

Title: Migration Permanent Limit (Points Based System Tier 1 and Tier 2) Lead department or agency: Home Office Other departments or agencies: HM Treasury; Department for Business, Innovation and Skills; Department for Work and Pensions; Better Regulation Executive; Department for Health; Department for Education; Department for Communities and Local Government; Cabinet Office; Foreign and Commonwealth Office; Department for International Development; and the devolved administrations.	Impact Assessment (IA)
	IA No: HO0020
	Date: 16/03/2011
	Stage: Final
	Source intervention: Domestic
	Type of measure: Secondary legislation
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Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?

Uncontrolled migration is detrimental to the UK as it does not deliver the best outcome for the economy or for society. Unlimited migration places pressure on public services, school places, and the provision of housing, all of which causes problems for certain local communities.

The Government believes that Britain can benefit from attracting 'the brightest and the best' migrants who contribute the most to the economy. Introducing a limit to non-EU migration will seek to prevent entry to the UK to those who have the lowest skills, who are not in skilled employment, and who are not proficient enough in English language. It will support the Government's objective to reduce net migration.

What are the policy objectives and the intended effects?

The policy objectives and intended effects are to reduce net migration and any adverse social impacts of migration; to augment the selectivity of the system so that the operation of the limit does not exclude the brightest and the best; to achieve the right balance in terms of those with the greatest potential benefit to the UK and the immediate need of employers to fill specific vacancies; to ensure that the limit operates in a way that is fair and, so far as possible, offers certainty to businesses and other users of the system; and to incentivise the skills system and encourage employers to give priority to the training and recruitment of resident workers to meet skill needs.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)

Option 1 – Do nothing

Option 2 – Apply a limit to Tier 1 and Tier 2 categories; amend qualification criteria; and some preliminary tightening of the settlement criteria for in country migrants.

Option 3 – Non-regulatory options

Option 2 is the preferred option, as it would contribute to meeting the policy objectives and intended effects set out above.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?	It will be reviewed 04/2012
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	Yes

Ministerial Sign-off For final proposal stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:..... Date:.....

Summary: Analysis and Evidence

Policy Option 1

Description:

Option 1 – Do Nothing

Price Base Year 2010	PV Base Year 2010	Time Period Years 4	Net Benefit (Present Value (PV)) (£m)		
			(Best Estimate) Low scenario: 0	High: 0	Central: 0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
(Best Estimate) Low	0	0	0
High	0	0	0
Central Estimate	0	0	0

Description and scale of key monetised costs by 'main affected groups'

There are no additional monetised costs of Option 1.

Other key non-monetised costs by 'main affected groups'

There are no additional costs of the Do nothing option. The Do nothing option is characterised by a risk that Tier 1 and 2 migration and net migration will remain at high levels.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
(Best Estimate) Low	0	0	0
High	0	0	0
Central Estimate	0	0	0

Description and scale of key monetised benefits by 'main affected groups'

There are no additional monetised benefits of the Do nothing option.

Other key non-monetised benefits by 'main affected groups'

There are no additional non-monetised benefits of the Do nothing option.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

We assume that after 2010 Tier 1 and 2 visa and in country grants grow in line with GDP growth in the absence of a policy change.

The key risks include high and increasing net migration. In turn public opinion in the immigration system will remain low.

Impact on admin burden (AB) (£m): 0	Impact on policy cost savings (£m):	In scope
New AB: 0	Policy cost savings: 0	No
AB savings: 0	Net: 0	

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			United Kingdom		
From what date will the policy be implemented?			06/04/2011		
Which organisation(s) will enforce the policy?			UKBA		
What is the annual change in enforcement cost (£m)?			n/k		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			No		
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: n/a	Non-traded: n/a	
Does the proposal have an impact on competition?			Yes		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			Costs: n/a	Benefits: n/a	
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro n/k	< 20 n/k	Small n/k	Medium n/k	Large n/k
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties ¹ Statutory Equality Duties Impact Test guidance	No	-
Economic impacts		
Competition Competition Assessment Impact Test guidance	No	-
Small firms Small Firms Impact Test guidance	No	-
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	-
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	-
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	-
Human rights Human Rights Impact Test guidance	No	-
Justice Justice Impact Test guidance	No	-
Rural proofing Rural Proofing Impact Test guidance	No	-
Sustainability Sustainable Development Impact Test guidance	No	-

¹ Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Summary: Analysis and Evidence

Policy Option 2

Description: *Apply a permanent limit to Tier and Tier 2 categories, amend criteria for entry, and make some preliminary tightening of the settlement criteria.*

Price Base Year 2010	PV Base Year 2010	Time Period Years 4	Net Benefit (Present Value (PV)) (£m)		
			(Best Estimate) Low scenario: - 88.2	High: - 102.5	Central: - 96.2

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
(Best Estimate) Low	2.5	41.5	159.7
High	2.5	48.0	184.3
Central Estimate	2.5	44.8	172.1

Description and scale of key monetised costs by 'main affected groups'

Reduction in UKBA fee income; Additional sponsor registration costs for private and third sector employers; Additional sponsor obligation costs for private and third sector employers; Increase in UKBA case work costs for Tier 2 ICT less than 12 month applications; UKBA IT set up costs; Increased settlement appeal costs.

Other key non-monetised costs by 'main affected groups'

Lower trend and fiscal contribution from Tier 1 and 2 migrants compared to counterfactual; Reduced migrant workforce could cause some short-term recruitment difficulties in some sectors; Additional training costs for business.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
(Best Estimate) Low	0	18.9	71.5
High	0	21.6	81.8
Central Estimate	0	20.0	75.8

Description and scale of key monetised benefits by 'main affected groups'

Reduction in UKBA case working costs; Reduction in sponsor registration costs for private and third sector employers where migrants no longer qualify; Increase in UKBA fee income for Tier 2 ICT less than 12 month applications; Reduction in sponsor obligation costs for private and third sector employers where migrants no longer qualify; Reduction in staff familiarisation time costs for private and third sector employers, lawyers and legal advisers due to reduced guidance associated with Tier 1 General.

Other key non-monetised benefits by 'main affected groups'

Reduced public services and benefit demand compared to counterfactual; Increased incentive for employers to "up-skill" resident workers; Reduced dependency of specific sectors on migrant labour; Increased selectivity of Tiers 1 and 2 to ensure that those with most to offer are selected and welcomed to the UK; Greater social cohesion; Lower levels of public concern about migration.

Key assumptions/sensitivities/risks

Discount rate (%) 3.5

For the low scenario: after 2010 Tier 1 and 2 visa and in country grants grow in line with GDP growth in the absence of limits; that there is no displacement or behavioural change by migrants other than that discussed; that application rates remain constant in line with the change in grants; that UKBA unit fees and unit case working costs remain constant; that additional sponsors will register due to the closure of Tier 1 General; and that no other policy changes operate at the same time. Central and High scenario assumptions are discussed in the annex. Key risks for the low scenario are that: Tier 1 general and Tier 2 general migrants may displace into other PBS routes leading to a lower reduction in net migration; and that application volumes fall further than expected leading to a further reduction in UKBA fee income.

Impact on admin burden (AB) (£m): £3.1m			Impact on policy cost savings (£m):	In scope
New AB: £4.3m	AB savings: £1.1m	Net: £3.2m	Policy cost savings: 0	No

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	United Kingdom				
From what date will the policy be implemented?	06/04/2011				
Which organisation(s) will enforce the policy?	UKBA				
What is the annual change in enforcement cost (£m)?	n/k				
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	No				
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)	Traded: n/a		Non-traded: n/a		
Does the proposal have an impact on competition?	Yes				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	Costs: n/a		Benefits: n/a		
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro n/k	< 20 n/k	Small n/k	Medium n/k	Large n/k
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties² <u>Statutory Equality Duties Impact Test guidance</u>	Yes	31
Economic impacts		
Competition <u>Competition Assessment Impact Test guidance</u>	Yes	38
Small firms <u>Small Firms Impact Test guidance</u>	Yes	39
Environmental impacts		
Greenhouse gas assessment <u>Greenhouse Gas Assessment Impact Test guidance</u>	No	n/a
Wider environmental issues <u>Wider Environmental Issues Impact Test guidance</u>	No	n/a
Social impacts		
Health and well-being <u>Health and Well-being Impact Test guidance</u>	No	39
Human rights <u>Human Rights Impact Test guidance</u>	No	40
Justice <u>Justice Impact Test guidance</u>	Yes	40
Rural proofing <u>Rural Proofing Impact Test guidance</u>	No	41
Sustainability <u>Sustainable Development Impact Test guidance</u>	No	n/a

² Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded in 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill applies to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

References

No.	Legislation or publication
1	HM GOVERNMENT (2010) <i>The Coalition: our programme for government</i> , Cabinet Office, May, London, p21.
2	HM GOVERNMENT (2010) <i>The Queens Speech</i> , www.number10.gov.uk, 25 th May, London.
3	Limits on Non-EU economic migration (June to September 2010): http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/consultations/limits-on-non-eu-migration/
4	Consultation by the Migration Advisory Committee on the level of an annual limit on economic migration to the UK: http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/mac-consultation-annual-limit/
5	The Home Office (2010) <i>The Migrant Journey Analysis</i> , Research Report 43, London.
6	The Home Office (2010), <i>Control of Immigration statistics: Quarterly statistical summary, United Kingdom- Fourth Quarter 2010</i> , http://rds.homeoffice.gov.uk/rds/immigration-asylum-stats.html
7	The Office for National Statistics, <i>Long-term International Migration (MN series)</i> , http://www.statistics.gov.uk/statbase/Product.asp?vlnk=507

Evidence Base

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y ₁	Y ₂	Y ₃	Y ₄	4 year total	4 year NPV
Transition costs	1.5	1.0	0.0	0.0	2.5	0.0
Annual recurring cost	31.6	43.4	44.8	46.4	166.1	0.0
Total annual costs	33.1	44.4	44.8	46.4	168.7	159.7
Transition benefits	0.0	0.0	0.0	0.0	0.0	0.0
Annual recurring benefits	14.8	19.6	20.2	21.0	75.6	71.5
Total annual benefits	14.8	19.6	20.2	21.0	75.6	71.5

For non-monetised costs and benefits please see summary pages and main evidence base section.

One- in-one- out costs (£m)

	Y ₁	Y ₂	Y ₃	Y ₄	4 year total	4 year NPV
Additional Costs	5.4	7.4	7.6	7.8	28.3	26.7
Additional Benefits	2.1	2.8	2.9	2.9	10.8	10.1
Net Costs	3.3	4.6	4.7	4.9	17.5	16.6

Note – additional costs include sponsor registration and obligation costs, and familiarisation time for sponsors and employers to understand the new regulations. Additional benefits include reduction in sponsor obligation and registration costs for those no longer sponsoring migrants and a reduction in familiarisation time for employers and private and third sector immigration advisers in understanding Tier 1 General guidance.

Evidence Base

A. Strategic Overview

A.1 Background

The Points Based System (PBS) was introduced between February 2008 and March 2009 in phases and replaced over 80 predecessor routes, wrapping them up into five tiers. Economic migration is catered for through Tiers 1, 2, and 5 of the PBS.

Summary of the Points Based System:

Tier 1:	Highly Skilled migrants
Tier 2:	Skilled workers with a job offer
Tier 3:	Low skilled workers (currently suspended)
Tier 4:	Students
Tier 5:	Temporary Workers and Youth Mobility - primarily for non-economic reasons.

The Government's policy is to reduce net migration to "tens of thousands" by the end of the Parliament. As a contribution to this, it is committed to placing limits on the number of economic migrants admitted to live and work in the UK.

This Impact Assessment assesses the Government's proposals for applying limits on Tiers 1 and 2 of the PBS, and amendments to the settlement criteria for these routes.

For detail regarding the scale of the challenge see Annex 3.1.

On 28 June, the Home Secretary launched a consultation exercise in respect of the implementation of limits on Tiers 1 and 2. There were two elements to this consultation:

- (i) the Migration Advisory Committee were asked to provide advice, to the Government, on the levels at which limits should be set for the first full year of their operation (from April 2011); and
- (ii) the UK Border Agency (UKBA) undertook a consultation aimed at eliciting the views of business and other interested sectors on the practical means of implementing those limits.

UKBA's consultation focused on the following key themes:

- Whether the limits applied to Tier 1 should operate on the basis of a "pool" system;
- Whether the limits applied to Tier 2 should be applied on a first come, first served basis;
- Whether the limits on Tier 1 should be accompanied by additional criteria for qualification to increase the selectivity of the Tier;
- Whether the Shortage Occupation and Resident Labour Market Test (RLMT) routes for Tier 2 should be merged;
- Whether investors and entrepreneurs should be included in the Tier 1 limits and intra-company transfers should be included in the Tier 2 limits;
- Whether dependants should be included in the limits; and
- Whether sponsors of PBS migrants should be subject to additional responsibilities in recognition of the wider impacts of migration.

The consultation paper specified that objectives in designing a framework for the implementation of limits would be:

- Fairness to users of the system;
- Practicality, both for users and those administering the system; and
- Increased selectivity to ensure that those with most to offer are selected and welcomed to the UK.

