumn 2011* (2011) that job creation by the private sector was more than

offset by high redundancies and low recruitment by the public sector. It therefore concludes that “unemployment will continue to rise for the time being”.

3.4 Migration and population

3.14 Since the end of the recession of the early 1990s, inflows of long-term migrants (defined in the International Passenger Survey (IPS) as people of any nationality, including British, intending to change their place of residence for 12 months or more) have exceeded outflows, resulting in positive net migration to the UK, as shown in Figure 3.6. Net migration has generally risen over time since the early 1990s, reaching 245,000 in the 12 months to March 2011 (Office for National Statistics, 2011c) according to provisional estimates. Inflows and outflows of long-term international migrants were 582,000 and 336,000 respectively over this period, again according to provisional estimates.

3.15 Figure 3.6 also shows the breakdown of the Long Term International Migration (LTIM) estimate into its constituent components, namely net migration of British, other EU and non-EU nationals (the IPS component) and the adjustments made to account for flows to and from the Irish Republic, asylum seekers, and migrant and visitor switchers (the non-IPS component). Non-IPS components are based on LTIM estimates minus IPS estimates.

3.16 The increase in net migration between 1997 and 2004 was largely due to an increase in non-EU net migration. EU net

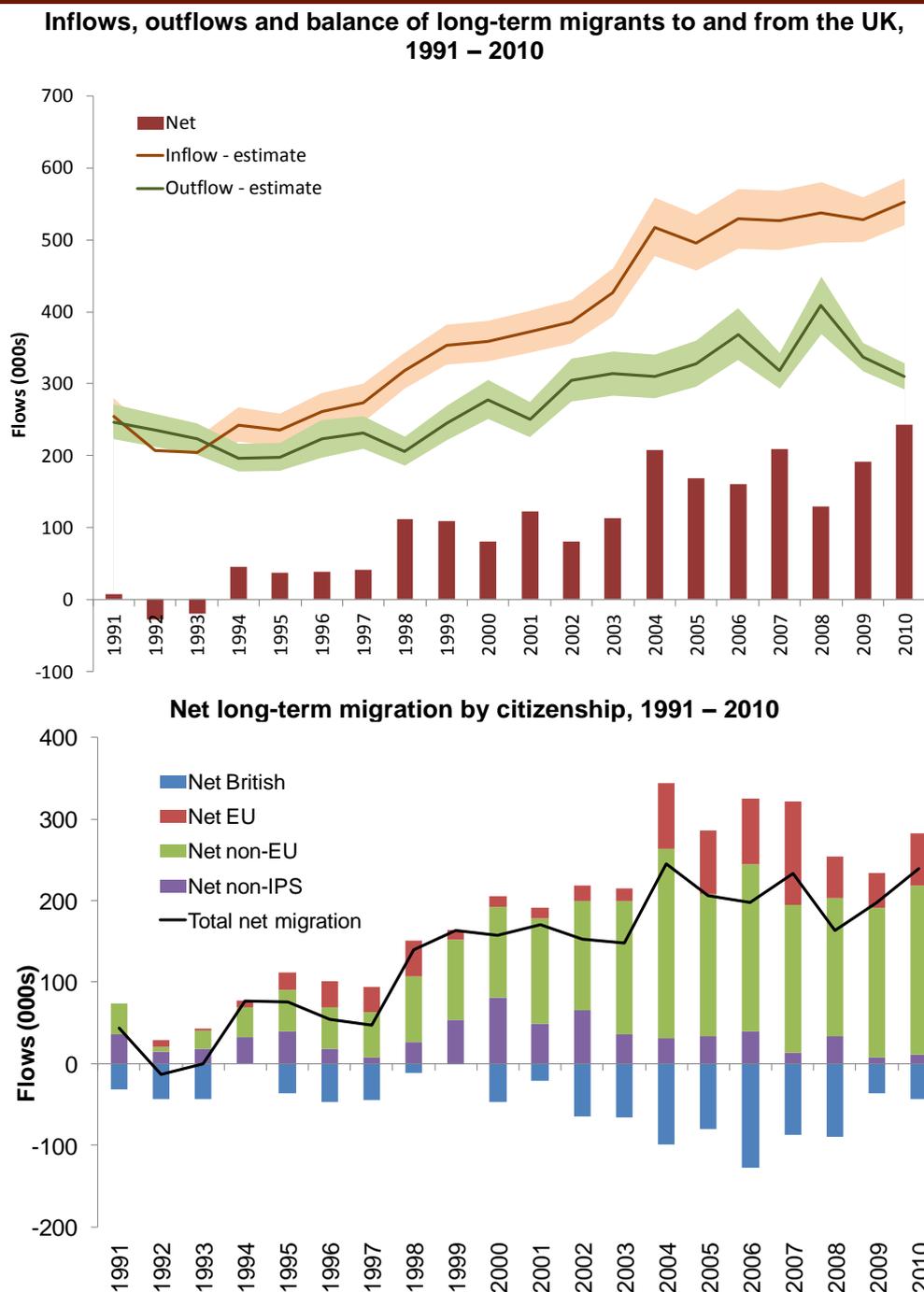
migration to the UK increased between 2004 and 2007 following the expansion of the EU in 2004. Net outflows of British nationals increased between 2000 and 2006, partially offsetting the rise in net inflows of foreign-national migrants. Nevertheless, net outflows of British nationals have since reduced considerably, contributing to a rise in total net migration over this period.

3.17 The UK Government has committed to reducing annual net migration to the tens of thousands. The ability of the Government to achieve this target will be affected by net migration of UK nationals and other European Economic Area (EEA) nationals. In terms of migration policy, however, the Government only has direct control over flows of non-EEA nationals to and from the UK.

3.18 Net migration of UK nationals and other EU nationals have roughly offset each other in each year since 2000, with their combined net migration varying between -56,000 and 39,000 per year over this period. It is unclear whether net migration of UK nationals and other EU nationals will continue to offset each other in future years. The combined net migration of UK nationals and other EU nationals was 22,000 in the 12 months to March 2011 based on provisional estimate (Office for National Statistics, 2011e).

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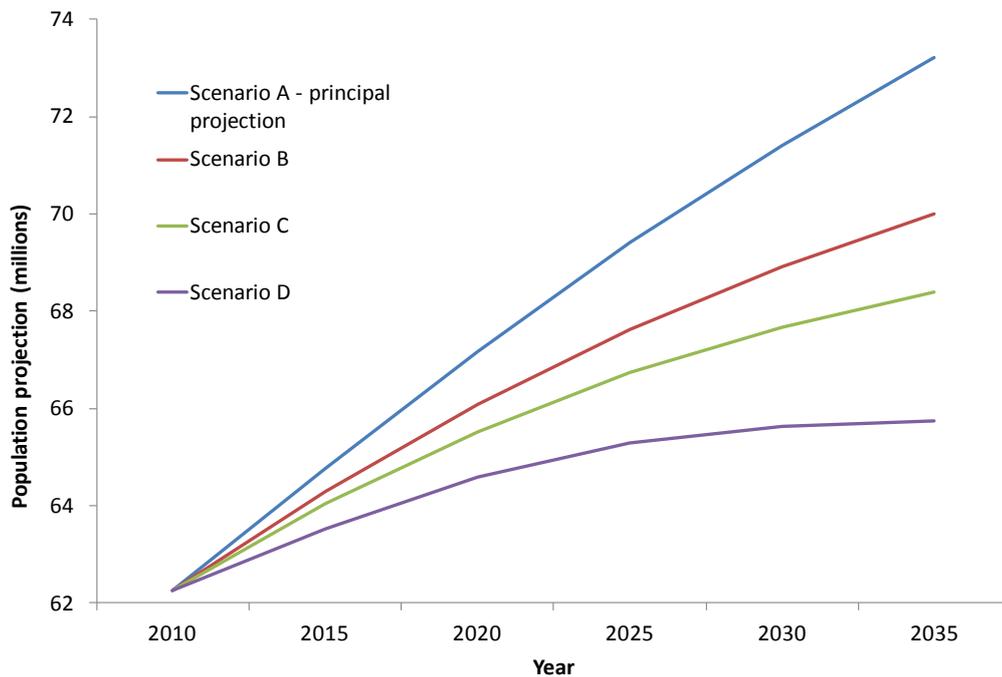
Figure 3.6: Flows of long-term migrants to and from the UK and net long-term migration by citizenship, 1991 – 2010



Notes: Long-term migrants are defined in the International Passenger Survey (IPS) as those individuals who intend to change their place of residence for 12 months or more. This definition includes all nationalities, including British nationals. The figures presented here are for the calendar years 1991 to 2010. EU includes EU15, A8, Bulgaria, Romania, Malta and Cyprus. Non-IPS components are based on LTIM estimates minus IPS estimates. The brown and green bands around LTIM inflows and outflows represent 95 per cent confidence intervals.

Source: Office for National Statistics (2011d) and Office for National Statistics (2011e), 1991 to 2010.

Figure 3.7: UK population projections according to various assumptions for the annual level of net migration, 2010 to 2035



Notes: 2010-based population projections for the UK with a range of assumptions for net migration. In scenario A (the principal population projection) net migration reduces from 240,000 per year in mid-2012 to 200,000 per year in mid-2017, remaining at this level in subsequent years. In scenarios B, C and D net migration reduces to 100,000 per year, 50,000 per year and zero per year in mid-2017 respectively, remaining constant at these levels in subsequent years.

Source: Analysis by Office for National Statistics and Office for National Statistics (2011f).

3.19 The ONS produces regular population projections for the UK based on different assumptions for net migration, fertility and mortality. Its principal projection is based on the assumption that net migration will fall from 240,000 per year to 200,000 per year between mid-2012 and mid-2017, remaining at this level in subsequent years. In this scenario, ONS (2011f) projects that the UK population will expand from 62 million in 2010 to 73 million in 2035 (scenario A in Figure 3.7).

3.20 The ONS have also provided the MAC with population projections under the scenarios that net

migration falls to 100,000, 50,000 or zero per year by mid-2017. Figure 3.7 presents these population projections as scenarios B, C and D respectively. These scenarios use the same assumptions for fertility and mortality as the principal population projections in ONS (2011f). Based on these assumptions, the ONS projects that the UK population will rise to 70 million, 68 million or 66 million in scenarios B, C and D respectively by 2035.

3.21 Figure 3.8 presents estimated inflows and outflows of migrants by nationality and by reason for migration. The most common

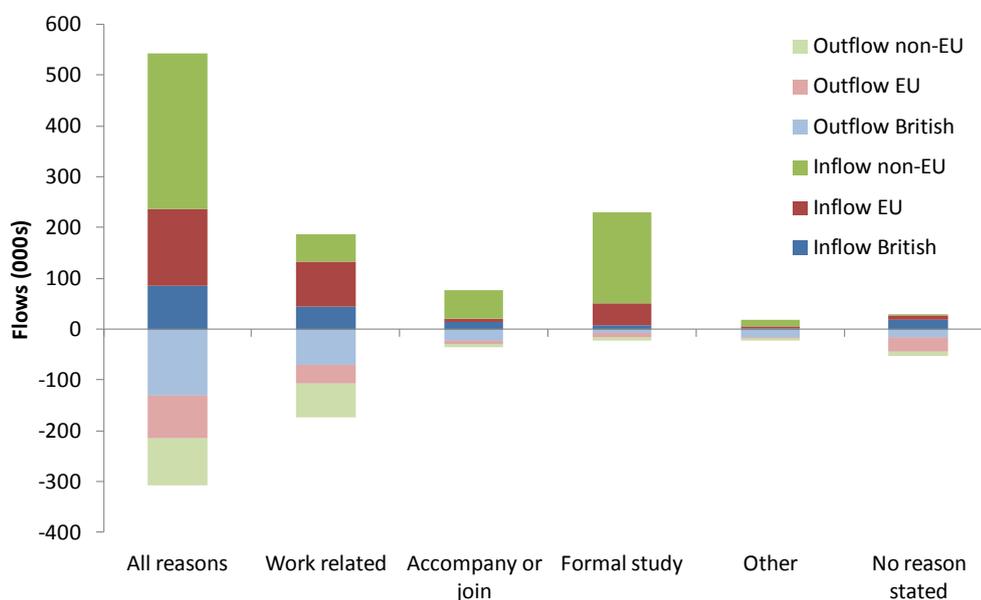
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reason for inflows of non-EU nationals between April 2010 and March 2011 was for formal study, accounting for 179,000 of inflows of long-term non-EU nationals (provisional estimate). Inflows of non-EU nationals for the reasons 'accompany or join' and 'work-related' were 56,000 and 55,000 per year respectively over the same period (provisional estimates). The reasons 'formal study', 'accompany or join' and 'work-related' therefore comprised approximately 60 per cent, 20 per cent and 20 per cent of non-EU-national inflows respectively over the period April 2010 to March 2011.

3.22 Long-term immigration of non-EU nationals for work-related reasons, either with a definite job or looking

for work, was 55,000 in the 12 months to March 2011 (provisional estimate). By comparison, 68,000 non-EU national long-term migrants left the UK in 2010 for work reasons (provisional estimate). However, it is important to recognise that this does not mean that net migration of non-EU national work-related immigrants to the UK was negative. This is because the reason a migrant leaves the UK will, in some cases, differ from the reason why he or she first came to the UK. For example, students will come to the UK for the reasons of formal study, but may leave the UK for work-related reasons once they have graduated, and be counted in the work-related outflow.

Figure 3.8: Inflows and outflows of long-term migrants by reason for migration and by nationality, April 2010 to March 2011



Notes: The data presented in this figure describe the inflows and outflows of long-term migrants intending to change their place of residence for 12 months or more by nationality. Estimates provided are in thousands and are provisional.

Source: Office for National Statistics (2011e), April 2010 to March 2011.

3.5 Migration through the Points Based System

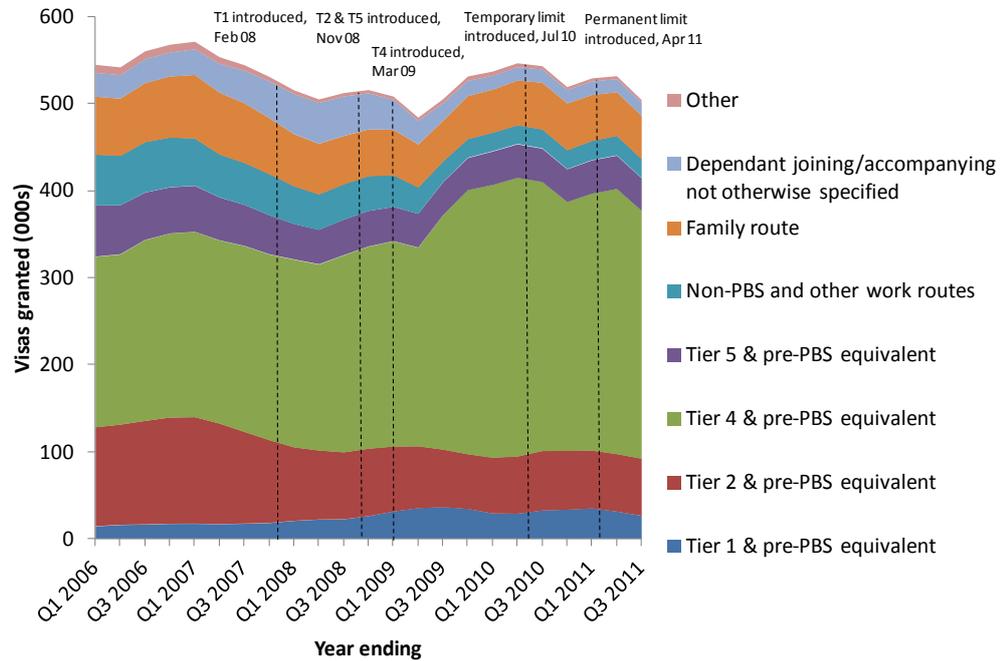
- 3.23 Figure 3.9 presents data for visas issued to non-EEA national main applicants and dependants by route, excluding temporary routes granting leave of less than 12 months such as visitor visas and student visitor visas (Home Office, 2011a). Individuals granted leave of less than 12 months are not classed as ‘migrants’ according to the UN’s definition, and therefore should not influence the achievement of the Government’s objective to reduce net migration to the tens of thousands.
- 3.24 Visas issued to Tier 4 and predecessor route main applicants and dependants have increased since 2006, rising from 211,000 in 2006 to 284,000 in the 12 months to 2011 Q3. Visas issued to Tier 2 and predecessor route main applicants and dependants fell from 122,000 to 66,000 per year over this period. Visas granted by other PBS routes remained relatively unchanged over this period.
- 3.25 In the 12 months to 2011 Q3, Tier 4 and its predecessor route accounted for 56 per cent of total visa grants, excluding temporary routes. This compares to 13 per cent for Tier 2 and its predecessor route and 10 per cent for the family route (dependants granted visas based on their relationship to a person settled in the UK or a

British citizen). Visas granted to dependants accounted for approximately 20 per cent of total visa grants, excluding temporary routes.

- 3.26 Chapter 2 outlines some of the major policy changes concerning non-EEA migration that have been introduced since May 2010. This includes changes affecting Tier 4, the Post-Study Work Route under Tier 1, Tier 1 (General) and Tier 2. Many of these policy changes could have a negative impact on volumes of future visa grants through these routes.
- 3.27 Figure 3.10 presents data for settlement grants in the UK by category. Total settlement grants have fallen from a recent peak of 242,000 in the 12 months to 2010 Q3 to 180,000 in the 12 months to 2011 Q3. This reduction can be partially explained by the clearing of the backlog of around 450,000 unresolved asylum cases from 2006 (included in the category ‘other grants on a discretionary basis’) and a reduction in family settlement grants.
- 3.28 Settlement grants to Tier 1, Tier 2 and predecessor route main applicants and dependants accounted for 34 per cent of total settlement grants in the 12 months to 2011 Q3. This compares to 29 per cent for family-related settlement grants and 26 per cent for other grants on a discretionary basis over the same period.

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Figure 3.9: Entry clearance visas issued to out-of-country non-EEA national main applicants and dependants by route of entry excluding temporary routes, rolling 4-quarter data, 2006 Q1 to 2011 Q3

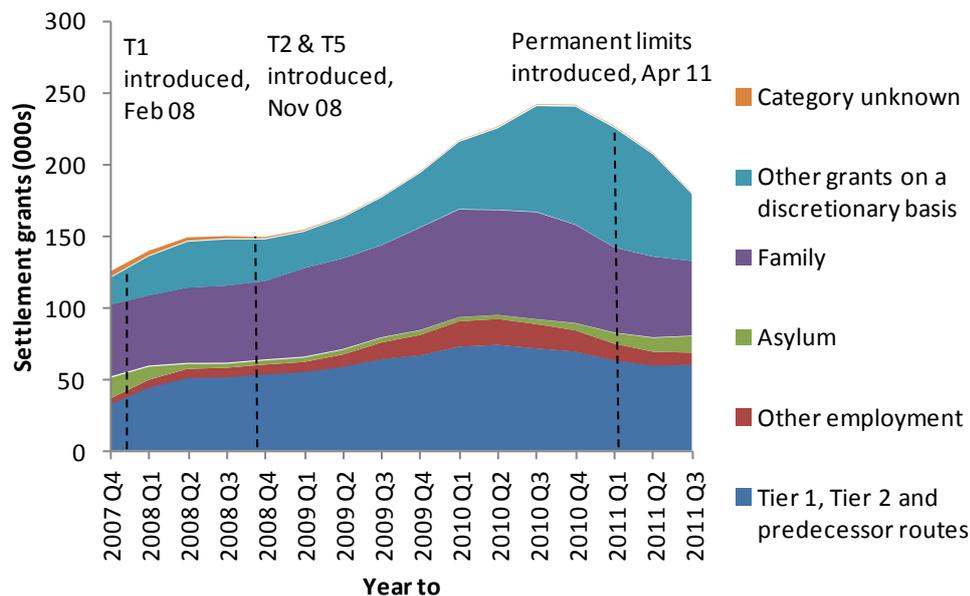


Notes: Entry clearance visas granted to non-EEA national main applicants and dependants by route of entry. Excludes visas granting leave to remain for less than 12 months, such as student visitor visas, visitor visas, transit visas. 'Family route' covers individuals applying for a visa on the basis of their relationship to a person settled in the UK or a British citizen. 'Dependant joining/accompanying not otherwise specified' covers visas granted to dependants on the basis of their relationship with another migrant who is not a settled person or British citizen and who is not included in any of the other categories. 'Non-PBS and other work routes' include domestic workers, UK ancestry visas and other permit-free employment. Source: Home Office (2011a), 2006 Q1 to 2011 Q3.

3.29 In our recent report on settlement of Tier 1 and Tier 2 migrants (Migration Advisory Committee, 2011d) we state that there are a number of reasons why we expect settlement grants to Tier 1 and Tier 2 main applicants to fall in future years even if the Government announces no further changes to the criteria for settlement. This is due to a combination of: the effects of the annual limit on entry and other

recent measures to tighten entry criteria; the closure in recent years of some work-related routes and the reclassification of others as strictly temporary routes; recent changes to the rules relating to settlement; and, more speculatively, the possibility that future migrants will have a lower propensity to settle permanently in the future than those who entered in recent years.

Figure 3.10: Grants of settlement to main applicants and dependants by category, rolling 4-quarter data, 2007 Q4 to 2011 Q3



Notes: Data include settlement grants to main applicants and dependants by category. Family settlement grants cover individuals applying for settlement on the basis of their relationship to a person settled in the UK or a British citizen. Grants for other reasons on a discretionary basis include main applicants granted indefinite leave outside the immigration rules as a result of measures aimed at clearing the backlog of outstanding unresolved cases, grants to main applicants where the category was unknown and grants to their corresponding dependants. Other employment includes grants of settlement to main applicants in permit-free employment, businessmen, persons of independent means and commonwealth citizens with UK-born grandparents, in addition to their corresponding dependants.
Source: Home Office (2011a), 2007 Q4 to 2011 Q3.

3.6 Migration through Tier 2 of the Points Based System

3.30 From 6 April 2011, an annual limit on the number of restricted Certificates of Sponsorship (CoS) granted to Tier 2 (General) main applicants of 20,700 was introduced. Tier 2 (General) includes both the Resident Labour Market Test (RLMT) and shortage occupation routes. The limit applies to main applicants through these two routes with prospective earnings of less than £150,000

per year in the UK. Allocations are granted on a monthly basis, with 4,200 allocations in the first month and 1,500 allocations in subsequent months. Any unused, returned or reclaimed restricted Certificates of Sponsorship are rolled over to the next month. Following the allocation in December 2011, 45 per cent of the total available restricted CoS were allocated and 11,040 were rolled over to be included in the allocation for January 2012 (see Table 3.1).

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Table 3.1: Summary of allocations of restricted Certificates of Sponsorship, April 2011 to December 2011

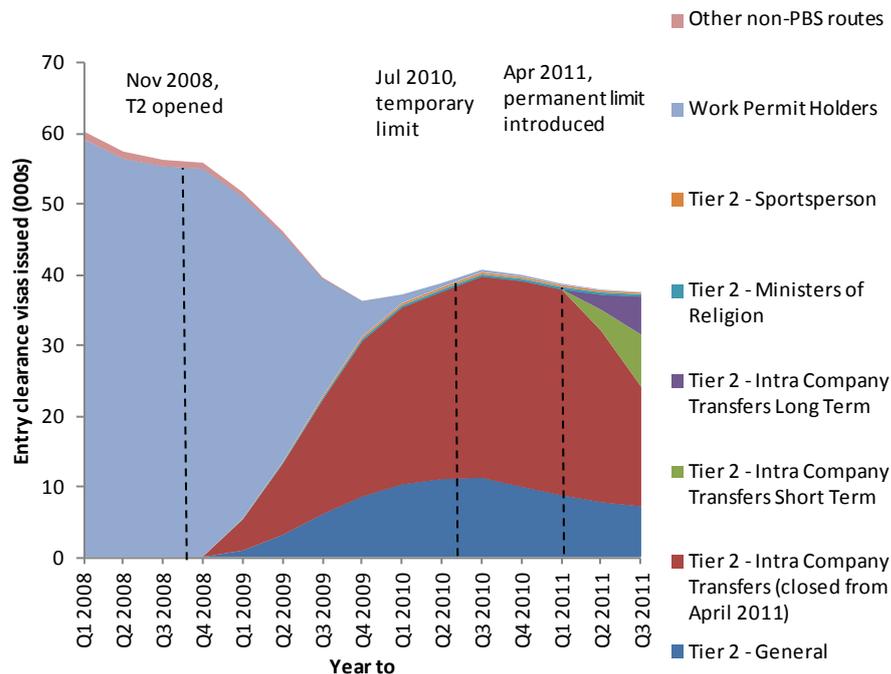
| Month | Released | Used | Used (Cumulative) |
|----------------|----------|-------|-------------------|
| April 2011 | 4,200 | 1,019 | 1,019 |
| May 2011 | 1,500 | 781 | 1,800 |
| June 2011 | 1,500 | 845 | 2,645 |
| July 2011 | 1,500 | 859 | 3,504 |
| August 2011 | 1,500 | 819 | 4,323 |
| September 2011 | 1,500 | 673 | 4,996 |
| October 2011 | 1,500 | 818 | 5,814 |
| November 2011 | 1,500 | 766 | 6,580 |
| December 2011 | 1,500 | 729 | 7,309 |

Note: From April 2011, all shortage occupation and RLMT main applicants with prospective earnings of less than £150,000 per year are subject to an annual limit of 20,700 restricted Certificates of Sponsorship (CoS). Allocations are granted on a monthly basis, with 4,200 allocations in the first month and 1,500 allocations in subsequent months. Any unused, returned or reclaimed restricted Certificates of Sponsorship are rolled over to the next month.

Source: UK Border Agency (2011a), April 2011 to December 2011.

- 3.31** A number of further changes to the RLMT, shortage occupation and intra-company transfer routes were also introduced in April 2011, which are discussed in Chapter 2 of this report. Many of these policy changes could reduce the volumes of future visa grants through these routes.
- 3.32** Figure 3.11 presents the number of entry clearance visas issued to main applicants through Tier 2 and its predecessor route (the work permit route) on a rolling four-quarterly basis since 2008 Q1. The data show that the total number of visas granted reached a recent peak of 40,700 in the 12 months to 2010 Q3. Tier 2 and predecessor route visas have since reduced to 37,500 in the 12 months to 2011 Q3, primarily as a result of a reduction in Tier 2 RLMT and shortage route visas over this period.
- 3.33** Intra-company transfers comprise the majority of Tier 2 visas that have been issued since the launch of Tier 2 in November 2008. Total intra-company transfer visa grants increased between 2009 and 2010 but have remained relatively flat since 2010.
- 3.34** Tier 2 RLMT and shortage occupation visa grants peaked at 11,200 in the 12 months to 2010 Q3 and have since reduced to 7,200 in the 12 months to 2011 Q3. Applications for RLMT and shortage occupation visas may have reduced as a result of recent policy changes, but also have been affected by the lower levels of job vacancies during the UK economic downturn.

Figure 3.11: Entry clearance visas issued to out-of-country Tier 2 and work permit main applicants, rolling 4-quarter data, 2008 Q1 to 2011 Q3



Notes: Tier 2 was launched on 27 November 2008. The work permit system was the predecessor to Tier 2. Operational procedures before and after the introduction of the Points Based System (PBS) were different, which may potentially distort any 'before-and-after' comparisons. Previously main applicants would have had to apply first for a work permit and then for a visa, whereas in the PBS these processes take place at the same time. Since 6 April 2011, intra-company transfers have been classified as either long term or short term. Source: Home Office (2011a), 2008 Q1 to 2011 Q3.

3.35 Table 3.2 presents the numbers of visa and further leave to remain grants to main applicants and dependants through Tier 2 for the most recent period available. It also shows the ratio of grants to dependants and main applicants. These ratios do not account for the fact that many dependants may be associated with previous cohorts of main applicants. For example, a dependant may have been granted a visa in 2010 because of their relationship to a main applicant who was granted a visa in 2008.

3.36 The majority of Tier 2 visas were granted to intra-company transfer migrants, with 29,700 visas

granted to intra-company transfer main applicants in the 12 months to 2011 Q3. This accounted for approximately 80 per cent of all Tier 2 visas granted to main applicants over this period. From April 2011 the Tier 2 intra-company transfer route was split into a short-term route, allowing leave of up to 12 months, and a long-term route, allowing initial leave of 3 years with the possibility of extending for a further 2 years. Approximately 40 per cent of intra-company transfers since April 2011 were long-term and 60 per cent were short-term.

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3.37 In the 12 months to 2011 Q3 visa grants to RLMT and shortage occupation route main applicants were 7,200, accounting for approximately 20 per cent of Tier 2 grants over this period. UK Border Agency management information suggests that the

RLMT route accounted for approximately 85 per cent of Tier 2 (General) visas over the period April 2011 to September 2011 while the shortage occupation route constituted the remaining 15 per cent.

Table 3.2: Entry clearance visa grants and further leave to remain grants by Tier 2 route, main applicants and dependants, 2010 Q4 to 2011 Q3

| Route | Main applicants (A) | Dependants (B) | (B)/(A) |
|---|---------------------|----------------|------------|
| Entry clearance visas grants (out-of-country) | | | |
| Tier 2 intra-company transfers (long term) | 5,409 | 5,368 | 1.0 |
| Tier 2 intra-company transfers (short term) | 7,376 | 1,979 | 0.3 |
| Tier 2 intra-company transfers (closed from 6 April 2011) | 16,947 | 19,267 | 0.8 |
| Tier 2 (General) | 7,158 | | |
| Tier 2 ministers of religion | 355 | | |
| Tier 2 sportsperson | 204 | | |
| Total Tier 2 | 37,449 | 26,614 | 0.7 |
| Further leave to remain grants (in-country) | | | |
| Tier 2 intra-company transfers | 6,466 | 6,761 | 1.0 |
| Tier 2 (General) | 10,785 | 5,833 | 0.5 |
| Tier 2 Ministers of religion | 466 | 531 | 1.1 |
| Tier 2 Sportsperson | 103 | 92 | 0.9 |
| Total Tier 2 | 17,820 | 13,217 | 0.7 |

Notes: From 6 April 2011, intra-company transfers have been classified as either short-term or long-term. No extensions of either long-term or short-term intra-company transfers have yet been granted. Tier 2 (General) includes the Resident Labour Market Test and shortage occupation routes. Dependants are likely to lag main applicants, for example, a dependant may have been granted a visa in 2010 because of their relationship to a main applicant who was granted a visa in 2008.

Source: Home Office (2011a), 2010 Q4 to 2011 Q3.

3.38 Figure 3.12 presents the salary distributions for the RLMT, shortage occupation, short-term intra-company transfer and long-term intra-company transfer routes using data for used CoS from April 2011 to December 2011. Not all individuals using CoS may be granted visas since some may

have their visa applications rejected. Nevertheless, data presented in our latest report on the shortage occupation list (Migration Advisory Committee, 2011c) indicated that the difference between CoS used and visas issued in Tier 2 (General) was small, suggesting that data

from used CoS are broadly representative of approved applications. We have filtered these data to exclude individuals who would not meet the current rules for these routes where their CoS was allocated according to different rules prior to April 2011.

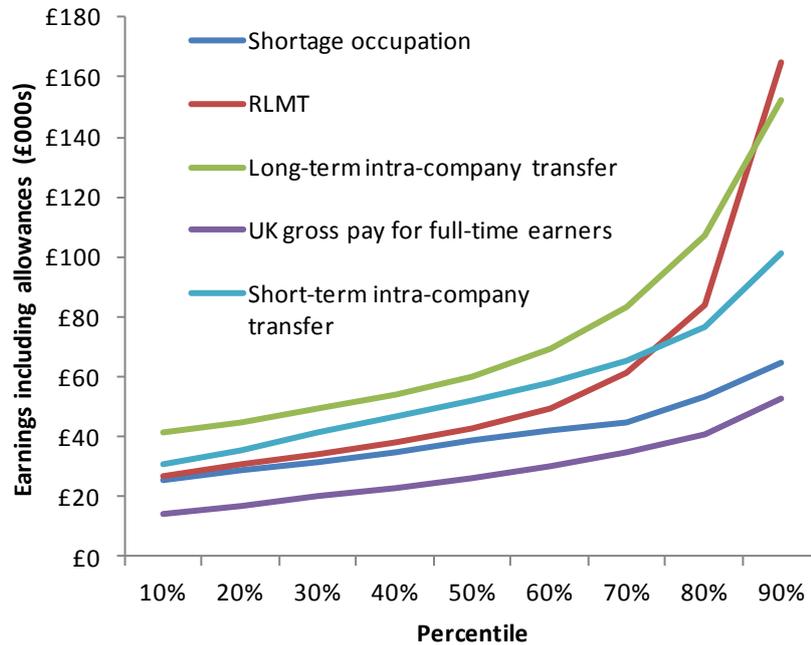
3.39 The median salaries for the shortage occupation, RLMT, short-term intra-company transfer and long-term intra-company transfer routes were approximately £39,000, £43,000, £52,000 and £60,000 per year respectively. By comparison, the median salary for UK full-time employees was approximately £26,000 per year according to the provisional estimates from the 2011 Annual Survey of Hours and Earnings (ASHE) (Office for National Statistics, 2011g). In Migration Advisory Committee 2011d) we estimated that the median salary for full-time employees in NQF4+ occupations was approximately £36,000 per year according to ASHE 2010 microdata. Main applicants

applying for visas under the shortage occupation, RLMT, short-term intra-company transfer and long-term intra-company transfer routes therefore appear to have higher prospective salaries, on average, than full-time UK employees working in comparably skilled occupations.

3.40 Table 3.3 presents the top five occupations by CoS used for the RLMT, shortage occupation, short-term intra-company transfer and long-term intra-company transfer routes. These data have again been filtered to exclude individuals who would not meet the current rules for these routes. These data indicate that around 40 per cent of shortage occupation route main applicants have job offers as medical practitioners. Over half of short-term intra-company transfer main applicants have job offers in information communication and technology occupations, compared to over a third of long-term intra-company transfer main applicants.

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Figure 3.12: Earnings distribution for out-of-country RLMT, shortage occupation, short-term intra-company transfer and long-term intra-company transfer route main applicants, April 2011 to December 2011



Notes: Applicants are required to meet the criteria for Tier 2 at the point of being allocated Certificates of Sponsorship (CoS). As a consequence, data for the period covered included some individuals who met the pre-6 April 2011 rules for Tier 2 but would not have met the new rules introduced on 6 April 2011. These data have therefore been filtered to exclude individuals that would not have met the current Tier 2 rules.

First, a main applicant to the RLMT route has been excluded if the occupation is not skilled to National Qualification Framework level 4 or above (NQF4+) and/or earnings in the job are less than £20,000 per year and/or they are clergy (who would use the Tier 2 minister of religion route).

Second, a main applicant to the shortage occupation route has been excluded if the occupation is not on the shortage occupation list as at 14 November 2011 and/or earnings in the job are less than £20,000 per year and/or are chefs or cooks earning less than £28,260 per year.

Third, a main applicant to the long-term intra-company transfer route has been excluded if their occupation is not skilled to NQF4+ and/or earnings in the job are less than £40,000 per year.

Fourth, a main applicant to the short-term intra-company transfer route has been excluded if their occupation is not skilled to NQF4+ and/or earnings in the job are less than £24,000 per year.

Earnings include both regular pay and allowances.

Not all the individuals using Certificates of Sponsorship may be granted visas since some may have their visas applications rejected. Furthermore, even where a visa is granted, a person may not travel to the UK and on arrival they may also not be admitted.

All figures quoted are management information which have been subject to internal quality checks, but have not been quality assured. As much of the input data (for example salary levels) is self declared by the sponsor, UK Border Agency is not able to validate the quality of the source information, and we are advised by UK Border Agency that data quality anomalies could impact on the findings. These data are provisional and subject to change.

Source: UK Border Agency management information, 6 April 2011 to 31 December 2011, and Office for National Statistics (2011g).

Table 3.3: Top five occupations by used Certificates of Sponsorship (CoS) for the RLMT, shortage occupation, short-term intra-company transfer and long-term intra-company transfer route, 6 April 2011 to 31 December 2011

| RLMT route | | | |
|--|--------------|------------------------------|----------------------|
| Occupation | CoS used | Percentage of total CoS used | Median annual salary |
| 2132 Software professionals | 555 | 11 | £40,000 |
| 3534 Finance and investment analysts/advisers | 475 | 9 | £51,000 |
| 2423 Management consultants, actuaries, economists and statisticians | 406 | 8 | £60,000 |
| 2321 Scientific researchers | 331 | 6 | £32,000 |
| 2211 Medical practitioners | 314 | 6 | £48,000 |
| Total CoS used - all occupations | 5,100 | 100 | £43,000 |
| Shortage occupation route | | | |
| Occupation | CoS used | Percentage of total CoS used | Median annual salary |
| 2211 Medical practitioners | 324 | 41 | £45,000 |
| 5434 Chefs, cooks | 65 | 8 | £32,000 |
| 3211 Nurses | 54 | 7 | £25,000 |
| 2121 Civil engineers | 50 | 6 | £65,000 |
| 2113 Physicists, geologists and meteorologists | 39 | 5 | £50,000 |
| Total CoS used - all occupations | 786 | 100 | £39,000 |
| Short-term intra-company transfer route | | | |
| Occupation | CoS used | Percentage of total CoS used | Median annual salary |
| 2132 Software professionals | 3,166 | 49 | £46,000 |
| 2423 Management consultants, actuaries, economists and statisticians | 601 | 9 | £70,000 |
| 1136 Information and communication technology managers | 285 | 4 | £53,000 |
| 3534 Finance and investment analysts/advisers | 269 | 4 | £69,000 |
| 2421 Chartered and certified accountants | 223 | 3 | £59,000 |
| Total CoS used - all occupations | 6,420 | 100 | £52,000 |
| Long-term intra-company transfer route | | | |
| Occupation | CoS used | Percentage of total CoS used | Median annual salary |
| 2132 Software professionals | 2,718 | 29 | £51,000 |
| 1136 Information and communication technology managers | 786 | 8 | £54,000 |
| 1132 Marketing and sales managers | 711 | 8 | £82,000 |
| 2131 IT strategy and planning professionals | 643 | 7 | £47,000 |
| 2423 Management consultants, actuaries, economists and statisticians | 627 | 7 | £67,000 |
| Total CoS used - all occupations | 9,383 | 100 | £60,000 |

Note: See notes in Figure 3.12 for details of UK Border Agency management information data and the restrictions that have been applied. All figures quoted are management information which have been subject to internal quality checks, but have not been quality assured. As much of the input data (for example salary levels) is self declared by the sponsor, UK Border Agency is not able to validate the quality of the source information, and we are advised by UK Border Agency that data quality anomalies could impact on the findings. These data are provisional and subject to change. Occupations are grouped by 4-digit 2000 Standard Occupational Classifications (SOC) as defined by the Office for National Statistics. Salary data rounded to the nearest thousand.

Source: UK Border Agency management information, April 2011 to December 2011.

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3.7 Conclusions

3.41 In this chapter we reviewed the current state of the UK economy and labour market. Since the UK has emerged from recession, growth in real GDP has remained low but generally positive. However, provisional estimates indicate that real GDP fell by 0.2 per cent during 2011 Q4 (Office for National Statistics, 2011a). Both the OBR (2011) and most independent economic forecasters surveyed by HM Treasury (2012) forecast that GDP growth will remain low into 2012. The UK labour market has been adversely affected by the recent recession, resulting in lower employment rates, vacancies and real wages, and higher unemployment rates, claimant unemployment and redundancies. Other than redundancies, most labour market indicators mentioned above remain a long way from their pre-recession levels or rates.

3.42 We then considered recent trends in migration and the UK population. The provisional LTIM estimate for net migration rose to 245,000 in the 12 months to March 2011 (Office for National Statistics, 2011c) (provisional estimate). In the ONS principal population projection, where net migration falls to 200,000 per year by 2016-17, the UK population

expands to 73 million in 2035 (Office for National Statistics, 2011f). Under alternative net migration assumptions of 100,000 per year and zero per year respectively, the UK population is projected to be 70 million and 66 million in 2035.

3.43 Focusing on non-EU migrants, around 60 per cent of non-EU migrant inflows are for study reasons, with approximately 20 per cent of inflows for both work reasons and to accompany or join main applicants respectively. Approximately 29,700 intra-company transfer visas were granted in the 12 months to 2011 Q3, and approximately 7,200 RLMT and shortage occupation route visas were granted over the same period. Visas granted through the RLMT and shortage routes have declined since mid-2010, possibly as a result of both limited job vacancies and policy changes for these routes.

3.44 Comparing the salaries of RLMT, shortage occupation, short-term intra-company transfer and long-term intra-company transfer main applicants that are applying for visas against the UK population, main applicants to these routes have higher prospective salaries, on average, than full-time UK employees working in comparably skilled occupations.

4.1 Introduction

4.1 A core aim of Tier 2 of the Points Based System (PBS) is to ensure that work-related, demand-led migration to the UK is composed of skilled individuals. Migration Advisory Committee (2011a) highlighted that the use of the PBS to target skilled migrants was appropriate on the basis that:

- skilled migrants are most likely to complement the skills and capital of existing residents;
- the net fiscal impact is more likely to be positive in the case of skilled migrants; and
- any potential benefits to long-term growth and spill-over effects are more likely to arise from skilled migration.

4.2 The Government has asked that we advise on the minimum skill requirement for Tier 2. In particular, the Government has asked the following questions: *“In order to allow the Government to identify an appropriate skill level for Tier 2 can the MAC confirm the list of occupations in Table B1 of its February 2011 report on the list of skilled occupations in Tier 2, i.e. those occupations skilled to National Qualifications Framework level 4 and above (NQF4+) but not to National Qualifications*

Framework level 6 (NQF6+); undertake a review of the non-NQF6+ job titles currently on the shortage list; and estimate the impact on the numbers of migrants in Tier 2 if the skills bar were raised to NQF6+?” (Letter from Minister for Immigration to Chair of Migration Advisory Committee, October 2011.)

4.3 We address these questions as follows:

- In section 4.2 we summarise and review our methodology used to identify those occupations skilled to NQF6+, as discussed in Migration Advisory Committee (2011a). We explain the amendments we made as a result of incorporating more up-to-date data and consider the implications of reclassification of certain occupations under the Standard Occupational Classification (SOC) 2010.
- In section 4.3 we consider the information we received from partners in our call for evidence on the skill level and the implications of raising the skill level of Tier 2 to NQF6+ for job titles currently on the shortage occupation list.
- In section 4.4 we consider the impact of raising the skill level

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for Tier 2 on the volumes of migrants coming through this tier.

4.4 Table B.1 in Annex B provides our list of the occupations considered skilled to NQF6+. A list of occupations previously found to be skilled to NQF4+ but not now found to be skilled to NQF6+ (i.e. those that currently qualify for Tier 2 but would not if the skill level was raised to NQF6+) is provided in Table B.2 of Annex B.

4.5 Our conclusions and recommendations in relation to these questions are presented in section 4.5 and summarised in Chapter 9.

4.2 Our approach to identifying skilled occupations

4.6 There is no single, objectively defined measure of the skill level of an occupation. Our methodology examines factors that indicate whether an occupation can be considered skilled to NQF6+. This methodology was developed in Migration Advisory Committee (2011a) based in turn on the approach we first used to identify occupations skilled to NQF3+ in Migration Advisory Committee (2008b). We base our analysis on the official Standard Occupational Classification (SOC) for the UK, SOC 2000, which uses four levels of aggregation. An updated version, SOC 2010, is in the process of being incorporated into the datasets that we use for our analysis. The 'unit group' (4-digit) level, which is the SOC level most relevant to our work, breaks down the labour market into 353 occupations. It is the most detailed

and disaggregated occupational breakdown available for our top-down analysis. National-level data are not available for individual job titles, meaning that bottom-up evidence is of particular importance in these cases.

4.7 The five main indicators that we believe are relevant to assessing the skill of an occupation are:

- the skill level defined in the SOC 2000 hierarchy;
- formal qualifications;
- earnings;
- on-the-job training or experience required to carry out the job; and
- the level of innate ability required.

Top-down analysis

4.8 The first three of the above indicators can be measured using national-level data available from the Labour Force Survey (LFS) and the Annual Survey of Hours and Earnings (ASHE). Each of these top-down indicators is assessed against a threshold value, at or above which we consider the indicator to demonstrate skill to NQF6+. We consider an occupation to be skilled according to our top-down analysis if it passes the relevant threshold for at least two of the three top-down indicators.

4.9 We invited partners to comment on the methodology within the call for evidence. Partners raised three main concerns:

- That SOC codes are too broad for the assessment and are not reflective of many of the skilled job titles they represent.
- That the earnings thresholds do not take account of the remuneration of jobs in non-commercial sectors, or of entry level skilled jobs.
- That the criteria put too much emphasis on academic qualifications which may not be necessary for many of the roles on the list.

4.10 Several partners, including the University of Oxford, Universities UK and the University of Edinburgh were concerned that the SOC codes encompass too many different types of jobs, some of which are more highly skilled than others. This issue was also discussed at several of the partner meetings. Partners felt that it would be inconsistent for the analysis to conclude that people at the top of their profession, for example an editor of a top newspaper or magazine, would not be considered skilled.

“While the university appreciates the principles of the MAC’s methodology to determine the skill level of occupations, a more appropriate outcome would be obtained if the methodology was applied to the individual occupations within each SOC code, rather than to the SOC code as a whole, or at least for there to be some distinction between junior and senior roles within each SOC code.”

University of Oxford response to MAC call for evidence

4.11 We also received evidence in relation to the salary thresholds used in the analysis. Although in general higher skill levels are rewarded with higher salaries, it is the case that certain sectors are, as a whole, less well remunerated than others. In particular, academia and the arts may find it challenging to meet the salary level thresholds.

4.12 Lastly, partners highlighted that many professions do not require the sort of academic qualifications recognised in our analysis. These professions place higher value on the two indicators of skill level that can not be systematically measured using top-down data: on the job training or experience; and innate ability. They argued strongly that these two indicators needed to be given substantial weight, even if these cannot be quantified.

“[The arts] do not lend themselves to traditional skill assessment due to the focus beyond formal qualifications. Furthermore, these professionals tend to work independently. Unlike formal office environments, artists do not operate in roles where the normal methods of up skill training would be effective. Artist talent is subjective and artists can not necessarily be ‘replaced’ by domestic artists due to their stylistic nuances.”

PricewaterhouseCoopers response to MAC call for evidence

4.13 NHS Employers suggested that measures of skill, other than academic achievements could be considered. For some professions this might be entry onto a professional regulator register.

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Similarly, dance companies that we met with suggested that for the arts, being offered a job with a highly regarded company should be evidence that the individual was highly skilled, even if they cannot prove their skills on paper, as the companies would simply not employ anyone who was sub-standard.

“Employers have asked that one of the forms of assessing equivalence could be to use eligibility for entry onto the professional regulator register. This would ensure that we did not solely focus on academic qualification being the arbitrary factor used to determine skill level when in many health professions, such as being a nurse or paramedic, individuals may not always have a level 6 qualification but have demonstrated that they meet the requirements of the regulator to practice.”

NHS Employers response to MAC call for evidence

- 4.14 We have considered the evidence provided by partners and understand that not all industries are the same in terms of training, qualifications and pay. However, we maintain the view that, in general, skilled workers are scarcer and, on average, workers receive a compensating wage differential for investing in their human capital. Higher skill is therefore associated with higher wages.
- 4.15 Our approach also allows for some flexibility in terms of particular variables such as pay and qualifications by only requiring

an occupation to pass on two out of three indicators.

- 4.16 Further, in a report that we commissioned to review our skill methodology, Frontier Economics (2010) concluded that the three top-down indicators were appropriate and should be retained. On balance, although we are aware of the limitations of our approach, we have not identified a clear way to improve it. We believe it remains legitimate to apply our top-down approach and to supplement it using bottom-up data.
- 4.17 Therefore, with the exception of incorporating the most recent data, our top-down analytical approach remains unchanged from that presented in Migration Advisory Committee (2011a), as described below. However, we believe context-specific issues of the types raised by our partners can and should be taken into account in assessing the skill level of occupations. We return to these issues later in this chapter.
- 4.18 At the time of writing, NQF4+ is the required skill level for Tier 2 of the PBS. It is less straightforward to identify NQF6+ qualifications than NQF4+ in the LFS because of the classification used in the relevant variables of this dataset. For the purposes of identifying occupations skilled to NQF6+, we assumed that formal qualifications at this level include higher and first degrees and NVQs at level 5, but not foundation and other degrees or HNC/HND/BTECs.
- 4.19 From January 2011, all vocational or work-related qualifications in England and Wales have been classified under the new

Qualifications and Credit Framework (QCF). For the purposes of identifying occupations skilled to NQF6+, in this report, we do not incorporate the QCF into our analysis. However, we recognise that, in the future, once this new framework is adopted in the datasets we use for our analysis, the number of qualifications considered skilled to NQF6+ may have to be extended to include all relevant qualifications under the QCF. For example, we might include BTEC awards.

4.20 As explained in more detail in **Box 4.1**, we base our analysis on the assumption that the proportion of working-age, full-time employees in the UK labour force that hold an NQF6+ qualification is equal to the proportion of jobs in the UK that are skilled to NQF6+. According to our analysis of the 12 pooled, most recent quarters of the LFS (covering the period October 2008-September 2011), 28 per cent of working-age, full-time employees hold an NQF6+ qualification.

Box 4.1: Basis for assuming that the proportion of UK jobs skilled to NQF6+ is 28 per cent of the labour market

To estimate the proportion of jobs in the UK that are skilled to NQF6+, we made the preliminary assumption that this proportion is equal to the percentage of working-age, full-time employees in the UK workforce that are qualified to NQF6+. This is based on the premise that the supply of appropriately skilled workers should, in equilibrium, match the demand for such workers. Adjustments over time in factors including occupational earnings, the structure of product markets, methods of production and the provision of places in training and education could plausibly lead to such an equilibrium being reached.

It is important to be clear that the above assumption does not require that all individuals in the labour market with NQF6+ qualifications are working in NQF6+ jobs, or that all individuals without such qualifications are not in NQF6+ jobs. Such an assumption would clearly be unrealistic because there will be both over-qualified workers (with qualifications at a higher level than are required by their jobs) and under-qualified workers (with lower level qualifications than are required by their jobs) in the labour market. Nevertheless, if these two factors broadly balance each other out, our assumption will be valid.

According to the LFS, the proportion of working-age, full-time employees in the UK workforce that hold NQF6+ qualifications is **28 per cent**.

4.21 To determine whether a 4-digit SOC occupation is skilled to NQF6+ according to the qualifications indicator, we rank the occupations by proportion of full-time employees that hold an NQF6+ qualification from highest to lowest. Returning to our assumption that the proportion of occupations skilled to NQF6+ in

the UK is 28 per cent, we set the threshold as the proportion of full-time employees that hold an NQF6+ qualification associated with the 72nd percentile of the ranking.

4.22 Similarly, to determine whether the 4-digit SOC occupation is skilled to NQF6+ according to the

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earnings indicator we rank occupations by median hourly earnings for full-time employees, from highest to lowest. Again, we set the threshold at the level of

median hourly earnings associated with the 72nd percentile of the ranking. The resulting threshold values are presented in Box 4.2.

Box 4.2: Minimum threshold values used to identify jobs skilled to NQF6+

- **Earnings:** We require median hourly earnings for full-time employees within an occupation to be £15.74 per hour or more. This is measured using the 2011 ASHE.
- **Formal qualifications:** We require 34 per cent or more of the workforce within an occupation to be qualified to NQF6+. This is measured using the LFS covering the twelve quarters of 2008 Q4 to 2011 Q3.
- **SOC skill level:** We require an occupation to be classified at level 4 in the SOC 2000 hierarchy.

The threshold values for earnings and formal qualifications differ from those presented in Migration Advisory Committee (2011a) and our call for evidence, which were calculated using LFS data covering 12 pooled quarters from October 2007-September 2010. These slight differences arise from the use of more recent data, which reflect changes in wages and the proportion of the working-age population with an NQF6+ qualification.

4.23 For the purposes of our discussion later in this chapter, it is also useful to convert the figure of £15.74 per hour into an annual equivalent. In line with previous work (see Migration Advisory Committee, 2011a) we can do this by multiplying earnings by 2120, which is the ratio between mean annual pay of full-time employees (£32,837) and equivalent mean hourly pay (£15.49) in ASHE (2011). The resulting annual equivalent figure is £33,369.

4.24 As stated above, the threshold for the earnings indicator was

estimated using ASHE (2011). Data for 16 4-digit SOC occupations were unavailable. These occupations are listed in Table 4.1. In our calculation of the threshold for the earnings indicator, if the earnings data for a given 4-digit SOC occupation are missing, we used the earnings data from the associated 3-digit occupation. This approach was established as the best method to overcome the problem of missing 4-digit SOC occupation earnings data in Migration Advisory Committee (2011a).

Table 4.1: 4-digit SOC occupations with missing data in the Annual Survey of Hours and Earnings (ASHE) and their corresponding 3-digit categories, 2011

| 4-digit SOC | 3-digit SOC |
|--|--|
| 1171 Officers in the armed forces | 117 Protective service officers |
| 1226 Travel agency managers | 122 Managers and proprietors in hospitality and leisure services |
| 1233 Hairdressing and beauty salon managers and proprietors | 123 Managers and proprietors in other service industries |
| 2125 Chemical engineers | 212 Engineering professionals |
| 2215 Dental practitioners | 221 Health professionals |
| 3216 Dispensing opticians | 321 Health associate professionals |
| 3311 NCOs and other ranks | 331 Protective service occupations |
| 3413 Actors and entertainers | 341 Artistic and literary occupations |
| 3441 Sports players | 344 Sports and fitness occupations |
| 3449 Sports and fitness occupations not elsewhere classified | 344 Sports and fitness occupations |
| 3513 Ship and hovercraft officers | 351 Transport associate professionals |
| 5494 Musical instrument makers and tuners | 549 Skilled trades not elsewhere classified |
| 5495 Goldsmiths, silversmiths, precious stone workers | 549 Skilled trades not elsewhere classified |
| 7121 Collector salespersons and credit agents | 712 Sales-related occupations |
| 8122 Coal mine operatives | 812 Plant and machine operatives |
| 9243 School crossing patrol attendants | 924 Elementary security occupations |

Source: Office for National Statistics (2011g)

Results of our top-down analysis

4.25 Based on the thresholds presented in Box 4.2, the full results of our analysis are presented in Annex B. Of the 353 4-digit SOC 2000 occupations, we found that 88 were skilled to NQF6+. These are listed in Table 4.2. We found that using the most up-to-date data led to three additions to this list compared to Migration Advisory Committee (2011a). First, SOC 1152 office managers passed on two

indicators: earnings and SOC 2000 skill level. Second, SOC 3431 journalists passed on two indicators: earnings and formal qualifications. Third, SOC 3221 physiotherapists passed on two indicators: earnings and formal qualifications. Two occupations were removed: SOC 3222 occupational therapists and SOC 3229 therapists (not elsewhere classified) both passed only one indicator, that of formal qualifications.

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Table 4.2: List of 4-digit SOC 2000 occupations skilled to NQF6+ (preliminary list based on partial top-down analysis)

| SOC Code | Occupation | Employment (000s) | Top-down indicators passed |
|----------|---|-------------------|----------------------------|
| 1111 | Senior officials in national government | 5 | 3 |
| 1112 | Directors and chief executives of major organisations | 69 | 3 |
| 1113 | Senior officials in local government | 16 | 3 |
| 1114 | Senior officials of special interest organisations | 11 | 3 |
| 1121 | Production, works and maintenance managers | 463 | 2 |
| 1122 | Managers in construction | 96 | 2 |
| 1123 | Managers in mining and energy | 10 | 3 |
| 1131 | Financial managers and chartered secretaries | 281 | 3 |
| 1132 | Marketing and sales managers | 596 | 3 |
| 1133 | Purchasing managers | 38 | 3 |
| 1134 | Advertising and public relations managers | 30 | 3 |
| 1135 | Personnel, training and industrial relations managers | 101 | 3 |
| 1136 | Information and communication technology managers | 172 | 3 |
| 1137 | Research and development managers | 40 | 3 |
| 1141 | Quality assurance managers | 32 | 3 |
| 1142 | Customer care managers | 74 | 2 |
| 1151 | Financial institution managers | 128 | 2 |
| 1152 | Office managers | 315 | 2 |
| 1161 | Transport and distribution managers | 58 | 2 |
| 1171 | Officers in the armed forces | Unknown | 3 |
| 1172 | Police officers (inspectors and above) | 17 | 3 |
| 1173 | Senior officers in fire, ambulance, prison and related services | 15 | 2 |
| 1174 | Security managers | 11 | 2 |
| 1181 | Hospital and health service managers | 55 | 3 |
| 1182 | Pharmacy managers | 11 | 3 |
| 1184 | Social services managers | 15 | 3 |
| 1212 | Natural environment and conservation managers | Unknown | 2 |
| 2111 | Chemists | 28 | 3 |
| 2112 | Biological scientists and biochemists | 53 | 3 |
| 2113 | Physicists, geologists and meteorologists | 14 | 3 |
| 2121 | Civil engineers | 56 | 3 |
| 2122 | Mechanical engineers | 38 | 3 |
| 2123 | Electrical engineers | 25 | 2 |

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Table 4.2: List of 4-digit SOC 2000 occupations skilled to NQF6+ (preliminary list based on partial top-down analysis) (continued)

| SOC Code | Occupation | Employment (000s) | Top-down indicators passed |
|----------|--|-------------------|----------------------------|
| 2124 | Electronics engineers | 10 | 3 |
| 2125 | Chemical engineers | Unknown | 3 |
| 2126 | Design and development engineers | 63 | 3 |
| 2127 | Production and process engineers | 38 | 2 |
| 2128 | Planning and quality control engineers | 42 | 2 |
| 2129 | Engineering professionals n.e.c.* | 121 | 3 |
| 2131 | IT strategy and planning professionals | 96 | 3 |
| 2132 | Software professionals | 295 | 3 |
| 2211 | Medical practitioners | 163 | 3 |
| 2212 | Psychologists | 17 | 3 |
| 2213 | Pharmacists/pharmacologists | 25 | 3 |
| 2214 | Ophthalmic opticians | 5 | 3 |
| 2215 | Dental practitioners | Unknown | 3 |
| 2216 | Veterinarians | 9 | 3 |
| 2311 | Higher education teaching professionals | 103 | 3 |
| 2312 | Further education teaching professionals | 99 | 3 |
| 2313 | Education officers, school inspectors | 12 | 3 |
| 2314 | Secondary education teaching professionals | 342 | 3 |
| 2315 | Primary and nursery education teaching professionals | 327 | 3 |
| 2316 | Special needs education teaching professionals | 26 | 3 |
| 2317 | Registrars and senior administrators of educational establishments | 22 | 3 |
| 2319 | Teaching professionals n.e.c.* | 32 | 3 |
| 2321 | Scientific researchers | 33 | 3 |
| 2322 | Social science researchers | Unknown | 2 |
| 2329 | Researchers n.e.c.* | 80 | 3 |
| 2411 | Solicitors and lawyers, judges and coroners | 100 | 3 |
| 2419 | Legal professionals n.e.c.* | 12 | 3 |
| 2421 | Chartered and certified accountants | 70 | 3 |
| 2422 | Management accountants | 11 | 3 |
| 2423 | Management consultants, actuaries, economists and statisticians | 130 | 3 |
| 2431 | Architects | 30 | 3 |
| 2432 | Town planners | 11 | 3 |
| 2433 | Quantity surveyors | 24 | 3 |
| 2434 | Chartered surveyors (not quantity surveyors) | 55 | 3 |
| 2441 | Public service administrative professionals | 27 | 3 |
| 2442 | Social workers | 85 | 3 |
| 2443 | Probation officers | 11 | 3 |

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Table 4.2: List of 4-digit SOC 2000 occupations skilled to NQF6+ (preliminary list based on partial top-down analysis) (continued)

| SOC Code | Occupation | Employment (000s) | Top-down indicators passed |
|----------|--|-------------------|----------------------------|
| 2444 | Clergy | 26 | 2 |
| 2451 | Librarians | 12 | 2 |
| 2452 | Archivists and curators | 7 | 2 |
| 3212 | Midwives | 26 | 2 |
| 3214 | Medical radiographers | 19 | 2 |
| 3215 | Chiropodists | 5 | 2 |
| 3221 | Physiotherapists | 25 | 2 |
| 3223 | Speech and language therapists | 5 | 2 |
| 3415 | Musicians | Unknown | 2 |
| 3416 | Arts officers, producers and directors | 10 | 2 |
| 3431 | Journalists, newspaper and periodical editors | 32 | 2 |
| 3432 | Broadcasting associate professionals | 15 | 2 |
| 3512 | Aircraft pilots and flight engineers | 9 | 2 |
| 3532 | Brokers | 22 | 2 |
| 3534 | Finance and investment analysts/advisers | 73 | 2 |
| 3535 | Taxation experts | 6 | 2 |
| 3565 | Inspectors of factories, utilities and trading standards | 5 | 2 |
| 3568 | Environmental health officers | 9 | 2 |

Note: Employment figures refer to working age, full-time employees only and are rounded to the nearest thousand. *Not elsewhere classified

Source: MAC analysis of the Labour Force Survey, 2008 Q4 – 2011 Q3 and Office for National Statistics (2011g)

4.26 It is important to note that Table 4.2 is not our final list of NQF6+ occupations for the purposes of this report, for reasons discussed below.

as being skilled to NQF4+, 33 were found, according to our top-down analysis, not to be skilled to NQF6+. These occupations are listed in Table 4.3.

Occupations skilled to NQF4+ but not NQF6+

4.27 Migration Advisory Committee (2011a) provided a list of 121 occupations skilled to NQF4+. It identified 34 of these as not skilled to NQF6+. Our current analysis yields very similar results. Of the occupations previously identified

Chapter 4: Raising the skill level of Tier 2 to NQF6+

Table 4.3: List of 4-digit SOC 2000 occupations skilled at NQF4+ but not NQF6+ (preliminary list based on partial top-down analysis)

| SOC Code | Occupation | Employment (000s) | Indicators passed |
|----------|---|-------------------|-------------------|
| 1183 | Healthcare practice managers | 9 | 1 |
| 1185 | Residential and daycare managers | 42 | 1 |
| 1219 | Managers in animal husbandry, forestry and fishing | Unknown | 0 |
| 1222 | Conference and exhibition managers | 14 | 1 |
| 1231 | Property, housing and land managers | 83 | 1 |
| 1235 | Recycling and refuse disposal managers | 6 | 1 |
| 1239 | Managers and proprietors in other services n.e.c. | 101 | 1 |
| 3121 | Architectural technologists and town planning technicians | 16 | 1 |
| 3123 | Building inspectors | 5 | 0 |
| 3131 | IT operations technicians | 98 | 1 |
| 3211 | Nurses | 449 | 1 |
| 3213 | Paramedics | 18 | 1 |
| 3218 | Medical and dental technicians | 19 | 0 |
| 3222 | Occupational therapists | 16 | 1 |
| 3229 | Therapists n.e.c. | 11 | 1 |
| 3319 | Protective service associate professionals n.e.c. | 14 | 0 |
| 3411 | Artists | 5 | 1 |
| 3412 | Authors, writers | 12 | 1 |
| 3413 | Actors, entertainers | Unknown | 1 |
| 3414 | Dancers, choreographers | Unknown | 0 |
| 3422 | Product, clothing and related designers | 18 | 1 |
| 3433 | Public relations officers | 19 | 1 |
| 3513 | Ship and hovercraft officers | Unknown | 1 |
| 3531 | Estimators, valuers and assessors | 43 | 0 |
| 3537 | Financial and accounting technicians | 19 | 1 |
| 3539 | Business and related associate professionals | 81 | 1 |
| 3541 | Buyers and purchasing officers | 47 | 0 |
| 3543 | Marketing associate professionals | 81 | 1 |
| 3551 | Conservation and environmental protection officers | 19 | 1 |
| 3561 | Public service associate professionals | 102 | 1 |
| 3564 | Careers advisers and vocational guidance specialists | 10 | 1 |
| 3566 | Statutory examiners | 8 | 0 |
| 3567 | Occupational hygienists and safety officers (health and safety) | 23 | 1 |

Note: n.e.c. - Not elsewhere classified. Employment figures refer to working age, full-time employees only and are rounded to the nearest thousand.

Source: MAC analysis of the Labour Force Survey, 2008 Q4–2011 Q3 and Office for National Statistics (2011)

Incorporating skill levels under SOC 2010 into the top-down analysis

4.28 In addition to evidence received from partners relating to the skill level of occupations which we

present in section 4.3, there may be grounds to reclassify certain occupations on the basis that the calculations of the threshold values used in our top-down analysis are calculated using SOC

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2000. This classification was revised and updated in 2010 and is currently in the process of being adopted within the main national labour market datasets. The LFS has been available in SOC 2010 since early 2011, while ASHE will be published in the new classification in early 2012. The MAC will adopt SOC 2010 when these full datasets are available.

4.29 Specifically, whereas nurses do not classify as NQF6+ on our top-down criteria when using SOC 2000, using SOC 2010, nurses would pass the necessary two out of three indicators, having been reclassified to a higher SOC skill level (SOC skill 4). This implies that there might be a strong case for incorporating nurses on the NQF6+ list. Likewise, SOC 3222

occupational therapists, SOC 3229 therapists (not elsewhere classified) and SOC 3433 public relations officers/professionals have also been reclassified to skill level 4 in SOC 2010. On the basis of their SOC 2010 classification these occupations would pass two out of three indicators.

4.30 Further, SOC 1152 office managers, SOC 1142 customer care managers and SOC 1174 security managers have been reclassified to lower skill levels in SOC 2010. On the same basis, these now pass only one indicator, implying that there is a case for not including them on the list of occupations skilled to NQF6+. The resulting changes are summarised in Table 4.4.

Table 4.4: SOC 2010 skill reclassifications affecting the top-down analysis of NQF6+ occupations

| SOC 2000 Code | SOC 2010 Code | Occupation | SOC 2000 skill | SOC 2010 skill |
|---|---------------|---------------------------------------|----------------|----------------|
| To be added to the list of occupations skilled to NQF6+ in Table 4.2 | | | | |
| 3211 | 2231 | Nurses | 3 | 4 |
| 3222 | 2222 | Occupational therapists | 3 | 4 |
| 3229 | 2229 | Therapists (not elsewhere classified) | 3 | 4 |
| 3433 | 2472 | Public relations officers | 3 | 4 |
| To be removed from the list of occupations skilled to NQF6+ in Table 4.2 | | | | |
| 1142 | 7220 | Customer care managers | 4 | 2 |
| 1152 | 4161 | Office managers | 4 | 2 |
| 1174 | 3319* | Security managers | 4 | 3 |

Note: Security managers become a job title within SOC 3319 Protective service associate professionals (not elsewhere classified).

4.31 We have, for this report, been able to incorporate evidence relating to the most straightforward relevant changes between SOC 2000 and SOC 2010. SOC 2010 creates a number of new SOC 4-digit occupations – for example, chefs and cooks are identified separately

as SOC 5434 and 5435. Further, SOC 2010 reclassifies a range of job titles, notably project management roles which were reclassified from SOC major group 1 to 2. New 4-digit SOC codes were created to contain certain job titles within this group, for example

SOC 2424 business and financial project management professionals and SOC 2436 construction project managers and related professionals. These changes cannot be incorporated within our analysis until ASHE becomes available in the new classification.

4.3 Responses to our call for evidence

4.32 When we previously examined skill levels in Tier 2, (Migration Advisory Committee 2011a) we assessed bottom-up evidence of skill to ensure that any skilled occupations not identified in our top-down approach could still be considered for inclusion on the final list of skilled occupations. However, our assessment of the bottom-up evidence did not result in any occupations being added to the list generated by the top-down approach. This is because the bottom-up evidence we received either corroborated our top-down analysis, or was not considered sufficiently strong to override it.

4.33 We then took into account information on earnings and qualifications relating to specific job titles within an occupation. We also considered two further indicators of skill: on-the-job training or experience; and innate ability, which cannot be measured using national-level data.

4.34 While our general presumption remains that if a specific job title falls within one of the occupations identified as skilled to NQF6+ the job title itself would be skilled to NQF6+, we nevertheless acknowledge that certain job titles within an occupation skilled to NQF4+ (or, in principle, even below

that level) may be skilled to NQF6+. However, the lack of top-down evidence means that strong bottom-up evidence is required to demonstrate this.

4.35 To answer the question set to us by Government this time, we asked partners for their views on our methodology, and whether the list of occupations skilled to NQF4+ but not to NQF6 was appropriate.

4.36 Our call for evidence for this review gave partners the opportunity to provide us with new information to improve and refine the top-down analysis based on the three indicators.

4.37 The list of occupations identified as skilled to NQF4+ but not NQF6+ in Migration Advisory Committee (2011a) was set out in our call for evidence document, providing partners with the opportunity to comment if they believed occupations had been misclassified in that analysis. Such comments as we received tended to argue either that:

- an occupation as a whole was incorrectly misclassified as not skilled to NQF6+ in the top-down analysis;
- specific jobs or job titles within an occupation not skilled to NQF6+ were actually skilled to that level (or, more generally, that the SOC 2000 categories are too broad to draw appropriate distinctions between different levels of skill); and/or
- the salary level required because of the increase in skill level was too high for certain groups of workers such as

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trainees and entry-level PhD jobs.

4.38 We received evidence on quite a number of the occupations listed in Table 4.2 and Table 4.3 but do not reproduce all the evidence here. Rather we present a selection to illustrate the difficulties of delineating which occupations are skilled to the higher level, and also the potential impacts of removing some of these occupations from Tier 2. Were the Government to raise the skill level, there would be potential merit in considering this evidence in more depth and investigating further where necessary. This report should therefore not be considered a comprehensive review of all the occupations that would be excluded by a rise in skill level.

4.39 A number of responses we received from partners suggested that the list of occupations considered skilled to NQF6+ in Migration Advisory Committee (2011a) did not reflect the true skill level of certain occupations.

“We do not believe that the list accurately reflects the true skill and qualification of Nurses and medical technicians, which we believe to be NQF6+. We suggest that the formal skill level should be accepted as NQF6+ based on the activities taken to reposition Nursing as a graduate only career (to new entrants).”

Department of Health response to MAC call for evidence

4.40 The Department of Health stated that although the current workforce of nurses (SOC 3211) does not yet hit the required proportion qualified to NQF6+ at this time, all new entrants to the profession require

this level of qualification.

Meanwhile, although existing staff will not all hold NQF6+ qualifications, the majority of professionals will have a level of skill developed on the job which qualifies them to undertake highly specific and skilled roles in the workplace. Whilst on paper new graduates will be educated to a higher level, they will not initially have this skill and experience. Continental Travelnurse Ltd also pointed out that foreign nurses have always been required to have a Bachelor’s degree in nursing. It is therefore hard to argue that the existing workforce does not meet NQF6+, and using SOC 2010 they would indeed reach this skill level. As described above, incorporating SOC 2010 into our top-down analysis confirms that nurses are skilled to NQF6+.

4.41 The Department of Health also stated that medical technicians within the occupation medical and dental technicians (SOC 3218) should be classified as NQF6+ and argued that they pass on two skill indicators (SOC level and qualifications). However, we found that this occupation does not pass on any of the three skill indicators, and within SOC 2010 this occupation remains at the same skill level as in SOC 2000. There may be job titles within the category which are more highly skilled but further bottom-up evidence would be required to support this.

4.42 We received evidence from partners who argued that there are specific roles or job titles that are highly skilled within an occupation not found to be skilled to NQF6+. It was suggested to us that these

more skilled roles could be identified by means of a salary threshold above those already applied to the Tier 2 routes.

“I suggest that where a general Sector may not be above NQF6+, allowance be made for particularly senior/skilled staff by allowing sponsorship for those earning more than a certain salary in the £40k – 50k pa range.”

J. Dunlop & Co response to MAC call for evidence

agriculture risks being isolated from new techniques and the application of new technologies.

“Managers in animal husbandry, forestry and fishing’, SOC code 1219, is in our view skilled to NQF6+. ... By way of example it is generally reckoned that a fully competent dairy farm manager will have undertaken in combination about 10 years of education, training and vocational experience.”

National Farmers Union response to MAC call for evidence

4.43 Other occupations listed in Table 4.3 that partners objected to not being included in Tier 2 include some from land-based and environmental sectors. Lantra highlighted that posts under SOC 1219 managers in animal husbandry, forestry and fishing and SOC 3551 conservation and environmental protection officers are already very hard to fill. They stated that losing these from Tier 2 would make this even more difficult and potentially affect exchange programmes between non-EU countries and the UK. They also explained that there are some very specialist roles within these SOC codes and that international working and the transfer of knowledge for these sectors is vital.

4.44 The National Farmers Union suggested that, overall, the indicators of skill do not take account of experience required to do certain jobs. They suggested that a sector such as agriculture needs the thresholds to take more account of the number of years of experience that people require to do the jobs. They stated that without the international transfer of skills that migrants can bring,

4.45 We also received less detailed evidence on the following occupations:

- Estimators and valuers, within the occupation estimators, valuers and assessors (SOC 3531) and financial and accounting technicians (SOC 3537):
PricewaterhouseCoopers stated that removing them from Tier 2 would harm the recovery of the economy as these roles play an important part in supporting both large businesses and SMEs.
- IT operations technicians (SOC 3131):
PricewaterhouseCoopers argued that these should be recognised as NQF6+. They told us that declassifying this group as a ‘graduate profession’ undermines the Government’s aim of the UK becoming an advanced technological hub. They stated that job titles within the SOC code are highly specialised and require in-depth technical

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understanding alongside commercial acumen. They highlighted that preventing IT technicians from coming to the UK could hinder efforts to develop commercial links with India, one of the world's fastest-growing economies.

the job title itself can be demonstrated to be skilled to NQF4+. In this review we have assumed that if the skill level of the shortage occupation route was raised to NQF6+, job titles skilled to NQF6+ within non-NQF6+ occupations could still qualify for the shortage occupation list.

The shortage occupation list

4.46 As described in Chapter 2, a specific job title within an occupation not skilled to NQF4+ can nevertheless qualify for the shortage occupation list if, in addition to meeting other criteria,

4.47 Occupations identified as not being skilled to NQF6+ that are associated with job titles on the UK Border Agency shortage occupation list are shown in Table 4.5, along with the specific job titles in each case.

Table 4.5: UK Border Agency shortage occupation list occupations and job titles not skilled at NQF6+

| SOC Code | Occupation and Job Titles |
|----------|--|
| 3113 | Engineering technicians Commissioning engineer Substation electrical engineer |
| 3218 | Medical and dental technicians Nuclear medicine technologist Radiotherapy technologist |
| 3411 | Artists Animator in visual effects and 2D/3D computer animation |
| 3414 | Dancers and choreographers Skilled classical ballet dancers Skilled contemporary dancers |
| 3421 | Graphic designers Roles within visual effects and 2D/3D computer animation |
| 3541 | Buyers and purchasing officers Manufacturing engineer (purchasing) in the aerospace sector |
| 5215 | Welding trades Experienced high integrity pipe welders |
| 5223 | Metal working, production and maintenance fitters Licensed and military certifying engineer / inspector technician |
| 5243 | Line repairers and cable jointers Overhead linesworker |
| 5434 | Chefs, cooks Skilled chefs |

Notes: Some of the job titles included above have specific entry criteria associated with them. For example, skilled chefs are defined as those individuals with pay of at least £28,260 per year and where they have at least five or more years of relevant experience in a role of equivalent status. Source: UK Border Agency shortage occupation list (2011b)

4.48 In response to our call for evidence we received evidence about the overall skill level of dancers and choreographers (SOC 3414). On the list presented in this report dancers are not qualified to NQF6+. Defined skilled dancers are currently on the shortage occupation list.

4.49 The Society of London Theatre (SOLT), Theatrical Management Association (TMA) Dance UK and the Independent Theatre Council (ITC) responded in a joint submission to the MAC. We also met with the Chief Executive of the Rambert Dance Company, the Director of Dance UK, the Company Manager of the Royal National Ballet, the Human Resources Manager of the Royal Opera House and the Legal Affairs team at TMA. The group explained that having access to the top international dancers via the Tier 2 (General) route is essential for maintaining the world-class standards and reputation of British dance, along with the tourism and ticket sales benefits that this brings.

4.50 Under the top-down criteria for determining skill level, dancers and choreographers do not qualify as NQF6+ because their salaries are too low, and they do not have relevant academic qualifications. However, the dance companies strongly argued that the bottom-up criteria, on the job training or experience required to carry out the job, and the level of innate ability, were most relevant to these roles. Academic qualifications (even in dance related subjects) are not relevant to the practicalities of being a professional dancer, and salaries

are low compared to the commercial sector as dance companies either have charitable status or are publicly funded.

“We are concerned that the current methodology does not recognise the supreme degree of skill required by dancers in our leading dance companies...Dancers have commonly had 13 to 16 years of training before they reach the lowest entry level position in a leading company.”

The Society of London Theatre, Theatrical Management Association, Dance UK and the Independent Theatre Council response to MAC call for evidence

4.51 Partners suggested that the definition of a skilled dancer which is already used in the shortage occupation list (employment in an expert company) could also be extended to Tier 2 more generally. Using the employer to validate a person’s skill would be similar to the approach taken for Tier 1 where certain expert organisations are trusted to judge whether the individual is sufficiently skilled for the role.

4.52 Although for this review we have not systematically considered which types of dancers are skilled to NQF6+, it is clear that the characteristics of artistic and creative industries mean that top-down indicators of skill do not necessarily give an accurate reflection of the skill required for these roles. There may therefore be merit in considering whether they require separate treatment within the PBS, whether this be within Tier 2 or a separate route.

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We understand that the Government is considering this.

- 4.53 UK Screen Association and Skillset provided a joint response to argue that the visual effects (VFX) job titles on the shortage list, which would not be in occupations judged to be NQF6+ according to our thresholds, should be maintained. They provided evidence on qualifications and earnings of each job title and argued that the figures in the analysis do not reflect the reality of the skilled roles currently on the shortage list.

“The SOC 2000 skill level definitions do not take into account the evolution and increasing complexity of the VFX industry over the last decade. The VFX titles comprise roles which require advanced technical skills, significant creative flair, solid industry credentials/ track record or a combination of all of the above in order to execute work at the highest level demanded by industry.”

UK Screen Association and Skillset response to MAC call for evidence

- 4.54 Should the skill level be raised, they forecast a reduction in income of up to 30-35 per cent for their members as they would not be able to compete successfully without the staff they require. They also believe there would be wider impacts, as without the ability to recruit talent globally to sell, plan and fulfil VFX inward investment projects, the attractiveness of the UK film industry would be reduced and its reputation would be damaged.
- 4.55 The National Grid argued that restricting commissioning engineers and substation electrical engineers within SOC (3113) engineering technicians would have significant implications on their ability to deliver on their capital plan and key business objectives. They have just launched a campaign to recruit these skills from outside the UK for the first time in four years.
- 4.56 The trade group for UK aerospace, defence, security and space industries (ADS group), reported that losing manufacturing engineer (purchasing) in the aerospace sector (SOC 3541) and licensed and military certifying engineer/inspector technician (SOC 5223) from Tier 2 would severely limit the sector’s ability to purchase technical components from the global supply chain, and the ability to continue maintaining aircraft in the UK. They stated that the aerospace, defence, security and space sectors represent 23 per cent of UK manufacturing and high-value services. These are high growth sectors of scale with a collective turnover of £54bn.
- 4.57 Aeropeople Ltd was also concerned about losing these two job titles off the shortage occupation list. They argued that highly-skilled workers in their industries are not all required to have vocational qualifications but can still be excellent engineers. They state that if the level is raised and they can no longer get their skilled workers, then contracts would be lost to foreign facilities. This would impact on UK workers. They also note that foreign workers have supported several immediate operational

requirements for the RAF which would otherwise have been compromised.

4.58 We did not gather sufficient bottom-up evidence to justify amending the top-down list of NQF6+ occupations listed in section 4.2. We discuss potential next steps in relation to the bottom-up evidence in the conclusions to this chapter. In the meantime, our list of NQF6+ occupations is based on top-down analysis and analysis of skill levels in SOC 2010 alone. The resulting list of occupations skilled to NQF6+ is provided in Table B.1 in Annex B to this report.

4.4 Assessing the impact

4.59 In this section, we estimate the impact of raising the skill requirement for Tier 2 from NQF4+ to NQF6+ (based on the list of occupations in Table B.1) upon future out-of-country visa grants. We use UK Border Agency management information for Tier 2 (General) and intra-company transfer main applicants who used Certificates of Sponsorship (CoS) over the period 6 April 2011 to 31 December 2011. We have filtered these data to exclude individuals who would not meet the current rules for these routes because their CoS was allocated prior to April 2011.

4.60 Table 4.6 presents CoS used by out-of-country shortage occupation, RLMT, short-term

intra-company transfer and long-term intra-company transfer main applicants in occupations skilled to NQF4+ but not NQF6+, over the period 6 April 2011 to 31 December 2011. A total of 1,554 out-of-country main applicants used Certificates of Sponsorship for occupations skilled to NQF4+ but not NQF6+ over this period, representing 7 per cent of total CoS used by out-of-country main applicants in these routes. A relatively high proportion of shortage occupation route migrants would have been excluded (17 per cent).

4.61 Table 4.7 presents CoS used by out-of-country, main applicants in occupations represented on the shortage occupation list skilled to NQF4+ but not to NQF6+, split by occupation. In terms of the shortage occupation route, the occupation likely to be most affected by a rise in the skill threshold to NQF6+ is chefs and cooks (SOC 5434).

4.62 Table 4.8 presents CoS used by out-of-country RLMT, short-term intra-company transfer and long-term intra-company transfer main applicants, in occupations skilled to NQF4+ but not to NQF6+ split by occupation. Of these routes, the occupations likely to be affected most by a rise in the skill threshold to NQF6+ are IT operations technicians (SOC 3131) and business and related associate professionals not elsewhere classified (SOC 3539).

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Table 4.6: Certificate of Sponsorship used by out-of-country shortage occupation, RLMT and intra-company transfer main applicants in occupations skilled to NQF4+ but not NQF6+, 6 April-31 December 2011

| Tier 2 route | CoS used in occupation skilled to NQF4+ but not NQF6+ (A) | Total CoS used (B) | Percentage of total CoS used in occupations skilled to NQF4+ but not NQF6+ (A)/(B) |
|-----------------------------------|---|--------------------|--|
| Intra-company transfer short-term | 580 | 6,420 | 9 |
| Intra-company transfer long-term | 511 | 9,383 | 5 |
| RLMT | 331 | 5,100 | 6 |
| Shortage occupation | 133 | 786 | 17 |
| Total | 1,555 | 21,659 | 7 |

Notes: Applicants are required to meet the criteria for Tier 2 at the point of being allocated Certificates of Sponsorship (CoS). As a consequence, data for the period covered included some individuals who met the pre-6 April 2011 rules for Tier 2 but would not have met the new rules introduced on 6 April 2011. These data have therefore been filtered to exclude individuals that would not have met the current Tier 2 rules.

First, a main applicant to the RLMT route has been excluded if the occupation is not skilled to National Qualification Framework level 4 or above (NQF4+) and/or earnings in the job are less than £20,000 per year and/or they are clergy (who would use the Tier 2 minister of religion route).

Second, a main applicant to the shortage occupation route has been excluded if the occupation is not on the shortage occupation list as at 14 November 2011 and/or earnings in the job are less than £20,000 per year and/or are chefs or cooks earning less than £28,260 per year.

Third, a main applicant to the long-term intra-company transfer route has been excluded if their occupation is not skilled to NQF4+ and/or earnings in the job are less than £40,000 per year.

Fourth, a main applicant to the short-term intra-company transfer route has been excluded if their occupation is not skilled to NQF4+ and/or earnings in the job are less than £24,000 per year.

Earnings include both regular pay and allowances.

Not all the individuals using Certificates of Sponsorship may be granted visas since some may have their visas applications rejected. Furthermore, even where a visa is granted, a person may not travel to the UK and on arrival they may also not be admitted.

All figures quoted are management information which have been subject to internal quality checks, but have not been quality assured. As much of the input data (for example salary levels) is self declared by the sponsor, UK Border Agency is not able to validate the quality of the source information, and we are advised by UK Border Agency that data quality anomalies could impact on the findings. These data are provisional and subject to change.

Source: UK Border Agency management information April 2011-December 2011

Chapter 4: Raising the skill level of Tier 2 to NQF6+

Table 4.7: Certificate of Sponsorship used by out-of-country main applicants for job titles on the shortage occupation list, in occupations skilled to NQF4+ but not NQF6+, split by occupation, 6 April- 31 December 2011

| SOC Code | Occupation | CoS used |
|--------------|--|------------|
| 3113 | Engineering technicians | 1 |
| 3218 | Medical and dental technicians | 3 |
| 3411 | Artists | 0 |
| 3414 | Dancers and choreographers | 11 |
| 3421 | Graphic designers | 1 |
| 3541 | Buyers and purchasing officers | 0 |
| 5215 | Welding trades | 0 |
| 5223 | Metal working production and maintenance fitters | 25 |
| 5243 | Lines repairers and cable jointers | 27 |
| 5434 | Chefs, cooks | 65 |
| Total | | 133 |

Note: This is a full list of occupations skilled to NQF4+ but not NQF6+ which have job titles included on the shortage occupation list, and hence zero value returns have been included. See notes in Table 4.6 for details of UK Border Agency management information data and the restrictions that have been applied. All figures quoted are management information which have been subject to internal quality checks, but have not been quality assured. As much of the input data (for example salary levels) is self declared by the sponsor, UK Border Agency is not able to validate the quality of the source information, and we are advised by UK Border Agency that data quality anomalies could impact on the findings.

These data are provisional and subject to change.

Occupations are grouped by 4-digit 2000 Standard Occupational Classifications (SOC) as defined by the Office for National Statistics.

Source: UK Border Agency management information data, April-December 2011.

Table 4.8: Certificate of Sponsorship used by out-of-country RLMT, short-term intra-company transfer and long-term intra-company transfer main applicants in occupations skilled to NQF4+ but not NQF6+, split by occupation, 6 April-31 December 2011

| SOC Code | Occupation title | Intra-company transfer route | | RLMT route |
|----------|---|------------------------------|-----------|------------|
| | | Short-term | Long-term | |
| 1142 | Customer care managers | 64 | 52 | 23 |
| 1152 | Office managers | 26 | 111 | 43 |
| 1174 | Security managers | 1 | 1 | 4 |
| 1183 | Healthcare practice managers | 0 | 0 | 8 |
| 1185 | Residential and day care managers | 0 | 0 | 13 |
| 1219 | Managers in animal husbandry, forestry and fishing n.e.c. | 0 | 1 | 3 |
| 1222 | Conference and exhibition managers | 3 | 4 | 7 |
| 1231 | Property, housing and land managers | 2 | 6 | 1 |
| 1235 | Recycling and refuse disposal managers | 1 | 1 | 0 |
| 1239 | Managers and proprietors in other services n.e.c. | 5 | 10 | 35 |

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Table 4.8: Certificate of Sponsorship used by out-of-country RLMT, short-term intra-company transfer and long-term intra-company transfer main applicants in occupations skilled to NQF4+ but not NQF6+, split by occupation, 6 April-31 December 2011 (continued)

| SOC Code | Occupation title | Intra-company transfer route | | RLMT route |
|----------|---|------------------------------|-----------|------------|
| | | Short-term | Long-term | |
| 3121 | Architectural technologists and town planning technicians | 2 | 0 | 7 |
| 3123 | Building inspectors | 0 | 0 | 0 |
| 3131 | IT operations technicians | 185 | 136 | 31 |
| 3213 | Paramedics | 0 | 0 | 0 |
| 3218 | Medical and dental technicians | 0 | 0 | 2 |
| 3319 | Protective service associate professionals n.e.c. | 0 | 0 | 0 |
| 3411 | Artists | 3 | 1 | 1 |
| 3412 | Authors, writers | 0 | 0 | 8 |
| 3413 | Actors, entertainers | 1 | 1 | 1 |
| 3414 | Dancers and choreographers | 0 | 0 | 1 |
| 3422 | Product, clothing and related designers | 4 | 5 | 18 |
| 3513 | Ship and hovercraft officers | 5 | 8 | 0 |
| 3531 | Estimators, valuers and assessors | 2 | 1 | 0 |
| 3537 | Financial and accounting technicians | 104 | 21 | 12 |
| 3539 | Business and related associate professionals n.e.c. | 138 | 83 | 43 |
| 3541 | Buyers and purchasing officers | 10 | 7 | 12 |
| 3543 | Marketing associate professionals | 22 | 50 | 54 |
| 3551 | Conservation and environmental protection officers | 1 | 2 | 0 |
| 3561 | Public service associate professionals | 0 | 0 | 1 |
| 3564 | Careers advisers and vocational guidance specialists | 0 | 0 | 1 |
| 3566 | Statutory examiners | 0 | 0 | 0 |
| 3567 | Occupational hygienists and safety officers (health and safety) | 1 | 10 | 2 |
| Totals | | 580 | 511 | 331 |

Note: n.e.c. - Not elsewhere classified. This is a full list of occupations skilled to NQF4+ but not NQF6+, and hence zero value returns have been included. See notes in Table 4.6 for details of UK Border Agency management information data and the restrictions that have been applied. All figures quoted are management information which have been subject to internal quality checks, but have not been quality assured. As much of the input data (for example salary levels) is self declared by the sponsor, UK Border Agency is not able to validate the quality of the source information, and we are advised by UK Border Agency that data quality anomalies could impact on the findings. These data are provisional and subject to change. Occupations are grouped by 4-digit 2000 Standard Occupational Classifications (SOC) as defined by the Office for National Statistics.

Source: UK Border Agency management information data, April-December 2011.

4.5 Conclusions

Occupations skilled to NQF6+

- 4.63 We carried out top-down analysis to identify Standard Occupational Classification (SOC) 2000 occupations skilled to NQF6+. NQF6+ corresponds to Bachelor's degree level. We then made some amendments to this list to reflect changes to skill levels for certain occupations in the new SOC 2010 classification.
- 4.64 Overall we identified 89 occupations as skilled to NQF6+. A full list of these occupations is provided in Table B.1 of Annex B to this report. This differs from the 87 occupations that were found to be skilled to that level in February 2011 (Migration Advisory Committee, 2011a) as follows (all SOC codes quoted relate to SOC 2000):
- We add journalists, newspaper and periodical editors (SOC 3431), public relations officers (SOC 3433), nurses (SOC 3211) and physiotherapists (SOC 3221) to the February 2011 list.
 - We remove customer care managers (SOC 1142) and security managers (SOC 1174) from the February 2011 list.
 - Occupational therapists (SOC 3222) and therapists (not elsewhere classified) (SOC 3229) are considered skilled to NQF6+ on the basis of SOC 2010. They were already included on the February 2011 list.
- Office managers (SOC 1152) cannot be considered skilled to NQF6+ on the basis of SOC 2010. They were not included on the February 2011 list.
- 4.65 Although we received and considered bottom-up evidence on some of the occupations above, all of the changes listed can be justified solely on the basis of incorporation of up-to-date, top-down data and impartial analysis of skill levels in SOC 2010.
- 4.66 Thirty-two occupations previously identified as skilled to NQF4+ are found not to be skilled to NQF6+. Our partners argued that some occupations, including some of those on the list of 32, are skilled to NQF6+. Some that have been argued to be skilled to NQF6+ are occupations in the land-based and environmental sectors, estimators and valuers, financial and accounting technicians and IT technicians. We use five indicators of skill, only three of which can be identified in the national data. Those indicators that we cannot measure may be relevant in some cases.
- 4.67 However, we are unable to state definitively at this stage that any of the 32 excluded occupations discussed above are skilled to NQF6+. If the Government decides to raise the skill level of Tier 2 to NQF6+, we would be willing to carry out a review of the skill level of the relevant occupations.
- 4.68 In addition, the creative and artistic nature of some of the occupations not identified as skilled to NQF6+ and yet argued to require high levels of specific skills means that there would be

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merit to considering whether they require separate treatment within the PBS. However, for this review we have not given detailed consideration to what that might entail. We understand that the Government is considering this.

- 4.69 Assuming the Government does raise the skill level for Tier 2 to NQF6+, some additional questions arise. Within some non-NQF6+ occupations (once they are confirmed as such) there will still be individual jobs or job titles skilled to NQF6+. The shortage occupation route is discussed separately below. In relation to the intra-company transfer and RLMT routes, potential options are to:
- exclude such job titles from Tier 2, on the basis of simplicity and that they are not suffering from a demonstrated national labour shortage (and hence are not on the shortage occupation route);
 - make NQF6+ job titles in non-NQF6+ occupations eligible for the intra-company transfer and RLMT routes; or
 - allow jobs in occupations skilled to NQF4+ but not NQF6+ to remain eligible for those routes, but subject to a higher minimum salary level than the current Tier 2 (General) minimum of £20,000 per year: our top-down analysis finds the lower salary threshold for NQF6+ occupations to be £33,369 per year.
- 4.70 If required, we could advise further on the above.

Job titles in non-NQF6+ occupations on the shortage occupation list

- 4.71 There are 13 job titles spread across 10 occupations on the current shortage occupation list where the occupation itself is not on the list of 89 confirmed above as skilled to NQF6+; they are listed in Table 4.5.
- 4.72 We have not carried out a systematic review of these job titles to assess whether they are skilled to level NQF6+. If the Government decides to raise the skill level of Tier 2 to NQF6+, potential options are as follows:
- To exempt the shortage occupation list from the NQF6+ requirement, keeping the required skill level for that route at its current level of NQF4+.
 - To do as above, but as a transitional measure only: job titles currently on the list would be allowed to remain there for a period of time, but new job titles would only be added to the list subject to evidence being provided that they meet the required skill level for Tier 2.
 - To immediately commission a review of all job titles on the shortage occupation list, with a view to removing those not skilled to NQF6+.
- 4.73 Again, we could, if necessary, be commissioned to review the skill level of current job titles on the shortage occupation list.

Impact of raising the skill level of Tier 2

- 4.74 In the Labour Force Survey (LFS) Q4 2010 to Q3 2011, the list of 121 occupations we identified as being skilled to NQF4+ in Migration Advisory Committee (2011a) accounts for 40 per cent of full-time employment in the UK labour market. The list of 89 occupations we identify as being skilled to NQF6+ in this report accounts for 33 per cent of full-time employment (LFS, Q4 2010 to Q3 2011). These data are based upon working-age employees.
- 4.75 According to UK Border Agency management information for April to December 2011, occupations previously found to be skilled to NQF4+ but not now found to be skilled to NQF6+ accounted for 7 per cent of Certificates of Sponsorship used under the Tier 2 (General) and intra-company transfer routes in the period April to December 2011. In other words, 7 per cent of out-of-country migrants through these routes would not have qualified under our NQF6+ list. Ninety-three per cent of such migrants would have qualified. The impact of raising the skill level on Tier 2 flows is likely, therefore, to be significant but relatively small.
- 4.76 Employers in the occupations that do not satisfy our NQF6+ criteria were generally opposed to the suggestion of increasing the skill level of Tier 2, citing concerns about the impact on their ability to recruit the people they need.

Chapter 5 Intra-company transfers

5.1 Introduction

5.1 In this chapter we consider the question the Government asked us in relation to the intra-company transfer route: *“Is the £40,000 minimum salary threshold for intra-company transfers seeking to stay for 12 months or longer an appropriate proxy test to ensure that migrants meet the General Agreement on Trade in Services (GATS) definition of Senior managers and Specialists? The MAC is asked to provide economic rather than legal advice when considering the compatibility of the definition; and should the £40,000 be a national rate or allow for regional variations in pay?; and current policy allows the £40,000 threshold to be met through a combination of salary and allowances. Does the inclusion of non-salary remuneration undermine the use of the £40,000 threshold as a proxy test of skill level?”* (Letter from Minister for Immigration to Chair of the Migration Advisory Committee, October 2011.)

5.2 The question has three specific components: the £40,000 income threshold as a proxy for meeting the GATS definition of who should be eligible; regional variation in that threshold; and the use of non-salary remuneration (often

referred to as allowances) under Tier 2. This chapter proceeds in three sections, examining each of the above issues in turn. We consider our own top-down data analysis together with the bottom-up evidence received from our partners. We then discuss the use of the Business Process Outsourcing Model (BPOM) (also referred to as ‘third-party’ contracting) under the intra-company transfer route. We end the chapter with some concluding remarks. The current policy framework relating to intra-company transfers is described in detail in Chapter 2 and is not repeated here.