An analysis of responses to the consultation can be seen in Annex 3.2.

A.2 Groups Affected

Those affected by the policy are:

- Government departments, including the UK Border Agency (UKBA) which is responsible for administering the PBS, and other Government departments which have an interest in its deliverables;
- UK-based employers (including the UK branches of multinational companies); and
- Potential PBS migrants in Tiers 1 and 2.

A.3 Consultation

Within Government

The Government departments consulted or involved in the formulation of the permanent limit include: HM Treasury; Department for Business, Innovation and Skills; Department for Work and Pensions; Better Regulation Executive; Department for Health; Department for Education; Department for Communities and Local Government; Cabinet Office; Foreign and Commonwealth Office; Department for International Development; and the devolved administrations.

Public Consultation

Public consultations to consider proposals for a permanent limit to migration were conducted by the UK Border Agency (UKBA) and the independent Migration Advisory Committee (MAC).

B. Rationale

The rationale for the introduction of annual limits on the number of Tier 1 and Tier 2 migrants, and preliminary tightening of the settlement criteria, is to contribute to a reduction in net migration. The Government is committed to this policy on the basis that greater selectivity of migrants could reduce the pressure on public services, incentivise the up-skilling of native workers, and increase public confidence in the immigration system. Given the proportion of total inward migration accounted for by the work routes, measures to limit Tiers 1 and 2 are a necessary part of any package to reduce net migration overall.

C. Objectives

Policy objectives in designing and implementing measures to apply limits on the number of economic migrants and tightening settlement criteria are to:

- Contribute to the Government's target of lowering net migration to the tens of thousands;
- Reduce any adverse social impacts of immigration;
- Augment the selectivity of the system so that the operation of the limit does not exclude the brightest and the best;
- Achieve the right balance between admitting those with the greatest potential benefit to the UK and the immediate need of employers to fill specific vacancies;
- Ensure that the limit operates in a way that is fair and, so far as possible, offers certainty to businesses and other users of the system; and
- Incentivise the skills system and encourage employers to give priority to the training and recruitment of resident workers to meet skill needs.

D. Options

Option 1 – Do nothing

This option does not meet the key objective of reducing net migration.

Option 2 – Apply a limit to Tier 1 and Tier 2 categories, amend criteria for entry, and apply some preliminary tightening of the settlement criteria for in country migrants.

The policy proposals underpinning Option 2 are set out in detail in Annex 4.

Option 3 – Non-regulatory options

We believe that non-regulatory options would prove insufficient to meet the Government's objectives because they would be unlikely to deliver the required reduction in net migration in the time available. The reduction in net migration sought by the Government must be achieved by the end of the current Parliament, which implies that self-regulation must have almost immediate effect. Yet not only has the current system of accreditation and licensing proved insufficiently robust, and to have not prevented all abuse, but it is clear that even an enhanced system involving rigorous monitoring and investigation could not have immediate impacts on the measured level of net migration.

Our judgement is that self-regulation and doing nothing will be insufficient to meet government objectives; this assessment examines the impact of Option 2, the proposed policy of the Home Office.

E. Modelling strategy

We have modelled the reductions to Tiers 1 and 2 as a result of a range of policy changes, as set out in Annex 4. Our modelling strategy is to examine the likely path of work-related visas until 2015; to estimate the reductions in visas that result from the interaction of the policy package and a numerical limit; and then to convert these changes to reductions in the net migration figure as measured by the International Passenger survey (IPS) at the

ports. We only model four year effects as the policy aim is to reduce net migration over the course of the parliament.

E.1 Volume Impact

Option 1: Do nothing

The counterfactual case below sets out the Do nothing option. Under the Do nothing option we expect net migration to rise to 205,000 by 2015. The Do nothing option represents the baseline against which we analyse Option 2.

Visa volumes

In assessing the impact of the policy change, we need to compare projected visa volumes in 2011 and beyond with what we estimate they would otherwise have been, in the absence of policy change. Because the imposition of the interim limit was contingent on the anticipated policy of limiting migration for 2011 and beyond, the “policy-off” baseline must also be estimated as if the interim limit had not applied.

The number of Tier 1 and Tier 2 out of country visas granted declined between 2007 and 2009, from 78,000 to 55,000. This undoubtedly reflects the impact of the recession. It may also reflect the increasing availability of EU labour from Accession countries, although this is much less certain.

In 2010, Tier 1 and 2 visa grants grew marginally to 56,000. However, in determining our baseline estimate for 2010, we also need to take into account the impact of interim limits (including a surge in demand caused by the announcement) on Tier 1 General and Tier 2 General visa grants which came into force on 19 July 2010. Our estimate for 2010 as a whole therefore reflects an up-rating of the 2010 quarterly visa data from before the introduction of the interim limits. Overall, we estimate that the number of out of country Tier 1 and Tier 2 visas granted would have remained broadly constant in 2010 in the absence of *any* limits on migration, at around 55,000.

The Home Office makes no official forecast of future migration but for the purpose of this IA we have assumed that Tier 1 and 2 visas issued in the years following 2010 would have risen in line with the path for Gross Domestic Product (as forecast by the Office for Budgetary Responsibility in November 2010) as a proxy for the growth in demand for workers. On this basis total Tier 1 and 2 out of country visas issued to main applicants are estimated to rise from 55,000 in 2010 to 62,000 in 2015. It is from this baseline that the costs and benefits of the policy to limit Tier 1 and 2 migration are calculated.

The table below sets out the counterfactual assumption for Tiers 1 and 2 main applicants, broken down by in-country (IC) and out of country (OOC) visas granted.

Table 1, Non-EU Nationals, Main Applicants Grants, Baseline, Thousands

	2009	2010	2011	2012	2013	2014	2015
T1 OOC	19	14	15	15	15	16	16
T1 IC	66	62	63	65	67	69	71
T2 OOC	36	41	41	42	44	45	46
T2 IC	27	22	23	23	24	25	25
Total OOC	55	55	56	57	59	61	62
Total IC	93	85	86	89	91	94	96
Total	149	140	142	146	150	154	159

Note – Tier 1 includes Post Study Work Route. Numbers may not add due to rounding.

In 2009, approximately 42,000 dependants of Tier 1 and 2 accompanied out of country main applicants coming to the UK. This grew slightly to 45,000 in 2010. In 2009, the volume of in-country dependants of Tier 1 and 2 migrants was 86,000. This fell to 76,000 in 2010. In the counterfactual, we assume that the volume of dependants will grow in line with main applicant growth, as set out above.

International Passenger Survey (IPS) data

In the absence of any policy change, we estimate that non-EU migration (including Tier 4, Tier 5, and dependants) as measured by the IPS would have had the following profile.

Table 2, Non-EU Nationals, Baseline, Thousands

YEAR	2009	2010	2011	2012	2013	2014	2015
Baseline Inflow	292	289	289	293	298	302	306
Baseline Outflow	109	111	113	113	113	114	115
BASELINE NET	184	178	176	180	185	188	191

The forecast profile for the gross inflow of non-EU migrants reflects the visa issuance baseline discussed above, combined with an assumption that student inflows will grow at one percent per annum, and Tier 5 inflows will grow in line with forecast GDP.

To generate a projection of overall long-term international migration for the purpose of this IA we need to account for British and EU migration. We assume, given recent trends and the uncertainty associated with any forecasting for these routes, that British and EU net migration will broadly cancel out each year. After adjusting the figures above to a Long Term International Migration (LTIM) measure – to account for average visitor switcher, migrant switcher, and asylum seeker flows – we estimate that net migration would have the profile below for all nationalities.

Table 3, All Nationalities, Baseline, Thousands

YEAR	2009	2010	2011	2012	2013	2014	2015
Brits, EU (including A8) and LTIM adjustment	14	14	14	14	14	14	14
BASELINE NET LTIM	198	192	190	194	199	202	205

This is not an official forecast of net migration in the absence of a policy change; rather it is a construct to allow an estimate of the broad impact of the policy on net migration, and on associated costs and benefits. The forecast averages 198,000 over the period 2011-2015, higher than the average official Office for National Statistics (ONS) central estimate of 186,000 for the period 2011-12 to 2015-16.³ In addition, in setting their own projection for trend growth, the Office for Budget Responsibility have adopted an average of 140,000 per annum, in line with the average assumption underpinning the ONS 2008-based low migration population variant for the period 2008-9 to 2013-14.

³ The latest available national population projections from the ONS are based on the estimated population at the middle of 2008 and a set of demographic trend-based assumptions about future fertility, mortality and migration. The projections are not forecasts and do not attempt to predict the impact that future government policies, changing economic circumstances or other factors might have on demographic behaviour. They provide the population levels and age structure that would result if the assumptions made were to be realised. ONS also produce variant projections which are based on alternative demographic assumptions. Further information on ONS national projections can be found at: www.statistics.gov.uk/StatBase/Product.asp?vlnk=8519

Option 2: Apply a limit to Tier 1 and Tier 2 categories, amend criteria for entry, and some preliminary tightening of the settlement criteria for in country migrants.

We estimate the volume impacts of option 2 by analysing the specific policy proposals set out in annex 4 to determine what impact they will have on the baseline volume of Tier 1 and 2 main applicant grants.

The limit on Tier 1 and 2 (General) out of country visas for main applicants will be set at 21,700 visas for 2011/12, a reduction of 6,300 visas compared to 2009 levels. The limit excludes dependants, in country switchers and extensions, the post study route, and Inter-company Transfers (ICTs). It includes 1,000 visas reserved for migrants with exceptional talent.

The limit has been arrived at by excluding from the limit recommended by the MAC (43,700) the number of ICT visas issued in 2009 (22,000).

The limit will operate on a monthly cycle. At the end of each cycle applications will, if the limit is oversubscribed, be sifted using a points formula set out in Immigration Rules, and Certificates of Sponsorship (CoS) awarded. If successful, the employer will have three months for the migrant to use the CoS to get a visa. Employers will be charged for each application. Any unused CoS from the monthly allocation will be rolled over to the next month.

If in a given month the number of applications is less than the monthly limit, all eligible jobs will be awarded a CoS. If the monthly allocation is over-subscribed, applications will be prioritised firstly by scarcity of skills (using the shortage occupation list) and secondly by qualifications and salary. A points table will give effect to this prioritisation.

Will the limit bite?

We have modelled three variants of the impact we expect our policy framework to have – the central, low and high impact scenarios. The low impact scenario, in which visas awarded are at or close to the limit over the four year period, is, we believe, the most likely of the three and accordingly it is described most fully in this Impact Assessment.

The behavioural change assumptions modelled in reaching this conclusion are uncertain, but given current trends in migrant inflows and previous UKBA operational experience we believe that employers and individuals will adapt their behaviour to such an extent that the limit will be reached.

The table below shows our estimated impact of the policy changes on main applicant grants in the low variant compared to the counterfactual position in the first twelve months of the policy.

Table 4, Estimated impact of Option 2 on main applicant grants

Policy strand	Reduction in out of country main applicant grants in first full year of limits (plus = additional grants)	Reduction in in-country main applicant grants in first full year of limits (plus = additional grants)
Tier 1: suspend Tier 1 General	- 9,000	-17,000
Tier 1: those above £150k qualify	-100	- 200
Tier 1: Investor/Entrepreneur – increased attractiveness	200	200

Tier 1: attract exceptional talent	1,000	0
Tier 2: Tier 2 RLMT increase as T1 General transfer	6,000	13,000
Tier 2: those above £150k qualify	100	100
Tier 2: increase occupational skill requirements to NQF Level 4 (graduate level)	- 3,000	- 2,000
Tier 2: increase ICT salary to £40k	- 10,000	0
Tier 2: Tier 2 RLMT increase due to ICT switch	5,000	0
Tier 2 ICT: ICTs switching to less than 12 month visas	5,000	0
Tier 2: raise English language requirements for Tier 2 General	0	0
Settlement: changes to settlement criteria	0	- 600
Total	- 4,000	- 7,000

Note – numbers may not add due to rounding; Key assumptions are outlined in annex 6.2.1.

The estimated reduction in out of country grants is around 4,000. In addition, the policy framework also leads to a reduction of around 7,000 in-country grants compared to the counterfactual.

These estimates are based on a number of assumptions about how behaviours of migrants and employers adapt to the new framework.

First, research suggests that some 30 percent of Tier 1 out of country migrants are either not working in skilled jobs or are unemployed (based on a survey of Tier 1 applicants in 2009 and an operational assessment of Tier 1 in October 2010).⁴ Assuming that half of the unemployed are moving from one skilled post to another, we assume that some 25 percent of Tier 1 General migrants would not qualify for Tier 2 General or find a UKBA registered sponsor; and that the remaining 6,000 migrants will flow into Tier 2 General.

Second, based on Management Information of Tier 2 ICT salaries, the raising of the ICT minimum salary threshold to £40,000 is estimated to lead to 5,000 out of country migrants flowing into Tier 2 General (RLMT). We expect that those ICTs that do not switch into Tier 2 General will switch to a Tier 2 ICT visa of less than 12 month duration.