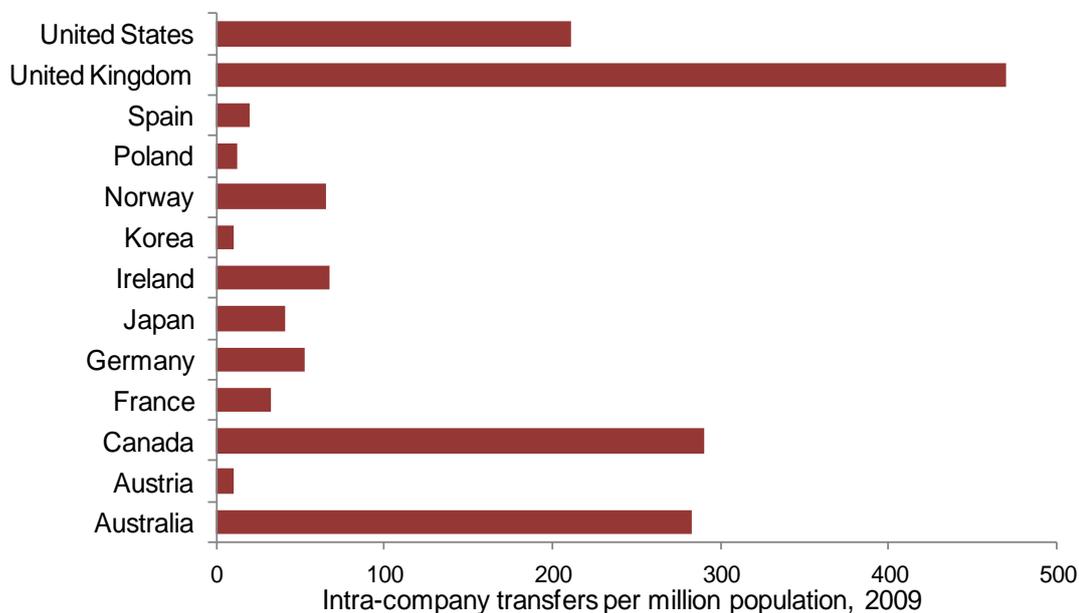
5.3 As noted in Chapter 3, a substantial proportion of migration to the UK through Tier 2 is comprised of intra-company transferees, and the share of Tier 2 accounted for by this route has been rising over time. Figure 5.1 shows that the intra-company transfers per million of the population are substantially higher for the UK than for any other Organisation for Economic Co-operation and Development country shown on the chart. It is worth noting that the number of intra-company transferees that enter a country depends on, among other factors, the number and size of multinational

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corporations with a presence in the country. Such international

companies are likely to use intra-company transfers frequently.

Figure 5.1: Intra-company transfers per million population, selected countries, 2009



Source: MAC analysis of the data presented in the International Migration Outlook, Organisation for Economic Co-operation and Development (2011)

5.2 The minimum salary threshold for long term intra-company transfers

5.4 This section addresses the question put to us with regards to the £40,000 income threshold and the GATS definition of senior managers and specialists. We provide these definitions in Chapter 2. Specifically, the Government asked us to advise on whether “...the £40,000 minimum salary threshold for intra-company transfers seeking to stay for 12 months or longer [is] an appropriate proxy test to ensure that migrants meet the General Agreement on Trade in Services (GATS) definition of Senior managers and Specialists?” (Letter from Minister

for Immigration to Chair of the Migration Advisory Committee, October 2011.)

5.5 We first approach this issue from a quantitative perspective. Second, we asked employers directly which occupations can be classified as senior managers and specialists and what their typical salary levels might be. Partners were also asked for their general views on this question within our call for evidence.

Analysis

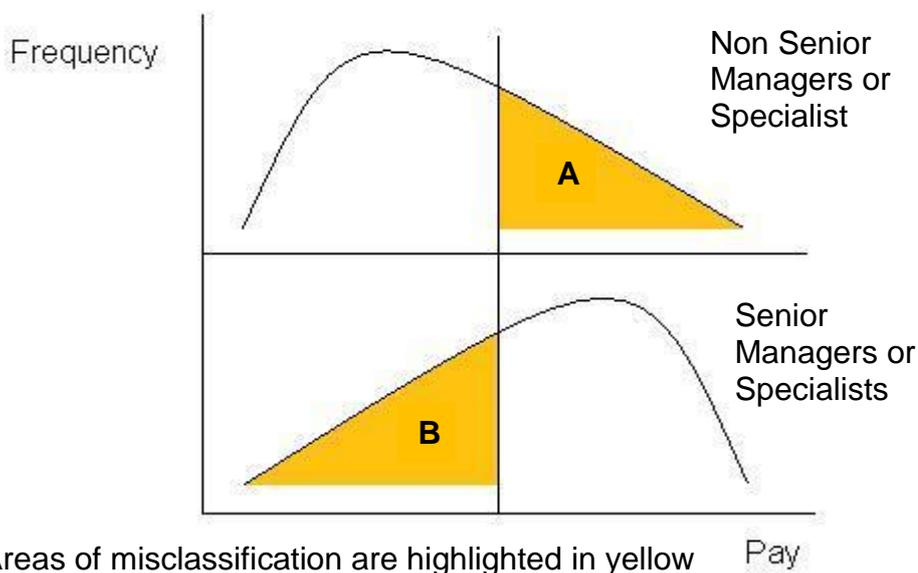
5.6 Setting a minimum pay threshold of any level will lead to some instances of misclassification of individuals. Either some senior managers and specialists will fall below the threshold, or some non-

senior managers and non-specialists will be above the threshold or, most likely, both will occur.

5.7 A diagrammatic representation of these misclassifications is shown in Figure 5.2. Area A represents a 'type 1' error, under which a migrant's pay is at least as high as

the threshold, but the individual does not meet the definition. Area B represents a 'type 2' error, where a migrant does meet the definition but does not meet the pay threshold. A salary threshold could be set to minimise type 1 or type 2 errors, or some combination of both.

Figure 5.2: Diagrammatic representation of the misclassification of senior managers and specialists when using a minimum pay threshold



5.8 On the above basis, precise interpretation of the Government's question is important. There are several potential ways in which the question above could be interpreted:

- What minimum salary threshold would ensure that only senior managers and specialists use the long-term intra-company transfer route (or, more realistically, what level of higher threshold would keep the number of such misclassifications at a reasonably low level)?

- What minimum salary threshold would ensure that no senior managers or specialists are inadvertently excluded from using the route (or what level of lower thresholds would keep such misclassifications at an acceptably low level)?
- Would a threshold other than £40,000 reduce the total number of misclassifications as described above (and at what level would such a threshold be set)?

5.9 In order to determine whether any income threshold is an appropriate

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proxy test to determine whether a migrant is a senior manager or a specialist it is first necessary to identify these groups within the available data. However, the GATS definitions of senior managers and specialists do not easily map onto the

datasets available. The options for identifying senior managers and specialists that are used in this report are based on the Standard Occupational Classification (SOC 2000) occupational hierarchy and SOC 2000 skill level, described in Table 5.1 and Table 5.2 respectively.

Table 5.1: Description of the 1-digit SOC 2000 hierarchy

| Major group | General nature of qualifications, training and experience |
|--|---|
| 1 Managers and senior officials | A significant amount of knowledge and experience of the production processes and service requirements associated with the efficient functioning of organisations and businesses. |
| 2 Professional occupations | A degree or equivalent qualification, with some occupations requiring postgraduate qualifications and/or a formal period of experience-related training. |
| 3 Associate professional and technical occupations | An associated high-level vocational qualification, often involving a substantial period of full-time training or further study. Some additional task-related training is usually provided through a formal period of induction. |
| 4 Administrative and secretarial occupations | A good standard of general education. Certain occupations will require further additional vocational training to a well-defined standard (e.g. typing or shorthand). |
| 5 Skilled trades occupations | A substantial period of training, often provided by means of a work-based training programme. |
| 6 Personal service occupations | A good standard of general education. Certain occupations will require further additional vocational training, often provided by means of a work-based training programme. |
| 7 Sales and customer service occupations | A general education and a programme of work-based training related to sales procedures. Some occupations require additional specific technical knowledge but are included in this major group because the primary task involves selling. |
| 8 Process, plant and machine operatives | The knowledge and experience necessary to operate vehicles and other mobile and stationary machinery, to operate and monitor industrial plant and equipment, to assemble products from component parts according to strict rules and procedures and subject assembled parts to routine tests. Most occupations in this major group will specify a minimum standard of competence that must be attained for satisfactory performance of the associated tasks and will have an associated period of formal experience-related training. |
| 9 Elementary occupations | Occupations classified at this level will usually require a minimum general level of education (i.e. that which is provided by the end of the period of compulsory education). Some occupations at this level will also have short periods of work-related training in areas such as health and safety, food hygiene, and customer service requirements. |

Source: Office for National Statistics, SOC 2000.

Table 5.2: The SOC 2000 skill level hierarchy

| SOC skill level | 2-digit SOC | Sub-major occupation |
|-----------------|-------------|--|
| 4 | 11 | Corporate managers |
| | 21 | Science and technology professionals |
| | 22 | Health professionals |
| | 23 | Teaching and research professionals |
| | 24 | Business and public service professionals |
| 3 | 12 | Managers and proprietors in agriculture and services |
| | 31 | Science and technology associate professionals |
| | 32 | Health and social welfare associate professionals |
| | 33 | Protective service occupations |
| | 34 | Culture, media and sports occupations |
| | 35 | Business and public service associate professionals |
| | 51 | Skilled agriculture trades |
| | 52 | Skilled metal and electrical trades |
| | 53 | Skilled construction and building trades |
| | 54 | Textiles, printing and other skilled trades |
| 2 | 41 | Administrative occupations |
| | 42 | Secretariat and related occupations |
| | 61 | Caring personal service occupations |
| | 62 | Leisure and other personal service occupations |
| | 71 | Sales occupations |
| | 72 | Customer service occupations |
| | 81 | Process, plant and machine operatives |
| | 82 | Transport and mobile machine drivers and operatives |
| 1 | 91 | Elementary trades, plant and storage related occupations |
| | 92 | Elementary administration and service occupations |

Source: Office for National Statistics, SOC 2000

5.10 The SOC skill level categorisation is based on the amount of time required to become fully competent, the time taken to gain the required formal or work-based training, and the experience required in an occupation.

5.11 Table 5.3 presents a range of options that could be considered as suitable to identify senior managers and specialists, based on the Social Occupational

Classification (SOC) 2000 hierarchy and qualifications. For example, option number 1 uses major (1-digit) SOC 2000 group 1, managers and senior officials, as a proxy for senior managers and specialists. Option 2 uses major SOC 2000 groups 1 and 2 combined (therefore also including professional occupations) as a proxy. Options 8 and 9 look at the detailed unit level (4-digit) titles of occupations under SOC 2000 and,

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as such, are more granular in their approach, but the occupations selected are contingent on the

precise form of words used to describe them.

Table 5.3: Potential options to identify senior managers and specialists in the LFS or the ASHE

| Option number | Description |
|---------------|---|
| 1 | 1-digit SOC = 1 |
| 2 | 1-digit SOC = 1 and 2 |
| 3 | 1-digit SOC = 1, 2 and 3 |
| 4 | SOC skill level = 4 |
| 5 | SOC skill level = 3 and 4 |
| 6 | Qualifications held = NQF6+ |
| 7 | Qualifications held = NQF4+ |
| 8 | 4-digit SOC contains the words 'senior' or 'director' |
| 9 | 4-digit SOC contains the word 'manager' |

Notes: Occupations grouped using SOC 2000 as defined by the Office for National Statistics. The definition of each 1-digit SOC is given in Table 5.1. The definition of each SOC skill level is given in Table 5.2.

5.12 In order to identify an appropriate salary threshold, these options can be applied to the Labour Force Survey. Annex C presents gross annual pay distributions for each option in Table 5.3, for those that do meet the definition and those that do not. Table 5.4 provides median earnings for the individuals that meet each definition.

5.13 The GATS definition of specialist is unlikely to correlate closely with any of the options. The GATS definition of senior manager is likely to correlate more closely with the options in Table 5.3 based on SOC skill levels or the SOC hierarchy than those based on qualifications but again, the correlation will be imperfect.

Conversely, individuals skilled to SOC skill level 4 might be considered as specialists but not consistently regarded as managers.

5.14 The difficulty in applying a definition of senior manager or specialist to the datasets precludes an effective quantitative analysis for identification of an appropriate salary threshold. On balance, there is no quantitative reason to suggest that a salary threshold other than £40,000 would be a more appropriate proxy test for identifying senior managers and specialists.

Table 5.4: Median gross annual earnings for potential options to identify senior managers and specialists, LFS 2010 Q4 – 2011 Q3 and ASHE April 2010 – March 2011

| Option number | Description | Median annual gross salary (£) | |
|---------------|---|--------------------------------|--------|
| | | LFS | ASHE |
| 1 | 1-digit SOC = 1 | 36,000 | 38,000 |
| 2 | 1-digit SOC = 1 and 2 | 35,000 | 37,000 |
| 3 | 1-digit SOC = 1, 2 and 3 | 32,000 | 34,000 |
| 4 | SOC skill level = 4 | 36,000 | 38,000 |
| 5 | SOC skill level = 3 and 4 | 30,000 | 32,000 |
| 6 | Qualifications held = NQF6+ | 33,000 | N/A |
| 7 | Qualifications held = NQF4+ | 32,000 | N/A |
| 8 | 4-digit SOC contains the words 'senior' or 'director' | 45,000 | 57,000 |
| 9 | 4-digit SOC contains the word 'manager' | 35,000 | 38,000 |

Notes: Occupations grouped using 2000 Standard Occupational Classifications (SOC) as defined by the Office for National Statistics. Data from the Annual Survey of Hours and Earnings (ASHE) are the median gross annual earnings for full-time workers during the period April 2010 to March 2011 and are provisional. Data from the Labour Force Survey (LFS) are the median gross annual earnings for full-time workers for the period 2010 Q4 to 2011 Q3. All earnings rounded to the nearest thousand. The following 4-digit SOC 2000 codes contain the words 'senior' or 'director': 1111, 1112, 1113, 1114, 1173, 2317 and 3416. The following 4-digit SOC 2000 codes contain the word 'manager': 1121, 1122, 1123, 1131, 1132, 1133, 1134, 1135, 1136, 1137, 1141, 1142, 1151, 1152, 1161, 1162, 1163, 1174, 1181, 1182, 1183, 1184, 1185, 1211, 1212, 1219, 1221, 1222, 1223, 1224, 1225, 1226, 1231, 1232, 1233, 1235 and 1239.

Source: MAC analysis of Office for National Statistics (2011g) and the Labour Force Survey, 2010 Q4 – 2011 Q3.

Partner Evidence

5.15 Evidence from partners was mixed with respect to how appropriate the £40,000 threshold was as a proxy test to ensure that migrants meet the GATS definition of senior managers and specialists. A leading news and business information company provided evidence which explained that, for the majority of its intra-company transferees, the £40,000 threshold is adequate. However, they also said this threshold would exclude some of its middle managers who were experts in their fields and therefore have specialist knowledge and who may receive

remuneration between £35,000 and £40,000.

“We have found that relatively few good candidates would have this specialist knowledge in the UK and therefore it is business critical for [us] to have the flexibility to transfer specialist journalists not only at senior managerial level, but at middle manager level from our overseas offices.”

A leading news and business information company response to MAC call for evidence

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5.16 The Immigration Law Practitioners' Association (ILPA) also provided evidence which said that £40,000 is a reasonable minimum pay threshold for most managers. However, they argued that it was also important to make provision for exceptions in those cases, such as in the voluntary sector, where it is not adequate. ILPA also suggested that any upward variation to the intra-company transfer salary threshold would jeopardise the access to this route by small and medium size enterprises (SMEs) and smaller scale multi-national enterprises. In addition, Citi told us that a further increase to the salary threshold could present an issue, particularly for its non-London based operations where local salaries can be expected to be lower than those offered for a London-based role. We discuss the issue of regional variations in pay in section 5.3.

5.17 Skillset and UK Screen told us that the current threshold of £40,000 was appropriate for senior managers in the VFX industry. They said that any further increase in the threshold would act as a barrier to flexibility, preventing companies from using the intra-company transfer route to access skills to deliver projects.

5.18 Conversely, we received evidence from a small number of partners, including Migration Watch UK, arguing that the minimum salary threshold for long-term intra-company transfers should be raised.

“Salary and skill level are good indicators of whether a role is indeed specialist. We suggest therefore raising the salary threshold for ‘long term’ ICTs to £70,000 and the skill level to NQF 6+. However, the benefits of raising the salary threshold will be undermined if allowances continue to remain part of the salary calculations.”

Migration Watch UK response to MAC call for evidence

5.19 The Professional Contractors Group (PCG) said the current £40,000 threshold is set too low to be effective in the prevention of undercutting.

“The current £40,000 limit is not an effective proxy for the GATS definition... For a salary threshold to be effective it must be open and transparent, to allow for comparison with domestic workers’ salaries. The inclusion of non-salary remuneration undermines this aim. Non-salary remuneration (allowances) should be excluded from calculations.”

Professional Contractors Group response to MAC call for evidence

5.20 Partners stressed the importance of having a clear and objective criterion, such as a minimum salary threshold. For example, the Confederation of British Industry (CBI) told us that it believed current rules are clear and transparent for the firms that wish to bring an intra-company transferee into the country. Adopting the GATS definition, CBI and other partners believe, would

lead to a complex game of second-guessing and costly advice for employers.

“The PBS system is clear and we suspect somewhat straightforward to administer for the government. The GATS definitions do not lend themselves to such straightforward administration.”

Microsoft Ltd response to MAC call for evidence

5.3 Allowing for regional variations in pay

5.21 Here we focus on the question put to us in respect of the appropriateness of allowing for regional variations in pay across the UK. We were asked to consider whether the £40,000 minimum salary threshold for long-term intra-company transfers should be a national rate or allow for regional variations. We considered the issue of regional variations in pay, albeit in a different context, in Migration Advisory Committee (2010d) where we reported on the following question from the Government: *“Should the UK Government exclude the London weighting from the PBS in order to ensure that the PBS accurately reflects regional wage differences across the UK, and what affect would that have on the labour market and economy in the UK?”*

5.22 In that report, in order to determine whether London weighting should continue to be included in the earnings calculation, we considered the economic rationale behind its payment by employers. The report

highlighted the following explanatory factors:

- Wage differentials, with the weighting designed to provide compensation for the higher costs of living in London.
- Labour shortages in London, where employment rates tend to be higher on average, are likely to put upward pressure on wages.
- Agglomeration affects, where the London weighting may also reflect the higher output or productivity of workers because of increasing returns to proximity and lower costs of production, assuming the labour supply remains fixed.
- Compositional effects, where within a given occupation, the average job in London may be more skilled or senior than jobs within the same occupation elsewhere in the UK. Migration Advisory Committee (2010d) highlighted that this may occur where a company locates its global headquarters in London and more senior staff are employed in that office than elsewhere.

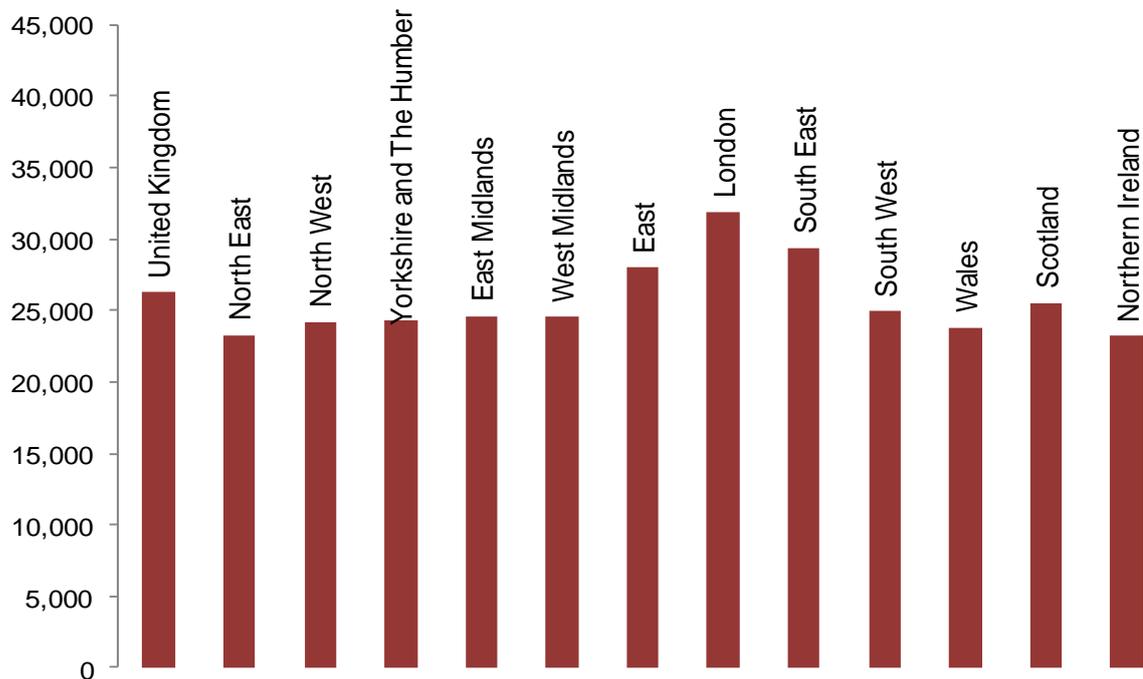
5.23 We concluded that the London weighting is not paid simply to take account of the higher cost of living in the area. It also reflects labour shortages and agglomeration affects. For these reasons Migration Advisory Committee (2010d) recommended that including the London weighting in earnings used to calculate points in the PBS was appropriate.

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5.24 Here, we need to consider whether or not a national minimum pay threshold is appropriate for the intra-company transfer route. In this case, a national threshold could be considered inappropriate because it might capture those meeting a certain skill level in one area, but not in another because of differences in pay. For example,

a senior manager in London earning £42,000 would meet the threshold whereas the same individual doing the same job in another region earning £37,000 would not. Figure 5.3 shows average annual gross pay by country and region in the UK.

Figure 5.3: Median annual gross wage by country and region, 2011



Notes: Data refer to media gross annual pay for all full-time employees living in the relevant area. Source: Office for National Statistics (2011g)

5.25 Median annual gross wages are broadly similar for Wales, Northern Ireland, Scotland and all regions of England, with the exceptions of London and the South-East (and, to a lesser extent, the East of England). These areas exert significant upward pressure on the national average wage. This suggests that if there is any case at all for separate regional thresholds, there should probably only be two: one for London and the South East and one for the rest of the

UK. This could be implemented either through raising the threshold for London and the South East to above £40,000, lowering the threshold for other regions to below that level, or both.

5.26 Further, it does not necessarily follow that the salaries of intra-company transferees vary by region in the same manner as the salaries of the working-age population of the UK. Table 5.5 shows mean and median salaries

for Certificates of Sponsorship used by intra-company transfer main applicants in Scotland, Wales, London and England (excluding London). Intra-

company transfer main applicants have the highest prospective wages in Scotland and Wales in this analysis.

Table 5.5: Mean and median annual salaries of long-term intra-company transfer route main applicants by country or city, UK Border Agency management information data for Certificates of Sponsorship used, 6 April 2011- 31 December 2011

| Country/City | Annual salary for intra-company transfers (£) | | Sample Size |
|----------------------------|---|--------|-------------|
| | Median | Mean | |
| Scotland | 74,000 | 95,000 | 168 |
| Wales | 75,000 | 89,000 | 25 |
| London | 60,000 | 86,000 | 5,770 |
| England (excluding London) | 59,000 | 80,000 | 3,394 |

Notes: Figures for Northern Ireland are not published because of the small sample size for CoS used. Sample size for Wales can be considered small and the associated figures should be considered as indicative only. Some of the applicants in this sample may have been allocated a CoS prior to 6 April 2011 when the rules for the Tier 2 route changed. Applicants are required to meet the criteria for Tier 2 at the point of CoS allocation. The sample has been filtered to exclude individuals that would not have met the current intra-company transfer rules. A main applicant to the long-term intra-company transfer route has been excluded if their occupation is not skilled to NQF4+ and/or earnings in the job are less than £40,000 per year. Salary data rounded to the nearest thousand.

Not all the individuals using Certificates of Sponsorship may be granted visas since some may have their visas applications rejected. Furthermore, not all persons granted visas will travel to the UK and on arrival they may also not be admitted.

All figures quoted are management information which have been subject to internal quality checks, but have not been quality assured. As much of the input data (for example salary levels) is self declared by the sponsor, UK Border Agency is not able to validate the quality of the source information, and we are advised by UK Border Agency that data quality anomalies could impact on the findings. These data are provisional and subject to change.

Source: UK Border Agency management information data, April 2011-December 2011.

5.27 The effects of a policy designed to promote migration into certain regions above others are also not straightforward to predict. Dustmann *et al.* (2010) pointed out that an increase in migration into a region does not necessarily imply that total employment in that region will increase, because downward pressure on wages could cause domestic workers of a similar skill level to relocate to other regions.

5.28 The Government has asked four of the independent pay review bodies (covering NHS workers, school teachers and some other public sector staff) to consider how to make the pay of some of their remit groups more market facing in local areas. Outputs from these reviews, when available, may inform the issue of the scope for and desirability of regional differentiation in the Points Based System.

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Partner Evidence

- 5.29 The evidence we received in regards to this issue was mixed. A number of our partners presented evidence in support of regional variations in pay. For example, Accenture argued that such a move would ensure that UK employers are able to remunerate sponsored workers across the UK in line with resident workers in a particular area. However, we felt that this point also suggested that it was optimal for UK-wide salary thresholds to be removed.
- 5.30 ILPA put forward its support for regional thresholds by arguing that the minimum threshold is more difficult to achieve in areas outside of the South East. However this evidence is not consistent with the salary data outlined in Figure 5.3 and Table 5.5.
- 5.31 We received evidence from Rolls-Royce plc, the Department for Business, Innovation and Skills (BIS) and the Scottish Government which argued that the current salary threshold gives employers in London an advantage over regional employers by pushing intra-company transfers to London and South East where salaries are higher. BIS said because intra-company transfers are part of a range of business strategies used to maximise global talent, utilise cultural knowledge of new markets and, where necessary, fill skills gaps in the resident labour market, the route should be available across the UK to enable business to develop their sites in different UK regions.

“Salaries should reflect market trends. The national medium and mean salary figures when compared with the regional equivalents illustrate how regional variations can be substantial. For example, in Scotland, finance and investment analysts and advisors earn on average 36.9% less than the national average in this occupation. Moving to different parts of the UK is an alternative to moving out of the UK altogether.

There remains scope to encourage private sector growth in different parts of the UK; especially in locations where the skill set for certain industries are concentrated. Large scale manufacturing bases, for example, are concentrated in the North East and the Midlands, so it is important to facilitate the immigration of skilled workers from overseas companies in the same sectors, directly to those regions. However, in members’ experience, overseas companies have been and will continue to be reluctant to invest if they cannot bring certain migrant workers to the UK.”

Immigration Law Practitioner’s Association (ILPA) response to MAC call for evidence

“A regional focus would however be welcomed ... This is obviously sensible given the clear differential between London and regional salary rates. The net of effect places employers in London at a clear advantage over regional employers in ICT terms. Further, it requires employers with operations throughout the UK to cluster assignees in London.”

Rolls-Royce Plc response to MAC call for evidence

“...the Scottish Government continues to argue that significant differences in salaries, for jobs with the same level of skill, across the country puts regions of the UK that sit outside of London and wider South East of England at a disadvantage when attracting talented people. For this reason arbitrary salary thresholds that do not take these issues into account and also fail to take into account differences in cost of living means do a disservice for the UK as a whole and will encourage migrants to locate in London and not to areas of the UK which have a greater economic and demographic need for increased migration.”

The Scottish Government response to MAC call for evidence

that their clients would not welcome the administrative burden of regional thresholds.

“No employer said they would benefit from the proposal [to include regional variations in pay], and many said that a two-tier rate would actually be unwelcome given the extra bureaucracy and complications this would cause.”

Chartered Institute of Personnel Development response to MAC call for evidence

“While the potential for UKBA to implement salary differentiation may be supported by our members, there is a common view that such a system would be difficult to implement and administer and could lead to more uncertainty. As we have stated earlier in this submission, what our member organisations require more than anything is stability, certainty and ease of administration. A system needs to be devised that is clear, transparent and easily implemented by companies.”

NASSCOM response to MAC call for evidence

- 5.32 Lastly, there was evidence from some partners to the effect that whilst the issue of regional variation did not affect them, they could see how a threshold suitable for London and South East could adversely impact organisations which are small or regionally based.
- 5.33 In contrast, we also received evidence from a significant number of partners opposing the idea of regional variations in pay. Many partners based their argument around the view that such a system would be too complex, bureaucratic, impracticable or unworkable. For example, the British Chambers of Commerce (BCC) suggested that, as well as being difficult to administer, a system of regional thresholds would be complicated and confusing for businesses. Likewise, the Chartered Institute of Personnel Development stated

- 5.34 Partners also highlighted how they believed that regional variation could adversely affect specific sectors. For example, we received evidence from Westinghouse Electric UK Holdings that regional variation could hinder nuclear new build in the regions, although this was contingent on the precise salary thresholds that would result.

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“If the regional variation results in a threshold higher than £40,000 (which excludes allowances) it may be difficult to resource some projects and service reactors with adequately skilled people.”

Westinghouse Electric UK Holdings response to MAC call for evidence

- 5.35 We saw evidence from partners which suggested that regional variations in salary could lead to abuse. In this respect AREVA UK told us that imposing regional limitations and allowance on salaries could lead to fraud and would be impossible to enforce.

“Varying salaries between regions would make the system too complicated to monitor and would be easily abused.”

Professional Contractors Group response to MAC call for evidence

- 5.36 We were told that many migrants move working locations during their time in the UK. Regional salary thresholds would imply that the salary of the individual would have to be adjusted each time they moved, imposing a considerable administrative burden.

“... we are uncertain that a system of regional variations is workable, as many migrants would spend time travelling to various regions to visit either the companies’ offices around the UK or client sites. The salary would then need to be adjusted each time they moved or they would be prohibited from moving within the UK, which would simply be impractical.”

A leading news and business information company response to MAC call for evidence

- 5.37 Analysis of pay data suggests that, with the exceptions of London and the South-East (and to a lesser extent, the East of England), there is little basis for salary differentiation between other countries or regions of the UK. Further, as the cost of living is only one of a variety of factors that influence salary differences between the regions there is no clear case that such differences should be reflected by regional salary thresholds. While we did receive some partner evidence in support of regional differentiation, it was also highlighted that such a system would be difficult to administer and open to abuse.

5.4 The inclusion of allowances in meeting the salary threshold

- 5.38 In this section we consider whether the payment of allowances undermines the £40,000 threshold as a proxy test of skill. We set out the rules on intra-company transfer allowances in Chapter 2 of this report.

- 5.39 When we considered this issue in Migration Advisory Committee (2009c), we recommended that allowances used for PBS points purposes be scaled down when calculating points for earnings under the PBS on the basis that their tax-free status can be used to undermine resident workers.
- 5.40 In our consultation for this report the majority of our partners supported the current policy that allows the £40,000 threshold to be met through a combination of salary and allowances. Evidence we received put forward various reasons why this current policy is not undermining the use of the current minimum threshold as a proxy test for skill.
- 5.41 Some of our partners suggested that the worked example on how allowances are used, as set out in Box 3.2 of our call for evidence document, does not reflect a true comparison between hires. For example, the CBI and Fragomen argued that any like-for-like comparison must include the costs which do not apply for domestic employees.
- 5.42 Deloitte also told us that our example did not take into consideration all costs associated with an assignment to the UK which have the effect of increasing the cost of such transfers for the employer. Deloitte suggested that the true cost of an intra-company transfer (for assignments less than two years) is better reflected in the example set out in Box 5.1.

“Box 3.2 in the call for evidence sets out how the cost of a transferee might differ from a resident worker during a period of detached duty. The scenario infers that it is less expensive to recruit a non-EU transferee. However, it does not include a number of costs:

- *Taxation at source in the country of employment;*
- *Taxation in the UK; and*
- *Logistical costs at the start and end of the assignment*

Moreover, employers will often provide accommodation for transferees but this particular cost can only equate to 30% of the total salary package. In the case of the serviced accommodation many of our clients use for professionals coming into the UK, the actual cost of rental far exceeds the amount which can be used towards the target visa salary. This additional cost of the accommodation is borne by the employer, over and above the market rate salary paid.”

Fragomen LLP response to MAC call for evidence

- 5.43 Although Box 5.1 sets out a hypothetical example, we did meet with a number of partners who were able to share with us their actual figures relating to the cost of bringing in an intra-company transferee and the salary and allowances they pay. These figures bore out what these employers were saying in their other evidence to us on the intra-company transfer route.
- 5.44 When we met with Honda, Toyota and Nissan we were told that the intra-company transfer route is not a cheap option when taking into

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account the expenses and allowance paid on top of the salary to ensure that the transferee remains in the UK for the entirety of their assignment. Honda also told us that they follow a 'no lose and gain by tax' rule for

expatriates, which means that the company pays the intra-company transferee's income tax in the host country. This adds significantly to the cost of intra-company transferee to the employer.

Box 5.1: A hypothetical example of the use of tax-free allowances

A multinational company based in the UK has a vacancy. It can either use a UK worker to fill this post or bring in a foreign employee on an intra-company transfer.

Under scenario A, the employer hires an individual from a pool of appropriately skilled resident workers available to do the job for £48,000 per annum. Assuming a tax free personal allowance of £7,475:

- The net salary cost to the employer is £48,000.
- The employee receives a net salary after tax of £38,790.

Under scenario B, the employer agrees to employ an intra-company transferee and guarantees them a net salary after tax of £28,790, plus a subsistence allowance of £10,000 on which tax relief can be claimed. Under the secondment arrangement, the employer also agrees to pay taxable medical and professional expenses amounting to £1,500. The employee receives total remuneration of £38,790. The employer also incurs the following costs, treated as non-taxable in the UK:

- Flights to and from the UK at the beginning and end of the assignment, totalling £2,000.
- Relocation expenses at the beginning and end of assignment of £2,000 (e.g. the shipping of personal belongings).

Extra employer costs for a two year assignment therefore amounts to £2,000. The cost to the employer is calculated as follows:

| Reference | Earnings, benefits and taxes | Costs (£) |
|---------------|-------------------------------|---------------|
| A | Total net taxable income | 30,290 |
| B | Gross up | 5,704 |
| A + B | Total gross taxable income | 35,994 |
| | Less UK personal allowance | 28,519 |
| | Taxed at 20 per cent | 28,519 |
| | Taxed at 40 per cent | - |
| | Taxed at 50 per cent | - |
| C | TAX PAYABLE | 5,704 |
| D | Subsistence allowance | 10,000 |
| A + C + D | Gross income | 45,994 |
| E | Additional employer costs | 2,000 |
| A + C + D + E | TOTAL COST TO EMPLOYER | 47,994 |

Points to note:

- In the above example, it appears that the gross cost to the employer (A + C + D) is less for migrant workers compared to domestic workers. However, evidence from partners has suggested that, typically, a range of additional assignment related allowances or expenses are paid to ensure the transferee remains in the UK for the entirety of their assignment. A failed assignment, where an employee returns to their home country prematurely can represent a significant expense.

Box 5.1: A hypothetical example of the use of tax-free allowances (*continued*)

- Tax relief is only available for actual costs incurred in respect of certain travel and subsistence expenses and not in respect of round sum allowances. Therefore it is possible that the tax relief is not available for the entire £10,000 subsistence allowance if that sum is not spent on tax-free items. Also note that this tax relief is only available for assignments of durations less than 24 months. Equally, for assignments intended to exceed 24 months from the outset, no tax relief is available in respect of the travel and subsistence expenses.
- For the sake of simplicity in this example, no reference is made to social security costs. Depending on where the individual is travelling from, they may not be liable to make UK National Insurance Contributions and have a continued social security liability in their home country. Conversely, the individual may be subject to UK National Insurance while also continuing to make contributions in their home location, resulting in a double liability.

Source: Provided by Deloitte in its response to MAC call for evidence (some figures rounded by the MAC)

5.45 The argument that bringing in an intra-company transferee is more expensive than hiring locally was supported by other partner evidence. For example, Tata Consultancy Services, General Electric, Accenture, BP plc and Westinghouse, made the point that the use of the intra-company transfer route was not a 'cheap option'. They said that it costs them more to transfer an employee from an overseas office to work in the UK than to hire a domestic worker.

"...intra-company transfers (ICT) cost considerably more than hiring a local person when all costs are considered, including things such as immigration, relocation and tax considerations in the home country as well as the UK. ICTs are therefore certainly not being used as a cheaper alternative to local hires by GE."

General Electric response to MAC call for evidence

"... an intra company transfer assignment, costs Westinghouse, on average, three times more than it would cost to employ a local person."

Westinghouse Electric UK Holdings response to MAC call for evidence

"... there are a number of allowances which are paid by the company to the migrant, or on behalf of the migrant, which would not be paid to a resident worker, to compensate the migrant for undertaking the international assignment."

A leading news and business information company response to MAC call for evidence

5.46 Some partners told us that it was essential to the continuation of their business to receive expertise from within other parts of the company. At the Nissan plant in the North East, we met with a Japanese engineer who was installing cylinder heads. The cylinder heads were designed and manufactured in Japan and

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installed in cars made in the UK. The engineer was an intra-company transferee who was responsible for quality controlling the installation and teaching the UK workforce how to do it.

“They are in no way undercutting the UK market. It actually costs BP up to 3 times as much to bring an individual over on assignment, when compared with hiring an EEA national on a local contract.”

BP plc response to MAC call for evidence

- 5.47 We also received various responses to our call for evidence suggesting that allowances are an essential practice that enable companies to meet their business needs. For example, we have been told that local employment laws often prevent companies from increasing employee salaries during their UK secondments. This would set a salary precedent that could not be retracted when transferees return to their home countries. On this issue, a number of our partners firmly asserted the need to be able to include allowances in the salary package as a means of repatriating employees. They argued that the need to do so arises partly because of administrative difficulties as base salaries are used to calculate some benefits such as pensions.

“Allowing certain allowances to be included also prevents the criteria from operating in a discriminatory fashion against those migrant workers who are based in countries where salaries are much lower (i.e. developing countries). Given that these are temporary assignments by definition, and migrants typically remain employed abroad, it is often inapposite for an increase in base salary to be given (only to be reduced later) and allowances/UK weighting payments are the appropriate mechanism to raise the salary during the temporary assignment.”

Laura Devine Solicitors response to MAC call for evidence

“Although in certain circumstances, as outlined in Box 3.2 in Section 3 of the Call for Evidence, it may be theoretically possible for an employer [to make] modest savings in terms of remuneration by hiring an overseas employee even though the net salary received by the migrant would be identical to a domestic worker, this savings (£3,300 per annum in the example) quickly becomes negligible when one considers the wider costs of an international hire, such as legal fees, UKBA filing fees, administration fees including those related to ensuring compliance, transportation and insurance costs for assignees (which cannot be included in the package as detailed on the COS) etc etc.”

Laura Devine Solicitors response to MAC call for evidence

“... it is impractical and difficult legally to temporarily increase someone’s basic salary only for the duration of a UK secondment and to then decrease the salary again once the assignment is over.”

Smith Stone Walters’ response to MAC call for evidence

- 5.48 Both KPMG and Smith Stone Walters (SSW) told us that businesses conduct salary benchmarking globally to ensure that people at the same level in the business are earning a fair amount both for their level and for the country where they live. SSW said it is essential for employers to be able to enhance salary through extra allowances to enable people to meet the increased cost of living in the UK.

“Allowances are an essential part of the package that businesses use to attract their employees to move to other countries and it would be a serious restriction if such allowances were not included in the pay threshold.”

British Chambers of Commerce response to MAC call for evidence

“KPMG’s Global Opportunities policy aims to compensate the individual for their out-of-pocket expenses incurred from a global mobility assignment. The policy for assignments over twelve months’ duration is that the individual would receive the same compensation as a peer in the UK (salary, bonus, benefits). With a salary set according to the salary bandings that we benchmark with the local market and in accordance with our reward and compensation strategy. The addition of relocation support such as temporary accommodation upon arrival, reimbursement of shipping, a home leave trip each year or tax filling assistance, for example, is all at an additional cost to KPMG over and above the cost of a local hire from the UK.”

KPMG response to MAC call for evidence

- 5.49 We also received evidence from the Institution of Chemical Engineers that the removal of allowances would create a disadvantage to UK firms.

“The inclusion of non-salary remuneration does create a certain amount of “blurring” but such allowances are a normal and necessary part of company remuneration frameworks and it is important that employers should continue to have recourse to these measures as part of the negotiation with potential recruits.”

Institution of Chemical Engineers response to MAC call for evidence

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- 5.50 Some partners favoured the removal of allowances from the calculation of salary used in the PBS. It was argued that allowances could lead to undercutting or undermine the use of a salary threshold as a test of skill.

“With regard to the government’s net immigration target of tens of thousands it is important that the number of long term ICT visas, an uncapped route, should not rise above their current level. The fairest way to achieve this would be to ensure that ICT workers do not undercut UK workers. We therefore reiterate our call to remove allowances from the salary calculations under the PBS. Allowances for accommodation and other items could, of course, continue but they would not be included in the basic salary.”

Migration Watch UK response to MAC call for evidence

- 5.51 As an additional point, the London Chambers of Commerce and Industry (LCCI), the Law Society and PricewaterhouseCoopers told us that they would like to see greater clarity on the issue of allowances and more detail in the UK Border Agency guidance on what qualifies as an allowance.

“There needs to be greater clarity about whether and how allowances should be calculated towards the 40,000 pay threshold.”

The Law Society response to the MAC call for evidence

“We are concerned that the issue of allowances could increase the bureaucracy and administration of the migration process, arguably for both the UKBA and the employer.

If, for example, the minimum salary for the specific SOC code has already been exceeded, it might be advisable not to include allowances in the process, only including them when the base salary is less than the minimum level.”

London Chambers of Commerce and Industry response to MAC call for evidence

- 5.52 On balance we believe that, while scope for using allowances for the purposes of undercutting does theoretically exist, it is generally the case that in practice such incentives would not exist because employing an intra-company transferee represents a significant cost to a UK employer. On this basis, down-rating allowances in calculating whether the income threshold for intra-company transfers has been reached would be an attempt to address the wrong issue. Furthermore, it would penalise those companies who do not abuse the intra-company transfer system.
- 5.53 Nevertheless, various separate issues arose regarding intra-company transferees and the tax system. Firstly, the Professional Contractors Group raised the concern that because, in some circumstances, intra-company transferees are not liable for UK National Insurance contributions, the current salary threshold is set too low to prevent undercutting.

“The salary threshold must also be high enough so that it does not undercut existing wages for roles at a similar level of skill or seniority. The current salary threshold of £40,000 is set too low to be effective, especially because non-salary remuneration is included. Because employers do not have to pay National Insurance Contributions in the first year of employment of an ICT this figure is not directly comparable to that of a permanent employee on the same salary.”

Professional Contractors Group
response to MAC call for evidence

had been earned in a single tax year. We were told that some employers may pay a lower gross salary as a result of this, but nevertheless claim earnings at the full annual grossed up amount when they issue a CoS.

“These calculations assume the intra-company transfer’s first year covers a single tax year. In reality, most will span two tax years and they may be entitled to annual personal tax allowances for both years.”

Individual response to the MAC call
for evidence

- 5.54 However, under some circumstances the employer will continue to pay National Insurance contributions on behalf of their employee in their home country, for example if there is a bilateral tax agreement between the UK and the home country.
- 5.55 Another concern raised with us is that allowances could be used to undermine UK workers where a gross salary cited by the employer includes any tax that is never paid. Because earnings cited on the CoS form are gross annual, where an employee leaves the UK inside a year the tax-free allowance can be concentrated into a shorter period and overall less tax is paid. If the gross salary paid over this period was annualised, the intra-company transfer threshold might not be reached.
- 5.56 In addition, if an intra-company transferee spends more than one incomplete tax year in the UK, due to the progressive nature of the tax system such an employee will pay less tax than if the income

- 5.57 Some of our partners expressed the belief that there is too little cross-over between Her Majesty’s Revenue and Customs (HMRC) and the UK Border Agency when looking at tax and immigration rules. We have seen no direct evidence of employers contravening either the tax or immigration rules. It was not within the scope of this review to seek such evidence. Nevertheless, the fact that a number of partners have independently raised such concerns with us demonstrates the complexity of the manner in which the immigration and tax systems intersect. HMRC and the UK Border Agency will wish to reassure themselves that this intersection is being appropriately monitored and managed, and that there is not scope for employers to act outside either the spirit or letter of the rules.

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5.5 The Business Process Outsourcing Model (BPOM) and the intra-company transfer routes

- 5.58 The BPOM or third-party contracting refers to the use of labour from outside a company to deliver a business outcome, often in the form of a one-off project. Third-party contractors are managed by the contracting body and may carry out some of the work in locations outside the UK. Allowances are often used to top up the pay of contractors carrying out work in the UK before returning to their home country at a lower salary. This flexibility lowers the cost of the contract overall.

“There is a significant difference between employers who use the ICT [intra-company transfer] route as a mechanism to supply employees to deliver contracts and those who use the ICT route to allow group employees to come to the UK to support a growth agenda by increasing knowledge experience and skills throughout the global workforce. A business model which utilises a non-EEA core of employees to support external contracts in the UK can benefit the employer by reducing a cost base and may displace resident workers.”

Rolls-Royce Plc response to the MAC call for evidence.

“They used [a third party contractor] to provide the IT infrastructure and support. A lot of support was done by [the contractor] from India however they had about 20 people on ICT visas in the UK office.”

Individual response to the MAC call for evidence.

- 5.59 Partners' evidence stated that third-party contracting is necessary, particularly for project work where a business may be unwilling to take workers onto its books for the long term. Employers using this model suggested that UK workers are not displaced as a result of third-party contracting because companies would simply offshore the relevant work if they were no longer able to bring these types of worker to the UK.
- 5.60 Other partners argued that third-party contractors do displace UK workers from the labour market, either by use of tax-free allowances (discussed above) or other means. It does seem that some UK workers, particularly those in information technology occupations, will inevitably lose out from this practice, either through labour market displacement or wage suppression. On the other hand, in general equilibrium, the UK economy and labour market might benefit from improved efficiency. On balance, it is difficult to reliably ascertain whether the current arrangements are economically beneficial in aggregate terms.

5.6 Conclusions

- 5.61 The question put to the MAC was: *“Is the £40,000 minimum salary threshold for intra-company transfers seeking to stay for 12 months or longer an appropriate proxy test to ensure that migrants meet the General Agreement on Trade in Services (GATS) definition of Senior managers and Specialists? The MAC is asked to provide economic rather than legal advice when considering the compatibility of the definition; and should the £40,000 be a national rate or allow for regional variations in pay?; and current policy allows the £40,000 threshold to be met through a combination of salary and allowances. Does the inclusion of non-salary remuneration undermine the use of the £40,000 threshold as a proxy test of skill level?”* (Letter from Minister for Immigration to Chair of the Migration Advisory Committee, October 2011.)
- 5.62 The question comprises three main sub-questions regarding: the £40,000 income threshold and GATS; regional variations in that threshold; and the current use of allowances under Tier 2. A summary of our discussion of each is provided in turn below.

The £40,000 income threshold

- 5.63 Based on our data analysis and evidence received from our partners there is no clear reason to believe that either increasing or reducing the current £40,000 threshold would provide a better fit with the GATS definitions of senior managers and specialists.
- 5.64 If the Government wishes to ensure that, in terms of intra-

company transfers, it meets its GATS obligations and no more than that through the intra-company transfer route, the UK Border Agency would need to assess individual migrants and the jobs they are entering on a case-by-case basis. This would ideally be according to some set criteria and, potentially, sector- or occupation-specific guidance on minimum earnings levels for senior managers and specialists.

Regional variation in the threshold

- 5.65 Regional differentiation might be achieved by a minimum salary threshold of above £40,000 for London and the South East, or by a lower rate for other regions or countries of the UK. Analysis of earnings data suggests that, London and the South-East (and, to a lesser extent, the East of England) aside, there is little basis for differentiation between other parts of the UK. Average salaries of long-term intra-company transferees in Scotland and Wales are actually higher than those in London. We also note that the National Minimum Wage does not differ across UK regions and countries.
- 5.66 Wage differences between different regions of the UK will be influenced by several factors:
- Variations in cost of living across different regions.
 - Labour shortages in some areas, putting upward pressure on wages.
 - Agglomeration affects, reflecting higher output or productivity of workers in some regions because of

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increasing returns to proximity and lower costs of production, assuming the labour supply remains fixed.

- Compositional effects, where within a given occupation, the average job in one region may be more or less skilled or senior than jobs within the same occupation elsewhere in the UK.

5.67 If wage differences were purely or primarily due to cost of living, in order to fairly represent skill differences there might be a case for a higher minimum salary threshold in regions, such as London, where the cost of living is high. However, given that this is only one of several factors influencing wage differences between regions, differences in average wages between regions, even within specific sectors and occupations, do not amount to a clear economic case for regional differentiation in the minimum pay threshold. There would be merit in awaiting the outcome of the independent reviews of local pay commissioned by the Government before introducing regional pay thresholds into the Points Based System. But, on the basis of current evidence and analysis, the economic argument for regional salary thresholds is equivocal.

5.68 In practical terms, it is not clear how a regional threshold could be implemented. A specific issue would be how to account for circumstances where a migrant is registered to a sponsor in one region of the UK but works elsewhere within the UK or EU.

Allowances

5.69 We were asked whether payment of allowances undermines the £40,000 threshold as a test of skill. On the basis of available evidence we conclude that there is no clear evidence that it does.

5.70 We also examined whether allowances could lead to migrants undercutting UK workers in the labour market. We did not see proof that undercutting never takes place, but some employers did provide convincing evidence that any potential cost-savings resulting from lower migrant salaries would be heavily outweighed by the cost to them of bringing an intra-company transferee to the UK. Therefore, they would have no incentive to bring migrants to the UK specifically to save money by undercutting resident workers.

5.71 We were also presented with evidence that a change of policy on allowances may be unnecessary or impractical. Employers cited logistical and possible legal barriers to paying intra-company transferees salary instead of allowances. The UK Border Agency publishes codes of practice that should in principle prevent undercutting, without a need for a change in policy on how allowances count towards the £40,000 threshold.

The Business Process Outsourcing Model

5.72 Even if policy on allowances is not leading to undercutting of UK residents, it may still be that the use of relatively cheap labour in other countries to win UK contracts by firms using the

Business Process Outsourcing Model is not of benefit to UK residents. Any cost-savings from use of third-party contractors from countries such as India were, it was argued, achieved because of lower remuneration paid in India, rather than during the UK leg of the projects. We will consider whether and how further research could improve understanding of this issue.

- 5.73 Some UK workers in information technology occupations will inevitably lose out from this practice, either through labour market displacement or wage suppression. On the other hand, in general equilibrium, the UK economy and labour market might benefit from improved efficiency. On balance, it is difficult to reliably ascertain whether the current arrangements are economically beneficial in aggregate terms.

6.1 Introduction

6.1 The background to the Resident Labour Market Test (RLMT) is set out in Chapter 2. This chapter considers the Government's question on the minimum earnings threshold required to qualify for an exemption from the RLMT: *"Currently jobs paid more than £150,000 are exempt from the Resident Labour Market Test (RLMT) requirement in recognition of the fact that, at that level, there will be little threat of disturbance to the resident labour market and such jobs are likely to be more global in character. If that threshold were lowered to a range of £70,000-£100,000, what would be the impact on demand for Tier 2 visas, the resident labour force and employers?"* (Letter from Minister for Immigration to Chair of the Migration Advisory Committee, October 2011.)

6.2 The question asks about the impact on employees, employers and Tier 2 flows of a reduced salary threshold for an exemption from the RLMT. Before considering the evidence it is worth briefly considering the theoretical impact of lowering the RLMT threshold. We start from the assumption that the RLMT is achieving its intended purpose to at least some extent, in that a non-

zero number of posts with salaries paying between £70,000 and £150,000 per year are filled by UK nationals as a result of being advertised prior to being potentially filled by non-European Economic Area (non-EEA) nationals. Potential impacts, all other things being equal, are as follows:

- **Employers** stand to benefit from a lowering of the RLMT threshold. On the one hand, lowering the threshold does not prevent employers from advertising jobs in the UK or from recruiting within the UK. On the other, it gives them the additional option of opening the job up to international competition straight away if they see it as beneficial to do so.
- **Resident employees** stand to lose out from increased labour market competition. However, counterbalancing this are potential so-called 'dynamic effects' of some migrants including those of knowledge transfer and specialisation, which may ultimately increase the number of jobs available to resident workers.
- The impact on **Tier 2 flows** will be positive. Some posts that would have been filled by resident workers, or not filled

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at all, would now be filled by migrants from outside the EEA.

6.3 The desirability of lowering the RLMT pay threshold will be contingent on the relative weight the Government places on the potentially conflicting objectives of protecting UK workers, promoting the growth of the UK economy and reducing Tier 2 flows. It will also depend on the relative magnitudes of these potential impacts. This is an empirical issue.

6.4 In this chapter we assess the potential impacts. We first set out what our corporate partners told us in response to our call for evidence about their experience of the RLMT. This is followed by an examination of the available data that might indicate possible impacts on employers, resident workers and on Tier 2 flows of potential changes to the RLMT. Finally, we sum up the discussion and present our conclusions.

6.2 Partner evidence

6.5 Our call for evidence sought evidence in relation to the following questions: *“What would be the impact on employers and the economy of lowering the threshold for exemption from the RLMT from the current level of £150,000 per year to somewhere in the range of £70,000 to £100,000 per year?”* and *“What would be the impact on the UK labour market, including on employment opportunities of UK workers, of making the above change?”* (Letter from Minister for Immigration to Chair of Migration Advisory Committee, October 2011). This section sets out what

partners told us in their responses to these questions together with other relevant points that were raised. We then look at some specific concerns raised by the education sector.

Impact on employers

6.6 Many employers felt that a change to the RLMT exemption salary threshold was unlikely to have a direct impact on them as they did not employ people at the £70,000 to £150,000 salary level.

6.7 Both at meetings we attended and in written evidence we received, there were concerns expressed that introducing a lower salary threshold for exemption would come at the price of more restrictions on other parts of Tier 2. Specifically, there was concern that this policy change would reduce the number of restricted Certificates of Sponsorship (CoS) available under Tier 2 in 2012/13 by a greater margin than would otherwise occur. It was put to us that a lower salary threshold should not be introduced at the expense of the ‘lower end of the market’.

“This would have a minor impact for National Grid in terms of applications made as we haven’t yet made any such appointments using this route. However, this could have an adverse impact on the number of Restricted COS available to support recruitment into key roles, if this was used more widely for highly paid roles, not in shortage in the resident labour market, if they were taken into account under the annual limit.”

National Grid response to MAC call for evidence

- 6.8 Other partners said that a reduction in the exemption threshold could incentivise some employers to inflate salaries in order that they exceed the new threshold. We were told at a meeting hosted by Kingsley Napley that some employers have responded to the current exemption threshold by transforming bonus payments into an increase in base salary.
- 6.9 However, out of those who offered a response to our questions on the RLMT, the majority were broadly welcoming of the possibility of reducing the exemption threshold. Some partners argued that this would give employers greater flexibility in responding to skill shortages and would help remove what was described as unnecessary and futile bureaucracy from the recruitment process.

“By not having to complete a fruitless exercise, businesses will be able to plan and time their workloads much better. At present, we need to advertise knowing that the skills-set is not in the UK and that can add 5-7 weeks to a process. We also waste man hours that could be better utilised. The quicker we can bring in the skills set, the quicker we can train those already here to skill up for future needs.”

AREVA UK response to MAC call for evidence

“Business would welcome a reduction in the threshold for Resident Labour Market Test (RLMT) exemption to a range of £70,000-£100,000. The RLMT process is viewed as unnecessarily bureaucratic, causing considerable delays to the recruitment process. A reduction in the burden and cost of the process to business would be an improvement.”

Department for Business, Innovation and Skills response to MAC call for evidence

- 6.10 It was also the case that a number of partners expressed frustration at having to use Jobcentre Plus to advertise vacancies as they did not find this to be a source of suitable applicants.

“We have undertaken countless RMLT exercises for various UK based positions and none of the applicants from the Jobcentre Plus website have been suitable, and so this requirement has become more of a ‘checkbox’ exercise as opposed to being a valuable tool to source EEA national candidates. It would be far more valuable and specific if we were able to demonstrate we had advertised via a specialist medium (in addition to BP.com) which was specific to the role being advertised. For example, advertising in the New Scientist publication for our Chemist positions.”

BP plc response to MAC call for evidence

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- 6.11 Some partners offered detailed expositions of how the RLMT requirement impacted on the recruitment (and non-recruitment) of skilled workers into specific employment sectors. The Wellcome Trust reported that some employers chose to advertise all of their vacancies, or all vacancies above a certain skill level, through Jobcentre Plus as a pre-emptive strategy in the event that the preferred candidate for their vacancy is from outside the EEA. This saves them from having to subsequently run an advertisement for four weeks in Jobcentre Plus and delaying their recruitment process.
- 6.12 PricewaterhouseCoopers said that some employers are reluctant to recruit staff using the RLMT because of the administrative and financial burden placed on them when doing so, and because this necessitates that they disclose commercially sensitive information such as salary and bonuses. Atkins, an engineering company, said that salaries would vary according to the experience and skills of the successful candidate.
- 6.13 Fragomen LLP, a law practice that deals solely with immigration, told us that their clients reported that reducing the threshold would save them on average between £3,600 and £5,300 a year in additional administrative costs.
- 6.14 UBS said that lowering the exemption threshold would make it easier for employers to exchange staff internationally, encouraging reciprocity with other countries and building stronger economic relationships with partners abroad. The reduction in the amount of time taken to hire staff would increase and improve business efficiency and effectiveness.
- 6.15 Some partners argued that an exemption threshold of £70,000 would still be too high, as this will exclude the majority of vacancies for which employers wish to recruit staff. J Dunlop & Co. argued that a threshold of £60,000 would be more suitable since it would still be highly selective whilst providing greater flexibility to a larger number of employers looking to fill senior roles. The Department of Health, Social Services and Public Safety in Northern Ireland also argued in favour of lowering the salary threshold to £60,000 on the basis that this would help NHS Trusts address current problems in recruiting junior doctors. The University of Oxford suggested that a lower threshold of £60,000 would be more likely to be applicable to senior academic posts.
- 6.16 Dynamic Futures suggested that reducing the exemption threshold to £100,000 would be a positive, symbolic step, while a reduction to £70,000 would help the economy. An even lower threshold of £50,000-£60,000 would give a significantly bigger boost to the economy as this would deliver sufficient numbers to make a real difference while still being sufficiently high so that immigration control would not be adversely affected. It was suggested that the threshold could go as low as £40,000 because, we were told, vacancies at this level were not generally filled through advertising in Jobcentre Plus and

there would therefore be no impact on UK workers.

Impact on employment

- 6.17 The British Medical Association highlighted that a threshold of £70,000 would include consultants. They said that there is an oversupply of some types of consultant who would subsequently face greater competition for jobs. They suggested that if recent medical graduates in these specialties were unable to find work in the UK, they would go abroad, and the UK would lose the investment in their training. They argued that the threshold should not be reduced, but if the decision was taken to reduce it, it should be set at £100,000.

“There is already an oversupply of home-grown graduates trained to a CCT (Certificate of Completion of Training) level in some specialties (e.g. Trauma and Orthopaedics, surgery) within the UK, and the BMA has concerns there will be insufficient consultant posts in some specialties, available to the resident labour force on CCT qualification. It is likely that the proposed change of lowering the threshold would compound this problem further, potentially resulting in a cohort of highly qualified home-grown doctors who are not able to secure posts at CCT level.

It is the view of the BMA that if the threshold were reduced to the lower level of £70,000 this would start to encompass jobs that are not global in character and directly impact on the UK medical workforce”

British Medical Association response to MAC call for evidence

- 6.18 Some partners argued that lowering the salary threshold would send a positive message to investors that the UK is ‘open for business’ and therefore boost the economy and create jobs.

“This change could contribute towards making the UK a more open and approachable destination for senior level resources who previously have not been assisted by the RLMT salary threshold exemption levels. By attracting highly skilled and experienced resources to the UK labour market, this proposed change would contribute towards strengthening the competitiveness of UK business, which – in turn – could lead to greater employment opportunities for UK workers.”

Accenture response to MAC call for evidence

- 6.19 The Department for Business, Innovation and Skills made the point that reducing the threshold to £70,000 would only affect the top earners who are more likely to be competing for jobs other than at the local level.

“For most other highly skilled occupations, it is only the top 25 percent or less that earn above £70,000. This suggests that those affected by this change are the very top earners in their profession, and are more likely to be competing at a national or global level for jobs.”

Department for Business, Innovation and Skills response to MAC call for evidence

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6.20 The Department for Work and Pensions was also supportive of the proposal to lower the threshold for the RLMT.

“Lowering the threshold from £150,000 to a level in the range £70,000 -£100,000 is sensible and we do not consider that this would have an adverse impact on our customers. Jobcentre Plus takes very few vacancies for jobs paying over £70,000 and has very few customers in the market for such jobs.”

Department for Work and Pensions
response to MAC call for evidence

6.22 Some partners suggested that the rule that applies to ‘Research Fellows’ where the RLMT time limit has been extended to 12 months should be expanded to all PhD level jobs. The Wellcome Trust presented evidence from the research sector (we also received evidence from the UK Research Council and Universities UK) that the £70,000 suggested threshold was too high to have any impact on the scientific research community. However, they suggest that there should be an exemption from the RLMT for PhD level jobs (as already recognised in the Points Based System and set out in Chapter 2).

The education sector

6.21 Several universities and research organisations (including the University of Oxford, the Wellcome Trust, and Universities UK) explained in their submissions that the time limit of the RLMT was a significant problem for them. The policy rules state that the CoS has to be requested within six months of the post being advertised with Jobcentre Plus, and employment must commence within six months of the CoS being issued. However, the recruitment of senior academic and research posts often takes longer than this, as it is often the case that the skills and experience required to fill such posts are held by very few individuals worldwide. Once a candidate has been selected, lengthy negotiations on issues such as provision of research space and facilities can take place. In addition, academics are often required to give extended periods of notice.

6.23 The research sector argued that this would send a signal that the UK is open to the ‘brightest and the best’ international scientific talent and reduce the administrative burden placed on organisations. The Department of Business, Innovation and Skills also supported the exemption of PhD level jobs from the RLMT.

6.24 The Wellcome Trust presented evidence that the requirement to advertise with Jobcentre Plus as part of the RLMT was ineffective for academic and research posts. From a survey they conducted with 62 research organisations, 100 per cent of respondents disagreed with the statement that *“advertising with Jobcentre Plus is an effective means of identifying EEA candidates for PhD-level positions”*. They point out that it is unlikely that such posts can be filled from Jobcentre Plus clients as PhD qualified people make up less than one per cent of the UK working population, each subject area is highly specialist and such

qualified people are less likely to be unemployed and use Jobcentre Plus services. The lack of suitability of Jobcentre Plus as a place to recruit academic staff was also mentioned by other respondents including the University of Warwick and Universities UK.

- 6.25 A number of respondents from within the education sector asked that if the RLMT requirement is not removed completely for PhD level jobs, then at least the requirement to advertise in Jobcentre Plus should be waived. They suggested that the website *jobs.ac.uk* be made the mandatory forum on which to advertise academic jobs if the Government wished to keep an element of the RLMT and that academic recruiters be given more scope to choose where they could advertise under the RLMT.

6.3 Analysis of data on impact on employers

- 6.26 A reduction in the salary threshold for exemption from the RLMT route is likely to have a positive impact on employers through the resultant reduction in administrative costs and delays. The likely size of this impact can be partially quantified by considering those occupations where employers are already making use of the RLMT route, and how use of it might be reduced in the event of a policy change.
- 6.27 Table 6.1 shows the most common occupations of out-of-country RLMT main applicants

skilled to NQF level 4 or above (NQF4+), for the year to October 2011, that offered annual salaries (including allowances) of between £70,000 and £150,000. Over this period, 689 RLMT CoS that were used were issued within the relevant salary range, with 77 per cent coming from the top ten occupations shown in the table.

- 6.28 These data are for CoS used rather than visas granted. Not all CoS lead to an application for a visa, and even if a visa is granted, it does not necessarily follow that this will lead to actual entry to the UK. This may be because the applicant is unsuccessful in their application for a visa, the visa expires or they are offered an alternative job and abandon their application to the UK.
- 6.29 By definition, the 689 RLMT CoS listed in Table 6.1 relate to jobs offering annual salaries between £70,000 and £150,000 that were advertised but could not be filled by a UK or EEA resident within four weeks. The corresponding administrative burden associated with unsuccessfully advertising such posts would be avoided in the future if the RLMT exemption thresholds were lowered from £150,000 to £70,000. These figures should be considered an under-estimate of the true impact on employers, as they do not include those vacancies that were advertised but not filled at all, possibly because the employer abandoned the search before a suitable employee could be found.

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Table 6.1: Top ten 4-digit SOC 2000 occupations identified as skilled to NQF4+ using the out-of-country RLMT route with earnings between £70,000 and £150,000, November 2010-October 2011

| 4-digit SOC 2000 occupation | CoS used under RLMT route with earnings between £70,000 and less than £150,000 (A) | Total CoS used under RLMT route | Percentage of CoS used with earnings between £70,000 and less than £150,000 (A)/(Total A) |
|--|--|---------------------------------|---|
| 2423 Management consultants, actuaries, economists and statisticians | 113 | 425 | 16 |
| 3534 Finance and investment analysts/advisers | 97 | 534 | 14 |
| 2411 Solicitors and lawyers, judges and coroners | 93 | 216 | 13 |
| 1132 Marketing and sales managers | 49 | 207 | 7 |
| 2211 Medical practitioners | 46 | 433 | 7 |
| 2132 Software professionals | 38 | 551 | 6 |
| 3532 Brokers | 28 | 101 | 4 |
| 1112 Directors and chief executives of major organisations | 25 | 239 | 4 |
| 2311 Higher education teaching professionals | 24 | 236 | 3 |
| 1131 Financial managers and chartered secretaries | 20 | 86 | 3 |
| Total for the top ten | 533 | 3,028 | 77 |
| Total CoS used for occupations skilled to NQF4+ (Total A) | 689 | 5,426 | 100 |

Notes: Applicants are required to meet the criteria for Tier 2 at the point of being allocated Certificates of Sponsorship (CoS). As a consequence, data for the period covered included some individuals who met the pre-6 April 2011 rules for Tier 2 but would not have met the new rules introduced on 6 April 2011. These data have therefore been filtered to exclude individuals that would not have met the current Tier 2 rules. A main applicant to the RLMT route has been excluded if the occupation is not skilled to National Qualification Framework level 4 or above (NQF4+) and/or earnings in the job are less than £20,000 per year and/or they are clergy (who would use the Tier 2 minister of religion route). Earnings include both regular pay and allowances. Not all the individuals using Certificates of Sponsorship may be granted visas since some may have their visas applications rejected. Furthermore, even where a visa is granted, a person may not travel to the UK and on arrival they may also not be admitted. All figures quoted are management information which have been subject to internal quality checks, but have not been quality assured. Since the input data (for example salary levels) is self declared by the sponsor, UK Border Agency is not able to validate the quality of the source information, and we are advised by UK Border Agency that data quality anomalies could impact on the findings. These data are provisional and subject to change. Occupations are grouped by 4-digit 2000 Standard Occupational Classifications (SOC) as defined by the Office for National Statistics. Source: UK Border Agency management information, November 2010-October 2011

- 6.30 Figures in Table 6.1 suggest that employers in certain occupations would benefit in particular from a relaxation of the RLMT requirement for highly paid jobs: management consultants, actuaries, economists and statisticians; finance and investment analysts/advisers; and solicitors and lawyers judges and coroners.

6.31 Additionally, we can also analyse Jobcentre Plus data to examine which live vacancies remain unfilled after four weeks but are filled within eight weeks. We would expect a large proportion of jobs advertised with the potential

intent of passing the RLMT, and which are then unsuccessfully filled, to fall into this category.

Table 6.2: Vacancies which were unfilled for at least four weeks but were filled within eight weeks for occupations skilled to NQF4+ that have at least 10 per cent of employees earning gross annual full-time earnings greater than £70,000, November 2010 to October 2011

| 4-digit SOC 2000 occupation | Vacancies unfilled for at least four weeks but filled within eight weeks | Vacancies unfilled for at least four weeks but filled within eight weeks as a proportion of all vacancies for this occupation filled (per cent) |
|--|--|---|
| 1132 Marketing and sales managers | 18,897 | 64 |
| 2211 Medical practitioners | 3,678 | 84 |
| 1121 Production, works and maintenance managers | 3,659 | 65 |
| 1136 Information and communication technology managers | 1,452 | 67 |
| 1151 Financial institution managers | 1,437 | 68 |
| 2411 Solicitors and lawyers, judges and coroners | 1,225 | 72 |
| 1131 Financial managers and chartered secretaries | 1,018 | 65 |
| 1137 Research and development managers | 609 | 74 |
| 1112 Directors and chief executives of major organisations | 192 | 69 |
| 1111 Senior officials in national government | 36 | 22 |

Notes: Data refer to vacancy outflows for Great Britain, the count of vacancies that have either been filled by the Jobcentre Plus or withdrawn during the specified period. Vacancies filled by Jobcentre Plus are those vacancies filled as a result of Jobcentre Plus actively submitting a client to that job. Many vacancies notified to Jobcentre Plus will also have been advertised by employers through other recruitment channels (such as local newspapers and private recruitment agencies) and may have been filled through these routes. These vacancy outflows will be shown as withdrawn.

Where the coefficient of variation estimated by the Annual Survey of Hours and Earnings leads to unreliable estimates of the earnings distribution, these occupations have been excluded. Some of these occupations may have more than 10 per cent of the occupation earning above £70,000.

Source: Office for National Statistics (2011g), Office for National Statistics (2011h)

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- 6.32 Table 6.2 shows the proportion of Jobcentre Plus vacancies which remained unfilled for at least four weeks but were filled within eight weeks for occupations skilled to NQF4+, which, according to Office for National Statistics (2011g) provisional data, have at least 10 per cent of the occupation earning a gross full-time annual earning above £70,000.
- 6.33 The data in Table 6.2 are only a sub-sample of the total number of vacancies in the economy and therefore do not definitively identify the occupations that would benefit from relaxation of the rules, particularly as some highly paid jobs are not advertised in Jobcentre Plus. However, by considering the number of vacancies which remain unfilled for four weeks and are filled in less than eight weeks, we can identify areas of the labour market which we believe could be affected to a greater or lesser extent. These figures provide some indication of those occupations where employers might benefit from earlier access to a larger pool of labour from which to recruit an employee.
- 6.34 The marketing and sales managers occupation had nearly 19,000 vacancies in the year to October 2011 which took between four and eight weeks to fill. This comprised 64 per cent of all vacancies for this occupation notified in Jobcentre Plus filled over the year to October 2011. Similarly medical practitioners and production, works and maintenance managers together accounted for over 7,000 vacancies which could potentially have benefited from earlier access to a wider labour market.
- ### 6.4 Analysis of data on impact on employment
- 6.35 The degree to which relaxing the RLMT would impact on the resident workforce would depend on the implications for displacement of resident workers. Ideally we would weigh the costs to resident workers of increased labour market competition from migrants against the economic and labour market benefits that permitting employers access to a larger and more diverse supply of labour would bring.
- 6.36 Findings from the academic literature on this issue are discussed more fully in Chapter 7 but they only shed limited light on the specific issue being considered here of potential relaxation of the RLMT for high-earning jobs.
- 6.37 In order to analyse the impact on resident workers of lowering the exemption salary from £150,000, we need to give consideration to the degree of substitutability of migrants and non-migrants earning salaries between the new and the old thresholds, rather than over the entire earnings distribution.
- 6.38 We have assumed that the relatively high salary offered above £70,000 is an indicator of a job requiring highly skilled labour. As highly skilled jobs tend to be more specialised, we might expect to observe less or no evidence on displacement of non-migrant workers by migrants at the highly-skilled end of the labour market. In Migration Advisory Committee

(2012), no association was found between changes in the number of skilled migrants and employment rates of British workers. Other studies do suggest at most weak displacement effect, with the effect becoming insignificant at high skill levels, e.g. Nathan (2011).

- 6.39 One way of understanding whether improving employer access to migrant workers at the top end of the labour market would have adverse impacts for UK residents would be to use Jobcentre Plus data to assess how many vacancies were successfully filled by residents following advertisement for the purposes of the RLMT. Unfortunately such data do not currently exist.
- 6.40 We were also not able to obtain data on the number of jobs advertised at Jobcentre Plus in the relevant pay range of £70,000 to £150,000. However, we can crudely estimate the possible number of such vacancies using data on the number of vacancies registered with Jobcentre Plus over the year to October 2011 for different 4-digit SOC 2000 occupations and microdata from the Annual Survey of Hours and Earnings (ASHE) (Office for National Statistics, 2011g):
- We assume that, within occupations, vacancies advertised in Jobcentre Plus are characterised by the same earnings distributions as occupations in ASHE.
 - Based on the above assumption, we calculate an estimated earnings distribution

for vacancies advertised in Jobcentre Plus.

- We estimate the proportion of vacancies with earnings between £150,000 and the new potential earnings threshold. These vacancies would be potentially 'at risk' of being filled by migrants if the RLMT exemption threshold was lowered.

6.41 Table 6.3 shows the ten occupations, identified as skilled to NQF level 4 or above (NQF4+), estimated to have the most vacancies between £150,000 and various potential new thresholds, according to the Jobcentre Plus data. It suggests that if the exemption threshold were lowered from £150,000 to £100,000, approximately 7,000 additional vacancies would potentially be opened up to international competition from outside the European Economic Area. If the threshold were lowered to £70,000, this number rises to approximately 21,000 vacancies, with marketing and sales managers and medical practitioners the two occupations affected to the greatest extent.

6.42 As shown earlier in Table 6.1, 689 CoS were used in the year to October 2011 for the purpose of filling a vacancy, offering an annual salary between £70,000 and £150,000, with a non-EEA worker using the RLMT route. Table 6.3 therefore suggests that such jobs accounted for only 3 per cent of total high-paying vacancies (offering salaries between £70,000 and £150,000) advertised in Jobcentre Plus during that period. This appears to contradict the

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claim frequently made by employers that high-salary jobs are only advertised in Jobcentre Plus in order to 'tick the box' of having undertaken the RLMT.

Table 6.3: Top ten occupations skilled to NQF4+ by number of live unfilled vacancies estimated to offer annual earnings in the range £70,000 to £150,000, year ending October 2011

| 4-digit SOC 2000 occupation | Number of live unfilled vacancies estimated within earnings bands | | | |
|---|---|---------------------|---------------------|----------------------|
| | £70,000 to £150,000 | £80,000 to £150,000 | £90,000 to £150,000 | £100,000 to £150,000 |
| 1132 Marketing and sales managers | 6,176 | 4,260 | 2,940 | 2,012 |
| 2211 Medical practitioners | 2,634 | 2,260 | 1,826 | 1,470 |
| 3543 Marketing associate professionals | 916 | 554 | 312 | 187 |
| 3534 Finance and investment analysts/advisers | 887 | 567 | 355 | 261 |
| 1121 Production, works and maintenance managers | 682 | 464 | 321 | 199 |
| 3412 Authors, writers | 679 | 460 | 240 | 0 |
| 2311 Higher education teaching professionals | 579 | 242 | 126 | 82 |
| 3413 Actors, entertainers | 578 | 578 | 578 | 578 |
| 3532 Brokers | 425 | 357 | 268 | 211 |
| 2411 Solicitors and lawyers, judges and coroners | 417 | 312 | 217 | 143 |
| Total of occupations in table | 13,973 | 10,054 | 7,184 | 5,142 |
| Total for occupations identified as skilled to NQF4+ | 21,291 | 14,146 | 9,690 | 6,766 |

Notes: Vacancy data are based on live unfilled vacancies (those for which jobseekers can actively apply) notified to Jobcentre Plus in Great Britain. Earnings distribution estimated by considering the number of working-age individuals in occupations skilled to at least NQF4+ for different earnings bands. The proportion of the distribution within each earnings band is then multiplied by the total number of vacancies over 12 months. This method implicitly assumes that the earnings distribution of the jobs within an occupation is the same as the distribution of earnings offered for vacancies in Jobcentre Plus.

Source: Office for National Statistics (2011g), Office for National Statistics (2011h)

- 6.43 It is important to note that the figures shown in Table 6.3 are indicative of the number of jobs which may experience greater risk of competition, and do not indicate the number of vacancies that will actually be filled by non-EEA migrants. If the RLMT threshold is lowered, the likelihood is that at least some additional high-paying vacancies will then be filled by non-EEA nationals. But even if the proportion doubled from 3 per cent to 6 per cent, the majority of vacancies would continue to be filled by British nationals.
- 6.44 Our analysis is, however, based on assumptions made necessary by limited data availability. The approach is likely to over-estimate the number of vacancies which may fall within the range of £70,000 to £150,000. Not all vacancies in an occupation will be advertised in Jobcentre Plus, with the actual salary distribution for vacancies advertised through Jobcentre Plus likely to be skewed towards the lower end of the salary scale. The above 3 per cent figure is, therefore, probably an under-estimate.
- 6.45 It is not sufficient only to consider the number of vacancies in an occupation. It is also important to consider the degree of competition for jobs in a given occupation. As discussed in detail in Migration Advisory Committee (2009b), a high vacancy to unemployment ratio in an occupation suggests that employers are having particular difficulties filling vacancies given the supply of workers available. This may indicate a shortage of workers with the skills, experience or characteristics required. All other things being equal, we may be less likely to observe displacement of non-migrants by migrant workers in occupations where there is a high vacancy to unemployment ratio.
- 6.46 If we observed generally high vacancy to unemployment ratios in occupations where the RLMT is used to recruit to high-salary posts, such as listed in Table 6.1, this would suggest reduced scope for labour market displacement resulting from lowering the RLMT threshold.
- 6.47 Again using data on live unfilled vacancies notified to Jobcentre Plus, together with data on claimant count unemployed by sought occupation, we can identify the average number of vacancies per claimant in occupations identified as skilled to NQF4+ over the year to October 2011.
- 6.48 Once again, only limited data are available, and the caveats need to be emphasised. Not all individuals who enter the unemployed pool will appear in the claimant count. This may be particularly prevalent in occupations which typically receive high salaries, where individuals may be less inclined, or unable, to register as unemployed to receive unemployment benefits. In addition, not all vacancies are advertised in Jobcentre Plus.

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Table 6.4: Vacancies per 100 claimants by sought occupation and mean prospective earnings of RLMT main applicants in the range £70,000 and £150,000, November 2010 to October 2011

| 4-digit SOC 2000 Occupation | Mean prospective earnings of RLMT main applicants in the range £70,000 and £150,000 (£) | Vacancies per 100 claimants by occupation sought |
|--|---|--|
| 2211 Medical practitioners | 81,000 | 252 |
| 2311 Higher education teaching professionals | 97,000 | 60 |
| 3534 Finance and investment analysts/advisers | 95,000 | 45 |
| 1132 Marketing and sales managers | 92,000 | 36 |
| 3532 Brokers | 105,000 | 27 |
| 2132 Software professionals | 87,000 | 19 |
| 2411 Solicitors and lawyers, judges and coroners | 102,000 | 13 |
| 2423 Management consultants, actuaries, economists and statisticians | 88,000 | 13 |
| 1131 Financial managers and chartered secretaries | 100,000 | 9 |
| 1112 Directors and chief executives of major organisations | 128,000 | 2 |
| All occupations identified as skilled to NQF4+ | | 24 |

Notes: Vacancy data are based on live unfilled vacancies (those for which jobseekers can actively apply) notified to Jobcentre Plus in Great Britain. Occupations included in this table are the top ten 4-digit SOC 2000 occupations skilled to NQF4+ by volumes of CoS used by RLMT main applicants with prospective earnings of between £70,000 and £150,000. Mean prospective earnings of RLMT main applicants in the range £70,000 to £150,000 obtained from UK Border Agency management information for the period November 2010 to October 2011. See Table 6.1 for full caveat of UK Border Agency management information data. All figures quoted are management information which have been subject to internal quality checks, but have not been quality assured. As much of the input data (for example salary levels) is self declared by the sponsor, UK Border Agency is not able to validate the quality of the source information, and we are advised by UK Border Agency that data quality anomalies could impact on the findings. These data are provisional and subject to change. Source: MAC analysis of UK Border Agency management information, November 2010 to October 2011, Office for National Statistics (2011h) and Office for National Statistics (2011i)

6.49 Table 6.4 shows live unfilled vacancies per 100 claimants by sought occupation, for those occupations listed in Table 6.1 (i.e. those which make the greatest use of the RLMT to fill high-paid jobs). From Table 6.4,

we observe that there were 24 vacancies per 100 claimants in occupations skilled to NQF4+ for the year to October 2011.

6.50 No clear distinction can be drawn between the vacancy to

unemployment ratio in such jobs (which varies from 252 to 2) and in all jobs skilled to NQF4+. But certain occupations in Table 6.4 such as medical practitioners, higher education teaching professionals and marketing and sales managers have high vacancy to unemployment ratios (relative to the average), potentially indicating that the scope for displacement by migrants in these occupations is relatively small.

6.5 Analysis of data on impact on Tier 2 flows

6.51 The impact on Tier 2 flows is expected to closely mirror the impact on resident workers. If employers were to respond to a lower RLMT pay threshold by increasing their recruitment of non-EEA nationals, then we would expect to observe a corresponding increase in demand for Tier 2 visas.

6.52 As with employment impacts, the likely effect on Tier 2 flows is difficult to reliably quantify, but we would expect it to be relatively small: only a small proportion of jobs in the labour market pay over £70,000 per year and none of the employers who responded to our call for evidence reported that they regularly fill high-salary jobs using resident workers as a result of complying with the current RLMT requirement.

6.6 Conclusions

6.53 We were asked to consider the impact of lowering the minimum threshold for exemption from the RLMT. For the purposes of discussion, we initially assume

that the threshold would be lowered to £70,000, although we return to that issue below. If the threshold was reduced to £70,000, employers recruiting within the relevant salary range who currently take on RLMT migrants would gain through reduced administration costs. Some other employers recruiting at levels of pay below that salary range may potentially lose out if the limit on Tier 2 (General) was running at close to full capacity, but the net impact on employers would be positive.

6.54 The first-order direct effect on the resident labour force would be negative due to increased competition for jobs, although these negative effects may be partially or fully offset at the aggregate level through dynamic effects resulting from knowledge transfer and specialisation. Other things being equal, lowering the threshold would have a neutral or, more likely, positive impact on Tier 2 flows, although this effect may be small in magnitude.

6.55 The extent to which the above effects represent a net benefit or net cost to UK residents depends on their relative magnitudes. Availability of relevant data was highly limited. UK Border Agency management information allows us to partially assess the likely magnitude of the positive impact on employers, but not the impact on the resident labour force or the migrant inflow through the RLMT route. The limited Jobcentre Plus data available do not allow us to draw clear conclusions on this issue and, in this context, we must give considerable weight to the view of the Department for Work

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and Pensions that lowering the threshold would not harm the interests of their clients.

6.56 The majority of partner evidence we received on the RLMT was from employers and their representatives. For the most part, employers argued in favour of lowering the RLMT threshold and, in particular, expressed concern about the bureaucracy involved in advertising highly paid jobs (and also highly specialised PhD-level jobs) in Jobcentre Plus balanced against the very low probability of filling vacancies through that route.

6.57 On the other hand, economic theory tells us that advertising vacancies improves the efficiency of the job-matching process. We are also aware that there is a paucity of evidence on the likely labour market impact of waiving the RLMT requirement for certain categories of jobs altogether. Therefore, we do not recommend this. A reasonable approach would be to:

- exempt jobs with an annual salary of £70,000 to £150,000 from the requirement to be advertised in Jobcentre Plus to satisfy the RLMT; and
- retain the requirement for such jobs to be advertised in an appropriate medium.

6.58 We have assumed in this report that jobs paying £150,000 or more per year will continue to be excluded from the annual limit on Tier 2 (General).

6.59 An additional issue is the required vacancy advertising duration for the RLMT, which currently stands

at 4 weeks for all jobs below the £150,000 threshold. This duration is based on previous analysis by us in Migration Advisory Committee (2009c) of Jobcentre Plus data and we recommend retaining it for the time being. Nevertheless we recognise the arguments made by employers that this requirement may, from time to time, hinder their abilities to recruit top global talent. Therefore, the required vacancy advertising duration for highly specialised and highly paid jobs should be kept under review. Furthermore, our previous analysis of Jobcentre Plus data probably has limited relevance to jobs that are not typically advertised there. Therefore, the required vacancy advertising duration for highly specialised and highly paid jobs should be kept under review.

6.60 We did not see a case for exempting PhD-level jobs from the RLMT altogether. The requirement to advertise in itself seems to add little additional burden to what are already lengthy and complicated processes. However, there does appear to be a case for extending the Jobcentre Plus advertisement exemption discussed above to PhD-level jobs, as already defined for the purposes of prioritisation under the annual limit on Tier 2 (General). We also believe that there is a special case, for PhD-level jobs only, for extending the period for which the RLMT can be regarded as satisfied following the unsuccessful advertising of a vacancy from 6 months to 12 months.

6.61 A summary of our proposals, alongside details of the current

approach for jobs paying under £70,000 or £150,000 or more, is provided in Table 6.5.

Table 6.5: Proposed Resident Labour Market Test (RLMT) policy (1)

| Job (annual salary or type) | Advert in Jobcentre Plus | Advert elsewhere? | Include in annual limit (2)? | Time after RLMT when advert is passed | Period for which RLMT passed |
|----------------------------------|--------------------------|-------------------|------------------------------|---------------------------------------|------------------------------|
| Over £150,000 | No | No | No | N/A | N/A |
| Between £150,000 and £70,000 (3) | No | Yes | Yes | 4 weeks | 6 months |
| Below £70,000 (3) | Yes | Yes | Yes | 4 weeks | 6 months |
| PhD-level (4) | No | Yes | Yes | 4 weeks | 12 months |

Notes: (1) Proposed changes to the current arrangements are highlighted in bold. (2) It is assumed that all RLMT route jobs paying below £150,000 per annum will be included in the annual limit. (3) The threshold of £70,000 is an assumption and could be anywhere in the range of £70,000 to £100,000. (4) Defined as PhD-level jobs which are given higher priority than other RLMT route jobs under the annual limit.

6.62 We have assumed for simplicity that the pay threshold for ‘global’ jobs is £70,000 per year, but the question we were asked put it in the range of £70,000 to £100,000 per year. Our remit does not require us to recommend a specific threshold and we have decided, in that context and given limited data, not to do so. We also note that some partners would find a threshold of below £70,000 beneficial but that does not, in itself, allow us to identify ‘global’ jobs. One future research option would be to carry out analysis of advertised jobs against a set of criteria designed to identify jobs that are more global in their nature.

Chapter 7 Impacts of a Limit

7.1 Introduction

7.1 The Government asked us: “*at what level should the limit on Tier 2 (General) be set for 2012, taking account of the economic, labour market, social and public service impacts of the limit; and of the uptake of Tier 2 (General) and intra-company transferee visas in 2011/12?*” (Letter from Minister for Immigration to Chair of the Migration Advisory Committee, October 2011.) This chapter considers these impacts together with feedback from partners on the limit for Tier 2 (General).

7.2 The chapter is structured as follows: sections 7.2 and 7.3 consider the evidence from previous research and from our partners on the economic, labour market, social and public service impacts of the limit on migration; section 7.4 discusses the responses from partners to our call for evidence regarding the existing limit for Tier 2 (General); section 7.5 considers responses regarding the potential impact of reducing the limit for Tier 2 (General); section 7.6 highlights additional issues brought to our attention during our engagement with partners; and section 7.7 concludes the discussion. The next chapter considers arithmetic approaches to calculating the limit

on Tier 2 (General) for 2012/13. Chapter 9 considers the partner evidence and arithmetical calculations alongside each other to form policy conclusions.

7.3 We recently reported on the impacts of migration. In Migration Advisory Committee (2012) we argued that a considerable part of migrants’ economic, social and public service impacts in the UK can be explained not by the fact that they are migrants, but rather by the fact that they are additions to the UK population (the ‘population effect’). In this sense, their impact is similar to an increase in the UK-born population of an identical magnitude: they will inevitably contribute to the demand for public services, generate congestion, and so on. They will also pay taxes and work in the provision of essential public services.

7.4 The remainder of migrants’ impacts will be driven by the fact that they do not have identical characteristics to the UK population as a whole. The average migrant may differ from the average existing UK resident in terms of his or her personal characteristics, as well as in terms of his or her incentives and motives while in the UK. An

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individual's status as a migrant in the UK may also affect his or her access to the UK labour market (e.g. by being tied to a sponsoring employer) and to certain parts of the welfare system. We term the result of the difference between an individual migrant and the average existing member of the UK population the 'composition effect'.

7.5 Due to the concentration of migrants in particular regions, locations and occupations in the UK, their public service and social impacts are likely to be concentrated in specific areas of the country and the labour market. Their impacts may also be more significant in areas with little previous experience of migration than in those areas that have experienced, and adapted to, inflows of migrants in the past. The longer-term impact of migration largely depends on the duration of migrants' stay in the UK.

7.6 In Migration Advisory Committee (2012) we concluded that, as well as the impact on GDP and GDP per head, factors that needed to be considered when assessing the impact of migration were:

- impacts on employment and employability of UK workers who may exit or be excluded from the labour market for periods as a result of migration;
- 'dynamic effects' on the UK labour market and economy through contributions to specialisation, knowledge transfer and through access to the best-possible skills for firms that want to compete

successfully in global and overseas markets both within and outside the EEA;

- the net public finance and public service impact of migrants, which would offset tax contributions and the role migrants play in providing public services against the impact on consumption of state benefits and public services; and
- what might broadly be termed as congestion impacts of migration, including those resulting from the impacts on public services, transport networks and the housing market.

7.2 The economic and labour market impacts of the limit on migration

Research evidence on economic and labour market impacts

7.7 Tier 2 migration clearly has a positive impact on GDP, through its effect on the size of the UK workforce. In a straightforward static analysis, Tier 2 migration makes a small but positive contribution to GDP per head. Such effects will accumulate over time and become more significant. In Migration Advisory Committee (2012) we concluded that skilled migrants are, on average, net contributors to the public finances. From a public finances viewpoint lower levels of skilled migration would worsen the position as there would be a reduction in tax revenue. Some partners raised similar points in our call for evidence for this review.

“Tier 2 migrants are exactly the individuals that local authorities wish to attract and retain in their area. They are conscious of the huge benefits that well-educated, skilled migrants with often a high income bring to the local area. Encouraging these ‘high value’ migrants to the local area can have major implications for growing the local economy in terms of their tax paying power and overall spending power.”

COSLA Strategic Migration Partnership response to MAC call for evidence

- 7.8 Regarding the impacts of migration on employment and employability of UK workers, some studies, including Dustmann et al. (2005) and Reed and Latorre (2009), conclude that migrants have little or no impact on non-migrant employment rates. Some explain this finding by assuming that wages adjust in order to ensure no employment effects. A more recent study by NIESR (2012c) found no effect of migration on unemployment.
- 7.9 In Migration Advisory Committee (2012), we undertook our own analysis to understand the potential displacement of British workers by migrants. Our study has numerous qualifications and caveats. In particular any link between immigration and employment of British-born people cannot be proved to be causal. Rather, it should be thought of as an association.
- 7.10 In our analysis we found no association between working-age migrants and non-migrant employment specifically: (i) in

buoyant economic times; (ii) for EU migrants; (iii) for the period 1975-1994.

- 7.11 By contrast we found a negative association between working-age migrants and non-migrant employment: (i) in depressed economic times; (ii) for non-EU migrants; (iii) for the period 1995-2010. Our analysis estimates that an extra 100 non-EU working age migrants are initially associated with 23 fewer non-migrant people employed. This possible displacement of British workers only holds for those migrants who have been here for less than five years.
- 7.12 Over the period 1995-2010, the employment of working age migrants rose by approximately 2.1 million. The associated displacement of British born workers was, in our calculations, around 160,000 or about 1 in 13.

“Impact [of the current limit is] mainly good - has made employers think more about recruiting locally”

A member of Electronics Technology Network response to MAC call for evidence

- 7.13 Given the current economic context of modest economic growth and high unemployment described in Chapter 3, the possible displacement of British workers by Tier 2 migrants needs to be considered when thinking about the level of the limit. However, even if the findings from Migration Advisory Committee (2012) are taken at face value, it does not automatically follow that those migrants entering the UK

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under the intra-company transfer route or under the limit on Tier 2 (General) will displace non-migrants in the labour market, for two main reasons. First, Tier 2 has become significantly more selective in recent years and the policy is actively designed to prevent displacement. Second, the findings in Migration Advisory Committee (2012) related to the impact of all working-age non-EEA migrants, including students, family route migrants and dependants as well as work-related migrants.

Partner evidence on labour market and economic impacts

- 7.14 In their responses to the call for evidence, partners repeatedly told us that they did not employ non-EEA workers as a first choice as it was more expensive than hiring from the resident workforce. Many did not believe that Tier 2 migrants displaced resident workers. They argued that they only hire migrants where they cannot source the specific skills they require more locally. Further, many stated that the vacancies they seek to fill with non-EEA migrants involve a high level of technical expertise, a body of specialist knowledge, or a specific language or cultural understanding that is not available within the UK resident labour market.
- 7.15 We heard that some organisations choose not to recruit at all if they cannot get the individual with the suitable skills and experience. They choose to leave the position vacant rather than employ a less skilled person. Other partners reported that they have recruited

workers locally who are less skilled than those available in the wider non-EEA pool of candidates. However, we were told that this is not sustainable in the long-term.

“While understanding how the change in the system would work we have shied away from applying for visas as we are concerned that we would offer to a candidate and then be unable to gain a visa causing additional delay and cost to the business. This has resulted in roles being left unfilled or more junior candidates offered which is not sustainable in the long term.”

A member of Electronics Technology Network response to MAC call for evidence

- 7.16 As well as the possible displacement of UK workers, it is also important to consider the dynamic effects of skilled migration on the UK labour market and economy. These are very difficult to quantify or identify in national-level data. However, it is possible to identify individual case studies. For example, when we met with Toyota, Nissan and Honda, we were told how a small number of foreign staff (mainly Japanese, mainly on intra-company transfers) are pivotal for bringing skills, experience and links to the parent company which act as a catalyst, enabling the UK arm to compete for, and win, the production of new models.
- 7.17 For instance the Nissan model, Qashqai, is designed, developed and manufactured in the UK. Whilst it is difficult to quantify precisely the impact on jobs, employment at the UK plant increased from around 4,500

before the Qashqai, to nearly 5,500 in 2011. Similarly, Toyota told us they are expanding their operation with the launch of the new generation hatchback, following the recent announcement of the £100 million investment in the UK and the creation of 1,500 additional jobs in the next two years.

- 7.18 Organisations from a variety of sectors told us they needed to be able to hire the best recruits available globally, not just in the EEA. They invest heavily in their staff because of the key role an individual may play in the reputation and success of their business.

“At a time when the trend towards globalisation and increased competition shows no signs of abating, organisations that fail to make the most of their most expensive and essential asset; their people, will be at a severe disadvantage. Recruiting the best people is no longer an optional extra, for it is these people that make the critical difference between long term sustainability and short-term failure and ultimately secure the UK’s position as a leading centre for business.”

PricewaterhouseCoopers response to MAC call for evidence

- 7.19 Partners from financial services, business and academic sectors emphasised to us that the movement of staff was not only one-way they said that the international movement of skilled people was an established and growing trend that is essential for global businesses and knowledge

transfer. They also explained that the global mobility of their staff was critical to maintaining the UK’s position as a leading global hub across professional and business services.