Third, the closure of Tier 1 General, except for extensions, is estimated to reduce in-country grants by around 4,000 (minus 17,000 plus 13,000), allowing for a proportion to flow into Tier 2 General. The ICT salary change has no impact on in-country grants as all in-country ICT applications are extensions, and hence exempt from the limit.

Fourth, based on the Migration Advisory Committee report *List of occupations skilled to NQF level 4 and above for Tier 2*,⁵ raising the Tier 2 minimum skill level of occupations to NQF level 4 is estimated to reduce Tier 2 General out of country grants by around 3,000 and in-country grants by around 2,000.

Note that the impact of the policy on Tier 2 General reflects opposing forces. There is a decrease of 5,000 because of the raising of the criteria relating to the skill level of occupations, but a net increase as some Tier 1 and Tier 2 ICT applicants switch into Tier 2 General. We estimate around 19,000 of the affected Tier 1 migrants, and around 5,000 ICT migrants may qualify for Tier 2 General in total based on their earnings and

⁴ Points Based System Tier 1: An Operational Assessment, October 2010: <http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/statistics/pbs-tier-1/pbs-tier-1.pdf?view=Binary>
Points-Based System Pilot Process Evaluation – Tier 1 Highly Skilled Applicant Survey, December 2009: <http://rds.homeoffice.gov.uk/rds/pdfs/09/horr22b.pdf>

⁵ Migration Advisory Committee, 2011: <http://www.ukba.homeoffice.gov.uk/aboutus/workingwithus/indbodies/mac/>

occupations. In the low scenario we expect the effects of raising English language levels to be zero as employers and migrants will adjust their behaviour (but we assume higher impacts in the central and high scenario).

The tightening of settlement criteria is estimated to lead to an additional reduction of around 600 settlement grants in the first year.

The actual calendar year 2011 impact is expected to be lower than the full year estimates as the policy begins in April 2011. Estimated reductions in Tier 1 and 2 main applicant grants for both in and out of country, on a calendar year basis, are set out in the table below.

Table 5, Estimated Reductions in Main Applicant Grants, 000s

	2009	2010	2011	2012	2013	2014	2015
Tier 1 Out of Country	0	0	6	8	8	8	9
Tier 1 In Country	0	0	13	18	18	19	19
Tier 2 Out of Country	0	0	-3	-4	-4	-3	-3
Tier 2 In Country	0	0	-8	-11	-11	-11	-12
Total Out of Country	0	0	3	4	4	5	6
Total In Country	0	0	5	7	7	7	7
Total Tier 1 and 2	0	0	8	11	11	12	13

Note: (-) means a negative reduction, or an increase, and is caused by individuals moving from Tier 1 General and Tier 2 ICT into Tier 2 General

The impact of the limit on measured net migration in the port survey

The IPS is a survey of 1 percent of all passengers to the UK. A passenger will be counted as a long-term migrant if he or she reports a change to his or her country of residence to the UK for more than one year. The UKBA data, by contrast, cover all visa lengths, and in the case of visa grants, may include some people who do not arrive in the UK. For these reasons, the visa data always capture a higher number of immigrants to the UK than the IPS.

The relative consistency of the visa and IPS relationship over time allows us to estimate, albeit with a degree of uncertainty, the extent to which reductions in PBS visas issued will reduce the level of immigration as measured by the IPS. In moving from PBS visa grants to the IPS category of work migration we take the following steps. Firstly, given the aim of the policy is to more clearly demarcate over and under 12 months visas, we remove around 20 percent of visas from the visas total; this is the estimated historical proportion of work visas that have been issued for less than a year. We then assume that a reduction of visas granted would convert into a reduction in measured gross immigration in the ratio 1:0.69, the ratio for the last six quarters of published data. Using the most recent six quarters of data as an average for the scaling factors between visas and IPS categories may increase the accuracy of a forward look (note the MAC modelling in the MAC Tier 1 and 2 Limits report is based upon longer-run historical averages).⁶

In modelling the impact of the limits package we have assumed that a reduction in Tier 1 and 2 migrants leads to a proportionate fall in the number of dependants arriving alongside main applicants.

On the basis of the assumptions given above, we estimate that under the most likely (low) scenario, the implementation of the limits policy (option 2) will reduce LTIM net migration to 179,000 in 2011, and that it will have recovered slightly to 194,000 in 2015. The recovery

⁶ See: <http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/mac-limits-t1-t2/>

reflects the general upwards trend in the counterfactual position against which the policy impact is measured. Net flows for routes other than Tiers 1 and 2 are assumed to be unaffected in this analysis.

Table 6, Estimated net migration, 000s

YEAR	2009	2010	2011	2012	2013	2014	2015
NON-EU IPS – Option 2							
Policy Inflow	292	289	281	286	290	294	297
Policy Outflow	109	111	116	115	115	116	117
POLICY NET	184	178	165	171	175	178	180
ALL NATIONALITIES LTIM – Option 2							
Brits, EU and LTIM adjustment	14	14	14	14	14	14	14
POLICY NET LTIM	198	192	179	185	189	192	194

Note: Totals may not sum due to rounding

The amendments to the Tier 1 and 2 route and settlement criteria are just part of the package to reduce net migration; the Government has already stated that amendments to other routes will necessary.

Impact of behavioural change assumption

There are uncertainties surrounding the assumptions and impact estimates, particularly around behavioural change. We have modelled a central and high variant with differing behavioural assumptions – these assume that the limit is not reached and are described in Annex 5.4. Both the central and high variants lead to a larger reduction in net migration, and have a higher direct cost.

F. Appraisal (Costs and Benefits)

F1: Direct costs

The direct costs of the policy implementation fall into two broad categories – the initial or “set-up” costs, which are incurred only once, and the on-going costs which are annual (although not necessarily constant over time), as employers or Government may react to the changes in ways which alter costs in different time periods.

Set Up costs

The set-up costs relate to the time UKBA staff spend developing and implementing the changes required to the current IT system so that it will also run the limits policy; and the assimilation costs incurred by employers and their advisers, including legal advisers and immigration lawyers. The table overleaf shows the estimated total set-up costs of the new policy under the low scenario. The underpinning assumptions, such as the volume of sponsors and immigration advisers affected and the amount of time taken to familiarise one-self with the new rules, and the source of those assumptions, are set out in Annex 5.

Set Up Costs	Estimated Set Up Cost (m)
UKBA IT set up costs	£2.0
Sponsor Familiarisation	£0.3
Immigration Adviser Familiarisation - Third sector	£0.1
Immigration Adviser Familiarisation - Private Sector	£0.1
Total Set Up Costs	£2.5

Note - there will also be some costs to UKBA staff that will need training and familiarisation in the new rules and guidance. These impacts will become clearer once the full package of limits policies is known, and hence no estimates are provided here. Some preliminary estimates of training and familiarisation costs associated with the whole package will be included in the forthcoming Tier 5, Other Work Routes and Settlement Consultation Stage Impact Assessment.

Ongoing Costs

The on-going direct costs essentially relate to the reduced volumes of visas and associated applications, year-by-year, and a rise in sponsor obligations, such as applying to be a registered sponsor and submitting information reporting migrant non-compliance.

The effects are as follows:

- a reduction in UKBA fee income due to reduced applications;
- an increase in case working costs for Tier 2 General, ICT applications for less than 12 months, Tier 2 sponsor registrations and Tier 2 Certificates of Sponsorship;
- additional private and third sector employer costs related to additional Tier 2 sponsor registration and the increase in their obligations to UKBA for each migrant recruited.

Additional burdens placed on non-UK citizens are not included in this Impact Assessment, which is concerned with the impact of the policy change on the UK.

UKBA Fee Income

The table below sets out the estimated annual loss in UKBA application fee income:

Main Route Affected	2011-2015 total estimated reduction in fee income (m)
Tier 1 Out of Country	£59.6
Tier 1 In Country	£70.8
Tier 2 Out of Country	-£6.9
Tier 2 In Country	-£26.7
Settlement	£3.1
Citizenship	£2.0
Total Out of Country	£19.6
Total In Country	£49.1
Total Dependants	£38.3
Total	£101.9

Note: Estimates assume applicants pay the standard postal application fee

UKBA Case work costs

The table below sets out the estimated increase in UKBA case working costs for less than 12 month ICT applications, Tier 2 Certificates of Sponsorship and Tier 2 Sponsor registration:

Main Route Affected	2011-2015 total estimated increase in
---------------------	---------------------------------------

	case work costs (m)
Tier 2 ICT (less than 12 months)	£3.6
Tier 2 ICT (less than 12 months) dependants	£2.5
Tier 2 COS	£1.4
Tier 2 Sponsorship	£24.6
Total	£32.1

Increased appeal costs

The table below estimates additional appeal costs as a result of the revised settlement criteria from 2011 to 2015:

	2011	2012	2013	2014	2015
Increased appeal costs (m)	£0.4	£0.6	£0.5	£0.5	£0.5

Private and Third Sector Costs

The modelling assumes a proportion of Tier 1 General migrants will flow into Tier 2 General when Tier 1 General is closed. This will lead to an increase in the volume of employers registering as a Tier 2 sponsor with UKBA and hence facing sponsor familiarisation, registration and obligation costs. The table below sets out the estimated increase in both private and third sector employer sponsor applications per annum, and the associated increase in sponsor costs:

Estimated average increase in Tier 2 sponsor applications per annum	9,000
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Additional Ongoing Private and Third Sector Costs	2011-15 total estimated costs (m)
Additional familiarisation time costs for Tier 2 sponsors	£1.3
Additional registration costs to Tier 2 sponsors	£22.7
Additional sponsor obligation costs to Tier 2 sponsors	£4.3
Total Costs	£28.3

The underpinning assumptions, such as the volume of sponsors and the sponsorship obligation unit costs, and the source of those assumptions, are set out in Annex 5.

F2: Direct benefits

The benefits of the policy change are as follows:

- a reduction in case-working costs for UKBA;
- an increase in UKBA fee income for Tier 2 General, Tier 2 ICT applications for less than 12 month, Tier 2 sponsor registration and Tier 2 Certificates of Sponsorship;
- a reduction in private and third sector employer fees and sponsor obligations (even though the obligations per migrant remain constant, there are savings if the total volume of migrants falls for some sponsors);

- a reduction in private and third sector employer familiarisation time to understand the Tier 1 General regulations where they employ Tier 1 General migrants;
- a reduction in familiarisation costs for private and third sector immigration advisers who will no longer have to familiarise themselves with Tier 1 guidance

UKBA case work costs

The table below sets out the estimated reduction in UKBA case work costs due to the reduction in Tier 1 and 2 applications:

Main Route Affected	2011-15 total estimated reduction in case work costs (m)
Tier 1 Out of Country	£11.8
Tier 1 In Country	£10.7
Tier 2 Out of Country	-£3.9
Tier 2 In Country	-£4.9
Settlement	£1.20
Citizenship	£0.60
Total Out of Country	£7.9
Total In Country	£10.2
Total Dependants	£16.5
Total	£30.2

UKBA fee income

The table below sets out the estimated increase in UKBA income due to the increase in Tier 2 ICT applications for less than 12 months:

Main Route Affected	2011-2015 estimated increase in fee income (m)
Tier 2 ICT (less than 12 months)	£3.6
Tier 2 ICT (less than 12 months) dependants	£2.6
Tier 2 COS	£9.5
Tier 2 Sponsorship	£17.0
Total	£32.7

Note: Estimates assume applicants pay the standard postal application fee

Private and Third Sector

The table below sets out the estimated benefits to private and third sector employers and immigration advisers due to the decrease in sponsor obligation and registration costs for those that see reduced Tier 2 migrants; and due to the reduced need to familiarise and understand the Tier 1 General rules and guidance.

Additional Private and Third Sector Benefits	2011-2015 estimated benefits (m)
Reduced sponsor obligation costs	£1.1
Reduced sponsor registration costs	£5.7
Reduced familiarisation for Tier 1 employers - private	£1.3

sector	
Reduced familiarisation for Legal advisors - private sector	£0.6
Reduced familiarisation for Tier 1 employers - third sector	£1.3
Reduced familiarisation for Legal advisors - third sector	£0.6
Total Benefits	£10.7

The detail of the calculations and assumptions are set out in Annex 5.

Summary Costs and Benefits

A summary table of the estimated direct costs and benefits is set out below. Please note that these figures are not discounted, and therefore higher than set out in the summary pages of this impact assessment:

Impacts	2011-2015 total (m)
Set up costs	£2.5
Ongoing Costs	£166.1
Total Costs	£168.7
Ongoing Benefits	£75.6
Total Benefits	£75.6
Net Impacts	£93.1
Net Present Value	£88.2

F3: Wider economic Impacts

The wider costs and benefits of a policy change are difficult to quantify, but an attempt has been made to do so, or examples given, where appropriate. Where this has not been possible the impact has been discussed in a qualitative form in this evidence base, and in annex 6.

F3(a): Trend growth

One way to consider the economic effect of the policy change is through its impact on trend growth.⁷ Trend growth can be decomposed into the changes of components in an identity made up of: output per person hour (productivity); hours worked per person; the employment rate; and population size.