- 7.20 PricewaterhouseCoopers presented evidence to us about the increased global mobility of staff and its importance for developing an appropriately skilled workforce. In their annual global CEO survey (PricewaterhouseCoopers 2011) they found that 66 per cent of CEOs said that a lack of the right skills was their biggest challenge, and that 59 per cent were planning to send more staff on international assignments.

- 7.21 This evidence from partners reflects the argument that skilled migrants bring strategically important skills, or skills that are of strategic importance to the UK economy. We commissioned research into this issue, published on our website alongside this report (NIESR, 2012b). The research aimed to identify skills that are of strategic importance to the UK economy; to determine how strategic skill needs can best be met, including through inward migration; and the policy implications. Some key results from this research are summarised in Box 7.1.

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Box 7.1: A summary of findings from NIESR research for the Migration Advisory Committee on skilled immigration and strategically important skills for the UK economy

'Strategically important' skills can be defined as skills that contribute disproportionately to key economic objectives of the Government such as productivity growth; high levels of innovation (for example in low-carbon energy technologies); the expansion of industries where the UK has a competitive (or comparative) advantage; the diffusion and effective utilisation of 'enabling technologies' such as information and communication technologies which are central to economic growth in a wide range of sectors; and increased numbers of rapidly-growing firms.

Using productivity, innovation and firm growth criteria, NIESR (2012b) identified the following sectors as key users of strategically important skills: oil and gas extraction; chemicals and pharmaceuticals; telecommunications services; computer services; aerospace manufacturing; architectural and engineering services; and computer, electronic and optical engineering.

Statistical analysis shows that non-EEA migrants entering employment in strategically important sectors in the UK contribute disproportionately to the already high levels of skilled employees in those sectors and that most of such migrants are brought into the UK as internal transfers within multinational firms operating in these sectors (i.e. many will be intra-company transferees).

In seeking to evaluate the economic contribution made by non-EEA migrants in sectors where strategically important skills are vital, a central question is whether skilled migrants and skilled resident workers within the UK are readily substitutable for each other or whether the skills of migrants tend to complement those of residents, with positive implications for productivity and innovation performance.

NIESR (2012b) suggests that many high-skilled migrants do have distinctively different skills from those of resident workers. For example, highly-skilled migrants often possess language skills and knowledge of foreign markets and cultures which are rarely found among highly-skilled residents and which both help to speed up cross-border knowledge flows and make effective use of that knowledge. Thus, rather than migrants substituting for home-grown talent, there is evidence of complementarities between skilled migrants and skilled resident workers.

That said, even at relatively high skill levels relevant to strategically important sectors, the skills and knowledge possessed by skilled migrants and skilled residents may sometimes be quite similar and the two groups may therefore be substitutable for each other to some degree. In these circumstances immigration may reduce the incentives for individual residents to invest in high-level skills and for employers to develop high-level skills among resident workers. However, case study interviews in NIESR (2012b) found that, so far as the development of strategically important skills in the aerospace, manufacturing and financial services sector suggests, the recruitment of skilled migrants does not preclude substantial investments in the recruitment and training of resident workers. Rather, many firms in these sectors combine heavy expenditure on training with reliance on skilled migrants for skills that are hard to find or develop in the UK.

Source: Migration Advisory Committee, based on National Institute of Economic and Social Research (2012b)

7.22 Research institutions and universities told us that having international staff with the highest level of skills and experience is

crucial for their success and academic standing. Research Councils UK were concerned that the current immigration policy is

detering talented scientists from establishing their research programmes in the UK. They reported that scientists are put off by the uncertainty of timescales involved and concerns that immigration criteria will become even more restrictive in the longer term, impacting on their careers. Research Councils UK highlighted that international researchers often bring external funding with them to UK institutions which, along with the potential for knowledge transfer, is a key benefit to the research community in the UK.

“Universities also enjoy a unique position in being able to turn our research into commercial enterprises. ... Last year we created 35 new companies even given the challenging economic conditions in which we were operating.”

University of Edinburgh response to MAC call for evidence

- 7.23 Having a high calibre international staff base is also important for attracting students, especially international students. Several universities and research institutions pointed out that the international diversity of their staffing provides value to their institution, facilitating a combination of different ideas, skills and approaches.

“It is the staff at LSE that shape the research agenda and attract funding for this research. Restricting the employment of international staff will result in funding being taken to other institutions overseas.”

London School of Economics and Political Science response to MAC call for evidence

“The UK’s ability to attract the best talent to work at UK research institutions has been crucial to maintain the country’s position as a world leader in research and development. ... A reduction in the limit will only push talent to other economies, and show that the UK, over the coming years, is reducing international diversity, and this will then mean a downward spiral for sectors such as UK science ... The need for international diversity will always continue and be necessary in science.”

The Sainsbury Laboratory response to MAC call for evidence

- 7.24 The academic and research sector argued to us that reducing the limit further would only increase the barriers to recruiting the best staff, harming the UK’s position as a leader in science and research.

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Several emphasised the economic benefit of the research industry as well as the public investment in science and research. The Wellcome Trust pointed out that the Government's strategy on science and research was contingent on the UK remaining an attractive place for the best international talent.

“Higher education is one of our most successful export industries, worth at least £7.9 billion each year. Research and innovation are increasingly global. A report for BIS found that “the UK’s leading position in terms of research efficiency is therefore in part due to its effectiveness in attracting productive and internationally mobile researchers to the work in the UK”.”

The Russell Group response to MAC call for evidence

Other economic impacts of the limit

7.25 Partners from business, research and academic sectors told us that in addition to the direct economic impact of the migrants themselves, and the ensuing dynamic effects, the limit on Tier 2 has had an economic impact itself. They told us that the limit was hindering business activities and economic success by:

- harming the perception of the UK as a place for business, highly skilled work and destination for top talent;
- hindering planning and investment; and
- increasing the costs and administrative burden on organisations.

7.26 Partners stated that the message sent out by having restrictions on skilled migration and a numerical limit, which may become more restrictive, was that the UK was ‘closed for business’. The interim limits, in place from July 2010 to April 2011, were said to have been particularly harmful in this regard, but many partners believed that the current system continues to reinforce this perception. It was repeatedly and strongly expressed to us that reducing skilled migration, or maintaining a perception of the UK being difficult to access for skilled migrants, would harm the economy and consequently the labour market of the country.

7.27 The Department for Business, Innovation and Skills (BIS) and the Confederation of British Industry (CBI) told us that, with public sector expenditure and household spending coming under intense pressure over the coming years, economic growth will need to come primarily from business investment and trade. BIS said it will be essential to ensure that the UK is seen as the best place for investment in order to secure investment for firms already in the UK and also to attract new inward investors. This, said BIS, cannot be taken for granted even though past performance has been good.

7.28 Partners in multinational companies and the financial services sector told us that the real and perceived difficulties of getting migrants into the UK to work are increasingly issues that they consider when deciding where to locate, alongside changes in taxation and business

regulations and the cost of living in the UK.

“One of the main attractions of the capital is the availability of skills and access to other businesses and markets. We believe that lowering the cap could further restrict access to skills vital to securing international talent and investors in the UK. The perception that the UK is not open for business is seriously damaging to the UK.”

London Chamber of Commerce and Industry response to MAC call for evidence

“Applicants from outside the EU do not apply, because they have limited confidence in acquiring a visa. Equally they are likely to come lower down our list of applicants to interview because we perceive problems and delays in their being accepted. For a fast moving start-up we cannot afford to wait months to determine if a potential employee will be allowed in. Instead we take the expedient route of offering jobs to what may be less skilled local employees.”

A member of Electronics Technology Network response to MAC call for evidence

“The main impact in the HE Sector of the current annual maximum has been to damage the UK’s reputation as an appealing prospect in the eyes of the most able and ambitious academics from across the world. It has sent a negative signal to prospective foreign foundations sponsoring academic posts in the UK.”

University of East Anglia response to MAC call for evidence

7.29 There was some evidence from partners that non-EEA applicants are finding the UK less attractive and choosing to locate elsewhere, thereby depriving the UK of the most skilled people and the potential economic benefit they provide.

7.30 The additional costs and burden of sponsoring someone under Tier 2, and also of keeping up with changes in the immigration system, was described in some detail by partners. They told us that their recruitment costs had increased, due to the additional specialist advice and staff time required, and also that the process was more complicated and slower. Partners were frustrated that this was impacting on their ability to hire the best people for the job, making them less competitive and potentially harming their productivity and financial success.

7.31 Partners gave several examples, similar to the following quote, where they believed that the UK had already lost inward investment and economic opportunities because of skills shortages and the perception that bringing staff and skills from abroad would be difficult. Partners emphasised that the UK was in competition with other countries

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for business and that companies would be prepared to relocate if they could not get the people they wanted. We were also told us that some other countries, such as Australia, are actually relaxing their rules on skilled migration, thereby making them more attractive.

“Our food division has opened a new grain import/ export business in Paris instead of our London Office. ... Our chemicals division ... is now operated out of our Dusseldorf office rather than from London as previously. Shoe import/ export business too was going to be based in our London office but this will now be operated from Japan.”

Marubeni Europe plc response to MAC call for evidence

7.32 The Foreign and Commonwealth Office (FCO) reported that a number of countries had raised concerns with them about Tier 2 visas and the limit. Among others, the Canadian Government is concerned that the limit and other changes affects the Canada-UK Joint Declaration which encourages cooperation between the two countries, including through work on science and innovation.

7.33 Representatives of several individual countries and multinational companies also raised concerns with the FCO (and through the call for evidence) that restricting the movement of skilled workers can have an impact on the reciprocity of the movement of UK staff to other countries, reducing the opportunities for UK residents.

7.34 The FCO told us that concerns are usually about the perception that the UK is not ‘open for business’ rather than being based on problems actually experienced with the immigration system.

7.3 Social and public service impacts

7.35 We did not receive any substantial evidence on the social and public service impact of Tier 2 migrants. However, we have previously examined this issue both in Migration Advisory Committee (2010c) and in our most recent publication Migration Advisory Committee (2012). As well as the impact on the labour market, the latter of the two reports examined the results of research commissioned by the Committee on the impact of Tier 1 and Tier 2 migration on:

- transport congestion;
- access to housing and the housing market;
- crime and victimisation;
- consumption of public services;
- provision of public services; and
- social cohesion and integration.

7.36 In relation to **transport**, our report (Migration Advisory Committee 2012) found that non-EEA migrants increased congestion. However, as non-EEA migrants are significantly more likely to live in large metropolitan areas than the average UK national they tend to make higher use of non-car-

driving modes of transport, including public transport, walking, cycling or car sharing. The report found evidence that this difference in behaviour between non-EEA migrants and UK-born individuals may reduce over time, as migrants' behaviour assimilates to that of non-migrants.

- 7.37 Reducing the number of Tier 2 migrants coming to the UK via the limit or other policies would therefore reduce congestion on certain modes of transport, however income from tickets and taxation on road users would also be reduced.
- 7.38 The concentration of non-EEA economic migrants in metropolitan areas means that their impacts are disproportionately concentrated in these areas. The largest impact is on London, where 40 per cent of all non-EEA nationals reside, compared to 11 per cent of all UK nationals.
- 7.39 The main findings on the impact of migration on access to **housing and the housing market** broadly confirmed the findings of the existing literature. Non-EEA migration does increase demand for housing, and the impacts are concentrated in certain areas of the UK, particularly London. The long-term impact depends largely on the duration of migrants' stay in the UK.
- 7.40 Tier 2 migrant-type households and their dependants tend to occupy fewer dwellings per head than average because they are less likely to live in small households relative to the UK-born population. Forty-six per cent of households headed by a Tier 2 migrant were classified as small

households, compared to 64 per cent of all households in England.

- 7.41 Migration Advisory Committee (2012) concluded that the impact of positive net migration through Tier 1 and Tier 2 is more likely to be on house prices and, particularly, private rents than on the quantity of housing supplied. A tentative assessment was made that Tier 1 and Tier 2 migrant-type households will account for up to 8 per cent of additional demand for private rental and owner occupied housing in the UK between 2011 and 2017.
- 7.42 In relation to **crime**, we concluded, tentatively, that the selection mechanism of the PBS would mean that, on average, recent Tier 2 migrants have exhibited a lower propensity to commit crime than the average existing UK resident.
- 7.43 Although there are problems with the data currently available, we suggested that policymakers conclude that migration through the PBS has a positive impact on the level of crime but a zero impact on the likelihood of a member of the existing UK population being a victim of crime. There is some evidence to suggest that positive net migration through the PBS may in fact reduce overall rates of crime in the UK.
- 7.44 In relation to the **consumption of public services** we concluded that Tier 2 migrants tend to be young, healthy, highly educated, highly skilled and in employment, therefore are likely to consume below-average levels of health and social care services relative to the average existing UK resident,

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at least in the short term. Their consumption of these services, as well as education services, will be strongly influenced by the number and age of the dependants that they will eventually bring to the UK. Their impact on the consumption of public services will also be offset by their contribution to the exchequer.

7.45 Analysis for Migration Advisory Committee (2012), by the National Institute of Economic and Social Research (NIESR 2012a), estimated that the annual expenditure on education services per adult Tier 1 and Tier 2 migrant were broadly similar to the equivalent figure for non-migrants. Expenditure on personal social services was on average lower for Tier 1 and Tier 2 migrants (largely due to the age profile of the group) and annual health expenditure was also considerably lower than for the average adult in the non-migrant population.

7.46 The fact that Tier 2 migrants tend to earn good incomes and have an above-average propensity to be employed by multinational firms suggests that at least some of these migrants and their dependants are likely to consume privately rather than publicly provided health and education services. This was substantiated by several employer responses to our call for evidence for this review which stated that the migrants they brought in under Tier 2 would have private health insurance and their children would frequently attend private schools.

7.47 In relation to the **provision of public services**, non-EEA migration has helped alleviate key

skills shortages in some public service occupations and in some regions and localities in the UK, at least in the short term. In turn, this may have helped to relieve pressure on wages in these sectors, as well as the overall cost of service provision. The longer-term impact will depend, at least in part, on the effect this has on incentives to up-skill and train the existing resident workforce (Migration Advisory Committee 2012).

7.48 Analysis for Migration Advisory Committee (2012), by Dustmann and Frattini (2012), found that non-EEA migrants were more likely to be employed in the public sector than EEA migrants, with concentrations of employment in certain geographical areas and certain specialised services. On average, non-EEA migrants employed in the public sector were found to be younger and better educated (proxied by the age at which the individual leaves education) than the average UK-born public sector employee. Non-EEA migrants employed in the public sector also tend to be disproportionately employed in the more highly skilled occupational groupings of the 1-digit level of SOC 2000.

7.49 We received some evidence from partners on the role of Tier 2 migrants in providing public sector services, in particular in relation to nurses, teachers and social workers.

“We have a number of measures in place to recruit more UK resident teachers as pupil numbers rise ... Despite our efforts, however, it is unlikely that there will be enough qualified teachers to meet this additional demand. We therefore expect to have some reliance on overseas trained teachers (OTTs) beyond 2012-13.”

Department for Education response to MAC call for evidence

- 7.50 The literature on defining and measuring the impacts of migration on **social cohesion and integration** is limited. We commissioned further research (Saggar *et al.* 2012) in this area to inform Migration Advisory Committee (2012). We define social cohesion as how individuals and groups get along with each other at a local, or neighbourhood level, and integration as how groups perform relative to a society as a whole.
- 7.51 On social cohesion, the analysis showed that the primary negative influence on survey respondents’ perceptions of their local area is the level of social deprivation rather than the level of new migration. While deprived areas often also have high levels of existing diversity, statistical analysis suggests it is the economic deprivation rather than ethnic diversity which is negatively correlated to social cohesion. Thus it would follow that new migration waves have little impact on levels of social cohesion in the short term, although they may have an indirect impact via their effect on the pre-existing levels of deprivation. Given Tier 2 migrants tend to earn good incomes, they are unlikely to negatively impact on deprivation of an area.
- 7.52 On integration, according to the main available survey measures, some migrants appear to be better integrated and engaged in society than some members of the UK-born population. Specifically some migrant groups have more trust in British political institutions, and expressed a higher level of belonging to Britain than the average UK-born individual.
- 7.53 The Scottish Government told us that the impacts of migration are different in Scotland to the rest of the UK. For instance, its response quoted research (Rolfe and Metcalf 2009) that indicated demand for services from migrants is not as high as expected although they acknowledge that few studies have assessed the impact of migration on services so many additional costs are largely unknown. The same research also indicated that the Scottish public are more welcoming of migrants than in other parts of the UK, except London, and that migrants report positive experiences of living in Scotland.
- 7.54 The Scottish Government stated that Scotland’s position is in some ways different from the rest of the UK, with a lower population growth rate and an ageing population. The Government Economic Strategy has established a target on population growth to tackle this problem, but the limit on migration is having a detrimental effect on achieving this. According to the Scottish

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Government response to the MAC call for evidence, it is estimated that Scotland's population will have to grow by between 18,000 and 19,000 per annum to 2017 to achieve the population target. Around 15,000 to 16,000 per annum will have to be met through net migration.

7.4 Partner evidence on the current Tier 2 (General) limit

7.55 The current under-subscription of restricted Certificates of Sponsorship (CoS) shows that no CoS have been denied due to the quota being reached in any of the months that the limit has been in operation. However, partners stated that the very existence of the numerical limit, alongside the other changes in the system, has decreased recruitment of non-EEA workers to the UK. Partners were keen to impress upon us that the under-subscription of the limit should not be taken as a sign that it was set too high or was ineffective.

"We have not had any Tier 2 General applications refused and so superficially there appears to be no impact on our companies, but the message our Japanese management in the UK and in Tokyo have taken from the annual limit is that this is a clear request not to send Japanese senior managers and their families temporarily to the UK."

Marubeni Europe Plc response to MAC call for evidence

7.56 Partners gave a number of reasons for why they thought the limit had been undersubscribed. The most common was that the

limit has coincided with the economic downturn and that this has severely impacted on recruitment. Poor economic growth has led to fewer jobs being created. Where businesses have been able to grow it has been easier for them to recruit successfully from the domestic workforce. Demand for non-EEA workers has therefore been low in the past year. Conversely, partners told us that as the economy recovers again, they expected that the recruitment of non-EEA nationals would increase.

7.57 Supporting this argument, the Chartered Institute of Personnel and Development (CIPD) told us that there had been a fall in demand for highly skilled non-EU migrant workers in the short and medium term. CIPD (2011) showed that in the three months to December 2011:

- demand for migrant workers fell alongside a fall in overall recruitment intentions;
- demand fell for highly skilled roles historically often filled by non-EU migrants such as engineering, IT and finance and accountancy professionals;
- the number of employers reporting difficulties filling vacancies fell from 24 to 19 per cent for engineering, from 19 to 10 per cent for IT and from 12 to 9 per cent for accountancy and finance; and
- the number of private sector firms planning to hire migrants

decreased over the quarter from 32 to 23 per cent.

- 7.58 Health, social care and other public services reported that the austerity measures currently in place, related to the UK's economic position, have meant much less recruitment in their sectors than would normally occur.

“Overall, it appears that the main reason for the low numbers of children and family social workers coming to the UK from outside the EEA is due to the current economic and fiscal environment. Local Authorities have reduced the number of adult social worker posts in order to live within smaller budgets; and this has led to a number of former adult social workers going into children and family social work. This has helped to fill vacancies in the short-term, leading to an easing off of recruitment activity.”

Department for Education response to MAC call for evidence

- 7.59 In contrast, the Higher Education sector reported that, on the whole, their recruitment has been largely unaffected and has continued as previously, although some reported that potential non-EEA applicants had been put off because of the limit.

“The introduction of limits has led to a perception overseas that appointments are no longer solely based on merit and this had discouraged talented academics from applying to the UK. We believe that setting a limit has conveyed a negative message for potential international recruits, which has not been to the benefit of UK employers and subsequently the economy.”

University of Edinburgh response to MAC call for evidence

- 7.60 Some partners in the business sector also told us that the willingness of non-EEA nationals to come to the UK to work has not been as strong as previously. It was suggested that this was linked to poor economic prospects in the UK, as well as the perception that the UK is difficult to enter and that settlement was becoming more difficult.

“Whilst it may be the case that it is possible for a non-EEA national to come to the UK under Tier 2 (subject to all criteria being met) the perception is that coming to the UK is very difficult, if not impossible and the ability to remain on a longer term basis is being eroded and in certain categories, removed.”

Rolls-Royce Plc response to MAC call for evidence

- 7.61 Partners also told us that some employers had been put off even attempting to bring migrants in because of the constant change to the system and the bureaucracy involved in obtaining CoS, combined with the responsibility of being a sponsor.

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“In my experience companies facing unprecedentedly difficult times quite simply feel they have more pressing things to do than work through what they may see rightly or wrongly as a complex and rather bureaucratic process, and instead defer recruitment plans or put up with continued shortages.”

Institution of Chemical Engineers response to MAC call for evidence

- 7.62 Only a small minority of employers reported that the limit on Tier 2 had made them more likely to employ resident workers, or to improve their training to grow the skills they required within the existing workforce.

“Generally, lower limits for non-EU immigration under Tier 2 may, gradually and in the medium to longer term, encourage employers to support relevant education and skills development for the UK resident workforce.”

Department for Education and Skills, Welsh Government, response to MAC call for evidence

7.5 Partner evidence on the impact of reducing the Tier 2 (General) limit

- 7.63 A small number of partners, such as those quoted below, believed that, due to it being undersubscribed, the limit could be reduced without having a negative impact. These partners almost all assumed that the limit would still not be met, or specified that it should be kept under review.

“The impact of the annual limit on Tier 2 (General) of 20,700 has been very minimal. We don’t foresee any significant impact of setting a limit below the current level in 2012/13.”

AMEC response to MAC call for evidence

“A level slightly below the 2011-12 level would not be a problem. Perhaps a cut to 18,000 (i.e. 1,500 pcm) would be a reasonable next step. The impact could be assessed in a year’s time, and further reductions might be possible.”

Dynamic Futures response to MAC call for evidence

- 7.64 The Department for Work and Pensions also stated that the limit should be lowered, but expressed that caution was needed to not restrain employers.

“DWP is committed to helping to increase the supply of domestic workers through welfare and benefit reforms, by ensuring that people are better prepared, have more incentive and face more requirements to take-up work. With this in mind and in light of the current economic conditions we support a lowering of the annual limit in 2012/13. As the MAC itself makes clear in its recent report on A2 restrictions, unemployment remains high following the recession. Over the last year the number of UK nationals in work has fallen while the number of non-EU nationals has continued to increase. However, care will be needed to ensure the annual limit is not set at such a level as to be overly restrictive and restrain employers’ ability to recruit and expand.”

Department for Work and Pensions response to MAC call for evidence

- 7.65 However, the majority response to the call for evidence was that partners were strongly against reducing the Tier 2 (General) limit. Several argued that it would be premature or ill-advised to do so when the recent changes to the system are not yet embedded and their impact is not yet fully known.

“It is my view that a reduction in the limit would be premature before we have established that companies fully understand that the system is not as difficult as may be envisaged, and before we have corrected the extremely damaging impression we have given to skilled people overseas.”

Institution of Chemical Engineers response to MAC call for evidence

“Further reductions in the limit are unlikely therefore to have a significant impact on the government’s objective of reducing net migration to the tens of thousands ... therefore, any proposed changes must be backed by strong evidence that they are of benefit to economic growth. If there is no evidence, or if the evidence is weak or ambiguous, then the status quo should be maintained in order to offer policy certainty, allowing business to focus on economic recovery.”

Department for Business, Innovation and Skills response to MAC call for evidence

- 7.66 Some partners stated that the limit on Tier 2 was an inappropriate tool which was not necessary given the other levers the PBS presents to selectively control who comes to the UK.

“The Points Based System was designed to be easily adjustable to economic and skills needs. As such an additional cap is a blunt unnecessary instrument making it difficult to predict the numbers of people required in rapidly changing economic and social circumstances.”

The Scottish Government response to MAC call for evidence

- 7.67 Several employers expressed how they needed to be able to react quickly once the economy did pick up in order to maintain international competitiveness. It was feared that a reduced limit would be a problem when the economy began to perform better as it could impede business expansion when the Tier 2 limit was reached and the people with

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skills needed were not able to come to the country. We were told that some organisations could then choose to relocate or expand their operations in other countries where they believe getting the staff they require is not an issue.

7.68 CIPD stated that the current low demand for Tier 2 visas could also reverse in the following year if the perception and understanding of the system improved, particularly if employers become more aware that the cap is not currently acting as a restraint.

7.69 Some partners told us that they expected to use more CoS in 2012/13 due to changes to the Post Study Work route in Tier 1, which is due to be closed in April 2012. However, we expect that non-EEA graduates switching to Tier 2 (General) will not count towards the limit as they would be applying in-country and will therefore be allocated unrestricted CoS.

7.70 If the Olympics and the Queen's Diamond Jubilee attract more Tier 2 applications, as many partners expect, there would be repercussions for organisations needing CoS during those few months and also later in the year if the limit was reached.

7.71 Similarly, some partners told us that their recruitment was highly seasonal, either because of weather conditions, or because of annual cycles in their recruitment activity as applies, for example, to academic institutions and the NHS. For instance, Balfour Beatty Utility Solutions has a stable resident workforce of overhead line operatives, but also requires migrant workers to cope during

peaks of activity. Balfour Beatty Utility Solutions, explained that were the limit to be reached for those months when they are recruiting, it would be more difficult for them to bring in the staff required, which would impact their business and potentially the development of the UK's infrastructure.

"We would also want to ensure that there was flexibility in the allocation methodology to reflect that although recruitment occurs throughout the year, the NHS also has peaks of activity when employers are recruiting to national training programmes for some clinical professions."

NHS Employers response to MAC call for evidence

7.72 There was also a concern that although theoretically the limit could be moved up if demand for non-EEA migrants increased, in practice, given the stated aims of the Government on net migration, it was thought that it would be difficult to raise the level once it had been reduced.

"If the Government considered that the current level of the quota represented an acceptable level of immigration of skilled workers from [non-EEA countries], why should this judgement change just because in one period the uptake was considerably less than the quota? Is the quota always to be on a downward ratchet? What happens when the demands of the British economy for skilled workers increases?"

New Zealand High Commission response to MAC call for evidence

- 7.73 Some employers predicted that once the limit was reached, and CoS started to be refused, small organisations would be disproportionately affected because of the lack of capacity and dedicated staff to deal with the additional administration required.
- 7.74 In addition to the fears about the impact on their own organisations if the limit were to be decreased, some partners also reflected that the impact on net migration would be small. Some expressed frustration that the work migration routes were being targeted by policies to reduce net migration. They believed that it is counterproductive to restrict skilled migration when skilled migrants under Tier 2 bring economic benefit to the UK.

“Our view is that the structure of Tier 2 already provides adequate rigour and control. The number of work-related migrants is reducing; the Government’s measures are bearing fruit. There is no need to cut even deeper into Tier 2 at this time.”

Rolls-Royce Plc response to MAC call for evidence

“The Government’s commitment to reducing net migration to the tens of thousands is explicitly based on public concerns about immigration. Our submission is that such public concern is about illegal immigration, abuse of the immigration system and the associated calls upon public services, and the impact of EEA migration on resident workers’ access to low and semi-skilled jobs. These concerns are not addressed by restrictions on the business migration routes for professionals coming into the UK from outside the EEA.”

The Law Society response to MAC call for evidence

7.6 Other issues raised by partners

- 7.75 During the course of the call for evidence a number of other issues were raised with us that are not directly within our remit as regards the present commission. Nonetheless, we draw the Government’s attention to these points.

Constant change in the immigration system

- 7.76 Partners explained that both real and perceived ongoing change to the system makes it difficult to plan and undermines confidence that businesses will be able to recruit the people with the skills they want. This was supported in the evidence from the Department for Business, Innovation and Skills, who told us that business needs certainty. They told us that businesses do their strategic planning on a two to five year cycle. They believe that business

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will not have the confidence to plan for growth if immigration policy is repeatedly redesigned.

7.77 Research from the City of London (2011) reported similar views and stated *“Stability in migration policy is required for businesses to engage in medium to long-term planning. Those employers who recruit talent several years in advance, and those businesses with growth plans that were linked to non-EU/non-EEA markets, voiced this the most strongly”*.

7.78 In a partner meeting one multi-national company said that in no other country in which they worked did they experience such continual change and that, in terms of immigration rules, it was easier to locate business elsewhere. The CBI also want there to be stability and suggested that the limit be fixed until 2015, keeping intra-company transfers exempted.

Impact on small businesses

7.79 Employers reported that it is time consuming and expensive to keep up to date with the immigration system and to know which migrants they can bring in. Larger companies often have dedicated staff to deal with immigration issues. Small and medium size businesses do not have the capacity to develop the expertise in-house, and therefore rely on consultants and immigration lawyers. It was put to us that both these approaches increase employers’ costs and make them less competitive.

7.80 Research from the City of London (2011) found: *“Both smaller and larger businesses have been able*

to adapt to the migration limits; while the costs for both have increased, the proportional increase in resources utilisation has been greater for smaller businesses. Larger companies have been better equipped to absorb additional resource requirements and costs to secure the services of migration consultants.”

“It’s fine for big companies with complex HR systems, but for an SME, the overhead of building and running ‘Tier 2 sponsor compliant processes’ can be too daunting and so they don’t bother. This creates another area where the SME is at a disadvantage to an established big company, even when the SME offers better value and is more innovative.”

Dynamic Futures response to MAC call for evidence

Administrative issues with the limit

7.81 Partners told us of practical difficulties and costs associated with dealing with restricted Tier 2 immigration. The process of negotiating the immigration system (including applying to become a sponsor, abiding by the UK Border Agency standards, applying for restricted CoS, applying for entry clearance, dealing with extensions and problems), was described as burdensome. It was said to disadvantage UK companies and institutions in the international market by increasing their costs, making it harder to get the best talent and making it slower to get people into the jobs where they are needed.

- 7.82 A survey of 123 companies by the London Chamber of Commerce and Industry found that 24 per cent of companies cited bureaucracy as a problem they had encountered around immigration (London Chamber of Commerce and Industry, 2011). Partners expressed frustration that the system was difficult to understand and use.
- 7.83 Several partners reported that the UK Border Agency website was difficult to navigate and that the helpline did not always provide useful or consistent advice. The London Chamber of Commerce and Industry (2011) reported that employers they interviewed said that there is vast amount of material available on the UKBA website but the information is too dense to access easily.
- 7.84 It was suggested that improving the information and communication routes for users of the system would reduce some of these problems and costs.
- 7.85 We were also told that the immigration system delayed recruitment. The City of London (2011) reported that participants in their qualitative research told them that under the previous policy (i.e. before the introduction of limits), the average visa processing duration was four weeks but this was now an average of six to eight weeks.
- 7.86 Some of the delays are because CoS applications are processed once a month. The UK Border Agency must receive applications by the fifth day of the month so if an organisation finds an appropriate non-EEA candidate on the sixth day of the month, they

must wait a month before they can make the application. The UK Border Agency does recognise that there may be circumstances where the sponsor cannot wait for the monthly allocation. Sponsors can ask for a CoS application to be treated urgently and the UK Border Agency will consider each case on its merits.

- 7.87 Such delays could mean that businesses and other institutions are sometimes unable to appoint their preferred candidate in a timely manner, or at all if the need for their skills is pressing. Several partners pointed out that if the limit was reached, delays to recruitment would be increased further as employers would have to wait for the next month's quota to be opened. This is, of course, an intended consequence of a policy that applies a monthly limit to migration.

Consultation fatigue

- 7.88 We were told at many of the partner meetings and events that partners found the frequent calls for evidence and consultations from the Migration Advisory Committee and the Home Office to be time consuming and that there was significant 'consultation fatigue'. In the past year, the MAC has issued calls for evidence on the annual limit, settlement of Tier 1 and Tier 2 migrants and shortage occupations while the Home Office has consulted on family migration routes, settlement, Tier 5, overseas domestic workers, and students.

Pharmacists

- 7.89 Several partners involved in the training of pharmacists highlighted

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that there is a problem for the final year of training for non-EEA pharmacist students who need to complete a year working pre-registration in order to complete their qualification. When they are no longer able to use the post-study work route they will have to use Tier 2. The salary level set for pre-registration pharmacists in the codes of practice is £20,710. However, the pre-registration training grant for community pharmacy contractors (and therefore a more accurate reflection of pay at that level) is £18,440. Partners told us that this needs consideration.

“Under the old Tier 1 rules these students could remain to complete their training and then work for a year as a pharmacist if they wished. Under the changed visa requirements these students now have to apply for a Tier 2 visa to complete the final year of their education. This means that the majority of these students now face real hurdles in completing their studies to become a pharmacist. Similar issues exist for international pharmacists undertaking the PgDip/MSc Pharmacy (OSPAP) course in the UK.”

Council of University Heads of Pharmacy response to MAC call for evidence

Trainees under intra-company transfers

7.90 We were made aware that the salary level for intra-company transfers can prevent some trainees from multi-national companies from coming to the UK. In particular, where the training courses are for more than one

year they would have to meet the £40,000 salary threshold which can be challenging for trainees from countries where wages are lower. This can impact on businesses in the UK making it more difficult for them to become international training centres (along with the increased activity and reputation enhancement that this entails) and means international businesses choose to conduct their training elsewhere.

7.91 For example, Nissan’s UK manufacturing plant holds ‘Mother Plant’ status which enables it to train staff from overseas Nissan operations. The current intra-company transfer salary threshold is preventing Nissan from training overseas engineers because of the home based salaries of the engineers (e.g. Indian trainee engineers are on salaries of less than £10,000). We were told that not fulfilling the training obligation could jeopardise the plant’s status and the benefits this brings to the UK.

7.92 We received similar evidence from KPMG who have several ‘Centres of Excellence’ in the UK which they use to train overseas employees. If they are no longer able to do this because of changes to skill level or salary levels for intra-company transfers, they say it would be detrimental to the ‘global firm’ philosophy and impact on investment into the training centres. We were also told that it would reduce development opportunities for UK staff as many of the global programmes are based on a ‘one-in, one-out principle’.

UK employment law and demand for migrants

7.93 In this and previous calls for evidence, some partners have suggested to us that UK employment law (or their perception of it) makes it harder for them to recruit suitable workers from within the UK and, therefore, harder to reduce their dependence on migrant labour.

7.94 One employer suggested to us that they could reduce their demand for intra-company transferees working as third-party contractors by offering apprenticeships to UK workers that combine work and degree study. However, they said they are discouraged from doing so because the apprentices would gain employment rights and reduce the flexibility of the labour pool, in contrast to third-party contractors from abroad who are employed on a flexible basis.

7.95 We have not examined such points in detail for this report, but the general issue of how wider labour market and social policy, as well as skills policy, can deter or support the training or recruitment of UK workers is an important one that may benefit from further cross-Government consideration.

7.7 Conclusions

7.96 In Migration Advisory Committee (2012) we discussed the impacts of migration from outside the EEA. We concluded, tentatively, that an extra 100 non-EEA migrants is associated with 23 fewer British residents being employed. The associated displacement of British born workers between 1995 and 2010 was, in our calculations,

around 160,000 of the additional 2.1 million jobs held by migrants, or about 1 in 13.

7.97 It does not automatically follow, however, that those migrants entering the UK under the intra-company transfer route or under the limit on Tier 2 (General) will displace non-migrants in the labour market, for two main reasons. First, Tier 2 has become significantly more selective in recent years. Second, the findings in Migration Advisory Committee (2012) related to the total impact of all working-age non-EEA migrants, including students, family route migrants, asylum seekers and dependants as well as work-related migrants.

7.98 Migration Advisory Committee (2012) also proposed that important impacts of migration to take into account when forming migration policy include dynamic effects resulting from specialisation and knowledge transfer and impacts on tax contributions, the provision of public services, consumption of public services and benefits, employment of UK workers, and impacts on housing and transport.

7.99 Employers generally told us that they employ workers from the domestic labour market where possible, and make efforts to up-skill their own people, before resorting to employing migrant labour. Retaining access to that migrant labour was often seen as essential to their economic success.

7.100 On the other hand, take-up under the Tier 2 limit is currently running at approximately half capacity and so the limit, in itself, is not

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currently providing a major barrier to employment of skilled migrants. However, partners complain about the difficulty in keeping up with the pace of recent change in the immigration system and the administrative burdens associated with interacting with the system. Some partners believe that policies limiting migration have, in themselves, reduced migration by generating negative perceptions of the UK as a place to do business, although it is clear that economic conditions have also had an impact.

- 7.101 There are concerns that, if the limit of Tier 2 (General) is substantially reduced in 2012/13, this could have adverse impacts on business and economic growth. Demand for non-EEA migrants could increase if the economy picked up although, as illustrated in Chapter 3, it is unlikely that the UK will experience rapid economic growth in 2012/13. One-off events such as the London Olympics may also have some impact on demand for work visas.

Chapter 8 Calculating the level of the limit

8.1 Introduction

8.1 This chapter considers the question we were asked regarding the level of the limit for Tier 2 (General) for 2012/13: *“The Government will deliver an improved migration system that commands public confidence and serves our economic interests. It will be more efficient and less open to abuse and will reduce the number of non-EU migrants. The Government is developing policies to meet this objective. As a result of these policies the Government anticipates that net migration will be in the tens of thousands in future. In this context, at what level should the limit on Tier 2 (General) be set for 2012, taking account of the economic, labour market, social and public service impacts of the limit; and of the uptake of Tier 2 (General) and intra-company transferee visas in 2011/12?”* (Letter from Minister for Immigration to Chair of the Migration Advisory Committee, October 2011.)

8.2 The question does not define a specific deadline for net migration in the tens of thousands and places focus on the economic, social and public service impacts

associated with a limit on economic migrants.

8.3 Having considered the feedback from partners and the various impacts of limiting Tier 2 (General) in the previous chapter, this chapter proceeds to calculate a series of possible levels for the limit for 2012.

8.4 The chapter is divided into five parts. In section 8.2 we look at some analytical frameworks. Section 8.3 sets out the steps in calculating the required reduction in net migration and consequently in Tier 2 visas issued. In section 8.4 we consider the contribution to the required reductions made by measures already announced, and expected to be announced. Section 8.5 presents a brief summary of several potential limits for Tier 2 (General), followed by our conclusions in section 8.6.

8.5 We believe that the limit is usefully viewed as a ‘fail-safe’ mechanism, engaging only in the circumstance where net migration is running at levels higher than would be compatible with achieving the Government’s objectives.

8.6 The level of the limit, therefore, needs to be calculated with the Government’s objective of net

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migration in the ‘tens of thousands’ in mind, but should be accompanied by complementary policies that ensure appropriate selectivity of migrants to the UK. A selection of such complementary policies is discussed in section 8.4.

8.2 Analytical framework

8.7 This section summarises the analytical frameworks that could be adopted to set a limit on migration. A more detailed discussion is available in Migration Advisory Committee (2010c). It is not our task to consider what the optimal level of net or gross migration to the UK should be.

8.8 The first potential approach is to adopt a **cost-benefit framework** to determine the optimal annual level of migration. This approach involves a complete formulation of the various positive and negative impacts made by all migrants to the UK. This might then be used to determine a limit whereby only migrants making a positive net contribution are permitted to enter the UK. Conceptually, decisions or assumptions would be required regarding a range of issues including time horizons, discounting and treatment of dependants, including children born to migrants both within and outside the UK. However, as discussed in Migration Advisory Committee (2012), it is not possible to accurately quantify all the relevant costs and benefits of migration.

8.9 A second approach is to consider the **net fiscal impact of migration**. This approach attempts to determine the relative contribution of different migrants to the public finances, with only

those making a contribution above a certain threshold being permitted entry to the UK. This approach requires a clear identification of the scope of the fiscal contributions and withdrawals over time, as well as a judgement as to a desirable threshold.

8.10 A third option is to consider the **impact of migration on population** and to set the limit in line with a defined objective for population growth. As discussed in Chapter 3, the Office for National Statistics (ONS) produces UK population projections based on various assumed levels of net migration.

8.11 Each of the approaches above attempt to determine the ‘ideal’ level of migration via some kind of migration-optimisation formulation. None takes specific account of the Government’s objective. Therefore, a fourth option is to consider the **composition of migration flows in previous years**, specifically when net migration naturally fell within the bounds of the Government’s objective, and propose limits on future flows which might mirror those previously observed compositions.

8.12 Finally, the direct **arithmetic approach**, used in Migration Advisory Committee (2010c), determines the required reduction in net Long Term International Migration (LTIM) to achieve the Government’s objective, and then assumes that each route of entry into the UK makes a contribution to the reduction. The reduction through each route could be proportionate either to the current

level of flows through each route, or policy could be designed to explicitly change the balance between each route while reducing overall numbers. Such an approach will implicitly capture elements of the previously discussed approaches, to the extent that similar considerations affected the setting of the Government's objective.

8.13 This chapter adopts a similar arithmetic approach as developed in Migration Advisory Committee (2010c).

8.14 Before conducting the analysis, it was necessary to answer a number of questions. First we developed three modelling scenarios based on our consideration of two issues:

- What does the Government's 'tens of thousands' **objective for net migration** imply for a single-point estimate for a target level? For the purposes of calculating specific required limits for Tier 2 (General) it will be necessary to assume a precise target for overall net migration.
- Over what **timeline** will reductions be made? In Migration Advisory committee (2010c) net migration was assumed to reach the desired level by the end of the current Parliament. However, more gentle annual reductions might be possible if they can be made over a longer time horizon.

8.15 Second, we needed to consider some issues that are relevant in each of the three scenarios:

- What should the **trajectory** of the reductions be? The approach presented in our previous report, Migration Advisory Committee (2010c), which was adopted by the Government, was to make proportionate reductions each year, in order to smooth the process.
- Given incomplete and not entirely up-to-date data, what constitutes a reasonable estimate for the **baseline** level of migration from which reductions will need to be made?
- What constitutes a reasonable **distribution of reductions** across the various routes of entry into the UK? It will be necessary to determine the precise share of the total reduction which Tier 2 (General) must bear, with reference to the social and economic characteristics and impacts of migrants who use this route.

8.16 Below we consider the first set of issues and develop three scenarios. Then we consider the second set of issues.

The objective for net migration

8.17 In Migration Advisory Committee (2010c), our modelling assumed that the Government's objective is that net migration should be reduced to the 'tens of thousands'. One potential basis for expressing an objective as a range is because of the uncertainty in predicting the future flows of migration, which increases the further ahead in time we attempt to look. Four specific sources of

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uncertainty are: the data, which are subject to sampling error and a lag in reporting; policy changes in the intervening period; inherent uncertainty in forecasting future events which may influence an individual's decision to migrate; and finally, the components of net migration over which the government has no direct control, namely British and European Union (EU) net migration.

- 8.18 In Migration Advisory Committee (2010c) we assumed that, given the uncertainty around forecasting future migration flows, a target of net migration of 50,000 would provide the best opportunity of achieving the Governments objective of reaching net migration in the 'tens of thousands'. This did not attempt to suggest what the Government's exact target for net migration is, nor what it should be. Rather, it placed equal likelihood on pressures on net migration tending to zero as to 100,000, resulting in a 'likely' outcome in the middle of this range.

The timeline and our three scenarios

- 8.19 Previously our modelling assumed the objective for net migration would be met by the end of the current Parliament. The question we have been asked for this review does not refer to a specific time frame or a specific level for

net migration. We therefore retain our previous assumption for some scenarios but, in the context of partner views discussed in Chapter 7, also model a scenario that involves more gradual reductions in net migration.

- 8.20 In one scenario we assume that the objective of net migration in the 'tens of thousands' has not changed and therefore present estimates with an assumed point-target of 50,000 for net migration, which is to be achieved over the three years to 2014/15. We will refer to this as **scenario 1**.
- 8.21 The Government may wish to aim for a higher objective, still in the 'tens of thousands' range, in order that more gentle reductions in net migration are required. Therefore, we also present calculations if the point-target is increased to 99,000, to be achieved over the three years to 2014/15. We refer to this as **scenario 2**.
- 8.22 A third, still gentler, possibility might be to increase the time horizon over which the reductions are achieved. **scenario 3** considers an assumed target of 99,000 for net migration to be met over the longer time period of five years, to 2016/17.

Table 8.1: Scenarios used for analysis

| | Scenario 1 | Scenario 2 | Scenario 3 |
|-----------------|---------------------------|---------------------------|---------------------------|
| Target | 50,000 | 99,000 | 99,000 |
| Time to achieve | 3 years, ending (2014/15) | 3 years, ending (2014/15) | 5 years, ending (2016/17) |

- 8.23 We next consider the issues described above that affect all three scenarios: the trajectory for

reductions; the baseline, or starting point; and the distribution of reductions across routes.

The trajectory

8.24 In terms of the trajectory of reductions, there are a number of possible options which could be considered, two of which are described below:

- The Government may decide to impose discretionary limits which can be raised and lowered in accordance with fluctuations in the economy. However, this option would lead to a high degree of uncertainty as to what the limit would be from year to year, and provides the least assurance that the Government would achieve their objective within the desired timeframe.
- The second option is to apply proportionate reductions each year so that net migration follows a smooth linear path over the chosen time frame, such that it reaches the objective at the end of the period. This approach is likely to lead to the greatest certainty for users.

8.25 In Migration Advisory Committee (2010c), we reasoned that there was merit in the argument that employers should be given time to adjust to limits on migration, and this implies that the limit on Tier 2 would become increasingly restrictive over time. A linear trajectory is consistent with this. A trajectory which delays the largest reductions until later periods risks employers limiting or delaying action required to accelerate the

training and up-skilling of UK workers. In addition, plotting a trajectory is not an exact science, meaning that there is an argument for simplicity. We, therefore, maintain the assumption that reductions will follow a linear path in the following analysis.

The baseline

8.26 In order to calculate the required reductions in net migration we need to make an assumption regarding the baseline level of net migration from which reductions need to be made. Ideally our baseline would be based on figures for the year to 2012 Q1. The latest estimates of net migration available are the provisional Long Term International Migration (LTIM) for the year ending 2011 Q1.

8.27 Table 8.2 provides a breakdown of the most recently available (provisional) data on LTIM and the International Passenger Survey (IPS). The provisional estimate for net LTIM for 2011 Q1 was a net inflow of 245,000; composed of a non-IPS and an IPS net inflow of 10,000 and 235,000 respectively. The IPS collects information on passengers entering or leaving the UK through ports, airports and train stations. This is then adjusted with the non-IPS component covering asylum seekers, flows to and from the Irish Republic and migrant and visitor switchers to generate the LTIM estimate.

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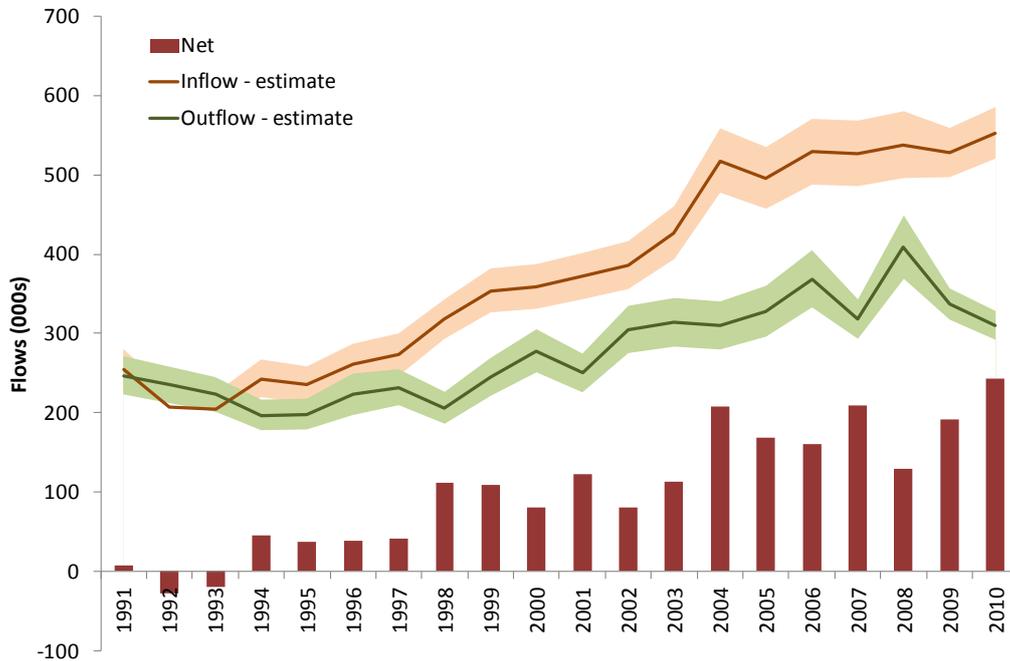
| Table 8.2: Long term migration data, year ending 2011 Q1, (000s) | | | |
|--|---------------|--|------------|
| Flows | Inflow | Outflow | Net |
| Long Term International Migration | 582 | -336 | 245 |
| Non-IPS flows (1) | 39 | -28 | 10 |
| IPS flows | 543 | -308 | 235 |
| Flows by nationality | | | |
| Nationality | Inflow | Outflow | Net |
| British nationals | 85 | -130 | -45 |
| EU nationals | 151 | -84 | 67 |
| Non-EU nationals | 307 | -93 | 214 |
| Inflows of non-EU nationals by reason for migration | | | |
| Reason for migration | Inflow | Percentage of non-EU national inflows | |
| Other reasons | 16 | (-) | |
| Study reasons | 179 | 60 | |
| Accompany/join | 56 | 20 | |
| Work reasons | 55 | 20 | |
| Notes: All figures are provisional. (1) Long Term International Migration (LTIM) is made up of an International Passenger Survey (IPS) component and a non-IPS component. The non-IPS component refers to flows in the LTIM that are not derived from the IPS and includes asylum seekers, flows to and from the Irish Republic and migrant visitor switchers. Volumes are rounded to the nearest thousand. Percentages under non-EU nationals are rounded to the nearest ten. | | | |
| Source: Office for National Statistics (2011c), Office for National Statistics (2011d) | | | |

8.28 Given the data available, in order to set the baseline, it is necessary to estimate the level of net migration at the beginning of 2012. If a stable and predictable relationship between the drivers of migration and migration flows could be identified, in theory, it might be possible to accurately forecast migration, and therefore calculate net migration in the year to 2012 Q1.