Lower levels of net migration (an addition to the population) will, all else equal, reduce the growth rate of the potential labour supply, and therefore the trend rate of growth. As a result the economy will be smaller in each subsequent year; with a permanent effect on the level of output and tax receipts even if the limit were later removed.

The reasoning above assumes that migrant characteristics are identical to those of the existing population. In practice, the reduction in output will depend on the productivity of the migrants that become excluded (discussed further in annex 6.1.1).

On average we estimate that Tier 1 and Tier 2 migrants (excluding ICT) are just under twice as productive as the non-migrant population, implying a larger impact on trend

⁷ The economy's trend or potential rate of growth is the rate at which the economy can grow on a sustained basis without exerting upward or downward pressure on inflation. A higher rate implies the economy can grow faster without hitting the inflationary buffers; and crucially signals the potential for higher absolute tax yields.

growth. Higher-skilled migrants may also enhance the productivity of the existing population by bringing new or complementary skills to the UK. These factors suggest that the impact on trend growth could be larger than if migrant characteristics were the same as the resident population.

However, whilst it is clear that the brightest and best migrants have much to offer the UK and will stimulate productivity and growth, surveys have shown that at least thirty percent of Tier 1 migrants work in unskilled jobs or are simply unemployed.⁸ These unskilled roles would neither satisfy the earnings threshold to warrant an extension under the current Tier 1 (General) route or meet the Tier 2 (Sponsored Employment) requirements. Unskilled employment included roles such as shop assistants, security guards, supermarket cashiers and care assistants.

We estimate that at the lower end of the distribution Tier 1 and Tier 2 migrants are less productive than the non-migrant average. As the policy proposals will mostly affect those in the lower wage quartile, the impact on trend growth may be smaller than suggested by the UK average. In addition, amendments to the entrepreneur and investor route and rising PBS thresholds may increase the average migrant contribution to growth. If the policy proposals also stimulate growth in migrants coming to the UK for under twelve months (who are excluded from the limit) the reduction in trend growth may be further lessened.

F3(b): Output per head

If the characteristics of migrants excluded under the proposal are identical to the resident population, then there will be no impact on output per head. If excluded migrants are more or less productive than the average for the UK, the impact on output per head could be negative or positive.

F3(c): Fiscal Impact

The fiscal impact of migrants will depend on both the amount of tax they pay and the extent to which they and their families draw on public services and benefits during their time in the UK.⁹

If lower migration resulted in a reduction in trend and actual economic growth compared to the counterfactual, this lower rate of economic expansion would be likely to reduce growth in a number of economic variables, including wages and salaries, consumption and profits. This would have the effect of holding back receipts growth. The composition of slower economic growth would significantly affect the size of any impact on tax receipts.

The effect on public spending will depend on the decisions the Government takes on the funding needs for public services if lower migration results in a smaller population than had previously been expected.

A scale of reference is provided by HM Treasury's long-term public finances model, which estimates the level of different items of public expenditure based on projected changes in the size and age distribution of the population. A fall from the principal ONS migration

⁸ Points Based System Tier 1: An Operational Assessment, October 2010: <http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/statistics/pbs-tier-1/pbs-tier-1.pdf?view=Binary>
Points-Based System Pilot Process Evaluation – Tier 1 Highly Skilled Applicant Survey, December 2009: <http://rds.homeoffice.gov.uk/rds/pdfs09/horr22b.pdf>

⁹ In general migrants would be expected to make a *stronger* contribution than non-migrants because they tend to arrive in the UK after completing compulsory education and are either high average earners or, in the case of A8 migrants, typically young and single. The average magnitude of the migrant net fiscal contribution will, however, depend in part on whether the UK current budget is in surplus or deficit.

scenario to the low migration scenario (a fall in net migration of 60,000 per annum),¹⁰ and assuming 2009-10 as a starting point, is projected to reduce total spending by around £2.5 billion in the fifth year.

F3(d): Impact on business

The impact of a limit on sectors and occupations

The Tier 1 and 2 policy proposals will not affect migrant workers uniformly, creating greater difficulties for some sectors and occupations than others.

Specific occupations are most likely to be affected by increasing the skill requirements of occupations to NQF 4 level.

The table in Annex 8 sets out a list of occupations which we expect will longer qualify for Tier 2 General under the new rules, based on the Migration Advisory Committee reports published in February and March 2011.

If businesses cannot access the skilled workforce that they require it may affect business growth, and make the UK a less globally attractive place for doing business. There are, however, a number of potential labour market adjustment mechanisms which may in the longer term mitigate any impacts on sectors (such as adjusting the capital-labour ratio or training native workers).

The short term impact of a cut in migration will depend on whether resident workers have the ability (in terms of skills, location and attitude) to take up the vacancies no longer filled by migrants. If the skill level of resident workers were increased, and unemployed or inactive individuals moved into work there could be savings in terms of benefit payments. The Labour Force Survey (LFS) indicates that some unemployed or inactive individuals already have the skills required to work in migrant roles.

A limit on Tier 1 and 2 migrants provides a very clear signal to employers and to those engaged in skill supply that we can no longer tolerate a situation in which we are dependent on overseas labour to provide skills in short supply, or turn out graduates who are unable to compete in global labour markets.

There is a range of activity already underway to ensure more UK residents are seeking work and have the necessary skills. The Work Programme, for example, will be introduced in full from summer 2011 and will provide a personalised package of support to help unemployed people back into sustained work. The apprenticeships programme is also being expanded, flexible vocational qualifications are being introduced, and a new Growth and Innovation Fund is being established. Improved contact between employers and the higher education sector will also be encouraged to ensure that high level skill needs of business are identified, and effective solutions jointly agreed and implemented. The costs of these programmes are accounted for in other government impact assessments.

Beyond this, to ensure an adequate supply of skilled workers, there will be a need for employer provided training, to ensure employees can progress from entry level jobs into the more skilled posts currently attracting migrant workers. This will incur additional costs for businesses (in terms of course fees, and time costs for example), however these are highly uncertain, and therefore difficult to quantify. As an illustration, the costs of provision of a vocational level 2 course in college is on average around £3,100 and around £5,300 for a vocational level 3 course. Data on the number of guided learning hours associated

¹⁰ ONS population projections: http://www.statistics.gov.uk/downloads/theme_population/NPP2008/NatPopProj2008.pdf

with training shows that, on average, it takes around one year to train for a vocational level 2 qualification and two years for a vocational level 3.

For further detail of the impact of migration on business see Annex 6.2.

F5: Public Services

For further detail of the impact of migration on public services see annex 7.

F5(a) Compulsory Education

The supply of teachers

Significant effort over the last decade to train, recruit and retain UK resident teachers has borne fruit. Partly as a result of training bursaries, recruitment campaigns by the Training and Development Agency for Schools, the repayment of teacher loans scheme, and the “Teach First” programme which recruits and accelerates the deployment of high quality new graduates in the classroom, the reliance of the school sector on teachers recruited overseas has declined noticeably between 2003 and 2009. The number of work permits issued to teachers in schools and colleges fell from around 6,500 in 2003 to 2,000 in 2009. In addition, and commensurate with this trend, the proportion of entrants to Initial Teacher Training from the Overseas Trained Teacher Programme (which is specifically for teachers who qualified outside of the EU) peaked at 4 percent in 2006/07, some 1,580 trainees, but had declined to 980 trainees by 2008/09.¹¹

Overall, the reduced reliance on overseas teachers over the last ten years means that the sector is starting from a good base to deal with the effect of any limit on work-related non-EU migrants. At the same time, fiscal consolidation, economic recovery and forecast increasing rates of teacher wastage will mean that the current relatively low vacancy rates may be difficult to maintain. A limit could make recruitment to priority subjects such as maths and science more difficult; together with recruitment for special education needs teachers who are currently on the shortage occupation list. There may also be greater recruitment difficulties in certain parts of the country- leaving a role for migrants to continue to act as a flexible buffer in certain circumstances.

The policy for option 2 has been designed to reduce the impact on public services. An increase in the salary threshold may have led to a significant number of teachers no longer qualifying to enter the UK under the PBS; instead the skill requirements threshold of Tier 2 general occupations has been raised to NQF level 4. Our modelling suggests that there will be no impact on the number of teachers being granted UK visas in 2011.

The demand for teachers

Less migration will result in lower growth of pupil numbers in schools, reducing the demand for teachers compared to the non-policy case. Overall, however, the population of 0-19 year olds is more affected by changes to the fertility rate of UK-resident women of child-bearing age than it is by changes in migration. Reductions in migration may therefore be expected to have a relatively small aggregate effect on the demand for teachers.

Typically problems in education provision have occurred when migration has focused on particular areas or occurred unexpectedly. The operation of a limited system will in principle allow more control over the flow of migrants, and the ability to predict their incidence on public services.

¹¹ See: <http://www.dcsf.gov.uk/rsgateway/DB/SFR/s000874/index.shtml>

In some cases, migrants can have different, more expensive needs than non-migrant pupils – for example where migrant pupils have English as an Additional Language (EAL) or arrive late in the academic year.¹² The proportion of pupils with EAL has been rising in recent years - by 3.6 percent between 2005 and 2009 for primary school pupils with EAL and by 6.1 percent between 2005 and 2009 for secondary school pupils with EAL. If the limit results in fewer pupils with EAL than would otherwise have been the case, this may help ease delivery and funding pressures.

F5(b): Higher Education

According to Universities UK, 10 percent of the academic workforce are non-EEA nationals – and the numbers were particularly high in science, technology, engineering and mathematics subject areas. The top five nationalities were American, Chinese, Indian, Australian and Canadian.

The position of highly qualified but relatively low paid employees such as researchers and academics will be partially protected as the policy will give more weight to academic qualifications than to salary. Option 2 would allow employees at higher education institutions to apply for a visa if they were educated to degree level and earned over £20,000. However, if the limit were reached some applicants could see their applications for a visa denied.

F5(c): Health

Medical and qualified non-medical workforce

The NHS is progressively moving towards greater self-sufficiency in workforce supply. This trend is driven by two considerations; first, a recognition of the risk to workforce supply when relying on international recruitment, especially recruitment from countries who are experiencing rapid economic growth; and, second, the ethical considerations of recruiting the best trained doctors from the developing world.

As a result, the number of foreign nationals in the health service has been declining. For example, between 2003 and 2008 the number of new full registrations of foreign-trained doctors fell by 64 percent, from 14,000 to 5,000, and UK registration of foreign-trained nurses fell by 82 percent between 2001 and 2008, from 12,500 to 2,300.

Reducing a dependence on overseas labour has the advantage of making us more resilient to shocks, as well as not stripping the best and brightest from developing economies overseas. At the same time, there is evidence that overseas training for health workers can be beneficial.

The Department of Health believe that the current annual intake to medical school of around 6,500 trainees is appropriate to meet estimates of long-term trained doctor demand. However, the nature of the NHS labour market means that supply shortages in specific specialist areas and geographies may still exist. Supply constraints have historically been the most severe in community settings (such as GP practice nurses) and in social care (such as in children's social work). The degree to which these posts can be filled with British or EU nationals rather than non-EU recruits is uncertain, and some degree of international recruitment may be necessary to bolster qualified non-medical workforce supply.

The policy for option 2 has been designed to reduce the impact on public services. An increase in the salary threshold may have led to a significant number of nurses no longer

¹² Note that not all migrant pupils have EAL and not all pupils with EAL are migrants.

qualifying to enter the UK under the PBS; instead the skills requirements threshold of Tier 2 general occupation has been raised to NQF level 4 (degree level).

Under option 2, Doctors will have a high level of certainty of entry through Tier 2 General. The relatively low salary of nurses will afford them a lower priority under Tier 2 General; however, nursing will be a graduate only occupation in England by 2013 when it will be a requirement of registration as a nurse that the worker holds a degree. In addition, some nurses are currently classified as shortage occupations – these include specialist nurses working in operating theatres, operating department practitioners, and specialist nurses working in neonatal intensive care units. Those occupations on the shortage list will be given priority under the limit. We estimate that no nurses or doctors will be prevented from coming to the UK compared to the counterfactual case; all nursing assistants and auxiliaries would be prevented from entering as these are not classified as graduate level jobs.

Healthcare demand

In general, a fall in net migration might be expected to reduce the total demand for healthcare, although the extent will depend on which migrants arrive in the UK. A focus on those migrants of working age who are relatively productive will tend to be associated with lower levels of demand on the healthcare system.

However, research by the UKBA suggests that around 40 percent of Tier 1 and 2 migrants stay in the UK for at least five years. The healthcare costs of these migrants may rise over time as they cease consumption of healthcare in their home country, and consume UK healthcare resources. To the extent that they settle, we would expect a continuing and perhaps growing pressure on public service use to result.

The operation of a limit will in principle allow more control over the flow of migrants, and the ability to predict use of public services.

Social Work

Social work workforce

Recruiting social workers is a challenge across the country, as the supply of trained professionals does not match the demand for the service. This has led to children and families' social work currently being classified as a shortage occupation. Latest data suggests that the vacancy rate of children and families' social workers in Local Authorities was 11.3 percent in September 2008 – equating to around 2,700 permanent vacancies, although some of these are covered by agency staff.