8.29 Even historical migration data are subject to considerable uncertainty, because it is based

on a sample rather than a census. Using migration data for IPS and non-IPS adjustments for 2010, we calculate that the 95 per cent confidence interval for the total inflow was approximately +/- 33,000 in the year ending 2011 Q1 and the equivalent figure for the outflow was +/- 18,000, as shown in Figure 8.1. A 95 per cent confidence interval implies that, on average, for every 20 possible samples drawn, we expect 19 of them to result in estimates within the range.

Figure 8.1: 95 per cent confidence intervals for inflows and outflows for all nationalities measured by the IPS, 1991 to 2010



Notes: Approximate confidence intervals are shown for inflows and outflow. The chart only refers to the International Passenger Survey component of net migration and do not include the adjustments made for the Long-Term International Migration (LTIM) estimates. 2010 figures are provisional.

Source: MAC analysis of the International Passenger Survey, 1991-2010, published in Office for National Statistics (2011d)

8.30 Given the uncertainty involved when considering the historic data, an alternative to forecasting is to consider future projections for net migration. The Office for National Statistics (ONS), when estimating population projections, makes assumptions about future net migration levels. In the 2010-based population forecasts the ONS assumed annual net migration would decrease by 8,000 each year from 2011/12 to 2016/17, stabilising at 200,000 in future years (well above the Government’s expected target of ‘tens of thousands’). Although based on expert opinion and analysis, these projections are still based on assumptions.

8.31 Our chosen approach was to consider how each component of LTIM and IPS might change over the period of the policy. When considering data on LTIM, split by the nationality of the migrant, the main divisions of interest in this report are British, EU and non-EU nationals, which together are covered by the IPS. In terms of migration policy, the Government does not have control over the British, EU and non-IPS components.

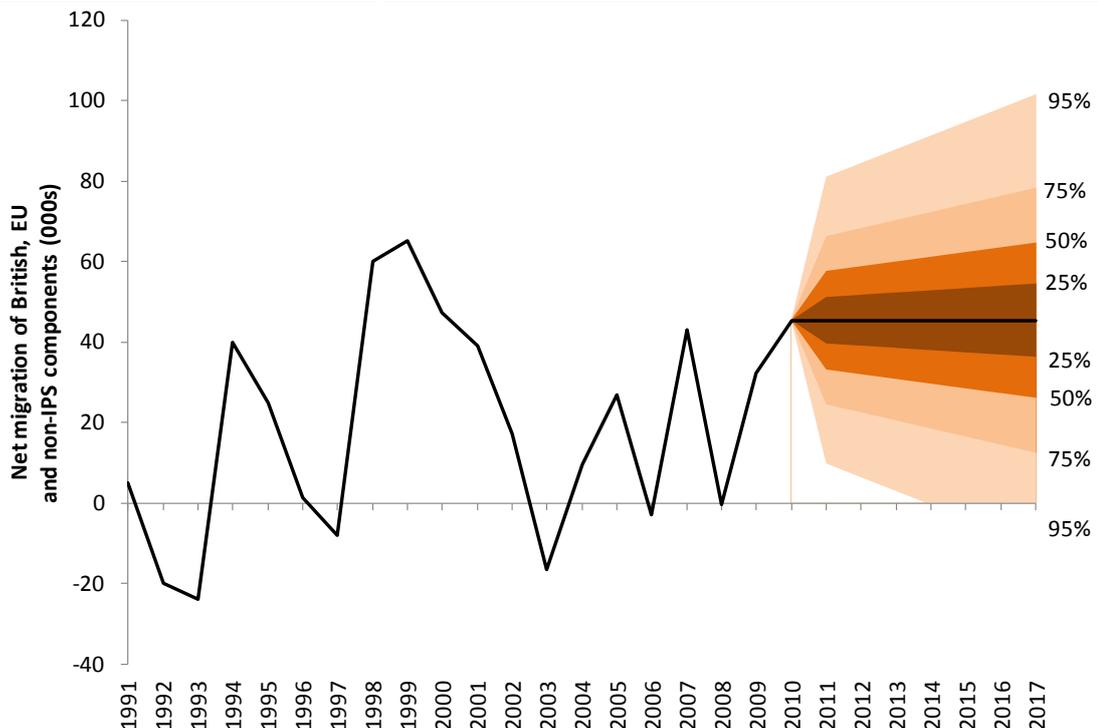
8.32 A briefing published by the Institute for Public Policy Research (IPPR 2012), suggested that the combination of previously announced policy changes and continued poor economic conditions will lead to further

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reductions in EU net inflows. However, it also points out that during global economic downturns, outflows of British nationals for work-related reasons tend to decline, reducing the

expected future level of British emigration. It was also suggested to us that outflows of British students may rise in response to increases in tuition fees charged at UK universities.

Figure 8.2: Probability distribution around the assumption that British, EU and non-IPS future net migration will stay constant over time



Notes: The chart shows the probability distribution, or confidence intervals, around the assumption that net migration from British, EU and non-IPS will stay constant going forward. The probability distribution is calculated assuming a normal distribution of errors, with mean 45,400. The standard error is assumed to increase linearly between the first-year and seventh-year forecasts.

Source: MAC analysis of estimates of Long-Term International Migration (LTIM), 1991-2010, based on data published in Office for National Statistics (2011c)

8.33 Forecasting British, EU and non-IPS migration is therefore subject to considerable uncertainty. Using a methodology employed in Migration Advisory Committee (2010c) we estimated, based on historic data, that there is a 95 per cent probability that net British, other EU and non-IPS migration will be between 91,000 and -1,000 in 2014 and a 95 per cent probability it will be between 98,000 and -7,000 in 2016. Figure

8.2 illustrates the range of this uncertainty.

8.34 On the basis of uncertainty and the benefits of simplicity, we retain our central working assumption from Migration Advisory Committee (2010c) that net flows of British, EU and non-IPS components of LTIM will remain at the levels of the year ending 2011 Q1 for the period covered by our analysis.

- 8.35 A result of this assumption is that under scenarios 1, 2 and 3 of our analysis, British migration will remain at a net outflow of 45,000, the non-IPS component will maintain a net inflow of 10,000 and EU migration will continue with a net inflow of 67,000, as shown in Table 8.2. Combining these components together gives a net inflow of 32,000.
- 8.36 The remainder of net LTIM is composed of nationals from non-EU countries, which accounted for a net inflow of 214,000 in the year to 2011 Q1. Under scenario 1, if British, non-IPS and other EU net migration accounts for 32,000 of the target 50,000 for net migration, non-EU net migration would need to fall to a level of 18,000 over three years. Similarly, scenarios 2 and 3 would require non-EU net migration to fall to 67,000 over three years and five years respectively.

The distribution of reductions

- 8.37 The IPS does not categorise respondents according to their visa, and instead records their main reason for entering the country. We therefore, need to determine how the required reductions should be distributed across these different reasons for entry, namely for study reasons, work reasons and accompany/join reasons.
- 8.38 In the context of the question we have been asked, it could be argued that routes used by migrants expected to make a greater social or economic contribution should be given preference, and those routes making lower contributions should bear a greater proportion of the reduction (to the extent that it is legally, morally and practically possible). It was not within the scope of this report to make such judgements.
- 8.39 Analysis carried out for the Migration Advisory Committee (2010c) report attempted to produce crude estimates for net migration based on main reason for entry to the UK. The proportions generated were similar to those based on each category's contribution to total non-EU inflows.
- 8.40 The approach taken in Migration Advisory Committee (2010c) therefore assumed that IPS routes for work-related, study and accompany/join reasons each make a proportionate contribution to this reduction based on the relative shares of their combined IPS inflows. The effect of this assumption was that the IPS inflows would be reduced to a lower level while the relative composition of non-EU inflows would remain constant.
- 8.41 Table 8.2 shows that the relative contributions of migration for study, accompany/join and work-related reasons to the total non-EU inflow were approximately 60 per cent, 20 per cent and 20 per cent respectively (unchanged from the ratios used in Migration Advisory Committee (2010c)). There is no information relating to the reason why migrants in the 'other' and 'no reason' categories came to the UK, or what visa they are likely to hold, so we assume neither will contribute to the reduction.
- 8.42 Once the required reduction in work-related IPS entry has been

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calculated, it is then necessary to determine how this translates into a reduction in work-related visas

(the Government's method of restricting inflows in the context of a limits policy).

Table 8.3: Number of out-of-country visas granted to main applicants for work-related reasons, year ending 2011 Q1

| | | Proportion of total work-related visas (%) ¹ | Out of country visas granted to main applicants |
|--|-----|---|---|
| Total work-related visas | | 100 | 114,500 |
| Tier 1 (certain routes) | 45% | 10 | 10,200 |
| Tier 2 (all routes) | | 35 | 38,700 |
| Tier 5 and all other work-related routes | 55% | 55 | 65,600 |

Notes: Tier 1 (certain routes) includes Tier 1 General, exceptional talent and Tier 1 predecessor routes (HSMP) but excludes the post-study work route, investor route and entrepreneur route. Tier 2 includes all Tier 2 and predecessor routes. All other work-related routes are included in Tier 5 and other work-related routes, including the post-study work route, the investor route and the entrepreneur route. ¹Consistent with Migration Advisory Committee (2010c), proportions have been rounded to the nearest 5.
Source: Home Office (2011a)

8.43 Table 8.3 shows the number of out-of-country, work-related, entry clearance visas issued to main applicants from non-EEA countries for the year to 2011 Q1. It is necessary for our analysis to distinguish between Tier 1 and Tier 2 visas (excluding the investor, post-study work and entrepreneur routes under Tier 1) and all other work-related visas. Using entry clearance visa data for the year ending 2011 Q1 shown in Table 8.3, the Tier 1 and Tier 2 routes accounted for 45 per cent of work-related visa grants, with the remaining 55 per cent of grants to all remaining work routes.

8.3 Calculating the required reductions

8.44 We now present our calculations to estimate the reduction in visas required to achieve the Government's objective for net migration. On the basis of the

above discussion, our analysis makes the following assumptions:

- the Government targets net migration of 50,000 by 2014/15 (scenario 1), 99,000 by 2014/15 (scenario 2), or 99,000 by 2016/17 (scenario 3);
- the required reductions in net migration are split proportionally over each year of the period considered, leading to a linear trajectory;
- the baseline level of net migration at the beginning of 2012/13 (i.e. in the year to 2012 Q1) is equal to the overall level of net migration for the year to 2011 Q1;
- the net migration of British and EU nationals and the other non-IPS components of the LTIM remain constant over the period of reductions; and

- the various IPS 'reasons for migration' will bear a share of the required reduction proportionate to their contribution to overall non-EU inflows.
- 8.45 To avoid repetition, the discussion through the rest of the section will focus mainly on the calculations required for scenario 1 (described above). Scenarios 2 and 3 use the same approach, based on different assumptions. This is done purely for expositional clarity and does not indicate any preference, on our part, for scenario 1.
- 8.46 The estimate of net LTIM for the year 2010/11 was 245,000, as shown in Table 8.2. Assuming the Government focuses only on the non-EU inflows to achieve the assumed target of 50,000 by 2014/15, an implied reduction in net non-EU migration of 195,000 will be required (or 65,000 per year over three years). Table 8.6 shows these calculations for each of the scenarios we considered.
- 8.47 Using our assumption regarding each reason for entry making proportional contributions to total reduction, we see that over the three years to 2014/15, under scenario 1, IPS inflows for the purpose of study will need to be reduced by 39,000 per year (60 per cent of the non-EU net reduction), accompany/join by 13,000 per year (20 per cent of the non-EU net reduction) and work-related entry by 13,000 per year (20 per cent of the non-EU net reduction).
- 8.48 It is important to note that the numbers of visas issued for work-related migration are considerably higher than the volume of IPS work-related inflows. A reduction in visas granted does not translate into a corresponding reduction in IPS inflows for two main reasons. First, not all individuals who are granted a visa actually go on to use it to travel to the UK.
- 8.49 Second, the IPS defines long-term migrants as people either coming to the UK or leaving the UK for more than one year. Some visas, however, are issued to people who intend to remain less than one year. These short-term visa holders are not counted by the IPS, because they do not meet the definition of long-term migrants. These individuals will not count towards net migration, and this will apply to all visa categories.
- 8.50 As discussed in Chapter 3, from 2011 Q2 to 2011 Q3, short term intra-company transfer visas accounted for approximately 60 per cent of those out-of-country visas issued to main applicants through the Tier 2 intra-company transfer route where we know the duration. Such migrants are not permitted to stay in the UK for beyond 12 months. Similarly some Tier 5 sub-routes do not permit applicants to remain beyond 12 months.
- 8.51 It is therefore necessary to determine a means to translate the required reduction in IPS inflows into a reduction in visas granted. The analysis conducted for Migration Advisory Committee (2010c) made use of 'scaling factors' to achieve this. By allocating different visa categories to different IPS categories, based on the 'reason for migrating', we can calculate the average ratio

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between the two volumes. Table 8.4 shows how the IPS inflows and visas granted for each

category have varied over time when we use rolling quarterly data.

Table 8.4: Comparison of non-EU IPS inflows (000s) to out-of-country visas issued non-EEA main applicants, year ending 2006 Q4 to year ending 2011 Q1 (000s)

| | YE Q1 2007 | YE Q1 2008 | YE Q1 2009 | YE Q1 2010 | YE Q1 2011 |
|-----------------------|---------------|---------------|---------------|---------------|---------------|
| Work Related | | | | | |
| IPS Inflows | 94 | 73 | 65 | 53 | 55 |
| Visas | 145 | 123 | 122 | 106 | 114 |
| Scaling factor | 0.65 | 0.59 | 0.53 | 0.50 | 0.48 |
| Accompany/Join | | | | | |
| IPS inflows | 72 | 64 | 57 | 56 | 56 |
| Visas | 188 | 161 | 149 | 145 | 152 |
| Scaling factor | 0.38 | 0.39 | 0.38 | 0.39 | 0.37 |
| Study | | | | | |
| IPS inflows | 112 | 109 | 128 | 187 | 179 |
| Visas | 192 | 195 | 211 | 282 | 262 |
| Scaling factor | 0.58 | 0.56 | 0.61 | 0.66 | 0.68 |

Note: Scaling factors are calculated by dividing IPS inflows by the number of visas issued in each category. Ideally, a longer time period would have been used, but detailed visa data are only available for 2006 onwards. Only data from 2007 Q1 onwards are presented in this table. YE - year ending.

Source: Office for National Statistics (2011d), Office for National Statistics (2011e), Home Office (2011a)

8.52 The scaling factor is derived by dividing the volume of visas by the volume of IPS inflow for each category. For the purposes of our analysis a single scaling factor is

calculated for each category based on the average over the rolling quarterly data from 2006 Q4 to 2011 Q1. The results are presented in Table 8.5.

Table 8.5: Average scaling factors based on rolling quarterly data for the year ending 2006 Q4 to the year ending 2011 Q1

| | |
|-----------------------|------|
| Work-related | 0.55 |
| Accompany/Join | 0.38 |
| Study | 0.61 |

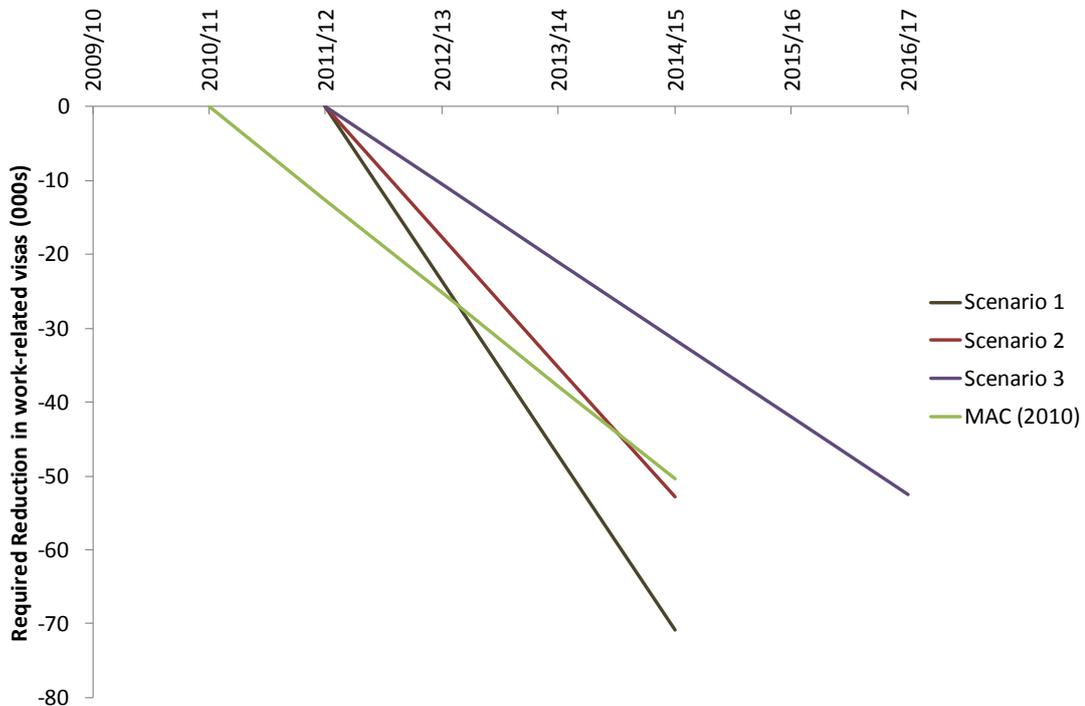
Note: The scaling factors presented are the average of those calculated using rolling quarterly data for the year ending 2006 Q4 to the year ending 2011 Q1.

Source: MAC analysis of the International Passenger Survey, 2006 Q4 to 2011 Q1, published in Office for National Statistics (2011d) and Office for National Statistics (2011e), Home Office (2011a)

8.53 Using the scaling factors in Table 8.5, under scenario 1 the number of entry clearance visas granted each year for study-related reasons would need to be reduced

by 63,900, by 34,200 for accompany/join and family reasons and by 23,600 for work-related reasons between 2012/13 and 2014/15.

Figure 8.3: Required reductions in work-related visa grants, 2010/11 to 2016/17



Notes: Figure shows required reduction in work-related visas compared to a 'do nothing' scenario with constant net migration. Figure also includes a comparable set of reductions set out in option B from Migration Advisory Committee (2010c), which assumed annual reductions in work-related visas of 12,600 over four years to 2014/15.
Source: MAC analysis, Migration Advisory Committee (2010c)

8.54 It is worth remarking that the required reduction in work-related visas calculated in Migration Advisory Committee (2010c) was 12,600 per year, just over half of the new required reduction under scenario 1. The increase in net migration between the years ending 2009 Q4 and 2011 Q1, and the prospect of one less year to achieve the assumed target has resulted in a sharper required

reduction in work-related visas. Migration for study and accompany/join reasons will also need to be reduced more sharply than estimated in Migration Advisory Committee (2010c). The required reductions are shown in Table 8.6. The required reductions in scenarios 2 and 3 are considerably less than in scenario 1.

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Table 8.6: Required reduction in work-related visas to achieve target

| | | | Scenario 1 | Scenario 2 | Scenario 3 |
|---|----------------|-----|---------------------------|---------------------------|---------------------------|
| (A) Assumed Net LTIM to year ending Q1 2012 | | | 245,000 | 245,000 | 245,000 |
| (B) Time to achieve | | | 3 years, ending (2014/15) | 3 years, ending (2014/15) | 5 years, ending (2016/17) |
| (C) Assumed target | | | 50,000 | 99,000 | 99,000 |
| (D) Assumed change in net British and other EU migration by end of period | | | 0 | 0 | 0 |
| (E) Required reduction in net LTIM {A minus C minus D} | | | 195,000 | 146,000 | 146,000 |
| (F) Reduction in net LTIM per year {E divided by B} | | | 65,000 | 48,700 | 29,200 |
| (G) Reduction per year by route {F split according to relative IPS inflows} | Study | 60% | 39,000 | 29,200 | 17,500 |
| | Accompany/join | 20% | 13,000 | 9,700 | 5,800 |
| | Work | 20% | 13,000 | 9,700 | 5,800 |
| (H) 'IPS-visa' Scaling Factor {from Table 8.5} | Study | | 0.61 | 0.61 | 0.61 |
| | Accompany/join | | 0.38 | 0.38 | 0.38 |
| | Work | | 0.55 | 0.55 | 0.55 |
| (I) Reductions in visas per year {G divided by H} | Study | | 63,900 | 47,900 | 28,700 |
| | Accompany/join | | 34,200 | 25,500 | 15,300 |
| | Work | | 23,600 | 17,600 | 10,500 |
| (J) Total required visa reduction per year {sum of each component of I} | | | 121,700 | 91,000 | 54,500 |

Notes: LTIM refers to Long Term International Migration. IPS refers to International Passenger Survey. Required reductions are based on calculations of a reduction in net Non-EU migration towards an assumed target.

Source: MAC analysis of Office for National Statistics (2011c)

Required reduction in work-related visas issued

8.55 For us to determine the reduction in Tier 2 visas required to achieve the assumed target under each scenario, the next step is to determine what proportion of the reduction in work-related visas Tier 2 will bear. As shown in Table 8.3, Tier 1 and Tier 2 accounted for 48,900 visas in the year to 2011 Q1, approximately 45 per cent, of the 114,500 work-related visas issued. Maintaining the assumption that routes to entry will bear reductions proportional to

their relative shares, we assume that Tier 1 and Tier 2 will bear 45 per cent of the reduction in work-related visas.

8.56 Applying the proportions of work-related visas derived earlier to the required annual reduction in work-related visas of 23,600, we estimate that, for scenario 1, Tier 1 and 2 visas will need to fall by 10,600 per year (45 per cent of 23,600), and the remaining work-related visas will need to be reduced by 13,000 per year (55 per cent of 23,600).

8.57 Applying the required reduction of 10,600 in Tier 1 and Tier 2 visas to a baseline volume of 48,000 visas for the year ending 2011 Q1 (Home Office, 2011a) for Tier 1 General, exceptional talent, Tier 2 (General) and intra-company

transfers, suggests that, in order to achieve the assumed overall target of 50,000 net migration by 2014/15, the maximum number of visas available, though Tier 1 and Tier 2 combined, in 2012/13 would need to be 37,400.

Table 8.7: Calculation of annual visa limit for Tier 2 routes

| | | | Scenario 1 | Scenario 2 | Scenario 3 |
|--|--|-----|------------|------------|------------|
| Baseline in work-related visas (assuming year ending 2011 Q1 levels) | | | 114,500 | 114,500 | 114,500 |
| Tier 5 and other work-related routes | | | 66,500 | 66,500 | 66,500 |
| Tier 1 and Tier 2 ¹ | | | 48,000 | 48,000 | 48,000 |
| Required reduction in 2012 | | | 23,600 | 17,600 | 10,500 |
| Tier 5 and other work-related routes | | 55% | 13,000 | 9,700 | 5,800 |
| Tier 1 and Tier 2 | | 45% | 10,600 | 7,900 | 4,700 |
| Post-reduction number of work-related visas | | | 90,900 | 96,900 | 104,000 |
| Tier 5 and other work-related routes | | 55% | 53,500 | 56,800 | 60,700 |
| Tier 1 and Tier 2 | | 45% | 37,400 | 40,100 | 43,300 |
| Tier 1 – Exceptional Talent (assume no change) | | | 1,000 | 1,000 | 1,000 |
| Tier 2 | | | 36,400 | 39,100 | 42,300 |

Notes: ¹ Includes Tier 1 General, exceptional talent, Tier 2 (General) and intra-company transfers. Volumes are rounded to the nearest 100.

Source: MAC analysis of Home Office (2011a)

8.58 It is assumed that Tier 2 sub-routes (ministers of religion, sportsperson, and other permit free employment routes) are not within the scope of this analysis. Migrants through these routes, together with Tier 1 sub-routes (investors, entrepreneurs, and highly skilled migrants) have been included in the ‘Tier 5 and other work-related’ migration category.

8.59 We assume for this analysis that the limit on the Tier 1 exceptional talent route will remain unchanged for the year 2012/13, and that the Tier 1 (General) route will not be

re-opened. This means that of the 37,400 available Tier 1 and Tier 2 visas (from calculations for scenario 1), 1,000 need to be reserved for Tier 1 (based on the limit for the Tier 1 exceptional talent route). This therefore suggests a maximum number of Tier 2 visas of 36,400 under scenario 1. The corresponding maximum number of Tier 2 visas under scenarios 2 and 3 would be 39,100 and 42,300 respectively. Table 8.7 shows the steps to this calculation.

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Implications for estimating the impact of inflow reductions on net migration

8.60 It is important to note that, as shown in Figure 8.4, a reduction in inflows alone will not lead to a one-for-one reduction in net migration through these routes. We can crudely estimate the possible scale of the longer term impact on net migration from reducing the number of out-of-country visas issued to Tier 1 and Tier 2 applicants. By taking the recommended reductions in work-related IPS inflows, and making assumptions on the lengths of stay of different migrant groups, from Home Office (2011d), we estimate the longer term reduction in net migration from the reduction in inflows described by scenario 1, taking into account the fact that future outflows will be reduced.

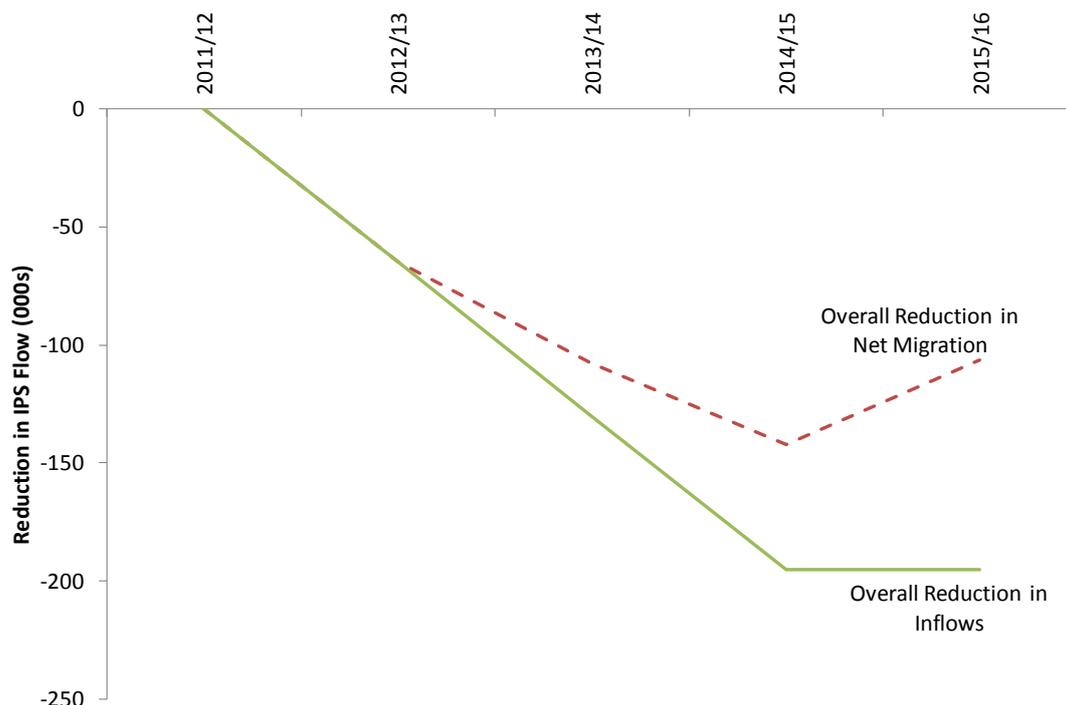
8.61 As shown in Figure 8.4, in the first few years the impact on net migration is very similar to the impact on inflows. The difference between the inflow reductions and net migration reductions becomes larger in the longer term, as the stock of migrants who might leave the UK decreases. In the long term, the estimated net migration reduction will be only approximately 40 per cent of the reduction in inflows (based on evidence from Home Office (2011d)).

8.62 This illustrative estimate does not take into account any wider effects that a limit on skilled work-related

migration may have on net migration. It is possible that employers may turn to either British workers living abroad or EU nationals to fill jobs, instead of non-EU nationals. This may cause net migration of British and EU nationals to increase, compensating for any changes in net migration as a result of a limit on Tier 2. It is also possible that non-EU migrants may be more likely to remain in the UK if opportunities to re-enter the UK are restricted. These displacement effects are very difficult to estimate and further increase the levels of uncertainty of future net migration.

8.63 The estimates here are generated using a set of broad assumptions to illustrate a way of thinking about the potential scale of the longer term impact of reductions in inflows on net migration, over future years measured by the IPS. These estimates do not factor in the impact of any policies that might boost the rate of outflows and, in part for that reason, are not factored into our headline calculations for this chapter. Understanding how long migrants stay in the UK, and the proportions that settle permanently, is key to understanding how net migration relates to long-term changes in the composition of the UK population. We strongly encourage future research in this area to better understand the dynamics of migration flows.

Figure 8.4: Estimated reduction in IPS inflows compared to reduction in net IPS migration based on Scenario 1, 2011/12 to 2014/15



Notes: In this figure, we consider reduction in inflows of 65,000 per year from 2012/13 to 2014/15, based on the required reduction in scenario 1. The net migration reduction is generated by comparing the magnitude of these reductions with the 'do nothing' option of keeping the level of migration constant from 2010/11. From 2014/15 onwards, no further reductions in inflows are made. Change in net migration estimated assuming that migrants leave the UK in line with data in the Migrant Journey analysis (Home Office, 2010)
Source: MAC analysis of Home Office (2011d)

8.4 Other Points Based System changes contributing to the required reduction

Policy changes already announced

8.64 The calculations above estimate that in order to meet the assumed target under scenario 1, net migration needs to fall by up to 195,000 (or 65,000 per year). Under scenarios 2 and 3 the overall reductions are 48,700 per year and 29,200 per year, as shown in Table 8.6. To minimise any adverse economic impacts, reductions of these magnitudes need to be supported by complementary policies which focus on selectivity.

8.65 As discussed in Chapter 2, the Government has made a number of changes to the work and study routes of the Points Based System (PBS). This section briefly considers the extent to which these will contribute to achieving the reduction required.

8.66 In 2011, the Home Office published two impact assessments relating to the changes set out in Chapter 2. Home Office (2011b) covered the announced changes to Tier 1 and Tier 2, which were implemented in 2011 and Home Office (2011c) covered the changes to Tier 4 and the Post-Study Work Route.

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8.67 Given the recent nature of some of these changes, the lag in feed through to visa applications, and the subsequent lag in reporting data, it is not possible to clearly identify the extent to which these changes have had or will have an effect. However, Home Office (2011b) and Home Office (2011c) estimate the extent to which the announced measures might be expected to contribute to the required overall reduction in net

IPS flows. We have used net migration in the year to 2011 Q1 as our baseline, while in contrast the Home Office baseline is based on a 'do nothing' policy scenario meaning comparisons have to be made with caution. Nevertheless, crudely, Table 8.8 suggests that further action will be required to achieve the overall required reduction in net migration in each of our three scenarios.

Table 8.8: Estimated reductions in IPS net migration expected from policies already announced (000s)

| | 2012 | 2013 | 2014 | 2015 | 2016 ¹ |
|---|------|------|-------|-------|-------------------|
| Estimated reductions² from policies already announced ... | | | | | |
| Tier 1 and Tier 2 announcements | 9 | 10 | 10 | 11 | 11 |
| Tier 4 and Post-Study Work Route announcements | 38 | 61 | 61 | 56 | 56 |
| Total | 47 | 71 | 71 | 67 | 67 |
| Required Reduction (cumulative) from Table 8.6 | | | | | |
| Scenario 1 | 65 | 130 | 195 | 195 | |
| <i>Deficit</i> | (18) | (59) | (124) | (128) | |
| Scenario 2 | 49 | 97 | 146 | 146 | |
| <i>Deficit</i> | (2) | (26) | (75) | (79) | |
| Scenario 3 | 29 | 58 | 88 | 117 | 146 |
| <i>Deficit</i> | 18 | 13 | (17) | (50) | (79) |

Notes: ¹ Calculations in the Home Office Impact Assessments were only available to 2015. Therefore it is assumed that the expected cumulative reduction in 2016 is equal to the reduction achieved to 2015. ² Estimated reductions include reductions in main applicants and their dependants. Estimated reductions of existing policies are taken from Home Office Impact Assessments and are based on comparison with a 'do nothing' scenario. The deficit under each scenario is the difference between the cumulative required reduction by the end of the year and the cumulative reductions expected to be realised by the end of the same year. Figures in brackets indicate where reductions are required beyond those expected by existing policies.

Source: Home Office (2011b), Home Office (2011c)

8.68 Lack of certainty regarding future trends in UK and EU net migration adds further complexity. EU migration is not under direct control of the UK Government, although it is possible that policy on skills development, employment legislation and benefit entitlement rules for the

UK workforce could influence employer demand for such labour. We have not examined these issues in detail in this report. Further uncertainty relates to UK and global economic prospects.

8.69 Nevertheless, on the basis of currently announced policies, it is

likely that further action will be required in relation to routes other than Tier 2 for migration from outside the European Economic Area (EEA) to make substantial progress towards the Government's objective.

Further potential policy changes

- 8.70** This section considers additional areas in which there may be scope for the Government to realise additional reductions in net migration.
- 8.71** The methodology used in this chapter assumes that family-related migration makes a 20 per cent contribution to the overall reduction. The family-related component of the IPS will already be making indirect contributions to the required reductions: as the numbers of main applicants through work- and study-related routes are reduced, so too will the volume of their dependants.
- 8.72** One approach to further reduce the level of net family-related migration would be to increase the selectivity of the route. In November 2011 we published a report, Migration Advisory Committee (2011e) on the minimum income requirement for sponsorship under the family migration route, in order that the potential migrant does not result in a burden on the state. We recognised that family migration involved a range of complex social, legal and moral issues but, on the basis of economic considerations alone, our report suggested the income threshold to sponsor a spouse or partner could be set between £18,600 and £25,700 gross per year.
- 8.73** A further assumption made in our calculation is that Tier 5 and other work-related routes make a proportionate contribution to the overall work-related reduction. In Table 8.3 this was estimated to be 55 per cent of the work-related reduction, amounting to 13,000 fewer visas under scenario 1. This figure is based on arithmetic deductions and we have not examined in detail the extent to which such a reduction could be achieved from Tier 5 and other work-related routes. In 2011, the Government consulted on settlement of Points Based System (PBS) migrants, Tier 5 and Overseas Domestic workers and (at the time of submitting this report) we expect a policy announcement in due course.
- 8.74** As discussed earlier, reductions in inflows alone will not lead to a one-to-one reduction in net migration, due to the different short term and long term effects on outflows. Therefore when considering policies to reduce the net migration over several years, it will be necessary to consider approaches which will lead to an increase in the rate at which migrants leave the country. It is important to remember however that, given an individual needs to be changing country for a period of more than 12 months in order to qualify as a migrant, any measures which affect the outflow of migrants will only take effect after one year (at the earliest), and will therefore be delayed relative to comparative changes in policy relating to inflow.
- 8.75** Migration Advisory Committee (2011d) estimated that the number of Tier 1 and Tier 2 migrants

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remaining beyond five years will fall in future years, but if the Government wished to take further action on settlement an economic criteria, such as a simple pay level threshold, could be used to determine which Tier 2 (RLMT) and shortage occupation list migrants can settle permanently in the UK.

8.5 Determining the Tier 2 (General) limit

8.76 The average monthly take-up of restricted Certificates of Sponsorship for Tier 2 (General) was approximately 800 per month from May 2011 to December 2011. Including the initial grant of just over 1,000 certificates in April 2011, this suggests an annualised volume of Tier 2 (General) visas of approximately 9,700.

8.77 In addition to considering the take-up of restricted Certificates of Sponsorship in recent months, we should also give consideration to the intra-company transfer route.

8.78 For the purposes of the previous Migration Advisory Committee (2010c) report, the number of intra-company transfer entry clearance visas was assumed to run at approximately 22,000 per year, based on the level observed in 2009. As discussed in Chapter 3, the volume of out-of-country visas issued to main applicants through this route increased to 29,700 (including long- and short-term routes) in the year to 2011 Q3. However, average growth in this category over the last four quarters of data, to the year ending 2011 Q3, was only one per

cent, suggesting a relative stability in the volumes of entry clearance visas issued. Together, Tier 2 (General) and the intra-company transfer route amount to a current estimated annualised number of visas issued of 39,400 (9,700 plus 29,700).

Tier 2 Policy options

8.79 Table 8.9 summarises the steps to derive the required reduction in the number of work-related visas, and the implied maximum number of Tier 2 visas available in 2012/13 if the reduction is to be achieved by the assumed deadline.

8.80 In the context of the reductions required to achieve the assumed target, the impacts of reducing the Tier 2 (General) limit, and the other policies which may make contributions to the overall reductions, Table 8.10 presents a range of options in which the available Tier 2 visas (36,400 under scenario 1) could be allocated. We have assumed throughout this report that the intra-company transfer route will not be subject to a numerical limit, so any action to reduce volumes through that route would need to be in the form of revised criteria for that route.

Chapter 8: Calculating the level of the limit

Table 8.9 : Summary of calculation steps to derive scenarios 1, 2 and 3 for limits on Tier 2

| | Scenario 1 | Scenario 2 | Scenario 3 |
|--|---------------------------|---------------------------|---------------------------|
| (A) Assumed Net LTIM to year ending Q1 2012 | 245,000 | 245,000 | 245,000 |
| (B) Time to achieve | 3 years, ending (2014/15) | 3 years, ending (2014/15) | 5 years, ending (2016/17) |
| (C) Assumed target | 50,000 | 99,000 | 99,000 |
| (D) Assumed change in net British and other EU migration by end of period | 0 | 0 | 0 |
| (E) Required reduction in net LTIM {A minus C minus D} | 195,000 | 146,000 | 146,000 |
| (F) Reduction in net LTIM per year {E divided by B} | 65,000 | 48,700 | 29,200 |
| (G) Reduction in work-related IPS flows per year {F split according to proportion of non-EU IPS inflows} | 13,000 | 9,700 | 5,800 |
| (H) 'IPS-Visa' Scaling Factor for work-related flows | 0.55 | 0.55 | 0.55 |
| (I) Reductions in work-related visas per year {G divided by H} | 23,600 | 17,600 | 10,500 |
| (J) Proportion of annual reduction assumed to be borne by Tier 1 and Tier 2 in 2012/13 | 45% | 45% | 45% |
| (K) Reduction in Tier 1 and Tier 2 visas for 2012/13 {I multiplied by J} | 10,600 | 7,900 | 4,700 |
| (L) Assumed baseline volume of Tier 1 and Tier 2 visas at beginning of 2012/13 ¹ | 48,000 | 48,000 | 48,000 |
| (M) Post-reduction volume of Tier 1 and Tier 2 visas for 2012/13 {L minus K} | 37,400 | 40,100 | 43,300 |
| ... of which Tier 1 Exceptional Talent | 1,000 | 1,000 | 1,000 |
| ... of which Tier 2 | 36,400 | 39,100 | 42,300 |

Notes: LTIM refers to Long Term International Migration. IPS refers to International Passenger Survey. Required reductions are based on calculations of a reduction in net non-EU migration towards an assumed target. Initial LTIM estimates rounded to the nearest thousand. Calculation steps rounded to the nearest hundred. ¹ Includes Tier 1 General, Exceptional Talent, Tier 2 (General) and intra-company transfer routes.

Source: MAC analysis of Office for National Statistics (2011c)

8.81 The five potential options presented are as follows:

- **Option 1:** Maintain the current Tier 2 (General) limit, and take action to reduce flows through

the intra-company transfer route in order to achieve the required reduction.

- **Option 2:** Adjust the Tier 2 (General) limit downwards in

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light of the under-subscription in recent months. This requires a reduction of migrants through the intra-company transfer route under scenario 1 relative to the year to 2011 Q3, and a slight reduction under scenario 2.

- **Option 3:** Place equal emphasis on migrants using Tier 2 (General) and intra-company transfers. The limit for Tier 2 (General) is set at 18,200 and intra-company transfers are appropriately tightened under scenario 1.
- **Option 4:** Attempt to reset the intra-company transfer route back to levels observed in the year to 2009 Q4 (22,000), and set a corresponding limit for Tier 2 (General).
- **Option 5:** Leave the intra-company transfer route at the current, seemingly relatively stable level of 29,700. Under scenario 1 this implies a limit on Tier 2 (General) of a level significantly below recent inflows, even after accounting for under-subscription of the annual limit for 2011/12. Scenario 2 also includes a reduction below recent levels, but of a much smaller magnitude.

Table 8.10: Options for the split of Tier 2 visas grants between Tier 2 (General) and intra-company transfers in 2012/13 consistent with scenarios 1, 2 and 3

| | Scenario 1 | Scenario 2 | Scenario 3 |
|---|---------------|---------------|---------------|
| Post-reduction Tier 2 visas | 36,400 | 39,100 | 42,300 |
| Option 1: Set Tier 2 (General) Limit at the same level as 2011/12 | | | |
| Tier 2 (General) limit | 20,700 | 20,700 | 20,700 |
| Intra-company transfer visas | 15,700 | 18,400 | 21,600 |
| Option 2: Adjust for Tier 2 (General) take-up | | | |
| Tier 2 (General) limit (p) | 9,700 | 9,700 | 9,700 |
| Intra-company transfer visas | 26,700 | 29,400 | 32,600 |
| Option 3: Equal distribution | | | |
| Tier 2 (General) limit | 18,200 | 19,550 | 21,150 |
| Intra-company transfer visas | 18,200 | 19,550 | 21,150 |
| Option 4: Reducing intra-company transfer visas to the level from YE 2009 Q4 | | | |
| Tier 2 (General) limit | 14,400 | 17,100 | 20,300 |
| Intra-company transfer visas | 22,000 | 22,000 | 22,000 |
| Option 5: Leaving intra-company transfer visas at levels observed for YE 2011 Q3 | | | |
| Tier 2 (General) limit | 6,700 | 9,400 | 12,600 |
| Intra-company transfer visas | 29,700 | 29,700 | 29,700 |

Notes: (p) provisional estimate

Source: MAC analysis of Office for National Statistics (2011c)

8.6 Conclusions

8.82 Under the three scenarios presented in this chapter the maximum number of Tier 2 visas available in 2012/13 for Tier 2 (General) and intra-company transfer visa main applicants could be between 36,400 and 42,300.

8.83 If take-up of Tier 2 (General) and intra-company visas continued at recent levels in 2012/13 this would imply 39,400 visas issued through those routes in 2012/13. This would be within the ceiling implied by our scenario 3, which assumes the most modest and gradual reduction in net migration, with a target of 99,000 by 2016/17. Under these circumstances, take-up of Tier 2 (General) visas could be as high as 12,600 while remaining within the implied ceiling (see Option 5, scenario 3 in Table 8.10).

8.84 Given recent visa trends and the current UK economic climate, it is plausible that flows through the intra-company route and Tier 2 (General) will remain fairly stable even in the absence of policy change. As such, maintaining the limit at its current level in 2012/13 does not necessarily conflict with Tier 2 making proportionate contributions towards an objective to reduce net migration to the tens of thousands.

8.85 Nevertheless, being fully confident of Tier 2 making a proportionate contribution to reducing net migration to the 'tens of

thousands', especially if it is to be achieved over the lifetime of this Parliament, requires either a reduction in the limit on Tier 2 (General), other action to reduce flows through that route by increasing its selectivity, measures to reduce flows through the intra-company transfer route, or some combination of such actions. Therefore, there is a tension between achieving greater certainty of Tier 2 making a proportionate contribution to achieving the Government's net migration objective and the potential economic impacts of doing so.

8.86 Furthermore, it is important to note that a reduction in inflows alone will not, in the long-term, lead to a one-for-one reduction in net migration through these routes. A fall in the inflow will, in future years, feed through to reduced migrant outflow and thus dampen any effects of reduced immigration on net migration. We can crudely estimate the possible scale of this effect. It is difficult to predict accurately, and is contingent on future Government policies that will affect average migrant duration in the UK. But it could have a significant impact on net migration in the long-term. Understanding how long migrants stay in the UK, and the proportions that settle permanently, is key to understanding how net migration relates to long-term changes in the composition of the UK population.

Chapter 9 Conclusions

9.1 Introduction

9.1 Our questions from the Government were concerned with four issues: the skill level for Tier 2 of the Points Based System (PBS); the intra-company transfer route; the Resident Labour Market Test (RLMT) route; and the level of the limit on Tier 2 (General). Sections 9.2, 9.3, 9.4 and 9.5 below consider each of the above issues in turn. Section 9.6 discusses the MAC's research programme and the future work of the MAC.

9.2 Raising the skill level of Tier 2

9.2 The question on skill levels put to us came in three parts, discussed in turn below: *"In order to allow the Government to identify an appropriate skill level for Tier 2, can the MAC confirm the list of occupations in Table B1 of its February 2011 report on the list of skilled occupations in Tier 2, i.e. those occupations skilled to National Qualifications Framework level 4 and above (NQF4+) but not to National Qualifications Framework level 6 (NQF6+); undertake a review of the non-NQF6+ job titles currently on the shortage list; and estimate the impact on the numbers of migrants in Tier 2 if the skills bar*

were raised to NQF6+?" (Letter from Minister for Immigration to Chair of Migration Advisory Committee, October 2011.)

Occupations skilled to NQF6+

9.3 We carried out top-down analysis to identify Standard Occupational Classification (SOC) 2000 occupations skilled to NQF6+. NQF6+ corresponds to Bachelor's degree level. We then made some amendments to this list to reflect changes to skill levels for certain occupations in the new SOC 2010 classification.

9.4 Overall we identified 89 occupations as skilled to NQF6+. A full list of these occupations is provided in Annex B to this report. This differs from the 87 occupations that were found to be skilled to that level in February 2011 (Migration Advisory Committee, 2011a) as follows (all SOC codes quoted relate to SOC 2000):

- We added journalists, newspaper and periodical editors (SOC 3431), public relations officers (SOC 3433), nurses (SOC 3211) and physiotherapists (SOC 3221) to the February 2011 list.
- We removed customer care managers (SOC 1142) and

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security managers (SOC 1174) from the February 2011 list.

9.5 Although we received and considered bottom-up evidence on some of the occupations above, all of the changes listed can be justified solely on the basis of incorporation of up-to-date top-down data and impartial analysis of skill levels in SOC 2010.

9.6 Thirty two occupations previously identified as skilled to NQF4+ are found not to be skilled to NQF6+. Our partners argued that some occupations, including some of those on the list of 32, are skilled to NQF6+. Some that have been argued to be skilled to NQF6+ are occupations in the land-based and environmental sectors, estimators and valuers, financial and accounting technicians and IT technicians. We use five indicators of skill, only three of which can be identified in the national data. Those indicators that we cannot measure may be relevant in some cases.

9.7 However, we are unable to state definitively at this stage that any of the 32 excluded occupations discussed above are skilled to NQF6+. If the Government decides to raise the skill level of Tier 2 to NQF6+, we would be willing to carry out a review of the skill level of the relevant occupations.

9.8 In addition, the creative and artistic nature of some of the occupations not identified as skilled to NQF6+ and yet argued to require high levels of specific skills means that there would be merit in considering whether they

require separate treatment within the PBS. However, for this review we have not given detailed consideration to what that might entail.

9.9 Assuming the Government does raise the skill level for Tier 2 to NQF6+, some additional questions arise. Within some non-NQF6+ occupations (once they are confirmed as such) there will still be individual jobs or job titles skilled to NQF6+. The shortage occupation route is discussed separately below. But in relation to the intra-company transfer and RLMT routes, potential options are to:

- exclude such job titles from Tier 2, on the basis of simplicity and that they are not suffering from a demonstrated national labour shortage (and hence are not on the shortage occupation list);
- make NQF6+ job titles in non-NQF6+ occupations eligible for the intra-company transfer and RLMT routes; or
- allow jobs in occupations skilled to NQF4+ but not NQF6+ to remain eligible for those routes, but subject to a higher minimum salary level than the current Tier 2 (General) minimum of £20,000 per year.

9.10 If required, we could advise further on the above.

Job titles in non-NQF6+ occupations on the shortage occupation list

9.11 There are 13 job titles spread across 10 occupations on the current shortage occupation list

where the occupation itself is not on the list of 89 confirmed above as skilled to NQF6+. They are listed in Table 4.5 of Chapter 4.

- 9.12 We have not carried out a systematic review of these job titles to assess whether they are skilled to level NQF6+. If the Government decides to raise the skill level of Tier 2 to NQF6+, potential options are as follows:
- To exempt the shortage occupation list from the NQF6+ requirement, keeping the required skill level for that route at its current level of NQF4+.
 - To do as above, but as a transitional measure only: job titles currently on the list would be allowed to remain there for a period of time, but new job titles would only be added to the list subject to evidence being provided that they meet the required skill level for Tier 2.
 - To immediately commission a review of all job titles on the shortage occupation list, with a view to removing those not skilled to NQF6+.

- 9.13 Again, we could, if necessary, be commissioned to review the skill level of current job titles on the shortage occupation list.

Impact of raising the skill level of Tier 2

- 9.14 In the Labour Force Survey (LFS) 2010 Q4 to 2011 Q3, the list of 121 occupations we identified as being skilled to NQF4+ in Migration Advisory Committee (2011a) accounts for 40 per cent

of full-time employment in the UK labour market. The list of 89 occupations we identify as being skilled to NQF6+ in this report accounts for 33 per cent of full-time employment (LFS, 2010 Q4 to 2011 Q3).

- 9.15 According to UK Border Agency management information for April to December 2011, occupations previously found to be skilled to NQF4+ but not now found to be skilled to NQF6+ accounted for 7 per cent of Certificates of Sponsorship used under the Tier 2 (General) and intra-company transfer routes. In other words, 7 per cent of out-of-country migrants through these routes would not have qualified under our NQF6+ list. Ninety three per cent of such migrants would have qualified. The impact of raising the skill level on Tier 2 flows is likely, therefore, to be significant but relatively small.
- 9.16 Employers in the occupations that do not satisfy our NQF6+ criteria were generally hostile to the suggestion of increasing the skill level of Tier 2, citing concerns about the impact on their ability to recruit the people they need.

9.3 Intra-company transfers

- 9.17 The question put to the MAC was: *“Is the £40,000 minimum salary threshold for intra-company transfers seeking to stay for 12 months or longer an appropriate proxy test to ensure that migrants meet the General Agreement on Trade in Services (GATS) definition of Senior managers and Specialists? The MAC is asked to provide economic rather than legal advice when considering the compatibility of the definition; and*

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should the £40,000 be a national rate or allow for regional variations in pay?; and current policy allows the £40,000 threshold to be met through a combination of salary and allowances. Does the inclusion of non-salary remuneration undermine the use of the £40,000 threshold as a proxy test of skill level?" (Letter from Minister for Immigration to Chair of Migration Advisory Committee, October 2011).

- 9.18 The question again comprises three main sub-questions regarding: the £40,000 income threshold and GATS; regional variations in that threshold; and the current use of allowances under Tier 2. These are discussed in turn below.

The £40,000 income threshold

- 9.19 Based on our data analysis and evidence received from our partners, there is no clear reason to believe that either increasing or reducing the current £40,000 threshold would provide a better fit with the GATS definitions of senior managers and specialists.
- 9.20 If the Government wishes to ensure that, in terms of intra-company transfers, it meets its GATS obligations and no more than that, the UK Border Agency would need to assess individual migrants and the jobs they are entering on a case-by-case basis. This would ideally be according to some set criteria and, potentially, sector- or occupation-specific guidance on minimum earnings levels for senior managers and specialists.

Regional variation in the threshold

- 9.21 Regional differentiation might be achieved by a minimum salary threshold of above £40,000 for London and the South East, or by a lower rate for other regions or countries of the UK. Analysis of earnings data suggests that, London and the South-East (and, to a lesser extent, the East of England) aside, there is little basis for differentiation between other parts of the UK. Average salaries of long-term intra-company transferees in Scotland and Wales are actually higher than those in London. We also note that the National Minimum Wage does not differ across UK regions and countries.
- 9.22 Wage differences between different regions of the UK will be influenced by several factors:
- Variations in cost of living across different regions.
 - Labour shortages in some areas, putting upward pressure on wages.
 - Agglomeration effects, reflecting higher output or productivity of workers in some regions because of increasing returns to proximity and lower costs of production, assuming the labour supply remains fixed.
 - Compositional effects where, within a given occupation, the average job in one region may be more or less skilled or senior than jobs within the same occupation elsewhere in the UK.

9.23 If wage differences were purely or primarily due to cost of living, in order to fairly represent skill differences there might be a case for a higher minimum salary threshold in regions, such as London, where the cost of living is high. However, given that this is only one of several factors influencing wage differences between regions, differences in average wages between regions, even within specific sectors and occupations, do not amount to a clear economic case for regional differentiation in the minimum pay threshold. There would also be merit in awaiting the outcome of the independent reviews of local pay commissioned by the Government before introducing regional pay thresholds into the Points Based System.

9.24 In practical terms, it is not clear how a regional threshold could be implemented. A specific issue would be how to account for circumstances where a migrant is registered to a sponsor in one region of the UK but works elsewhere within the UK or EU.

Allowances

9.25 We were asked whether payment of allowances undermines the £40,000 threshold as a test of skill. On the basis of available information, we conclude that there is no clear evidence that it does.

9.26 We also examined whether allowances could lead to migrants undercutting UK workers in the labour market. We did not see proof that undercutting never takes place, but some employers did provide convincing evidence that any potential cost-savings

resulting from lower migrant salaries would be heavily outweighed by the cost to them of bringing an intra-company transferee to the UK. Therefore, they would have no incentive to bring migrants to the UK specifically to save money by undercutting resident workers.

9.27 We were also presented with evidence that a change of policy on allowances may be unnecessary or impractical. Employers cited logistical and possible legal barriers to paying intra-company transferees more in salary instead of allowances. The UK Border Agency publishes codes of practice that should in principle prevent undercutting, without a need for a change in policy on how allowances count towards the £40,000 threshold.

9.28 Nevertheless, even if policy on allowances is not leading to undercutting of UK residents, it may still be that the use of relatively cheap labour in other countries to win UK contracts by firms using the Business Process Outsourcing Model (BPOM) is not of benefit to UK residents. We refer to this process as ‘third-party’ contracting in this report. Any cost-savings from use of third-party contractors from countries such as India were, it was argued, achieved because of lower remuneration paid in India, rather than during the UK leg of the projects.

9.29 Some UK workers in information technology occupations will inevitably lose out from this practice, either through labour market displacement or wage suppression. On the other hand, in

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general equilibrium, the UK economy and labour market might benefit from improved efficiency. On balance, it is difficult to reliably ascertain whether the current arrangements are economically beneficial in aggregate terms. We return to this issue in our discussion of the level of the annual limit below.

9.4 The Resident Labour Market Test

- 9.30 The question we were asked was as follows: *“Currently jobs paid more than £150,000 are exempt from the Resident Labour Market Test (RLMT) requirement in recognition of the fact that, at that level, there will be little threat of disturbance to the resident labour market and such jobs are likely to be more global in character. If that threshold were lowered to a range of £70,000-£100,000, what would be the impact on demand for Tier 2 visas, the resident labour force and employers?”* (Letter from Minister for Immigration to Chair of Migration Advisory Committee, October 2011.)
- 9.31 For the purposes of discussion, we initially assume that the threshold would be lowered to £70,000, although we return to this issue below. If the threshold was reduced to £70,000 employers recruiting within the relevant salary range, who currently take on migrants having satisfied the RLMT requirement, would gain through reduced administration costs. Some other employers recruiting at levels of pay below that salary range may potentially lose out if the limit on Tier 2 (General) was running at close to full capacity, but the net impact on employers would be positive.
- 9.32 The first-order direct effect on the resident labour force would be negative due to increased competition for jobs. However these negative effects may be partially or fully offset at the aggregate level through dynamic effects resulting from knowledge transfer and specialisation. All other things being equal, lowering the threshold would have a neutral or, more likely, positive impact on Tier 2 flows, although this effect may be small in magnitude.
- 9.33 The extent to which the above effects represent a net benefit or net cost to UK residents depends on their relative magnitudes. Availability of relevant data was highly limited. UK Border Agency management information allows us to partially assess the likely magnitude of the positive impact on employers, but not the impact on the resident labour force or the migrant inflow through the RLMT route. The limited Jobcentre Plus data available do not allow us to draw clear conclusions on this issue and, in this context, we must give considerable weight to the view of the Department for Work and Pensions that lowering the threshold would not harm the interests of their clients.
- 9.34 The majority of partner evidence we received was from employers and their representatives. For the most part, employers argued in favour of lowering the RLMT threshold. In particular, employers expressed concern about the bureaucracy involved in advertising highly paid jobs (and also highly specialised PhD-level

jobs) in Jobcentre Plus balanced against the very low probability of filling vacancies through that route. This issue was not directly within our remit but, given the strength of employer feeling on this matter, we have considered it.

9.35 On the other hand, economic theory tells us that advertising vacancies improves the efficiency of the job-matching process. We are also aware that there is a paucity of evidence on the likely labour market impact of waiving the RLMT requirement for certain categories of jobs altogether. Therefore, we do not recommend this. A reasonable approach would be to:

- exempt jobs with an annual salary of £70,000 to £150,000 from the requirement to be advertised in Jobcentre Plus to satisfy the RLMT; and
- retain the requirement for such jobs as above to be advertised in another appropriate medium.

9.36 We have assumed in this report that jobs paying £150,000 or more per year will continue to be excluded from the annual limit on Tier 2 (General).

9.37 An additional issue is the required vacancy advertising duration for the RLMT, which currently stands at four weeks for all jobs below the £150,000 threshold. This duration is based on previous analysis by us in Migration Advisory Committee (2009a) of Jobcentre Plus data, so we suggest that the requirement for employers to wait

for four weeks to employ a non-EEA migrant following the initial advertisement is retained (although the job does not necessarily need to be continuously advertised for the whole period). Nevertheless we recognise the arguments made by employers that this requirement may, from time to time, hinder their abilities to recruit top global talent. Furthermore, our previous analysis of Jobcentre Plus data probably has limited relevance to jobs that are not typically advertised there. Therefore, the required vacancy advertising duration for highly specialised and highly paid jobs should be kept under review.

9.38 We did not see a case for exempting PhD-level jobs from the RLMT altogether. The requirement to advertise in itself seems to add little additional burden to what are already lengthy and complicated processes. However, there does appear to be a case for extending the Jobcentre Plus advertisement exemption discussed above to PhD-level jobs, as already defined for the purposes of prioritisation under the annual limit on Tier 2 (General). We also believe that there is a special case, for PhD-level jobs only, for extending the period for which the RLMT can be regarded as satisfied following the unsuccessful advertising of a vacancy from 6 months to 12 months.

9.39 A summary of our proposals, alongside details of the current approach for jobs paying under £70,000 or £150,000 or more, is provided in Table 9.1.

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Table 9.1: Proposed Resident Labour Market Test (RLMT) policy (1)

| Job (annual salary or type) | Advert in Jobcentre Plus | Advert elsewhere | Include in annual limit (2) | Time after advert when RLMT is passed | Period for which RLMT remains passed |
|----------------------------------|--------------------------|------------------|-----------------------------|---------------------------------------|--------------------------------------|
| Over £150,000 | No | No | No | N/A | N/A |
| Between £150,000 and £70,000 (3) | No | Yes | Yes | 4 weeks | 6 months |
| Below £70,000 (3) | Yes | Yes | Yes | 4 weeks | 6 months |
| PhD-level (4) | No | Yes | Yes | 4 weeks | 12 months |

Notes: (1) Proposed changes to the current arrangements are highlighted in bold. (2) It is assumed that all RLMT route jobs paying below £150,000 per annum will be included in the annual limit. (3) The threshold of £70,000 is an assumption and could be anywhere in the range of £70,000 to £100,000. (4) Defined as PhD-level jobs which are given higher priority than other RLMT route jobs under the annual limit.

Source: Migration Advisory Committee

- 9.40 We have assumed for simplicity that the pay threshold for ‘global’ jobs is £70,000 per year, but the question we were asked put it in the range of £70,000 to £100,000 per year. Our remit does not require us to recommend a specific threshold and we have decided, in that context and given limited data, not to do so. We also note that some partners would find a threshold of below £70,000 beneficial but that does not, in itself, allow us to identify ‘global’ jobs. One future research option could be to carry out analysis of advertised jobs against a set of criteria designed to identify jobs that are more global in their nature.

9.5 The annual limit on Tier 2 (General)

- 9.41 We were asked the following question: *“The Government will deliver an improved migration system that commands public confidence and serves our economic interests. It will be more efficient and less open to abuse and will reduce the number of non-EU migrants. The*

Government is developing policies to meet this objective. As a result of these policies the Government anticipates that net migration will be in the tens of thousands in future. In this context, at what level should the limit on Tier 2 (General) be set for 2012, taking account of the economic, labour market, social and public service impacts of the limit; and of the uptake of Tier 2 (General) and intra-company transferee visas in 2011/12?” (Letter from Minister for Immigration to Chair of Migration Advisory Committee, October 2011.)

The level of the limit

- 9.42 Take-up under the Tier 2 limit is currently running at approximately half capacity. Some partners believe that limiting migration has, in itself, reduced migration by generating negative perceptions of the UK as a place to do business, although it is clear that economic conditions have also had an impact.
- 9.43 Given that the limit is currently heavily under-subscribed, it would

need to be cut substantially in order to be certain of there being any impact on net migration. On the basis of partner evidence, there is a risk that a cut in the limit of such a magnitude would be economically damaging in terms of promoting the UK as an attractive place to invest and do business. The reduction in the numbers would also reduce tax revenues from Tier 2 migrants, who tend to be relatively highly paid. In addition, there are limited data so far available to allow us to reliably assess the impact of policy changes that have already been made. Therefore, we believe that the limit should stay at its current level of 20,700.

9.44 Migration Advisory Committee (2012) reported a tentative negative association between non-EEA migration and employment of UK-born workers over the period 1995 to 2010. We suggested that, as a starting point for analysis, 100 additional non-EU migrants may cautiously be estimated to be associated with a reduction in employment of 23 non-migrant workers. It does not automatically follow, however, that those migrants entering the UK under the intra-company transfer route or under the limit on Tier 2 (General) will displace non-migrants in the labour market, for two main reasons. First, Tier 2 has become significantly more selective in recent years. Second, the findings in Migration Advisory Committee (2012) related to the total impact of all working-age non-EEA migrants, including students, family route migrants, asylum seekers and dependants as well as work-related migrants. Our findings do not, therefore, in

themselves provide a basis for setting a lower limit on Tier 2 (General).

9.45 If the limit is to be reduced at all, this should be in line with the gentler of the trajectories set out in this report (i.e. aiming for net migration of 99,000 by 2016/17). A gentler trajectory would help to mitigate any adverse effects resulting from lowering the limit by allowing more time for the labour market and economy to adjust, and for employers to take further action to upskill the resident workforce and reduce their dependence on migrant labour.

9.46 Such a trajectory could imply a reduction in the annual limit on Tier 2 (General) in 2012/13, from its current level. The 2012/13 limit would be 12,600 if Tier 2 (General) assumed the entire burden of the required reduction in Tier 2. It could be higher, or even remain at 20,700, if sufficient action was taken to reduce flows through the intra-company transfer route.

Reducing Tier 2 migration

9.47 Any reduced limit on Tier 2 should be accompanied by policies that promote selectivity, which could include raising the minimum pay threshold for Tier 2 (General) and/or raising the required skill level for Tier 2 to NQF6+.

9.48 In contrast to Tier 2 (General), intra-company transfers are not limited by quantity. But they account for a growing share of Tier 2, and inflows through this route into the UK are high, relative to the size of the population, by international standards. This route should account for a substantial

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share of any reduction in Tier 2 migration that the Government deems necessary in order to contribute to its objective to reduce net migration.

9.49 One potential option to bear down on flows through the intra-company transfer route is to put in place stricter rules on use of the route by third-party contracting firms. Potential mechanisms include setting a higher pay threshold for third-party contracting firms or raising the occupational skill level of the intra-company transfer route (although most migrants coming through this route are in NQF6+ occupations). A further option would be to promote the use of migrant labour to complement rather than replace the resident workforce. This could be done by limiting the number of Certificates of Sponsorship issued to individual employers on the basis of the number of non-migrants they employ in the UK in the relevant branch of the company. However, as discussed above, the net economic and labour market impacts of such changes are not straightforward to predict. Furthermore, the implications for net migration of dividing the intra-company transfer route into short-term and long-term categories from April 2011 cannot yet be fully observed, and there is an argument for waiting until further data are available before making further major changes to this route.

9.50 The shortage occupation route could also be targeted. In Migration Advisory Committee (2011c) we presented for the first time a list of occupations and job titles that have been on the

shortage occupation list continuously since our first recommended list in autumn 2008. Previously, we have categorised four types of labour shortage: cyclical; structural; global talent; and public spending-related (and we recognise that in the current economic climate private sector employers also face financial constraints). Most of the occupations and job titles listed could be categorised as structural shortage, with few under the global talent and public spending-related categories.

9.51 Structural shortages occur due to a lack of sufficiently skilled, trained and experienced labour within the resident occupational workforce, meaning that foreign labour may be needed in order to match supply to demand at prevailing market price or wage levels. In many cases, it can take a period of years to address such imbalances. Nevertheless, it does not follow that occupations with structural labour shortages should be on the shortage occupation list for all time. Similarly, shortages due to limited public funding can be addressed in the long-term, even if this involves a reallocation of limited public funding across public service occupations. An option to reduce migrant inflows through Tier 2 would be to put in place a maximum period for which occupations and job titles can remain on the shortage occupation list.

Wider policies to reduce net migration

9.52 Tier 2 only accounts for a small proportion of net migration, therefore further changes to that tier can only make a limited

contribution towards achieving the Government's objective of reducing net migration to the 'tens of thousands'. The impact of recent policies cannot yet be fully assessed. The details, and therefore possible impacts, of some future migration policy decisions are also not known at the time of submitting this report.

- 9.53** Lack of certainty regarding future trends in UK and EU net migration adds further complexity. EU migration is not under direct control of the UK Government, although it is possible that policy on skills development and benefit entitlement rules for the UK workforce could influence employer demand for such labour. We have not examined these issues in detail in this report. Further uncertainty relates to UK and global economic prospects.
- 9.54** Nevertheless, on the basis of currently announced policies, it is likely that further action will be required in relation to routes other than Tier 2 for migration from outside the European Economic Area (EEA) to make substantial progress towards the Government's objective.
- 9.55** Tier 4 remains by far the largest route, in terms of inflow, within the PBS. Foreign students have a major and positive impact on net migration to the UK. We recognise the inherent tension in Government objectives. Non-EU students are often argued to be an important export industry that cross-subsidises British students, therefore raising the human capital of British residents. Nevertheless, encouraging further expansion of migrant student

numbers would make achieving the 'tens of thousands' target much more challenging. In Migration Advisory Committee (2012) we expressed the view that there is scope for further examination of whether, and to what extent, foreign student tuition fees boost the UK economy and, crucially, how UK residents ultimately benefit from that.

- 9.56** The Government has recently consulted on rules on employment-related settlement of PBS migrants, Tier 5 and Overseas Domestic Workers in Home Office (2011e) and on the family route in Home Office (2011f). In parallel to those consultations we produced reports on settlement of Tier 1 and Tier 2 migrants and the maintenance requirement for sponsoring a family member (Migration Advisory Committee, 2011d and 2011e). Decisions on these routes have the potential to affect net migration: for example, in terms of annual International Passenger Survey (IPS) inflow, the family route is similar in magnitude to work-related migration.
- 9.57** The possible scenarios we have set out for reducing Tier 2 migration assume corresponding reductions in the other non-EEA migration routes listed above. Furthermore, if Tier 2 did not take a proportionate share of any required reduction in net migration in the longer-term, it follows that either other routes would have to take a larger than proportionate reduction or the Government would face an increased risk of not meeting its 'tens of thousands' objective for net migration.

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9.58 Policies to reduce average non-EEA migrant durations and the level of permanent settlement in the UK are also an important part of achieving reductions in net migration, particularly if reductions are to be sustainable in the longer-term.

9.59 In addition, some partners have expressed the view that the ongoing EU and India negotiations on a Free Trade Agreement have the potential to increase migration from India to the UK, but at the time of writing we do not have specific information on the likelihood, magnitude or nature of such potential future migration, nor the timescale over which it may occur.

9.6 MAC research and future work

9.60 Two external reports commissioned by us are being published on our website alongside this report. The first of these, Dustman *et. al*, (2010) was commissioned to investigate regional aspects of labour shortage. The key aim of the second of the projects, NIESR (2012) was to identify skills that are of strategic importance to the UK economy and the role of inward migration in addressing shortages of such skills.

9.61 Details of future commissions to us from the Government will be published on our website.

Annex A

Consultation

A.1 List of organisations/individuals that submitted evidence

Aberystwyth University
Accenture
ADS
Aeropeople Ltd
AMEC
Areva RMC Ltd
Association of Professional Staffing Companies
Association of School & College Leaders
Association of Thai Businesses in the UK
Astrazeneca plc
ATKINS
Balfour Beatty Utility Solutions
Bangor University
Birmingham City Council
BMI Healthcare
BP plc
British American Business and the British American Business Council
British Chambers of Commerce
British Medical Association
Bupa
Chartered Institute of Personnel and Development
Citi
Clyde & Co LLP
Confederation of British Industry
ConstructionSkills
Continental TravelNurse Ltd
COSLA Strategic Migration Partnership
Council of University Heads of Pharmacy
Deloitte LLP
Department for Business, Innovation & Skills
Department for Education
Department for Work and Pensions
Department of Health
Department of Health, Social Services and Public Safety, NI
Deutsche Bank & Deutsche Bank Operations International
Dialog Semiconductor (UK) Ltd
DOOSAN Babcock
Dynamic Futures
EDF Energy
Electronics Technology Network
Embassy of Japan
Employment Lawyers Association
e-skills UK
Financial Times
Foreign & Commonwealth Office
Fragomen LLP
General Electric
Heriot-Watt University
Honda Motor Co Ltd
Honda of the UK Manufacturing Limited
HSBC
IEP Management Ltd
Immigration Law Practitioners' Association
Imperial College London
Independent Healthcare Advisory Services
Institution of Chemical Engineers
Japanese Chamber of Commerce and Industry in the United Kingdom
J Dunlop & Co
Kingsley Napley LLP
Kingsley Napley for Dow Jones International Limited

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KLM UK Engineering Limited
KPMG LLP
Lantra
Laura Devine Solicitors
London Borough of Hackney
London Chamber of Commerce and Industry
London Deanery
London First
London School of Economics and Political Science
Marubeni
Microsoft Ltd
Migration Watch UK
Millfield School
Mizuho Corporation Bank Ltd
NASSCOM
NASUWT
National Association of Medical Personnel Specialists
National Farmers Union
National Grid
National Union of Teachers
Newcastle University
New Zealand High Commission
NHS Employers
Nippon Club
Nissan Motor Manufacturing (UK) Limited
Northern Ireland Strategic Migration Partnership
Oil & Gas UK
Pharmacy Voice
PricewaterhouseCoopers
PricewaterhouseCoopers for Morgan Stanley
PricewaterhouseCoopers for Royal Bank of Scotland
Professional Contractors Group
Research Councils UK Shared Service Centre UK
Robert Gordon University
Rolls-Royce Plc
Royal Opera House
Royal Pharmaceutical Society
ScottishCare
Scottish Government
Scottish Social Services Council
SenSpa
Shell
Siemens UK
Skills for Care & Development
Smith Stone Walters
Society of London Theatre, Theatrical Management Association, Dance UK & Independent Theatre Council (joint response)
South East Strategic Partnership for Migration
South Tees NHS Trust
Tata Consultancy Services
Thairama Restaurants Ltd
The Law Society
The Russell Group
The Sainsbury Laboratory
The University of Sheffield
Thomas, Neale
Toray Industries Inc Europe Office
Total E&P UK Ltd
Toyota Motor Manufacturing (UK) Ltd
UBS
UK Screen Association and Skillset (joint response)
UNISON
Universities UK
University College London
University of East Anglia
University of Edinburgh
University of Oxford
University of Portsmouth
University of Warwick
Watson, Farley & Williams LLP
Wellcome Trust
Welsh Government
Westinghouse Electric Company UK

Three additional responses from individuals.

A.2 List of organisations/individuals met with

| | |
|--|---|
| Academy of Oriental Cuisine | Kingsley Napley LLP |
| Accenture | Komatsu UK Ltd |
| A D Themis | KPMG |
| Australian High Commission | Laura Devine |
| Balfour Beatty Utility Solutions | LKL Services |
| Bank of America Merrill Lynch | London Chamber of Commerce and Industry |
| Bird and Bird | London First |
| Birmingham Royal Ballet | Lonely Planet |
| British Airways | Markit |
| British Chamber of Commerce | Marubeni |
| BT International | Mindtree |
| Cancer Research | Mitsubishi Power Systems |
| Capgemini UK plc | NASSCOM |
| Citi | Newcastle University |
| Cognizant Technology Solutions UK Ltd | NHS Employers |
| Confederation of British Industry | Nissan |
| COSLA Strategic Migration Partnership | North East Strategic Migration Partnership |
| CSC | Northern Ireland Local Government Association |
| D&D London | Northern Ireland Strategic Migration Partnership |
| Dance UK | NSN |
| Department for Business, Innovation & Skills | Plan |
| Department of Employment and Learning, NI | PricewaterhouseCoopers |
| DKLM Solicitors | Prudential |
| Dow Jones International Limited | Rambert Dance Company |
| e2e Linkers Ltd | Royal Opera House |
| Embassy of Japan | Sarah Butler Associates |
| Eurocom Developments Ltd | Scottish Social Services Council |
| Eversheds LLP | Scottish Government |
| Fitzgerald & Law | Smith Stone Walters |
| Fragomen | Society of London Theatre and Theatrical Management Association |
| General Electric | Sopra Group Ltd |
| Getco | South Tees Hospitals NHS Foundation Trust |
| Google | SSW |
| Honda | Tata Consultancy Services |
| Hyder Consulting UK Ltd | Taylor Wessing |
| IBM UK Ltd | TIM Group |
| ICAP plc | Toshiba |
| IEP Management | Toyota Motor Manufacturing (UK) Ltd |
| IEPUK | Trades Union Congress |
| ING | UK NARIC |
| Intellect | UK Trade & Industry |
| ITCE Sector Panel | University College London |
| Jobs, Education and Training | |
| JP Morgan | |
| Kelway | |
| Kemp Little LLP | |

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University of East London
Universities Scotland
University of Birmingham
University of East Anglia
University of Edinburgh

VTB
Watson, Farley & Williams
Wood MacKenzie
Wright Hassle LLP

A.3 List of partner forum event attendees

Airbus
All Bureau Ltd
ATKINS
BDP
BECTU
BUPA
Canadian High Commission
Chartered Institute of Personnel and
Development
Clifford Chance
Confederation of British Industry
Continental TravelNurse Ltd
Deloitte LLP
Department for Work and Pensions
DWI Global
Embassy of Japan in the UK
Embassy of the Republic of Bulgaria
Emigra Europe Ltd
Engineering Council
Eurocom Developments Limited
Ferguson Snell & Associates
Fragomens
General Healthcare Group
Greater London Authority
Honda of the UK Manufacturing
Japanese Chamber of Commerce and
Industry in the UK
Kingsley Napley

Laura Devine Solicitors
London Chamber of Commerce and
Industry
London Deanery
London School of Economics
Migrants' Rights Network
NASSCOM
National Association of Medical
Personnel Specialists
National Farmers Union
NHS Employers
Penningtons Solicitors LLP
People 1st
Peter Horada & Co
PricewaterhouseCoopers
RCUK Shared Services Centre Ltd
Royal Opera House
Sainsbury Laboratory
Skillset
Society of London Theatre & Theatrical
Management Association
South East Strategic Partnership for
Migration
Tata Consultancy Services
The College of Emergency Medicine
Universities UK
University College London
University of Brighton

Annex B

List of occupations skilled to National Qualifications Framework level 6 and above

B.1 This annex provides the full results from the analysis carried out to identify which 4-digit SOC 2000 occupations can be considered skilled to NQF6+, listed in table B.1 below. Table B.2 provides a list of occupations we considered skilled to NQF4+ in February 2011 but not to NQF6+

now. Table B.3 lists all other occupations. The minimum thresholds for each of the three indicators used to determine whether an occupation is skilled are set out in Chapter 4. An occupation typically has to pass on two out of three indicators to pass as skilled.

Table B.1: List of 4-digit SOC 2000 occupations skilled to NQF6+ (March 2012), including those reclassified on the basis of SOC 2010

| SOC Code | Occupation | Employment (000s) | Median earnings (£/hr) | Per cent qualified to NQF6+ | SOC skill | Indicators passed |
|----------|---|-------------------|------------------------|-----------------------------|-----------|-------------------|
| 1111 | Senior officials in national government | 5 | 36.91 | 69.66 | 4 | 3 |
| 1112 | Directors and chief executives of major organisations | 69 | 53.02 | 62.76 | 4 | 3 |
| 1113 | Senior officials in local government | 16 | 24.67 | 61.35 | 4 | 3 |
| 1114 | Senior officials of special interest organisations | 11 | 19.94 | 67.98 | 4 | 3 |
| 1121 | Production, works and maintenance managers | 463 | 20.46 | 30.16 | 4 | 2 |
| 1122 | Managers in construction | 96 | 19.21 | 25.39 | 4 | 2 |
| 1123 | Managers in mining and energy | 10 | 27.15 | 40.64 | 4 | 3 |
| 1131 | Financial managers and chartered secretaries | 281 | 28.92 | 49.81 | 4 | 3 |
| 1132 | Marketing and sales managers | 596 | 21.77 | 42.56 | 4 | 3 |
| 1133 | Purchasing managers | 38 | 22.14 | 42.85 | 4 | 3 |
| 1134 | Advertising and public relations managers | 30 | 20.49 | 55.75 | 4 | 3 |
| 1135 | Personnel, training and industrial relations managers | 101 | 22.26 | 51.46 | 4 | 3 |
| 1136 | Information and communication technology managers | 172 | 23.98 | 52.41 | 4 | 3 |

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Table B.1: List of 4-digit SOC 2000 occupations skilled to NQF6+ (March 2012), including those reclassified on the basis of SOC 2010

| SOC Code | Occupation | Employment (000s) | Median earnings (£/hr) | Per cent qualified to NQF6+ | SOC skill | Indicators passed |
|----------|---|-------------------|------------------------|-----------------------------|-----------|-------------------|
| 1137 | Research and development managers | 40 | 24.43 | 69.60 | 4 | 3 |
| 1141 | Quality assurance managers | 32 | 19.41 | 46.23 | 4 | 3 |
| 1151 | Financial institution managers | 128 | 22.61 | 32.93 | 4 | 2 |
| 1161 | Transport and distribution managers | 58 | 16.85 | 16.69 | 4 | 2 |
| 1171 | Officers in armed forces | Unknown | 23.97* | 50.36 | 4 | 3 |
| 1172 | Police officers (inspectors and above) | 17 | 28.07 | 34.83 | 4 | 3 |
| 1173 | Senior officers in fire, ambulance, prison and related services | 15 | 18.18 | 28.22 | 4 | 2 |
| 1181 | Hospital and health service managers | 55 | 23.53 | 58.12 | 4 | 3 |
| 1182 | Pharmacy managers | 11 | 19.17 | 66.14 | 4 | 3 |
| 1184 | Social services managers | 15 | 20.39 | 52.58 | 4 | 3 |
| 1212 | Natural environment and conservation managers | Unknown | 17.27 | 63.80 | 3 | 2 |
| 2111 | Chemists | 28 | 15.98 | 73.55 | 4 | 3 |
| 2112 | Biological scientists and biochemists | 53 | 18.93 | 80.51 | 4 | 3 |
| 2113 | Physicists, geologists and meteorologists | 14 | 20.91 | 92.69 | 4 | 3 |
| 2121 | Civil engineers | 56 | 17.17 | 59.23 | 4 | 3 |
| 2122 | Mechanical engineers | 38 | 20.32 | 40.57 | 4 | 3 |
| 2123 | Electrical engineers | 25 | 21.45 | 25.06 | 4 | 2 |
| 2124 | Electronics engineers | 10 | 21.39 | 39.20 | 4 | 3 |
| 2125 | Chemical engineers | Unknown | 17.96* | 72.96 | 4 | 3 |
| 2126 | Design and development engineers | 63 | 18.32 | 56.28 | 4 | 3 |
| 2127 | Production and process engineers | 38 | 16.28 | 30.19 | 4 | 2 |
| 2128 | Planning and quality control engineers | 42 | 16.27 | 26.23 | 4 | 2 |
| 2129 | Engineering professionals n.e.c.** | 121 | 17.89 | 42.08 | 4 | 3 |
| 2131 | IT strategy and planning professionals | 96 | 22.21 | 58.88 | 4 | 3 |
| 2132 | Software professionals | 295 | 18.74 | 60.55 | 4 | 3 |
| 2211 | Medical practitioners | 163 | 32.60 | 82.81 | 4 | 3 |
| 2212 | Psychologists | 17 | 19.81 | 92.91 | 4 | 3 |
| 2213 | Pharmacists/ pharmacologists | 25 | 18.83 | 87.12 | 4 | 3 |
| 2214 | Ophthalmic opticians | 5 | 19.43 | 83.11 | 4 | 3 |
| 2215 | Dental practitioners | Unknown | 26.74* | 91.98 | 4 | 3 |

Annex B: Full list of occupations skilled to National Qualifications Framework level 6 and above

Table B.1: List of 4-digit SOC 2000 occupations skilled to NQF6+ (March 2012), including those reclassified on the basis of SOC 2010

| SOC Code | Occupation | Employment (000s) | Median earnings (£/hr) | Per cent qualified to NQF6+ | SOC skill | Indicators passed |
|-------------|--|-------------------|------------------------|-----------------------------|-----------|-------------------|
| 2216 | Veterinarians | 9 | 16.25 | 74.43 | 4 | 3 |
| 2311 | Higher education teaching professionals | 103 | 24.69 | 94.66 | 4 | 3 |
| 2312 | Further education teaching professionals | 99 | 18.54 | 74.60 | 4 | 3 |
| 2313 | Education officers, school inspectors | 12 | 20.56 | 75.94 | 4 | 3 |
| 2314 | Secondary education teaching professionals | 342 | 21.98 | 91.25 | 4 | 3 |
| 2315 | Primary and nursery education teaching professionals | 327 | 21.14 | 83.99 | 4 | 3 |
| 2316 | Special needs education teaching professionals | 26 | 21.30 | 70.62 | 4 | 3 |
| 2317 | Registrars and senior administrators of educational establishments | 22 | 18.29 | 48.87 | 4 | 3 |
| 2319 | Teaching professionals n.e.c.** | 32 | 16.09 | 77.38 | 4 | 3 |
| 2321 | Scientific researchers | 33 | 17.79 | 82.93 | 4 | 3 |
| 2322 | Social science researchers | Unknown | 11.17 | 79.06 | 4 | 2 |
| 2329 | Researchers n.e.c.** | 80 | 16.32 | 77.66 | 4 | 3 |
| 2411 | Solicitors and lawyers, judges and coroners | 100 | 24.62 | 93.08 | 4 | 3 |
| 2419 | Legal professionals n.e.c.** | 12 | 20.02 | 68.49 | 4 | 3 |
| 2421 | Chartered and certified accountants | 70 | 19.15 | 57.84 | 4 | 3 |
| 2422 | Management accountants | 11 | 19.61 | 50.83 | 4 | 3 |
| 2423 | Management consultants, actuaries, economists and statisticians | 130 | 20.96 | 70.64 | 4 | 3 |
| 2431 | Architects | 30 | 18.43 | 76.69 | 4 | 3 |
| 2432 | Town planners | 11 | 17.49 | 85.78 | 4 | 3 |
| 2433 | Quantity surveyors | 24 | 18.12 | 46.61 | 4 | 3 |
| 2434 | Chartered surveyors (not quantity surveyors) | 55 | 17.51 | 57.77 | 4 | 3 |
| 2441 | Public service administrative professionals | 27 | 24.40 | 54.88 | 4 | 3 |
| 2442 | Social workers | 85 | 16.92 | 61.78 | 4 | 3 |
| 2443 | Probation officers | 11 | 15.76 | 75.24 | 4 | 3 |
| 2444 | Clergy | 26 | 11.86 | 71.95 | 4 | 2 |
| 2451 | Librarians | 12 | 13.51 | 75.08 | 4 | 2 |
| 2452 | Archivists and curators | 7 | 13.86 | 76.02 | 4 | 2 |
| 3212 | Midwives | 26 | 18.40 | 56.07 | 3 | 2 |
| 3211 | Nurses | 449 | 16.00 | 31.75 | 3 | 1 |
| 3214 | Medical radiographers | 19 | 18.86 | 70.54 | 3 | 2 |

Limits on Migration

Table B.1: List of 4-digit SOC 2000 occupations skilled to NQF6+ (March 2012), including those reclassified on the basis of SOC 2010

| SOC Code | Occupation | Employment (000s) | Median earnings (£/hr) | Per cent qualified to NQF6+ | SOC skill | Indicators passed |
|-------------|--|-------------------|------------------------|-----------------------------|-----------|-------------------|
| 3215 | Chiropractors | 5 | 17.71 | 74.37 | 3 | 2 |
| 3221 | Physiotherapists | 25 | 15.91 | 84.28 | 3 | 2 |
| 3223 | Speech and language therapists | 5 | 15.99 | 89.77 | 3 | 2 |
| 3222 | Occupational therapists | 16 | 15.60 | 73.82 | 3 | 1 |
| 3229 | Therapists n.e.c.** | 11 | 15.73 | 69.36 | 3 | 1 |
| 3415 | Musicians | Unknown | 16.91 | 36.40 | 3 | 2 |
| 3416 | Arts officers, producers and directors | 10 | 17.18 | 59.99 | 3 | 2 |
| 3431 | Journalists, newspaper and periodical editors | 32 | 15.83 | 74.43 | 3 | 2 |
| 3432 | Broadcasting associate professionals | 15 | 21.22 | 68.88 | 3 | 2 |
| 3433 | Public relations officers | 19 | 14.18 | 71.09 | 3 | 1 |
| 3512 | Aircraft pilots and flight engineers | 9 | 44.33 | 49.49 | 3 | 2 |
| 3532 | Brokers | 22 | 28.99 | 43.92 | 3 | 2 |
| 3534 | Finance and investment analysts/advisers | 73 | 18.84 | 52.64 | 3 | 2 |
| 3535 | Taxation experts | 6 | 16.54 | 43.28 | 3 | 2 |
| 3565 | Inspectors of factories, utilities and trading standards | 5 | 15.92 | 44.85 | 3 | 2 |
| 3568 | Environmental health officers | 9 | 15.75 | 63.61 | 3 | 2 |

Notes: For each of the top down indicators of skill, the indicator value is coloured green if the indicator passes and red it does not. Occupations in bold are reclassified as skilled to NQF6+ on the basis of including SOC skill levels from SOC 2010, despite their not passing at least two indicators in the provisional top-down analysis. *Indicates occupations where ASHE earnings data are deemed unreliable at the SOC 4-digit level and the 3-digit value is used instead. ** n.e.c. - Not elsewhere classified.

Source: MAC analysis of the Labour Force Survey, 2008 Q4-2011 Q3 and Office for National Statistics, 2011g.

Annex B: Full list of occupations skilled to National Qualifications Framework level 6 and above

Table B.2: List of 4-digit SOC 2000 occupations considered skilled to NQF4+ (February 2011) but not to NQF6+ (March 2012) including those reclassified on the basis of SOC 2010

| SOC Code | Occupation | Employment (000s) | Median earnings (£/hr) | Per cent qualified to NQF6+ | SOC skill | Indicators passed |
|----------|---|-------------------|------------------------|-----------------------------|-----------|-------------------|
| 1142 | Customer care managers | 74 | 16.87 | 23.46 | 4 | 2 |
| 1152 | Office managers | 315 | 16.40 | 22.59 | 4 | 2 |
| 1174 | Security managers | 11 | 19.29 | 16.84 | 4 | 2 |
| 1183 | Healthcare practice managers | 9 | 14.36 | 25.48 | 4 | 1 |
| 1185 | Residential and daycare managers | 42 | 15.32 | 21.05 | 4 | 1 |
| 1219 | Managers in animal husbandry, forestry and fishing | Unknown | 13.65 | 20.12 | 3 | 0 |
| 1222 | Conference and exhibition managers | 14 | 13.90 | 37.33 | 3 | 1 |
| 1231 | Property, housing and land managers | 83 | 17.61 | 31.32 | 3 | 1 |
| 1235 | Recycling and refuse disposal managers | 6 | 16.53 | 27.50 | 3 | 1 |
| 1239 | Managers and proprietors in other services n.e.c.** | 101 | 16.42 | 33.75 | 3 | 1 |
| 3121 | Architectural technologists and town planning technicians | 16 | 13.69 | 54.24 | 3 | 1 |
| 3123 | Building inspectors | 5 | 15.06 | 26.41 | 3 | 0 |
| 3131 | IT operations technicians | 98 | 15.06 | 38.36 | 3 | 1 |
| 3213 | Paramedics | 18 | 17.85 | 14.01 | 3 | 1 |
| 3218 | Medical and dental technicians | 19 | 13.37 | 24.47 | 3 | 0 |
| 3319 | Protective service associate professionals n.e.c.** | 14 | 14.94 | 27.15 | 3 | 0 |
| 3411 | Artists | 5 | 14.91 | 48.23 | 3 | 1 |
| 3412 | Authors, writers | 12 | 15.00 | 70.87 | 3 | 1 |
| 3413 | Actors, entertainers | Unknown | 15.65* | 34.25 | 3 | 1 |
| 3414 | Dancers, choreographers | Unknown | 13.90 | 29.08 | 3 | 0 |
| 3422 | Product, clothing and related designers | 18 | 12.78 | 51.79 | 3 | 1 |
| 3513 | Ship and hovercraft officers | Unknown | 23.24* | 15.09 | 3 | 1 |
| 3531 | Estimators, valuers and assessors | 43 | 13.83 | 25.20 | 3 | 0 |
| 3537 | Financial and accounting technicians | 19 | 17.39 | 30.14 | 3 | 1 |
| 3539 | Business and related associate professionals | 81 | 14.27 | 51.22 | 3 | 1 |
| 3541 | Buyers and purchasing officers | 47 | 14.99 | 30.10 | 3 | 0 |

Limits on Migration

Table B.2: List of 4-digit SOC 2000 occupations considered skilled to NQF4+ (February 2011) but not to NQF6+ (March 2012) including those reclassified on the basis of SOC 2010

| SOC Code | Occupation | Employment (000s) | Median earnings (£/hr) | Per cent qualified to NQF6+ | SOC skill | Indicators passed |
|----------|---|-------------------|------------------------|-----------------------------|-----------|-------------------|
| 3543 | Marketing associate professionals | 81 | 13.93 | 58.27 | 3 | 1 |
| 3551 | Conservation and environmental protection officers | 19 | 15.16 | 78.24 | 3 | 1 |
| 3561 | Public service associate professionals | 102 | 14.39 | 43.28 | 3 | 1 |
| 3564 | Careers advisers and vocational guidance specialists | 10 | 14.04 | 48.91 | 3 | 1 |
| 3566 | Statutory examiners | 8 | 13.50 | 28.63 | 3 | 0 |
| 3567 | Occupational hygienists and safety officers (health and safety) | 23 | 17.11 | 22.94 | 3 | 1 |

Notes: For each of the top down indicators of skill, the indicator value is coloured green if the indicator passes and red it does not. Occupations in bold are reclassified on the basis of including SOC skill levels from SOC 2010, despite their passing two or more indicators in the provisional top-down analysis. * Indicates occupations where ASHE earnings data are deemed unreliable at the SOC 4-digit level and the 3-digit value is used instead. **n.e.c. - Not elsewhere classified.

Source: MAC analysis of the Labour Force Survey, 2008 Q4-2011 Q3 and Office for National Statistics, 2011g.