Employers have focused on English-speaking non-EEA countries such as Australia and New Zealand where the social context, training requirements and legal frameworks have broad similarities with those in England.

New social workers are recruited to a salary of around £21,000. Child social workers are on the SOL; the SOL will be prioritised within the limit. The relatively low salaries of other social workers is likely to mean that the Tier 2 Points table leaves them toward the bottom of the queue, potentially seeing them squeezed out and unable to access CoS if limits are reached. We do not expect that the higher qualification threshold will impact on the volume of social workers that qualify.

Social work demand

While migration restrictions may result in a reduction of 0-19 year olds in the longer term, they are unlikely to have a significant impact on the population size of this age group over the next four years. Therefore the limit will have little impact in the short term on the demand for children's social services.

Social care

Social care workforce

Sub-degree, relatively low pay occupations, such as care workers, will be affected under option 2 because they will be a priori ineligible (100 percent of those granted visas in 2009 would have been ineligible under the new policy). Preliminary tightening of the settlement criteria may also make it more difficult for the social care sector to retain their existing workforce.

Around 1,500 Tier 2 Certificates of Sponsorship were issued for care workers in 2009. Skilled care workers are already in shortage, and without up-skilling of the UK workforce employers may be unable to recruit appropriately skilled workers into supervisory or management roles.

However, levels of issuance for senior care worker work permits have diminished sharply since 2006 (when 7,350 work permits were issued). In addition, there are a number of medium to long term initiatives in place to support the care sector in moving towards greater self-sufficiency (by growing the UK and EU national workforce) over the next 5-7 years. Cuts to public spending on care may also reduce demands for migrant workers.

Social care demand

Option 2 will impact mostly on those of working age. The impact over the four years on social care demand is therefore estimated to be minimal.

F5(d): Housing

Housing demand

Households are projected to increase by 232,000 per annum on average between 2008 and 2033. Supply, measured by net additions, has averaged only 160,000 a year since 1980.

Household headship rates and tenure patterns suggests migration may contribute an estimated 41,000 (16 percent) of the growth in housing demand between 2006 and 2031.

An example of the impact of a cut in net migration, calculated by the Department for Communities and Local Government (CLG), estimates that compared to the ONS principal projection of 157,000 net migration per annum, reducing net migration by 60,000 to 97,000, would result in a reduction of the projected household growth by 13 percent to around 200,000 per year, resulting in a reduction in the number of new households formed by 0.8 million by 2033.

Affordability

Against a background of buoyant demand, constraints in housing supply have led to worsening affordability.

A limit on migration may, by reducing the demand for new housing, improve affordability (the ratio of house prices to income) all else equal. As an example, CLG have estimated

that compared to the ONS base case of 171,500 net migration per annum, reducing non-EU inflows by 50 percent, would result in an improvement in affordability of around 6.7 percent by 2031 (note that this excludes the impact of these migrants on housing supply, which is discussed below). CLG estimates suggest significant regional variation of the impact – with affordability most improved in London (by around 12.3 percent in 2031 in the example above).

Social Housing

A limit on Tier 1 and 2 of the PBS is likely to have little effect on the demand for social housing, as Tier 1 and 2 migrants are less likely to be accessing these types of services. However, Tier 1 and 2 migrants at the lower end of the distribution may be more likely to access social housing and housing benefits than the average for their Tiers.

Housing supply

Migrants working in the construction sector could help to reduce cost pressures by contributing towards increased housing supply. In 2009 50,000 Non-EU individuals in employment in the UK said that their industry sector in their main job was construction. Over a third of these claimed to have first arrived in the UK since 2004.

Option 2 could lead to a significant decrease in the number of non-EU construction workers, as workers with qualification levels below NVQ level 4 could no longer apply for a UK visa. Those earning above £20,000 with a degree, for example some architects or construction managers, could still apply for a visa under option 2.

The construction industry has been improving the skills of their workforce; this may lessen the impact of the limit. For example, levy schemes in the construction and engineering construction sectors, which are supported by a majority of employers, have had a positive effect on skills investment in those industries.

F5(e): Population

In their latest central projection, the ONS project that the population of the UK will rise to 64.3 million in 2015, 68.7 million in 2025, and 71.6 million in 2033. Of the increase in population to 2033 just over two-thirds will be attributable to migration (45 percent directly attributable to future migration and a further 23 percent indirectly attributable due to natural change).

We estimate that the population impact of the policy change will be to reduce the UK population by broadly 60,000 in 2014/15 compared to the baseline. The impact of Tier 1 and 2 limits on population growth in the longer term will be larger, as the indirect impact on population (due to natural change caused by migrants) takes greater effect.

A reduction in population growth could reduce congestion costs if, for example, it leads to reduced hospital waiting lists, or less traffic on our roads.

F5(f): Public Opinion and Social Cohesion

Migration is an issue of concern amongst the UK public, third to concerns about the economy and unemployment (Ipsos Mori (February 2010)).

Focus group research conducted for the UK Border Agency in January 2009 showed that immigrants who generated most anxiety were long term, non-EEA, not in work and with different cultural backgrounds.

The existing literature on migration and cohesion is not extensive, but it suggests that any negative impact of migration on cohesion could result from the interaction of migration with particular sets of individual characteristics such as low attainment.

A policy of greater selectivity of Tier 1 and 2 migrants could in principle have benefits if those admitted are more likely to be in work, have a higher level of English language proficiency, and be less likely to use public services than those being excluded by the policy proposals.

F6: Devolved view

The devolved administrations have concerns that the operation of Tiers 1 and 2 of the Points Based System do not sufficiently take account of regional demands for greater levels of migration, for instance to Scotland. Additionally they believe that earnings criteria (under which, for example, points are awarded for previous or prospective salary) work to the disadvantage of regions where average earnings are less than in other parts of the United Kingdom. More generally, the Scottish Government has argued for a policy which would more actively promote migration to Scotland.

A summary of devolved responses to the Home Office consultation is at Annex 3.2.

G. Risks

The estimation of the impact of the policy changes described here is not straightforward, and is subject to error. First, the impact of the policy on visas granted is subject to how the behaviour of companies and individual migrants adapts. Although we make allowance for this in our calculations, we have to make assumptions in the absence of similar historical changes on which we might base them. Second, the International Passenger Survey (IPS) is sample-based and hence subject to reasonably wide margins of error. Third, the relationship between visas granted and IPS flows is uncertain, because not all those granted a visa arrive, and because some visas run for less than 12 months (only migrants intending to stay for longer than one year are counted in the IPS). Last, there is no administrative data on emigrants, meaning that the calibration we have conducted between administrative data and the IPS for inflows is not possible for outflows.

There is a small risk that those who are not eligible for leave as a result of the new settlement rules, will fail to leave the UK or comply with removal directions.

H. Enforcement

UKBA will enforce limits to migration for Tiers 1 and 2 of the PBS, and revised settlement criteria.

I. Summary and Recommendations

Option 2 is the recommended option.

The table below outlines the costs and benefits of the proposed changes in £ millions over the 4 years, for the low case. Please note that these figures are not discounted, and therefore differ than those set out in the summary pages of this impact assessment.

Summary of Costs and Benefits, £ millions

Impacts	2011-2015 total (Constant Prices), m
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Set up costs	£2.5
Ongoing Costs	£166.1
Total Costs	£168.7
Ongoing Benefits	£75.6
Total Benefits	£75.6
Net Impacts	£93.1
Net Present Value	£88.2

J. Implementation

The permanent limits to Tier 1 (General) and Tier 2 (General) will be implemented from 6th April 2011.

New settlement criteria will apply to Tier 1 (General) and Tier 2 from the 6th April 2011.

K. Monitoring and Evaluation

The effectiveness of the new regime would be monitored by the UK Border Agency (UKBA) as the PBS allows for the collection of Management Information data. This is used to monitor and evaluate changes in the different tiers and sub-tiers. A formal review of the policy will take place in April 2012 and this will involve UKBA Immigration Policy and members of the Economic and Resource Analysis (ERA) Group in the Home Office. The current data collection is sufficient to enable a review of the policy.

L. Feedback

The Analysis, Research and Knowledge (ARK) group within UKBA have conducted monitoring and surveys of PBS respondents, sponsors, employers and staff. Similar studies may be conducted and the feedback and findings from these will be incorporated into the review of the policy.

M. Specific Impact Tests

See Annex 2 for details.

Annexes

Annex 1: Post Implementation Review (PIR) Plan

<p>Basis of the review:</p> <p>The review will be carried out before April 2012 and will seek to see how effective the policy has been and if it has achieved the policy objectives that it was designed for.</p>
<p>Review objective:</p> <p>It is primarily designed to check if the policy objective has been met but will also cover how it performed (ease of operation, effectiveness, any difficulties, how problems were overcome etc.).</p>
<p>Review approach and rationale:</p> <p>The review will analyse the PBS MI data, will look at economic data and use the PBS surveys to highlight concerns. It is not intended to be a long or difficult piece of analysis as it simply has to inform policymakers if the policy works well or not and how to proceed with further related policy design.</p>
<p>Baseline:</p> <p>The impacts of the policies on visas and in country grants for each of the routes affected will be measured against historic Control of Immigration Statistics. The impacts of the proposals on net migration will be measured against historic ONS IPS and LTIM data.</p>
<p>Success criteria:</p> <p>There will be a reduction in PBS numbers when the permanent limit applies and the policy will be considered a success if there is no large increase in non-EU applications for other routes, if the UK economy continues to perform well, if firms up-skill their own workers, if businesses adjust to the new equilibrium with relatively few difficulties and if the perceptions of immigration as a negative factor decline..</p>
<p>Monitoring information arrangements:</p> <p>The current arrangements that are in place will remain.</p>
<p>Reasons for not planning a PIR:</p> <p>N/A</p>

Annex 2- Specific Impact Tests

Statutory Equality Duties

Equality Impact Assessment

The UK immigration system has a very wide pool of potential users who can come from anywhere in the world. The criteria for entry and leave to remain are designed to maximise the economic benefits of migration and are the same for all potential migrants from outside the EU.

Race

Tier 1 and 2

Several respondents to the consultation suggested that continuing to award points for previous earnings may disadvantage Tier 1 applicants seeking to come to the UK from developing countries. Several respondents to the consultation suggested that limits should be applied to individual source countries in order to prevent the possibility that particular nationalities might monopolise available places (and this concern was generally associated with a concern that nationals of Indian sub-continent countries would do so).

The top nationalities of those granted visas under Tier 1 and Tier 2 in 2009 respectively is set out in the following tables:

Nationality	percentage of approved Tier 1 visas in 2009
India	39
Pakistan	18
Nigeria	10
United States	8
China	6
Australia	6
South Africa	3
Sri Lanka	3
New Zealand	2
Russia	2

Nationality	percentage of Tier 2 visas issued in 2009
India	55
United States	17
Japan	5
Australia	5
Canada	3
South Africa	3
China	2
Pakistan	2
Philippines	2
South Korea	1

The Equality and Human Rights Commission (EHRC) has previously noted that the operation of the Highly Skilled Migrants Programme (HSMP) and Tier 1 may, because those seeking an extension need to demonstrate sufficient earnings following entry to the UK, tend to reflect and reinforce the difficulties experienced by ethnic minorities in securing employment in the UK.

Where the UK Border Agency has investigated the extent to which Tier 1 participants undertake unskilled work, it has found that a significant proportion (i.e. around 30 percent) has done so and that it is more likely in the case of Tier 1 migrants from Asia and Africa.

It is possible that the changes to Tier 2 criteria may impact on the nationality breakdown of those admitted under this Tier:

- The changes to the criteria for intra-company transfers would impact on Indian nationals, which account for a significant proportion of those currently admitted under

this route, although it is possible that many of those currently qualifying under this route will continue doing so but will enter for less than 12 months;

- The changes to the Tier 2 (General) criteria will impact on specific occupations and, in particular, those which are not graduate level (including, for example, chefs and care workers). These are occupations which for which, typically, migrants from the Indian sub-continent and the rest of Asia have previously been admitted under Tier 2.

Settlement criteria

Language requirement

We do not publish figures for the numbers of migrants taking the ESOL with Citizenship course as opposed to the Life in the UK Test, or numbers of applications who have been given leave to remain when refused settlement due to their not meeting the KoL requirements. Internal management information indicates that the numbers in both instances is small. This internal management data does not provide a breakdown by nationality.

Around one fifth of those entering the UK in these employment categories in 2009 came from predominantly English speaking countries. It is logical to conclude that nationals of these countries should find it easier to pass the revised language requirement (than those migrants from predominantly non-English speaking countries). There is no policy to exempt migrants from the KoL requirement on the basis that they are already English speakers, have lived or worked in the UK, or have degree-level qualifications taught in English.

The immigration rules currently set pre-entry language requirements for certain economic routes. Those entering under the Tier 1 (General) route must meet level C1 of the Common European Framework; Tier 2 (Minister of Religion) migrants must meet level B2. The 'Life in the UK test' is set at B1. There are therefore some migrants entering the UK who will have already demonstrated a higher level of English language than the current Life in the UK test standard. We would argue that the language element of the Life in the UK Test should not therefore present these migrants with difficulties.

A survey based on interviews with migrants from Albania, Bulgaria, Russia, Serbia, Montenegro and Ukraine (who arrived in the UK since 1989), *East European immigration and community cohesion* by Eugenia Markova and Richard Black, Joseph Rowntree Foundation 2007 found that those who spoke better English were more likely to participate in their community. A Canadian study by Chiswick and Miller (2003), *The complementarity of language and other human capital: Immigrant earnings in Canada* concluded that immigrants who do not usually speak either English or French at home have earnings 10% to 12% lower than those who do. And Dustmann and van Soest (2002) found that language increases productivity and communications (and market wage) and also increase employment probabilities (*The Language and earnings of immigrants*).

Any indirect discrimination on the basis of race or nationality is justified by the benefits of enhanced integration and to the economic well being of the country set out in the policy objectives.

Exemptions for certain groups who are unable to pass the Knowledge of Life test on the basis of age, disability and in exceptional, compassionate circumstances that would prevent a person from meeting the requirement, will continue to apply.

Income levels

In 2010, according to Control of Immigration Statistics (Q4 2010), there were 238,000 grants of settlement, of which 84,000 were from employment routes, 65,000 from family,

5,000 from asylum and 83,000 from other routes. In 1997 there were 59,000 grants of settlement in total and less than 10,000 employment related grants. All Tier 1 (General), Tier 2 (General), Tier 2 (ICT) and Work Permit migrants applying for ILR after 6 April will have to meet the new income requirement set out in the Immigration Rules regardless of race, nationality or ethnic group.

There is no evidence to suggest that Tier 1 (General), Tier 2 (General), Tier 2 (ICT) and Work Permit holders will be disproportionately affected by the introduction of the policy as a result of their race, nationality or ethnic group.

This policy will have positive benefits to the UK economy in that it will ensure that all Tier 1 (General), Tier 2 (General), Tier 2 (ICT) and Work Permit holders meet a minimum income requirement prior to being granted ILR.

The changes to the criminality policy will apply regardless of race. Existing international and domestic obligations will continue to apply.

Religion, belief & non-belief

Tier 1 and 2

Some responses to the consultation questioned the proposal that ministers of religion should be exempt from limits, but this point did not appear to directly engage any issues of equality on religious grounds.

Settlement criteria

We do not hold quantitative data on the religion of persons who enter the UK under the immigration rules as this is not a relevant consideration for meeting the criteria for leave to enter/remain under relevant work based categories.

Existing domestic and international obligations relating to freedom of discrimination on grounds of religion/ non belief will continue to apply.

Migrants under the Tier 2 (Minister of Religion) route will be unaffected by the changes being made to minimum income thresholds for settlement as this is not an existing condition for that route. They will be subject to the change to the language requirement for settlement which will be set at B1 level of the Common European Framework of Reference. However, as the pre-entry language requirement for this group is already set at B2, then we do not consider that this change will disadvantage those migrants who go onto to apply for settlement

The changes to the criminality policy will apply regardless of religion, belief and non-belief. Existing international and domestic obligations will continue to apply.

Disability

Tier 1 and 2

The rules will apply equally to those with and without disabilities.

However, the ECHR has previously commented that those with a disability face difficulties in accessing the labour market. Individuals previously coming to the UK under Tier 1 may now find that they are unable to come to the UK without a job offer.

Settlement criteria

We do not hold quantitative data on whether persons who enter the UK under the immigration rules, or who go onto to be granted settlement, have a recognised disability as this is not a relevant consideration for meeting the criteria for leave to enter/remain under relevant work based categories.

The Disability Discrimination Act 1995 prohibits all employers except the armed forces from treating people with disabilities less favourably than anyone else. Existing domestic and international obligations relating to freedom of discrimination on grounds of disability will continue to apply.

To mitigate any impact on those with a disability the exemption which currently operates for KoL at settlement and citizenship will continue to apply. The exemption would be granted subject to production of satisfactory medical evidence.

The changes to the criminality policy will apply regardless of disability. Existing international and domestic obligations will continue to apply.

Gender

Tier 1 and 2

Responses to the consultation chiefly associated gender-related impacts with proposals to include dependants in the limits. The Immigration Law Practitioners Association's (ILPA) response stated:

“Younger people are less likely to have formed families than older ones. Studies show that more women than men have caring responsibilities. Questions of discrimination on the grounds of age and gender thus arise.”

In the event, it is not proposed to apply limits to dependants of Tier 1 and Tier 2 migrants.

According to the UK Border Agency management information, the gender split for Tier 1 approvals of entry clearance in 2009 was 50:50. For Tier 2 the equivalent split was 60(M):40(F). The closure of the current Tier 1 (General) route may therefore impact, albeit not dramatically, on the overall gender split of those admitted under these routes in the future.

The general effect of the proposal to close the current Tier 1 (General) route is to require an offer of skilled employment as a condition of entry and to give priority to more highly paid workers when allocating certificates of sponsorship. At one level it seems likely that the relative impact of this in terms of gender would be quite balanced – however if less priority is given to occupations at the lower end of the pay spectrum for which Tier 2 permissions have previously been issued, some of the occupations affected are ones which have typically recruited female workers (e.g. care workers). But equally some of the occupations affected will be ones which typically recruit male workers (e.g. chefs). So from this perspective gender impacts may be broadly neutral.

More generally, the interaction between these proposals and the gender pay gap is difficult to gauge. An underlying premise of the Government's proposals for Tier 2 is that pay is a proxy for skills and economic contribution and more highly paid jobs will be given priority in the allocation of Certificates of Sponsorship. However, the extent to which pay is reliable proxy for these properties may be undermined where there exists discrimination in respect of earnings for people doing the same job.

The characteristics of the gender pay gap are complex but generally the gender pay penalty for women with higher qualifications is smaller than it is for those with lower qualifications, and where a pay penalty does exist at higher pay levels this may be primarily a consequence of differentials in choices of career (e.g. the concentration of women working in the public sector) as opposed to differentials in rewards within particular occupations. It is difficult to see that scheme design choices in relation to Tiers 1 and 2 would actually reinforce or aggravate the gender pay gap, given that these schemes are aimed at more highly qualified workers.

Settlement criteria

The Control of Immigration Statistics 2009 indicates that in 2009 more grants of settlement after the removal of the time limit were made to female migrants than male migrants (207,195 as opposed to 176,150). The statistics do not break these down further by immigration category. Extrapolating these statistics to ascertain the proportion to which these rules changes will impact on gender is therefore not possible.

The Office of National Statistics Migration Statistics 2008 Annual Report indicates that a higher proportion of men immigrated for work-related reasons than women in 2008.¹³ Of all male immigrants in 2008, 44 per cent arrived for work-related reasons compared with 31 per cent of all female immigrants. This suggests that more men than women could be affected by the salary and language changes. Ultimately any impact will be in proportion to the volumes of applications.

The genders of those who choose to apply for entry/settlement in an economic route are outside our control and we do not set limits according to gender. The need to integrate in the UK applies irrespective of gender and the benefits of learning English, abiding by our laws and contributing to the economy apply regardless of gender.

Language requirement

The language requirement will help encourage the integration of all genders and help remove cultural barriers and broaden opportunities for them. It will help men and women play a full part in British life. Any indirect sex discrimination is justified by these policy objectives including the economic well being of the country.

Income levels

We do not hold data on the working arrangements of persons who enter in an economic route as we do not ask for this data from applicants. Provided the migrant continues to be employed as required then we will not necessarily be informed of any changes in working patterns by the employer. It is not therefore possible to indicate whether migrants will be any more affected by the current changes to the salary threshold or whether this will impact more on either gender.

Where any breaks are due to maternity then we will allow for a period before any maternity leave to be included in the assessment of income.

The approach outlined applies regardless of gender. Existing domestic and international obligations relating to freedom of discrimination on grounds of gender will continue to apply

The changes to the criminality policy will apply regardless of disability. Existing international and domestic obligations will continue to apply.

Gender Identity

¹³ See: http://www.statistics.gov.uk/downloads/theme_population/Migration-Statistics-2008-Annual-Report.pdf

Tier 1 and 2

Consultation on the Government's proposals has not identified any impacts on transsexual and transgender people.

Settlement criteria

We do not hold quantitative data on the gender identity of persons who will be affected by the proposals. The safeguards against discrimination on grounds of gender identity inherent in our international obligations will continue to apply

Sexual Orientation

Tier 1 and 2

Consultation on the Government's proposals has not identified any impacts on bisexual, gay, heterosexual or lesbian people.

The Immigration Rules permit those admitted as a PBS migrant to be accompanied by a same-sex partner.

Settlement criteria

We do not hold quantitative data on the sexual orientation of persons who will be affected by the proposals. The safeguards against discrimination on grounds of sexual orientation will continue to apply. Existing international and domestic obligations will continue to apply.

Age

Tier 1 and 2

Responses to the consultation on the question of which attributes should be given more weight presented mixed views on the potential for discrimination on the basis of age. Some respondents saw the existing arrangements, under which bonus points are awarded to younger applicants, as inherently discriminating in favour of younger applicants. However, some other respondents suggested that awarding points on the basis previous earnings would tend to favour older applicants.

A breakdown by age of those granted Tier 1 and Tier 2 visas in 2009 is set out below:

Age group	Tier 1 visas approved in 2009	Tier 2 visas approved in 2010
Under 20	-	1%
21-30	63%	57%
31-40	27%	31%
41-50	7%	7%
51-60	2%	3%
60+	1%	1%

This breakdown indicates that the age composition is currently more spread for Tier 2 than it is for Tier 1 (although in both cases a large proportion of those admitted were aged between 21 and 30). The closure of Tier 1 (General) may, on this basis, tend to reinforce a greater spread in the age composition of Tier 1 and Tier 2 migrants. So too may the prioritisation of more highly paid Tier 2 jobs insofar as these may be posts requiring more

experienced workers. Overall, however, the majority of migrants admitted under Tiers 1 and 2 would continue to be aged between 21 and 40.

Research suggests that while there is a pay gap associated with age differentials, this reduces when you control for other factors such as qualifications.

Settlement criteria

Migrants of varying ages will be affected by these proposals. The Control of Immigration: Statistics United Kingdom 2009 indicates that the largest numbers of grants of settlement were made to those aged between 25-34 and 35-44, although grants are also made to those in both younger and older age brackets. By volume, those in the most populous age groupings will therefore be disproportionately impacted.

The Office for National Statistics publish further statistical information on “International migration: age and sex (United Kingdom): Population Trends”.¹⁴ Table 7.1 contains annual and recent figures for international migration, to and from the United Kingdom in thousands, by sex and age group. Figures in this table are derived from the International Passenger Survey and other sources. Further data is contained in the ONS Migration Statistics 2008 Annual Report.¹⁵ These reports indicate that around half of all immigrants arriving in the UK in 2008 were aged 25-44 years old and the majority of immigrants were single.

The changes will apply to all those within the specified routes who apply for settlement regardless of age except where existing exemptions to the language requirement for settlement apply.

To mitigate the impact on those who would find it harder to learn a language due to age we will continue to apply an exemption for those aged under 18 and aged 65 and over. This mirrors an exemption which currently operates for KOL for settlement and citizenship.

In testing income for settlement we will mirror the further leave to remain requirement. For Tier 1 (General) migrants this includes an assessment based on age. Migrants will, therefore, be awarded the same level of points as they were on entry and will not be disadvantaged as a result of the natural increase in their age when they apply for settlement.

Existing obligations relating to freedom of discrimination on grounds of age will continue to apply. Existing international and domestic obligations will continue to apply.

Welfare of children

Tier 1 and 2

Consultation on the Government’s proposals has not identified any impacts on children and the need to safeguard and promote welfare of children.

Settlement criteria

It is possible that the policies will indirectly impact on children if their parents, the principal applicant, are no longer able to meet the revised settlement criteria. In such instances, failure to meet the income and criminality criteria may lead to a refusal of settlement and further leave to remain in the UK, in which case the principal applicant and any dependants

¹⁴ See: <http://www.statistics.gov.uk/statbase/ssdataset.asp?vlnk=9548&More=Y>

¹⁵ See: http://www.statistics.gov.uk/downloads/theme_population/Migration-Statistics-2008-Annual-Report.pdf

will be expected to leave the UK (subject to any assessment against the ECHR). In the case of failure to meet the revised KoL requirement, the principal applicant can continue to apply for further leave to remain.

Published statistics indicate the numbers of dependants entering the UK under economic routes and numbers granted settlement, but do not provide numbers of children granted settlement as a dependant of a migrant here under an economic route.

Existing domestic and international obligations relating to children and the right to family and private life will continue to apply.

Language requirement

There is research to indicate that the language policy may have a positive impact on the children of those affected by this policy.