Annex B: Full list of occupations skilled to National Qualifications Framework level 6 and above

Table B.3: List of occupations not considered skilled to NQF4+ (February 2011) and not to NQF6+ (March 2012)

| SOC Code | Occupation | Employment (000s) | Median earnings (£/hr) | Per cent qualified to NQF6+ | SOC skill | Indicators passed |
|----------|--|-------------------|------------------------|-----------------------------|-----------|-------------------|
| 1162 | Storage and warehouse managers | 99 | 13.53 | 11.11 | 4 | 1 |
| 1163 | Retail and wholesale managers | 307 | 11.33 | 15.93 | 4 | 1 |
| 1211 | Farm managers | 10 | 12.71 | 8.27 | 3 | 0 |
| 1221 | Hotel and accommodation managers | 19 | 11.97 | 16.53 | 3 | 0 |
| 1223 | Restaurant and catering managers | 83 | 9.95 | 16.08 | 3 | 0 |
| 1224 | Publicans and managers of licensed premises | 30 | 8.86 | 15.93 | 3 | 0 |
| 1225 | Leisure and sports managers | 32 | 12.29 | 29.23 | 3 | 0 |
| 1226 | Travel agency managers | Unknown | 10.56* | 10.85 | 3 | 0 |
| 1232 | Garage managers and proprietors | 8 | 13.74 | 1.85 | 3 | 0 |
| 1233 | Hairdressing and beauty salon managers and proprietors | Unknown | 16.49* | 2.92 | 3 | 1 |
| 1234 | Shopkeepers and wholesale/retail dealers | 13 | 12.56 | 21.59 | 3 | 0 |
| 3111 | Laboratory technicians | 45 | 10.74 | 30.22 | 3 | 0 |
| 3112 | Electrical/electronics technicians | 10 | 14.41 | 7.45 | 3 | 0 |
| 3113 | Engineering technicians | 67 | 15.75 | 12.89 | 3 | 1 |
| 3114 | Building and civil engineering technicians | 9 | 13.38 | 27.33 | 3 | 0 |
| 3115 | Quality assurance technicians | 15 | 12.56 | 21.24 | 3 | 0 |
| 3119 | Science and engineering technicians n.e.c.** | 113 | 11.90 | 32.94 | 3 | 0 |
| 3122 | Draughtspersons | 30 | 13.30 | 22.20 | 3 | 0 |
| 3132 | IT user support technicians | 63 | 13.30 | 35.43 | 3 | 1 |
| 3216 | Dispensing opticians | Unknown | 16.01* | 2.24 | 3 | 1 |
| 3217 | Pharmaceutical dispensers | 22 | 8.71 | 10.67 | 3 | 0 |
| 3231 | Youth and community workers | 63 | 12.85 | 33.90 | 3 | 0 |
| 3232 | Housing and welfare officers | 119 | 12.77 | 32.68 | 3 | 0 |
| 3311 | NCOs and other ranks | Unknown | 16.60* | 9.26 | 3 | 1 |
| 3312 | Police officers (sergeant and below) | 240 | 18.11 | 21.10 | 3 | 1 |
| 3313 | Fire service officers (leading fire officer and below) | 54 | 13.61 | 8.81 | 3 | 0 |
| 3314 | Prison service officers (below principal officer) | 49 | 13.44 | 9.73 | 3 | 0 |
| 3421 | Graphic designers | 37 | 12.23 | 54.72 | 3 | 1 |
| 3434 | Photographers and audio-visual equipment operators | 21 | 11.98 | 36.43 | 3 | 1 |
| 3441 | Sports players | Unknown | 10.59* | 16.13 | 3 | 0 |
| 3442 | Sports coaches, instructors and officials | 11 | 11.98 | 32.24 | 3 | 0 |

Limits on Migration

Table B.3: List of occupations not considered skilled to NQF4+ (February 2011) and not to NQF6+ (March 2012)

| SOC Code | Occupation | Employment (000s) | Median earnings (£/hr) | Per cent qualified to NQF6+ | SOC skill | Indicators passed |
|----------|---|-------------------|------------------------|-----------------------------|-----------|-------------------|
| 3443 | Fitness instructors | 8 | 8.15 | 19.01 | 3 | 0 |
| 3449 | Sports and fitness occupations n.e.c.** | Unknown | 10.59* | 42.39 | 3 | 1 |
| 3511 | Air traffic controllers | 6 | 29.27 | 20.87 | 3 | 1 |
| 3514 | Train drivers | 26 | 22.86 | 4.05 | 3 | 1 |
| 3520 | Legal associate professionals | 37 | 12.53 | 39.76 | 3 | 1 |
| 3533 | Insurance underwriters | 17 | 16.56 | 31.17 | 3 | 1 |
| 3536 | Importers, exporters | Unknown | 10.90 | 18.18 | 3 | 0 |
| 3542 | Sales representatives | 273 | 12.63 | 18.11 | 3 | 0 |
| 3544 | Estate agents, auctioneers | 9 | 11.86 | 21.43 | 3 | 0 |
| 3552 | Countryside and park rangers | 7 | 10.83 | 27.20 | 3 | 0 |
| 3562 | Personnel and industrial relations officers | 115 | 12.72 | 37.70 | 3 | 1 |
| 3563 | Vocational and industrial trainers and instructors | 76 | 12.66 | 28.92 | 3 | 0 |
| 4111 | Civil Service executive officers | 69 | 12.05 | 25.55 | 2 | 0 |
| 4112 | Civil Service administrative officers and assistants | 119 | 9.41 | 20.99 | 2 | 0 |
| 4113 | Local government clerical officers and assistants | 82 | 11.66 | 19.75 | 2 | 0 |
| 4114 | Officers of non-governmental organisations | 7 | 13.17 | 43.59 | 2 | 1 |
| 4121 | Credit controllers | 23 | 10.42 | 7.94 | 2 | 0 |
| 4122 | Accounts and wages clerks, book-keepers, other financial clerks | 264 | 11.24 | 20.31 | 2 | 0 |
| 4123 | Counter clerks | 152 | 10.80 | 16.20 | 2 | 0 |
| 4131 | Filing and other records assistants/clerks | 106 | 10.24 | 20.73 | 2 | 0 |
| 4132 | Pensions and insurance clerks | 35 | 10.86 | 18.94 | 2 | 0 |
| 4133 | Stock control clerks | 64 | 9.96 | 8.56 | 2 | 0 |
| 4134 | Transport and distribution clerks | 40 | 10.93 | 13.91 | 2 | 0 |
| 4135 | Library assistants/clerks | 12 | 9.65 | 33.14 | 2 | 0 |
| 4136 | Database assistants/clerks | 23 | 9.34 | 20.83 | 2 | 0 |
| 4137 | Market research interviewers | Unknown | 8.57 | 28.22 | 2 | 0 |
| 4141 | Telephonists | 8 | 9.16 | 8.38 | 2 | 0 |
| 4142 | Communication operators | 17 | 13.31 | 18.46 | 2 | 0 |
| 4150 | General office assistants/clerks | 561 | 9.59 | 15.87 | 2 | 0 |
| 4211 | Medical secretaries | 27 | 10.83 | 8.62 | 2 | 0 |
| 4212 | Legal secretaries | 23 | 10.22 | 9.13 | 2 | 0 |
| 4213 | School secretaries | 19 | 9.96 | 14.68 | 2 | 0 |
| 4214 | Company secretaries | 6 | 10.73 | 13.39 | 2 | 0 |
| 4215 | Personal assistants and other secretaries | 152 | 12.11 | 12.70 | 2 | 0 |
| 4216 | Receptionists | 103 | 8.15 | 10.25 | 2 | 0 |

Annex B: Full list of occupations skilled to National Qualifications Framework level 6 and above

Table B.3: List of occupations not considered skilled to NQF4+ (February 2011) and not to NQF6+ (March 2012)

| SOC Code | Occupation | Employment (000s) | Median earnings (£/hr) | Per cent qualified to NQF6+ | SOC skill | Indicators passed |
|----------|--|-------------------|------------------------|-----------------------------|-----------|-------------------|
| 4217 | Typists | 6 | 9.35 | 5.76 | 2 | 0 |
| 5111 | Farmers | 5 | 10.31 | 3.24 | 3 | 0 |
| 5112 | Horticultural trades | Unknown | 7.59 | 3.12 | 3 | 0 |
| 5113 | Gardeners and groundsman/groundswomen | 84 | 8.75 | 4.54 | 3 | 0 |
| 5119 | Agricultural and fishing trades n.e.c.** | 7 | 9.03 | 6.51 | 3 | 0 |
| 5211 | Smiths and forge workers | Unknown | 11.04 | 0.00 | 3 | 0 |
| 5212 | Moulders, core makers, die casters | Unknown | 10.13 | 0.00 | 3 | 0 |
| 5213 | Sheet metal workers | 16 | 11.33 | 1.43 | 3 | 0 |
| 5214 | Metal plate workers, shipwrights, riveters | 11 | 12.01 | 0.00 | 3 | 0 |
| 5215 | Welding trades | 46 | 11.09 | 0.41 | 3 | 0 |
| 5216 | Pipe fitters | 7 | 14.86 | 1.23 | 3 | 0 |
| 5221 | Metal machining setters and setter-operators | 53 | 11.68 | 1.91 | 3 | 0 |
| 5222 | Tool makers, tool fitters and markers-out | 10 | 12.36 | 2.28 | 3 | 0 |
| 5223 | Metal working production and maintenance fitters | 297 | 12.88 | 3.66 | 3 | 0 |
| 5224 | Precision instrument makers and repairers | 12 | 12.70 | 7.82 | 3 | 0 |
| 5231 | Motor mechanics, auto engineers | 121 | 10.72 | 1.96 | 3 | 0 |
| 5232 | Vehicle body builders and repairers | 24 | 10.41 | 0.37 | 3 | 0 |
| 5233 | Auto electricians | Unknown | 11.39 | 5.98 | 3 | 0 |
| 5234 | Vehicle spray painters | 13 | 10.41 | 0.00 | 3 | 0 |
| 5241 | Electricians, electrical fitters | 136 | 13.42 | 2.32 | 3 | 0 |
| 5242 | Telecommunications engineers | 32 | 14.18 | 8.20 | 3 | 0 |
| 5243 | Lines repairers and cable jointers | 8 | 15.34 | 0.51 | 3 | 0 |
| 5244 | TV, video and audio engineers | 6 | 10.26 | 16.81 | 3 | 0 |
| 5245 | Computer engineers, installation and maintenance | 15 | 13.83 | 24.24 | 3 | 0 |
| 5249 | Electrical/electronics engineers n.e.c.** | 94 | 12.48 | 9.35 | 3 | 0 |
| 5311 | Steel erectors | Unknown | 10.47 | 3.19 | 3 | 0 |
| 5312 | Bricklayers, masons | 22 | 11.17 | 1.96 | 3 | 0 |
| 5313 | Roofers, roof tilers and slaters | 13 | 10.43 | 0.41 | 3 | 0 |
| 5314 | Plumbers, heating and ventilating engineers | 68 | 13.19 | 2.10 | 3 | 0 |
| 5315 | Carpenters and joiners | 99 | 10.99 | 0.93 | 3 | 0 |
| 5316 | Glaziers, window fabricators | 22 | 8.92 | 0.00 | 3 | 0 |

Limits on Migration

Table B.3: List of occupations not considered skilled to NQF4+ (February 2011) and not to NQF6+ (March 2012)

| SOC Code | Occupation | Employment (000s) | Median earnings (£/hr) | Per cent qualified to NQF6+ | SOC skill | Indicators passed |
|----------|---|-------------------|------------------------|-----------------------------|-----------|-------------------|
| | and fitters | | | | | |
| 5319 | Construction trades n.e.c.** | 27 | 10.72 | 9.27 | 3 | 0 |
| 5321 | Plasterers | 10 | 10.42 | 0.99 | 3 | 0 |
| 5322 | Floorers and wall tilers | 9 | 9.50 | 2.22 | 3 | 0 |
| 5323 | Painters and decorators | 32 | 10.50 | 1.00 | 3 | 0 |
| 5411 | Weavers and knitters | Unknown | 9.21 | 0.00 | 3 | 0 |
| 5412 | Upholsterers | 7 | 10.36 | 2.48 | 3 | 0 |
| 5413 | Leather and related trades | Unknown | 9.32 | 0.00 | 3 | 0 |
| 5414 | Tailors and dressmakers | Unknown | 10.27 | 4.60 | 3 | 0 |
| 5419 | Textiles, garments and related trades n.e.c.** | Unknown | 11.26 | 3.71 | 3 | 0 |
| 5421 | Originators, compositors and print preparers | 5 | 9.43 | 14.82 | 3 | 0 |
| 5422 | Printers | 20 | 13.07 | 2.24 | 3 | 0 |
| 5423 | Bookbinders and print finishers | 21 | 9.53 | 4.62 | 3 | 0 |
| 5424 | Screen printers | Unknown | 8.71 | 4.41 | 3 | 0 |
| 5431 | Butchers, meat cutters | 25 | 7.98 | 1.29 | 3 | 0 |
| 5432 | Bakers, flour confectioners | 19 | 8.20 | 1.42 | 3 | 0 |
| 5433 | Fishmongers, poultry dressers | Unknown | 7.11 | 0.00 | 3 | 0 |
| 5434 | Chefs, cooks | 156 | 7.77 | 3.63 | 3 | 0 |
| 5491 | Glass and ceramics makers, decorators and finishers | Unknown | 9.30 | 2.74 | 3 | 0 |
| 5492 | Furniture makers, other craft woodworkers | 12 | 9.49 | 5.09 | 3 | 0 |
| 5493 | Pattern makers (moulds) | Unknown | 14.64 | 0.00 | 3 | 0 |
| 5494 | Musical instrument makers and tuners | Unknown | 9.40* | 33.68 | 3 | 0 |
| 5495 | Goldsmiths, silversmiths, precious stone workers | Unknown | 9.40* | 2.80 | 3 | 0 |
| 5496 | Floral arrangers, florists | Unknown | 6.73 | 7.15 | 3 | 0 |
| 5499 | Hand craft occupations n.e.c.** | 8 | 9.12 | 4.03 | 3 | 0 |
| 6111 | Nursing auxiliaries and assistants | 157 | 9.63 | 9.84 | 2 | 0 |
| 6112 | Ambulance staff (excluding paramedics) | 10 | 10.53 | 6.66 | 2 | 0 |
| 6113 | Dental nurses | 23 | 8.64 | 2.11 | 2 | 0 |
| 6114 | Houseparents and residential wardens | 17 | 9.96 | 13.62 | 2 | 0 |
| 6115 | Care assistants and home carers | 415 | 7.99 | 7.08 | 2 | 0 |
| 6121 | Nursery nurses | 76 | 7.37 | 3.28 | 2 | 0 |
| 6122 | Childminders and related occupations | 10 | 8.35 | 7.49 | 2 | 0 |
| 6123 | Playgroup leaders/assistants | 9 | 7.50 | 28.05 | 2 | 0 |

Annex B: Full list of occupations skilled to National Qualifications Framework level 6 and above

Table B.3: List of occupations not considered skilled to NQF4+ (February 2011) and not to NQF6+ (March 2012)

| SOC Code | Occupation | Employment (000s) | Median earnings (£/hr) | Per cent qualified to NQF6+ | SOC skill | Indicators passed |
|----------|---|-------------------|------------------------|-----------------------------|-----------|-------------------|
| 6124 | Educational assistants | 141 | 8.80 | 17.10 | 2 | 0 |
| 6131 | Veterinary nurses and assistants | 10 | 8.75 | 11.87 | 2 | 0 |
| 6139 | Animal care occupations n.e.c.** | 11 | 7.38 | 4.68 | 2 | 0 |
| 6211 | Sports and leisure assistants | 31 | 8.20 | 13.41 | 2 | 0 |
| 6212 | Travel agents | 23 | 8.71 | 19.86 | 2 | 0 |
| 6213 | Travel and tour guides | Unknown | 8.02 | 33.23 | 2 | 0 |
| 6214 | Air travel assistants | 26 | 12.62 | 20.64 | 2 | 0 |
| 6215 | Rail travel assistants | 18 | 13.67 | 10.43 | 2 | 0 |
| 6219 | Leisure and travel service occupations n.e.c.** | 4 | 8.51 | 13.42 | 2 | 0 |
| 6221 | Hairdressers, barbers | 25 | 6.48 | 1.10 | 2 | 0 |
| 6222 | Beauticians and related occupations | 13 | 7.67 | 3.99 | 2 | 0 |
| 6231 | Housekeepers and related occupations | 25 | 7.47 | 3.03 | 2 | 0 |
| 6232 | Caretakers | 49 | 9.25 | 2.45 | 2 | 0 |
| 6291 | Undertakers and mortuary assistants | 7 | 10.56 | 3.36 | 2 | 0 |
| 6292 | Pest control officers | Unknown | 10.12 | 0.00 | 2 | 0 |
| 7111 | Sales and retail assistants | 423 | 7.20 | 8.78 | 2 | 0 |
| 7112 | Retail cashiers and check-out operators | 39 | 6.92 | 6.69 | 2 | 0 |
| 7113 | Telephone salespersons | 24 | 9.06 | 10.83 | 2 | 0 |
| 7121 | Collector salespersons and credit agents | Unknown | 8.83* | 13.94 | 2 | 0 |
| 7122 | Debt, rent and other cash collectors | 19 | 8.38 | 11.75 | 2 | 0 |
| 7123 | Roundsmen/women and van salespersons | 5 | 9.35 | 3.99 | 2 | 0 |
| 7124 | Market and street traders and assistants | Unknown | 8.10 | 0.00 | 2 | 0 |
| 7125 | Merchandisers and window dressers | 10 | 10.60 | 22.18 | 2 | 0 |
| 7129 | Sales related occupations n.e.c.** | 18 | 8.61 | 17.94 | 2 | 0 |
| 7211 | Call centre agents/operators | 37 | 8.52 | 15.84 | 2 | 0 |
| 7212 | Customer care occupations | 218 | 9.02 | 13.32 | 2 | 0 |
| 8111 | Food, drink and tobacco process operatives | 126 | 7.88 | 3.29 | 2 | 0 |
| 8112 | Glass and ceramics process operatives | 5 | 9.64 | 2.58 | 2 | 0 |
| 8113 | Textile process operatives | 8 | 9.20 | 3.07 | 2 | 0 |
| 8114 | Chemical and related process operatives | 33 | 11.00 | 3.05 | 2 | 0 |

Limits on Migration

Table B.3: List of occupations not considered skilled to NQF4+ (February 2011) and not to NQF6+ (March 2012)

| SOC Code | Occupation | Employment (000s) | Median earnings (£/hr) | Per cent qualified to NQF6+ | SOC skill | Indicators passed |
|----------|--|-------------------|------------------------|-----------------------------|-----------|-------------------|
| 8115 | Rubber process operatives | 6 | 10.72 | 0.00 | 2 | 0 |
| 8116 | Plastics process operatives | 14 | 9.37 | 2.35 | 2 | 0 |
| 8117 | Metal making and treating process operatives | 12 | 11.51 | 2.10 | 2 | 0 |
| 8118 | Electroplaters | 5 | 8.75 | 0.00 | 2 | 0 |
| 8119 | Process operatives n.e.c.** | 7 | 9.74 | 3.50 | 2 | 0 |
| 8121 | Paper and wood machine operatives | 22 | 10.02 | 1.86 | 2 | 0 |
| 8122 | Coal mine operatives | Unknown | 10.53* | 0.00 | 2 | 0 |
| 8123 | Quarry workers and related operatives | 5 | 10.61 | 2.05 | 2 | 0 |
| 8124 | Energy plant operatives | 8 | 13.99 | 0.95 | 2 | 0 |
| 8125 | Metal working machine operatives | 70 | 10.19 | 1.22 | 2 | 0 |
| 8126 | Water and sewerage plant operatives | 8 | 12.87 | 8.27 | 2 | 0 |
| 8129 | Plant and machine operatives n.e.c.** | 14 | 9.78 | 2.40 | 2 | 0 |
| 8131 | Assemblers (electrical products) | 22 | 8.68 | 1.18 | 2 | 0 |
| 8132 | Assemblers (vehicles and metal goods) | 36 | 12.48 | 2.37 | 2 | 0 |
| 8133 | Routine inspectors and testers | 43 | 10.32 | 5.08 | 2 | 0 |
| 8134 | Weighers, graders, sorters | 5 | 8.10 | 0.00 | 2 | 0 |
| 8135 | Tyre, exhaust and windscreen fitters | 15 | 7.77 | 0.00 | 2 | 0 |
| 8136 | Clothing cutters | Unknown | 8.19 | 9.14 | 2 | 0 |
| 8137 | Sewing machinists | 14 | 7.57 | 0.81 | 2 | 0 |
| 8138 | Routine laboratory testers | 6 | 8.76 | 22.09 | 2 | 0 |
| 8139 | Assemblers and routine operatives n.e.c.** | 85 | 8.29 | 2.76 | 2 | 0 |
| 8141 | Scaffolders, staggers, riggers | 15 | 13.71 | 0.57 | 2 | 0 |
| 8142 | Road construction operatives | 23 | 11.09 | 0.00 | 2 | 0 |
| 8143 | Rail construction and maintenance operatives | 12 | 12.88 | 4.47 | 2 | 0 |
| 8149 | Construction operatives n.e.c.** | 68 | 11.44 | 2.31 | 2 | 0 |
| 8211 | Heavy goods vehicle drivers | 185 | 10.00 | 0.72 | 2 | 0 |
| 8212 | Van drivers | 205 | 8.32 | 3.77 | 2 | 0 |
| 8213 | Bus and coach drivers | 108 | 10.00 | 2.49 | 2 | 0 |
| 8214 | Taxi, cab drivers and chauffeurs | 12 | 9.22 | 3.17 | 2 | 0 |
| 8215 | Driving instructors | Unknown | 12.24 | 5.78 | 2 | 0 |
| 8216 | Rail transport operatives | 12 | 14.97 | 5.75 | 2 | 0 |
| 8217 | Seafarers (merchant navy); barge, lighter and boat operative | Unknown | 12.15 | 1.95 | 2 | 0 |
| 8218 | Air transport operatives | 12 | 11.04 | 0.68 | 2 | 0 |

Annex B: Full list of occupations skilled to National Qualifications Framework level 6 and above

Table B.3: List of occupations not considered skilled to NQF4+ (February 2011) and not to NQF6+ (March 2012)

| SOC Code | Occupation | Employment (000s) | Median earnings (£/hr) | Per cent qualified to NQF6+ | SOC skill | Indicators passed |
|----------|---|-------------------|------------------------|-----------------------------|-----------|-------------------|
| 8219 | Transport operatives n.e.c.** | 8 | 11.04 | 6.65 | 2 | 0 |
| 8221 | Crane drivers | 7 | 12.00 | 0.00 | 2 | 0 |
| 8222 | Fork-lift truck drivers | 22 | 8.49 | 0.87 | 2 | 0 |
| 8223 | Agricultural machinery drivers | Unknown | 9.46 | 3.76 | 2 | 0 |
| 8229 | Mobile machine drivers and operatives n.e.c.** | 32 | 10.47 | 1.91 | 2 | 0 |
| 9111 | Farm workers | 30 | 8.17 | 2.21 | 1 | 0 |
| 9112 | Forestry workers | 3 | 10.89 | 16.19 | 1 | 0 |
| 9119 | Fishing and agriculture related occupations n.e.c.** | 13 | 7.31 | 1.87 | 1 | 0 |
| 9121 | Labourers in building and woodworking trades | 62 | 9.03 | 1.38 | 1 | 0 |
| 9129 | Labourers in other construction trades n.e.c.** | 20 | 9.00 | 5.65 | 1 | 0 |
| 9131 | Labourers in foundries | Unknown | 9.26 | 31.05 | 1 | 0 |
| 9132 | Industrial cleaning process occupations | 11 | 8.14 | 0.00 | 1 | 0 |
| 9133 | Printing machine minders and assistants | 11 | 10.28 | 5.10 | 1 | 0 |
| 9134 | Packers, bottlers, canners, fillers | 75 | 7.13 | 2.39 | 1 | 0 |
| 9139 | Labourers in process and plant operations n.e.c.** | 108 | 7.94 | 1.13 | 1 | 0 |
| 9141 | Stevedores, dockers and slingers | 5 | 11.79 | 1.24 | 1 | 0 |
| 9149 | Other goods handling and storage occupations n.e.c.** | 428 | 8.35 | 2.42 | 1 | 0 |
| 9211 | Postal workers, mail sorters, messengers, couriers | 116 | 9.96 | 3.87 | 1 | 0 |
| 9219 | Elementary office occupations n.e.c.** | 27 | 6.91 | 14.10 | 1 | 0 |
| 9221 | Hospital porters | 8 | 9.02 | 1.64 | 1 | 0 |
| 9222 | Hotel porters | Unknown | 7.18 | 2.70 | 1 | 0 |
| 9223 | Kitchen and catering assistants | 152 | 6.33 | 5.50 | 1 | 0 |
| 9224 | Waiters, Waitresses | 42 | 6.25 | 12.92 | 1 | 0 |
| 9225 | Bar staff | 49 | 6.25 | 12.05 | 1 | 0 |
| 9226 | Leisure and theme park attendants | 7 | 6.14 | 14.81 | 1 | 0 |
| 9229 | Elementary personal services occupations n.e.c.** | Unknown | 6.71 | 12.99 | 1 | 0 |
| 9231 | Window cleaners | Unknown | 7.75 | 0.00 | 1 | 0 |
| 9232 | Road sweepers | 7 | 8.72 | 0.00 | 1 | 0 |
| 9233 | Cleaners, domestics | 160 | 7.00 | 1.15 | 1 | 0 |
| 9234 | Launderers, dry cleaners, | 11 | 6.28 | 4.48 | 1 | 0 |

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Table B.3: List of occupations not considered skilled to NQF4+ (February 2011) and not to NQF6+ (March 2012)

| SOC Code | Occupation | Employment (000s) | Median earnings (£/hr) | Per cent qualified to NQF6+ | SOC skill | Indicators passed |
|----------|--|-------------------|------------------------|-----------------------------|-----------|-------------------|
| | pressers | | | | | |
| 9235 | Refuse and salvage occupations | 20 | 8.90 | 1.77 | 1 | 0 |
| 9239 | Elementary cleaning occupations n.e.c.** | Unknown | 7.73 | 2.75 | 1 | 0 |
| 9241 | Security guards and related occupations | 126 | 8.83 | 8.21 | 1 | 0 |
| 9242 | Traffic wardens | Unknown | 9.78 | 5.58 | 1 | 0 |
| 9243 | School crossing patrol attendants | Unknown | 8.75* | 15.73 | 1 | 0 |
| 9244 | School mid-day assistants | 5 | 6.65 | 8.90 | 1 | 0 |
| 9245 | Car park attendants | 7 | 7.96 | 0.00 | 1 | 0 |
| 9249 | Elementary security occupations n.e.c.** | 6 | 9.75 | 5.58 | 1 | 0 |
| 9251 | Shelf fillers | 26 | 7.98 | 3.30 | 1 | 0 |
| 9259 | Elementary sales occupations n.e.c.** | Unknown | 6.89 | 4.76 | 1 | 0 |

Notes: For each of the top down indicators of skill, the indicator value is coloured green if the indicator passes and red it does not. * Indicates occupations where ASHE earnings data are deemed unreliable at the SOC 4-digit level and the 3-digit value is used instead. **n.e.c. - Not elsewhere classified.

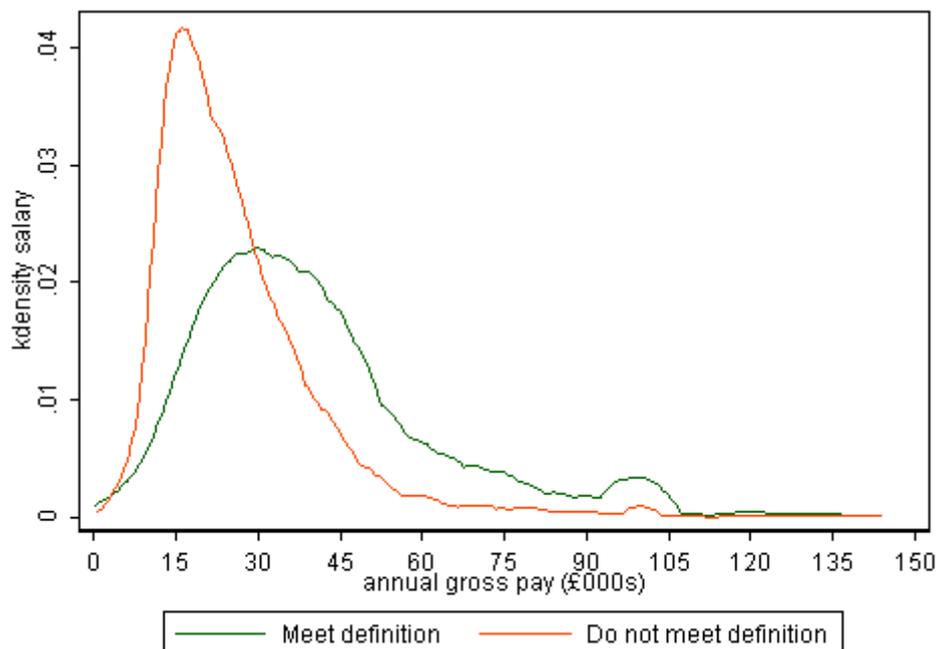
Source: MAC analysis of the Labour Force Survey, 2008 Q4-2011 Q3 and Office for National Statistics, 2011g.

Annex C

Salary distributions of senior managers and specialists

- C.1** This annex presents the gross annual salary distributions for each option for defining senior managers and specialists described in Table 5.3 (Chapter 5), for those occupations that do meet each definition and those that do not. In order to identify an appropriate salary threshold, these options can be considered using Labour Force Survey data.
- C.2** In each chart, the data are restricted to full-time, working-age employees, using the four quarters of the Labour Force Survey to 2011 Q3. The green line represents the kernel distribution of gross annual pay of those individuals that meet the definition of senior manager and specialists as defined by the option considered. The red line represents those individuals that do not meet the definition. A kernel distribution is defined as a smoothed density function. Each chart is truncated at gross annual pay of £150,000.

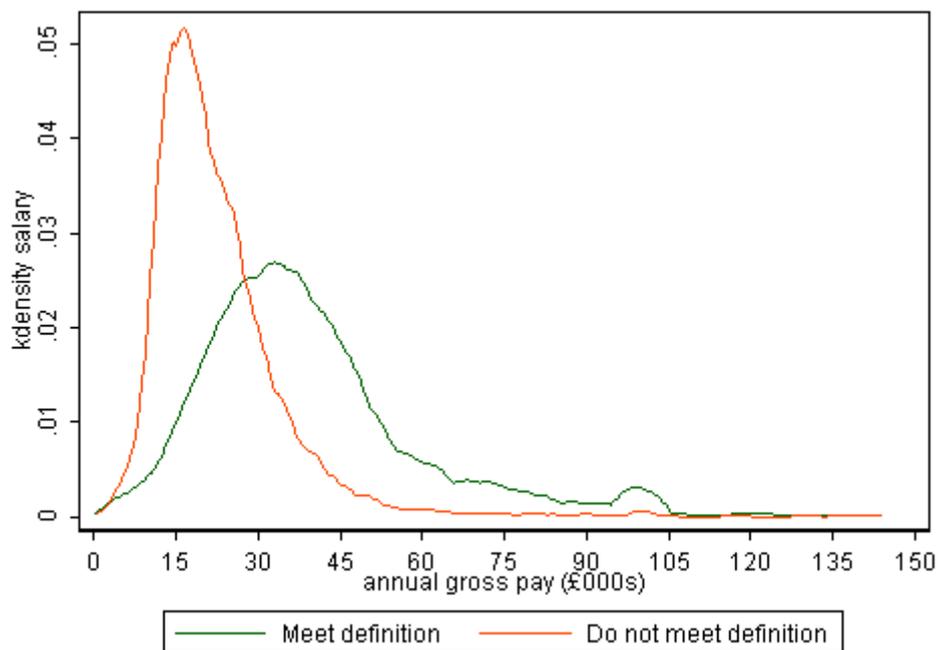
Figure C.1: Identifying senior managers and specialists, option 1 (1-digit SOC = 1)



Note: The vertical axis can be interpreted as the proportion of individuals earning up to £150,000 that are/are not defined as senior managers or specialists in option 1 at the given pay level.
Source: MAC analysis based on Labour Force Survey 2010 Q4 to 2011 Q3

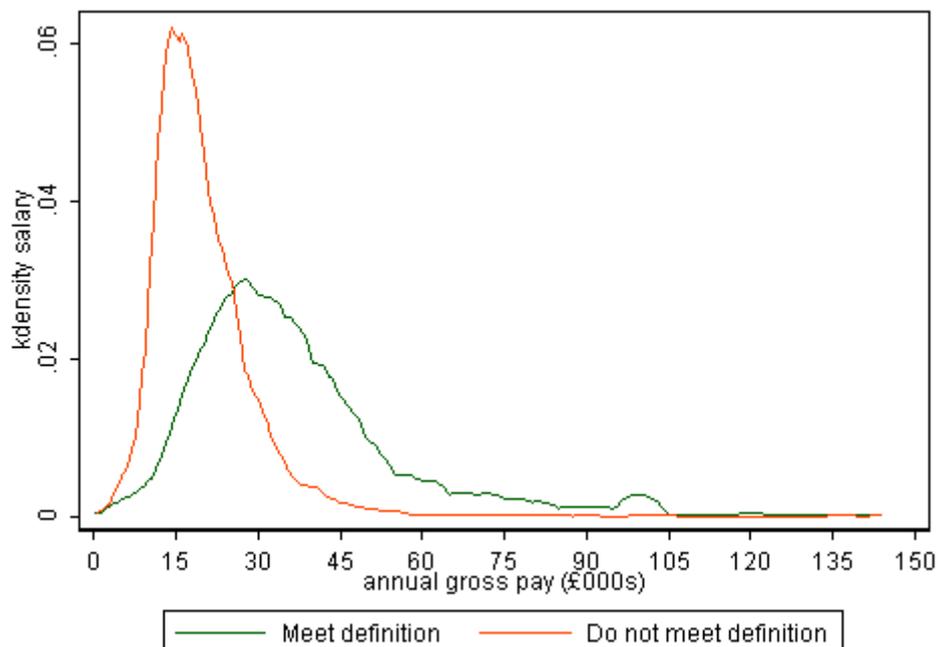
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Figure C.2: Identifying senior managers and specialists, option 2 (1-digit SOC = 1 and 2)



Note: The vertical axis can be interpreted as the proportion of individuals earning up to £150,000 that are/are not defined as senior managers or specialists in option 2 at the given pay level.
Source: MAC analysis based on Labour Force Survey 2010 Q4 to 2011 Q3

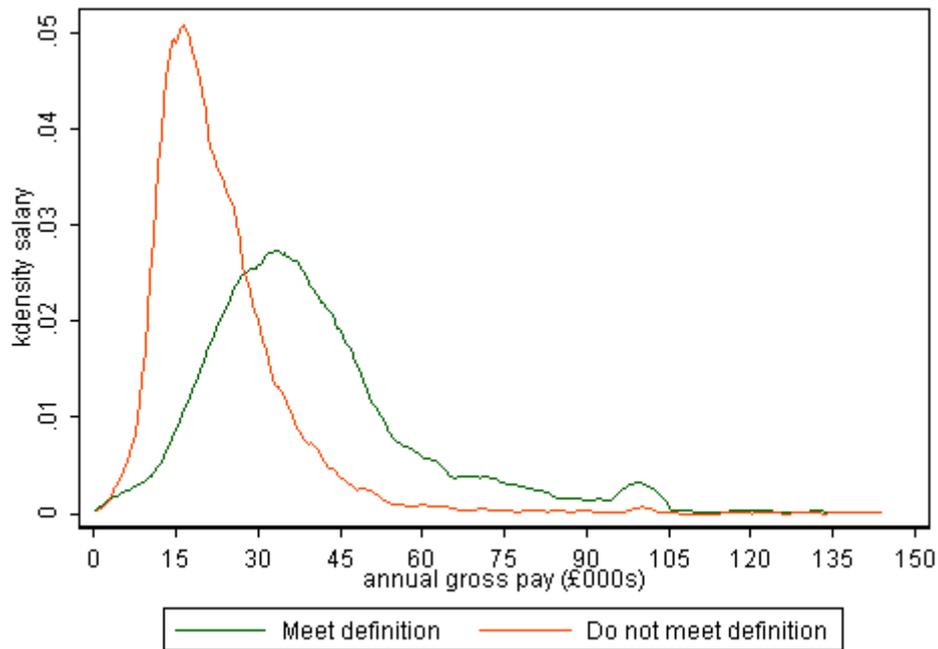
Figure C.3: Identifying senior managers and specialists, option 3 (1-digit SOC = 1, 2 and 3)



Note: The vertical axis can be interpreted as the proportion of individuals earning up to £150,000 that are/are not defined as senior managers or specialists in option 3 at the given pay level.
Source: MAC analysis based on Labour Force Survey 2010 Q4 to 2011 Q3

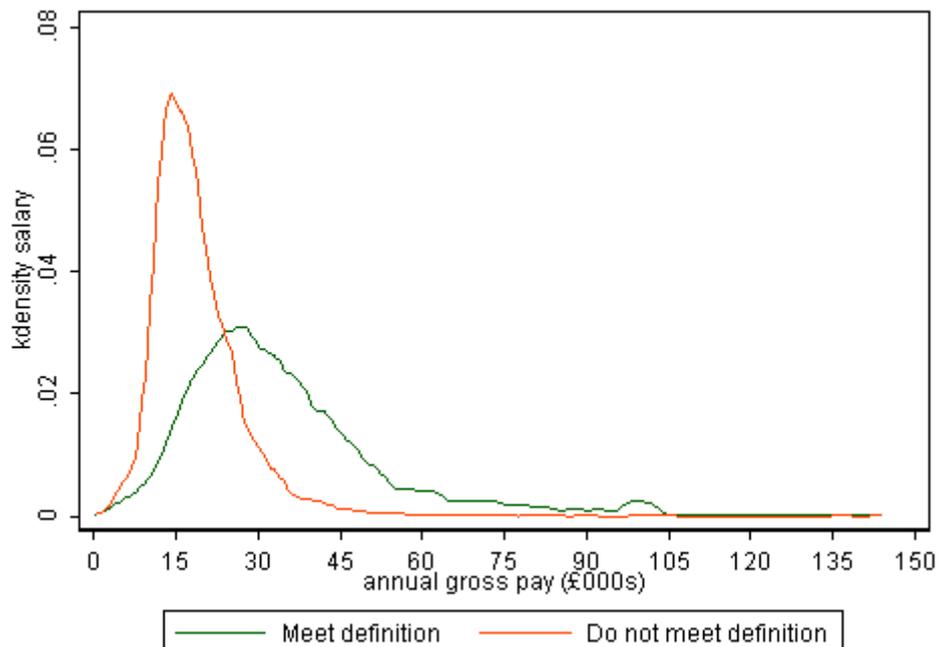
Annex C: Salary distributions of senior managers and specialists

Figure C.4: Identifying senior managers and specialists, option 4 (SOC skill level = 4)



Note: The vertical axis can be interpreted as the proportion of individuals earning up to £150,000 that are/are not defined as senior managers or specialists in option 4 at the given pay level.
Source: MAC analysis based on Labour Force Survey 2010 Q4 to 2011 Q3

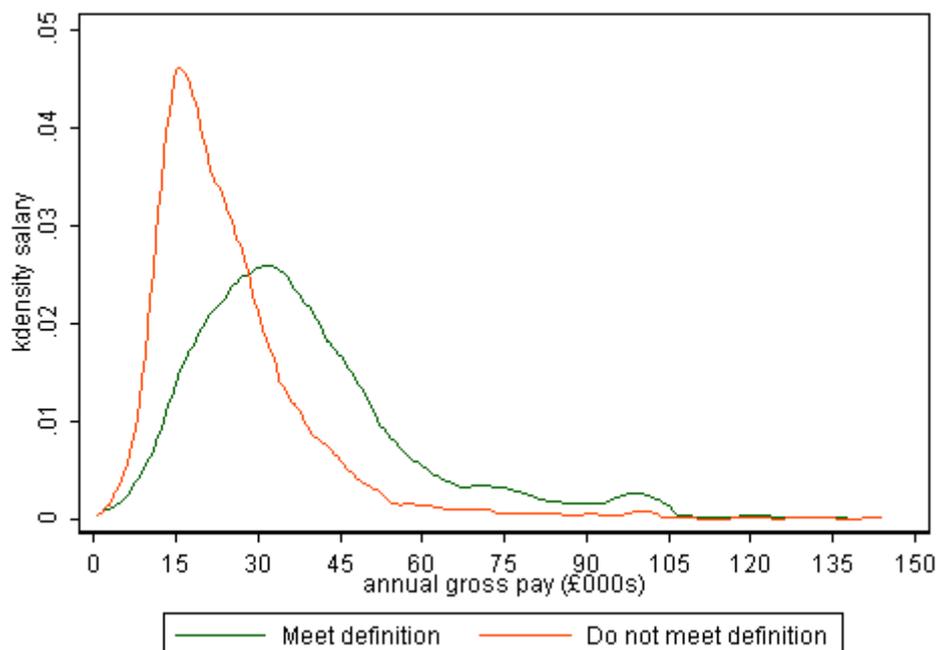
Figure C.5: Identifying senior managers and specialists, option 5 (SOC skill level = 3 and 4)



Note: The vertical axis can be interpreted as the proportion of individuals earning up to £150,000 that are/are not defined as senior managers or specialists in option 5 at the given pay level.
Source: MAC analysis based on Labour Force Survey 2010 Q4 to 2011 Q3

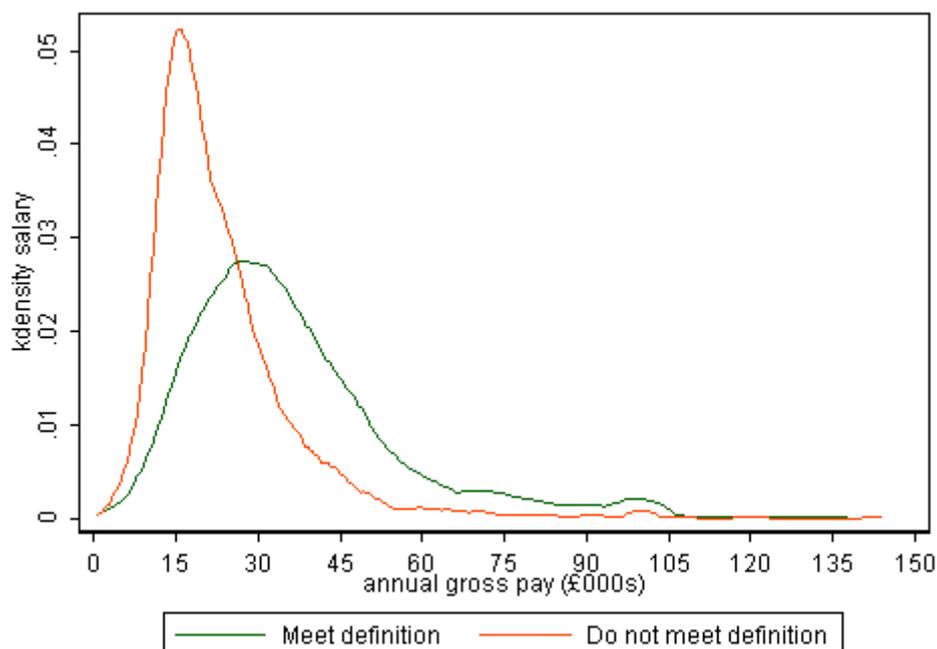
Limits on Migration

Figure C.6: Identifying senior managers and specialists, option 6 (Qualifications held > NQF6+)



Note: The vertical axis can be interpreted as the proportion of individuals earning up to £150,000 that are/are not defined as senior managers or specialists in option 6 at the given pay level.
Source: MAC analysis based on Labour Force Survey 2010 Q4 to 2011 Q3

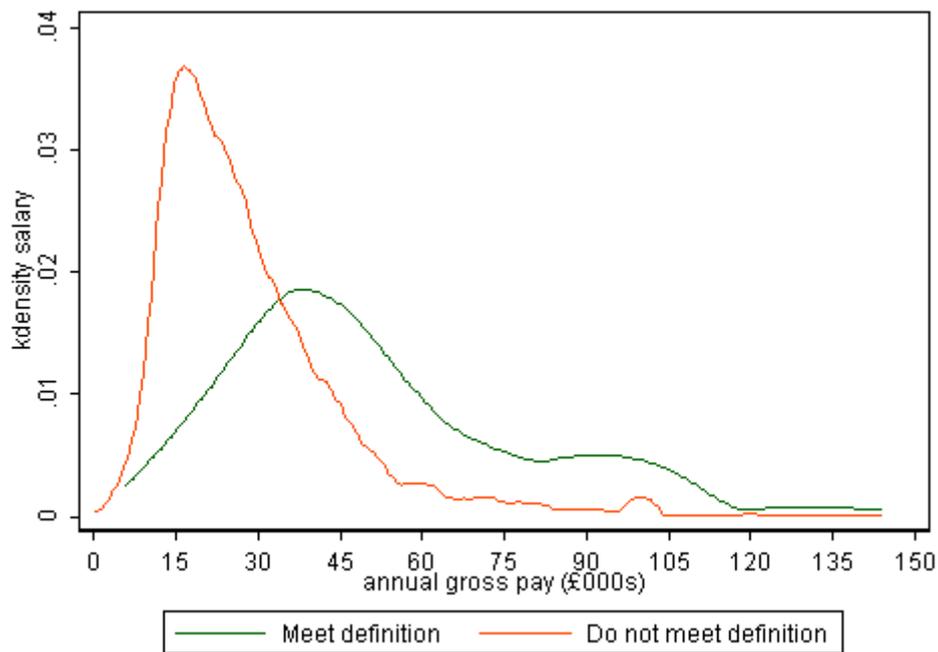
Figure C.7: Identifying senior managers and specialists, option 7 (Qualifications held > NQF4+)



Note: The vertical axis can be interpreted as the proportion of individuals earning up to £150,000 that are/are not defined as senior managers or specialists in option 7 at the given pay level.
Source: MAC analysis based on Labour Force Survey 2010 Q4 to 2011 Q3

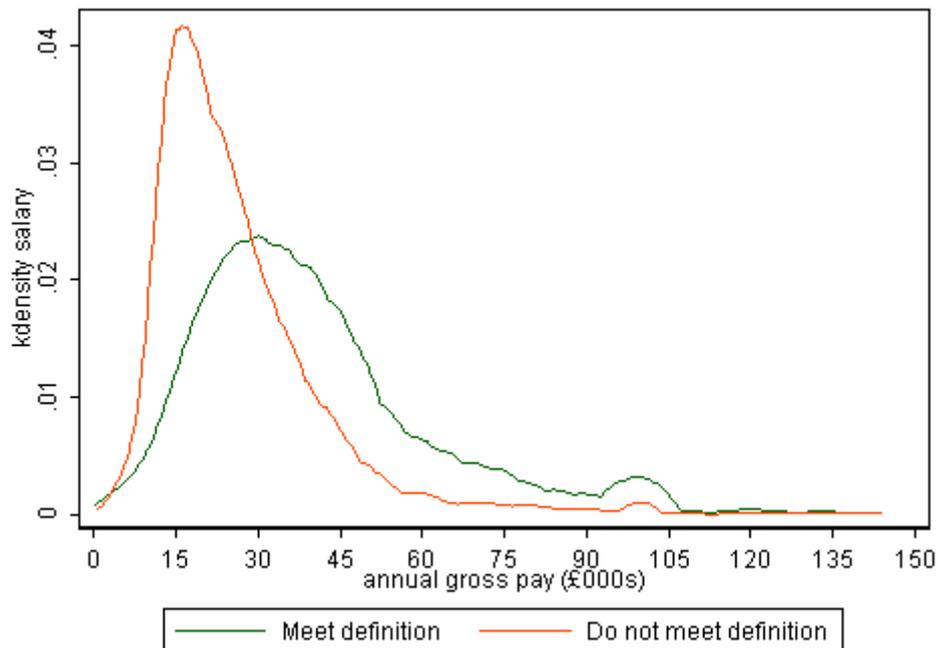
Annex C: Salary distributions of senior managers and specialists

Figure C.8: Identifying senior managers and specialists, option 8 (4-digit SOC occupation name contains the word 'senior' or 'director')



Note: The vertical axis can be interpreted as the proportion of individuals earning up to £150,000 that are/are not defined as senior managers or specialists in option 8 at the given pay level.
Source: MAC analysis based on Labour Force Survey 2010 Q4 to 2011 Q3

Figure C.9: Identifying senior managers and specialists, option 9 (4-digit SOC occupation name contains the word 'manager')



Note: The vertical axis can be interpreted as the proportion of individuals earning up to £150,000 that are/are not defined as senior managers or specialists in option 9 at the given pay level.
Source: MAC analysis based on Labour Force Survey 2010 Q4 to 2011 Q3

Abbreviations

| | |
|---------|--|
| ANZSCO | Australian and New Zealand Standard Classification for Occupations |
| ASHE | Annual Survey of Hours and Earnings |
| BIS | Department for Business, Innovation and Skills |
| BPOM | Business Process Outsourcing Model |
| CBI | Confederation of British Industry |
| CIPD | Chartered Institute for Personnel and Development |
| CoS | Certificates of Sponsorship |
| EEA | European Economic Area |
| EU | European Union |
| FCO | Foreign and Commonwealth Office |
| FTA | Free Trade Agreement |
| GATS | General Agreement on Trade in Services |
| GDP | Gross Domestic Product |
| HMRC | HM Revenue & Customs |
| IPS | International Passenger Survey |
| ICT | Intra-company transfer |
| ILO | International Labour Organisation |
| ILPA | Immigration Law Practitioner's Association |
| LFS | Labour Force Survey |
| LTIM | Long Term International Migration |
| MAC | Migration Advisory Committee |
| MIF | Migration Impacts Forum |
| NASSCOM | National Association of Software and Services Companies |
| NIESR | National Institute of Economic and Social Research |
| NQF | National Qualifications Framework |
| NQF4+ | National Qualifications Framework level 4 and above |
| NQF6+ | National Qualifications Framework level 6 and above |
| OBR | Office for Budget Responsibility |
| ONS | Office for National Statistics |
| PBS | Points Based System |
| PSW | Post-Study Work |
| PSWR | Post-Study Work Route |
| PwC | PricewaterhouseCoopers |
| QCF | Qualifications and Credit Framework |
| RLMT | Resident Labour Market Test |

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| | |
|-------|--|
| SOC | Standard Occupational Classification |
| SSW | Smith Stone Walters |
| TMA | Theatrical Management Association |
| TSMIT | Temporary Skilled Migration Income Threshold |
| TUC | Trades Union Congress |
| UK | United Kingdom |
| UKBA | UK Border Agency |
| VFX | Visual Effects |
| WTO | World Trade Organisation |

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