Language and the Earnings of Immigrants by Dustmann and Van Soest (2002) indicates that language proficiency, particularly of women, may have implications beyond matters directly related to the individual.¹⁶ The ability of the mother to communicate in the host country language may assist access to, as well as understanding of, institutions that are vital for the child's development. It may also relate directly to the offspring's own acquisition of proficiency in the host country language. These intergenerational aspects of language proficiency may significantly add to the value and benefit of language education of first generation migrants.

Requiring good levels of English language ability from skilled and highly-skilled migrants wishing to settle in the UK will help remove current barriers for the second generation who suffer academically when English is not able to be spoken in the home. When compared with pupils with English as an additional language, a greater proportion of pupils (in the Early Years foundation stage) whose first language was English achieved a good level of development.

A lack of language skills can prevent migrants from accessing key government services, e.g. health and education services. We consider that our policy will contribute to progress made at school, give parents better language skills to communicate with teachers and mitigate the impact that their lack of English language skills has on public services. Anecdotally, there is evidence that language barriers and demand for interpreters and English teachers are pressures facing schools. The new language requirement should help deliver savings in this area

Income levels

By requiring migrants to demonstrate that they are still earning at least the same income as when they were last granted leave, we are ensuring that the migrants are still employed, which in turn means that they can maintain themselves and any dependants adequately. This will help ensure that children are less likely to end up in situations where the family may be destitute or dependent on state benefits.

Economic Impacts

Competition Assessment

Policy changes to Tiers 1 and 2, including those to the settlement criteria, could have an effect on any company that is employing (or will employ) non-EU workers. The key industries currently using the PBS cover both the private and public sector.

¹⁶ See: Industrial and Labor Relations Review, Vol. 55, No. 3, pp. 473-492

There are four main questions that are used to assess the impact of the policy change on competition:

- Will the policy proposal directly limit the number or range of suppliers?
- Will it indirectly limit the number or range of suppliers?
- Does it limit the ability of the suppliers to compete?
- Does the policy change reduce the suppliers' incentives to compete vigorously?

Directly limit the number or range of suppliers

All of the sectors wishing to employ migrant labour will be treated equally. There will be no award of exclusive rights, or restrictions on suppliers with migrants.

Indirectly limit the number or range of suppliers

The Government does not consider that it is indirectly limiting the range of suppliers.

Limit the ability of suppliers to compete

It is possible that, in the short-run, some suppliers may find their ability to compete affected by the limits placed on economic migration if they cannot adapt fully through the recruitment of suitable non-migrant labour; through the employment of alternative migrant labour; or in other ways, such as by adjustment to their capital-labour ratio. In the longer-run, however, changes to the skills supply and welfare systems, and the limits themselves, should place sharper incentives on employers and individuals to generate the skill requirements of the UK domestically to a greater extent than at present.

Reduce the supplier's incentives to compete vigorously

There will be no reduction in incentives for suppliers to compete vigorously. The use of migrant workers by employers is the result of shortages of particular types of labour (highly skilled and skilled). Migrant workers tend to be concentrated in sectors rather than specific firms within sectors. As such, we believe that the changes to Tiers 1 and 2 should not create any competition issues as it applies equally to all firms in any particular sector.

Small Firms Impact Test

The policy will be applied to small businesses in the same ways as other businesses. It is possible that some small businesses may find it more difficult than others to deal with any changes that may be implemented and that small firms might find it more difficult to obtain the migrants they want, particularly if they are competing on salary alone. However, small firms already face that problem in that large firms tend to pay higher salaries. Overall, the impacts of these proposals on small businesses should not be any greater than the normal adverse impacts they would encounter from the implementation of regulations. On this basis the impact on small firms is not as significant as it first seems.

Social impacts

Health and well-being

The UK Border Agency is not aware of research into how far labour migration has the effect of perpetuating inequalities in the non-migrant workforce. The "comparative advantage" argument for migrant labour would suggest that the admission of migrant workers to do jobs that non-migrants do not wish to do, or are overqualified to do, enables non-migrants to focus on employment that offers the best return to their skills. It is however

equally possible that uncontrolled migration may have the effect in the short-term of displacing non-migrant labour and depressing the latter's return on its skills. It is also possible that minority groups are disproportionately affected by these impacts.

It is a basic premise of the Government's proposals to limit economic migration that this policy should go hand in hand with strategies to ensure that employers are able to source workers with the skills that they need from the resident workforce. The Government has, for example, consulted on proposals to require employers to demonstrate a commitment to up-skilling resident workers to meet their skill needs over the longer term. The extent to which this would help to address minority group inequalities is not clear. The EHRC has commented of the relationship between education and the life chances of minority groups that:

"In summary, the evidence suggests that the acquisition of educational credentials facilitates entry into the labour market and enhances income levels and access to higher class positions for all equality groups. It improves people's life chances and quality of life. Education protects people against the worst impact of group-based inequalities. This is why initiatives to enhance the educational attainment of all disadvantaged groups are so important."

At the same time, education protects disadvantaged people only to a certain degree. That is, some disadvantaged groups do not enjoy the returns to education that might be expected from their investment. Prejudice and discrimination in the labour market prevail, so that the most visible ethnic groups, for example, are thwarted in their life chances and quality of life. Targeted and sustained interventions in the labour market are required to break down remarkably intransigent social inequalities."

Human Rights

No implications for human rights arising from these proposals have been identified.

Justice

There may be an increase in the number of Judicial Reviews on the rationale of the policy, but the increase in number is expected to be small.

We do not expect that the PBS Tier 1 and 2 policy changes and limit will lead to a higher rate or increase in volumes of appeals. Generally people only apply for the PBS when they meet the criteria, and most refusals tend to be on a technical basis (i.e. not meeting the requirements in the specified manner). We do not expect this type of refusal to go up as a result of the policy changes.

In fact, it could be argued that by closing Tier 1 to new applications there could be a reduction in the number of appeals. Whilst some displacement into T2 is expected, most Tier 1 refusals are on the basis of the maintenance requirement and this can be met by a sponsor ticking a box in Tier 2.

There could be an increase in appeal costs as a result of amendments to the settlement criteria if this leads to more refusals. However, if applications fall (as a result of individuals no longer meeting the settlement criteria) appeals are also likely to fall.

Actual costs will depend on behavioural factors – for example, whether a migrant who fails the criteria still makes a (charged) application, leading to a refusal and appeal, or whether he does not make the application in the first place.

The table below present our maximum estimate of appeal cost increase, assuming a 6 percent ILR refusal rate and a 60 percent appeal rate.

	2011	2012	2013	2014	2015
Increased appeal costs (£)	430,000	575,000	540,000	540,000	400,000

Rural proofing

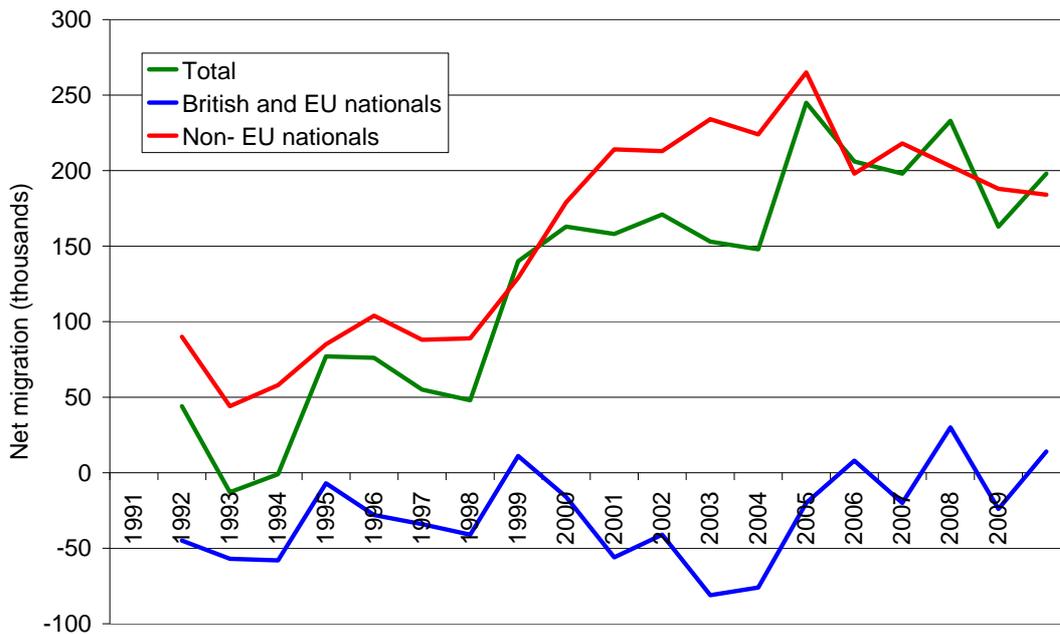
There are no significant rural issues that arise out of this change in policy. In rural areas where there are slightly more unskilled occupations then the rural areas will not be generally affected by this policy change. There may be some slight effects on part-time and seasonal workers but again this is expected to be limited. We are not able to quantify these effects due to the lack of data. One occupation that will be affected will be sheep shearers but provision has already been made for this group. Overall the effects are expected to be minimal.

Annex 3 – Net migration

Net migration is measured using an internationally recognised method, and counts all those coming to the UK to stay for more than 12 months, against those leaving for more than 12 months, including British and EU citizens.

The scale of the challenge

Net migration in 2009 was 196,000. Net non-EU migration formed a large proportion of the total, 184,000. As usual, British and EU migration tended to cancel out, as shown in the chart below.

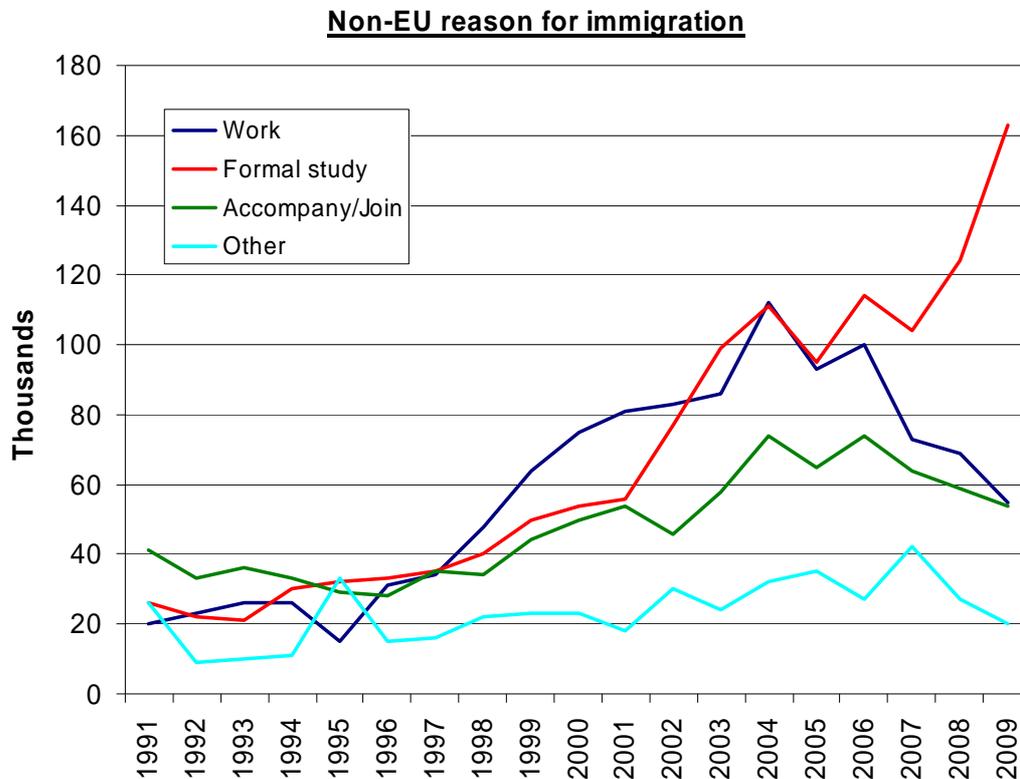


Net migration numbers are affected by factors we do not directly control such as flows of UK and EU migrants. Our projection is that both British and EU net migration will remain broadly flat and cancel each other out. To the extent they become more positive, reducing net migration will be harder. Within the EU total, the position on A8 is particularly uncertain, because Germany and Austria open their labour markets to A8 migrants in 2011.

The non-EU element of net migration can be controlled through immigration measures. If British and EU migration continue to cancel each other out, to achieve reduce net migration we will need to reduce non-EU migration. To achieve this by the end of this Parliament suggests – by way of illustration – indicative reductions of 25,000 a year in the net figures from 2011. Some of this can be achieved through increasing outflows, e.g. by restricting settlement rights, but increasing outflows will take longer to have an impact- the most immediate impacts will come from reducing inflows.

Non-EU migration by route

Over the years since 1990, the importance of the study route has grown, and it has now overtaken work as the dominant reason for coming to the UK. The graph below shows the main reason for immigration for non-EU nationals; the gap between those coming to the UK to study and those coming to the UK to work has been growing.



The gross inflow of non-EU migrants by main reason for entry in 2009 breaks down roughly 20 percent work; 60 percent study; and 20 percent family routes and asylum.

Work visas cover Tier 1 (highly skilled); Tier 2 (skilled) and Tier 5 (mostly temporary) of the Points Based System (PBS). Tiers 1 and 2 accounted for roughly half the work total number of visas in 2009 and 2010.

3.2 Summary of consultation responses

A total of 3,201 responses were received to the Home Office consultation questionnaire. Responses of the consultation can be summarised as follows:

Tier 1

- The largest proportion of respondents disagreed with the 'pool approach' proposal;
- Overall respondents were not in favour of raising the minimum criteria for qualification under Tier 1;
- Most respondents agreed with additional points being scored for higher English language ability, shortage skills, UK experience and skilled dependants;
- The largest proportion disagreed with awarding additional points for health insurance.

Tier 2

- The largest proportion of respondents disagreed with the first-come-first-served proposal;
- Respondents were generally in favour of a rolling over of excess applications if a quarterly rota were adopted;
- Respondents were almost equally split between those who favoured extending sponsor responsibilities and those who did not;
- The majority of respondents were in favour of raising the English language requirement, with the largest proportion in favour of raising this to 'intermediate level'.

Most agreed that the following should not be included in the annual limits:

- Tier 1 (Investors) and Tier 1 (Entrepreneurs)
- Inter Company Transfers
- Dependents

The largest proportion of respondents was against the merger of the shortage occupation route and the Resident Labour Market Test route.

Devolved view

Responses from Wales, Northern Ireland, and Scotland were generally in the same direction as those from consultation respondents in general. The most notable variations (generally in strength rather than direction of opinion) from consultation responses overall were as follows:

- Northern Ireland responses indicated stronger opposition to both the Tier 1 pool approach and the Tier 2 first-come-first-served approaches. In Scotland the largest proportion of respondents disagreed with the 'pool approach' proposal for Tier 1 and the first-come-first-served proposal for Tier 2.
- Responses from Wales and Northern Ireland indicated stronger support for the general principal of raising the minimum requirement for Tier 1, but there was less clear support for specific options for awarding additional points. In Scotland the largest proportion of respondents agreed with additional points being scored for higher English language ability, shortage skills, UK experience and skilled dependants. There was less support from Wales and Northern Ireland for raising the English language requirement.
- Northern Ireland responses indicated stronger support for exclusion of Tier 1 Investors and Entrepreneurs from limits. Responses from Wales indicated stronger support for exclusion of ICTs from limits. In Scotland most agreed that Tier 1 (Investors) and Tier 1 (Entrepreneurs), Inter Company Transfers, and dependants should not be in the limit.
- There was indication of more support from Northern Ireland for merging SOL and RLMT. In Scotland the largest proportion of respondents were against the merger of the two routes.

Annex 4 – Option 2 policy proposals

We have constructed a package based on numerical limits and policy changes which will keep Britain open for business while reducing the net migration numbers. Our approach is to prevent lower skilled workers from entering the UK whilst targeting the most valuable and talented migrants that business need.

Tier 1¹⁷

- a) Close Tier 1 General (highly skilled).
- b) Restrict Tier 1 to investors, entrepreneurs and a new category for exceptional talent. The latter will include world-leading artists, entertainers, scholars and scientists. There will be a limit of 1,000 on the exceptional talent route.
- c) Exempt exceptionally talented migrants, investors, and entrepreneurs would be exempt from the limit.
- d) Improve attractiveness of Investor route to high net worth migrants by accelerating progression to permanent residence for the biggest investors (investing £5 million or more).
- e) Revamp Entrepreneur route, allowing greater flexibility for migrants looking to create a business in the UK and accelerate progression to permanent residence for more successful businessmen. Introduce a new visitor route for prospective entrepreneurs.
- f) Exclude from the limit dependants, extensions, and switchers.

Tier 2

- a) Operate a monthly system of limits for Tier 2 General Certificates of Sponsorship (CoS), prioritising on the basis of scarcity of skills and salary.
- b) Require all jobs including shortage occupations to be classified at graduate level, up from the present requirement of NVQ3, and use a salary proxy for a graduate level occupation where qualifications are inappropriate.
- c) Exclude from the limit dependants, extensions, and switchers.
- d) Require all Tier 2 General to speak English to B1 level (up from A1).¹⁸
- e) Exempt from the limit those paid greater than £150,000.

¹⁷ Tier 1 post study will be reviewed alongside the student proposals.

¹⁸ B1 level requires an individual to be able to: 1) express opinions on abstract/ cultural matters in a limited way or offer advice within a known area, and understand instructions or public announcements 2) understand routine information and articles, and the general meaning of non-routine information within a familiar area 3) write letters or make notes on familiar or predictable matters.

- f) Increase the Inter-company Transfer (ICT) salary threshold from £24,000 to £40,000 for those coming for longer than twelve months and exclude ICTs from the overall limit. Limit the maximum length of stay to five years.
- g) Maintain Tier 2 (General) minimum salary threshold at £20,000.
- h) Subject Tier 2 Resident Labour Market Test (RLMT) and Shortage Occupation List (SOL) to the limit.
- i) Ask the MAC to review the existing Shortage Occupation List.

Settlement

- i) Raise the minimum language requirement for Tier 1 and Tier 2 migrants, and those on predecessor routes, applying for settlement (i.e. indefinite leave to remain) to level B1.
- ii) Stop granting new Tier 1 and Tier 2 migrants Further Leave to Remain if they have not passed the Knowledge of Life requirement after five years.
- iii) Strengthen the current criminality test to require applicants to be free of unspent criminal convictions.
- iv) Require Tier 1 and Tier 2 migrants, and those on predecessor routes, to demonstrate they continue to meet the income threshold they were required to have on entry to the UK.
- v) Limit new ICT migrants' maximum period of stay in the UK at five years, removing their route to settlement.

Limit

The limit assumes that Tier 1 and 2 main applicants make a combined contribution in proportion to their actual share in the IPS inflows. This implies a contribution of 10 percent, and a reduction in visas issued of 6,300 based on 2009 grants.

Applying this reduction of 6,300 to the 2009 baseline of 50,000 Tier 1 and Tier 2 visas results in an overall limit of Tier 1 and 2 visas for 2011/12 of 43,700 visas. However the 2009 baseline includes 22,000 ICTs. As they are to be exempt, they should be excluded from the baseline. This gives a total limit of 21,700.

The limit for the Tier 1 Exceptional Talent route will be 1,000, with a limit on Tier 2 of 20,700.

The independent Migration Advisory Committee will be asked to review the level of the limit annually.

Annex 5 – Direct costs and benefits

5.1 Tier 1 and 2 visa grants and extensions

The modelling of policy impacts on Tiers 1 and 2 uses a number of baseline, policy impact and general assumptions:

- (I) We assume demand for Tier 1 and 2 main applicant visas grows in line with the OBR trend growth rate assumptions over time, both in the absence of limits, and once limits are in place; we also assume demand for Highly Skilled Migrant Programme grants and Work Permit grants falls to zero in the first year of the Limits policy as these routes close;
- (II) All in country extension applications and grants are exempt from both the limits and policy proposals, and hence are not affected by the changes. Tier 1 Post-Study, Tier 1 Investor, Tier 1 Entrepreneur, Tier 1 Other, Tier 2 Ministers of Religion, Tier 2 Sports Persons, and Tier 2 ICT are exempt from the limit.
- (III) We estimate the policy impacts on main applicant grants associated with each of the policy changes either using policy specific assumptions (e.g. closing Tier 1 General reduces Tier 1 General by 100%), or by using internal management information data on the characteristics of Tier 1 and 2 migrants and/or of their occupations. For example we use management information samples to understand what percentage of Tier 2 ICT migrants currently earn over £40,000. We use the Migration Advisory Committee reports on occupations skilled to NQF level 4 to estimate what percentage of Tier 2 migrants are currently working in occupations below NQF level 4;
- (IV) We include behavioural change assumptions where we believe migrants may apply for and qualify under an alternative Tier 1 or 2 sub-route. In the central scenario, we assume that half of denied Tier 1 migrants flow into Tier 2 General – we assume 30% would not qualify as they currently work in unskilled occupations; and a further 20% would either not meet the points tests or would not have a UKBA registered sponsor. We also assume in the central scenario that half of the Tier 2 ICT migrants denied by the increase in the ICT salary to £40,000 with salaries above £24,000 will displace into the Tier 2 General RLMT route, as they will meet the Tier 2 points test and can continue to come to the UK for periods greater than 12 months. We assume that the majority (75%) of the remaining Tier 2 ICT migrants affected will apply for a new category of ICT visas for less than 12 months. **Note** - in the low scenario, which we believe is the most likely outcome, we model stronger displacement effects so that fewer visas are affected;
- (V) We assume that the ratio of main applicant applications to main applicant grants remains broadly constant, so that the estimated change in grants leads to a proportionate change in applications. Application estimates are then used to calculate the UKBA fee and case working cost impacts using current UKBA fees and unit case working cost assumptions. Using historic Tier 1 and 2 main

applicant to dependant ratios, the dependant fee income effects are modelled to fall in proportion to main applicant fee income;

- (VI) We assume that where Tier 1 migrants qualify for Tier 2 General, around 50% would have employers that need to register with UKBA. These volume assumptions are used to calculate the increase in sponsor registration costs (using current UKBA sponsor fees), the increase in sponsor obligation costs (using the PBS Sponsorship Impact Assessment assumptions), and the increase in sponsor familiarisation time with Tier 2 guidance;
- (VII) We assume that where Tier 2 migrants no longer qualify under Tier 2 General, due to the increased qualifications and English language levels, that 50% of their employers will no longer need to register as a UKBA sponsor. These volumes are then used to estimate the reduction in sponsor registration costs, the reduction in sponsor obligation costs, and the reduction in sponsor familiarisation time (as in VI above);
- (VIII) Where Tier 1 migrants no longer qualify, we also assume there are ongoing reductions in familiarisation time for private and third sector employers who will no longer need to familiarise themselves with Tier 1 General guidance. In addition, we assume that all registered private and third sector immigration advisers (using data from the Office for Immigration Services Commission) will similarly benefit from a reduction in familiarisation time with Tier 1 General guidance.

General Assumptions

The key general assumptions used in the IA are set out below:

IA assumptions	Value
Estimated Stock of Tier 2 sponsors	14,000
Large Sponsors ratio	0.34
Small Sponsors ratio	0.66
Large Sponsor Licence Fee	£1,000
Small Sponsor Licence Tier 2	£400
Sponsor Obligation costs per migrant	£60
Legal Advisers – Private sector – based on OISC 2009/10	2,000
Legal Advisers – Third sector – based on OISC 2009/10	2,000
Admin Staff Hourly wage (including on costs) – ASHE 2009	£12
Senior Manager Hourly wage (including on costs) – ASHE 2009	£27
Hours of familiarisation with Tier 1 and 2 guidance (hrs)	3

UKBA Fees and Case work unit costs 2010/11:

Route	Fees		Unit Cost	
	Out of Country	In country	Out of Country	In country
HSMP	£750	£850	332	129
Tier 1 – General	£750	£850	332	129
Tier 1 – Investors	£750	£850	332	129
Tier 1 – Entrepreneurs	£750	£850	332	129
Tier 1 – Post Study	£344	£550	344	100
Tier 1 – Other	£750	£850	332	129
Work Permit Holders	£350	£500	197	92
Tier 2 – General (RLMT and Shortage)	£350	£500	197	92
Tier 2 – Inter Company Transfers	£350	£500	197	92
Tier 2 – Ministers of Religion	£350	£500	197	92
Tier 2 – Elite Sports People	£350	£500	197	92
Other employment leading to settlement	£350	£500	197	92
Certificate of Sponsorship (COS)	£170	£25	£170	£25
Tier 2 Sponsor License Large		£1,000		£880
Tier 2 Sponsor License Small		£300		£880

Note – dependant fees are the same as main applicants for visas, and for in country are set out on the UKBA website:

<http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/fees-wms-ia/>

5.2 Settlement Policy

UKBA is proposing to undertake some preliminary tightening of the existing settlement rules for Tier 1, Tier 2 and their predecessor routes, and to strengthen the rules on criminality for settlement applicants (excluding those from refugees and those granted humanitarian protection). These changes will make it clear that skilled and highly skilled migrants are expected to have reached an intermediate level of English language capability, as well as an understanding of life in the UK, before they apply for settlement; and that they will need to meet the minimum income criteria that applied when they last extended their permission to stay. The changes will also mean that migrants with unspent criminal convictions will be refused settlement. As they are largely designed to clarify and tighten the existing rules, the changes are not expected to have a significant impact on net migration over the duration of this Parliament. Further reform to the settlement rules will be announced in due course.

In 2010, there were 238,000 grants of settlement, of which 84,000 were from employment routes, 65,000 from family, 5,000 from asylum and 83,000 from other routes. In 1997 there were 59,000 grants of settlement in total and less than 10,000 employment related grants. Employment-related grants of settlement, including dependants, rose to 84,000 in 2010. This is a 22% increase from 2009 and compares to less than 10,000 who qualified for employment-related settlement in 1997.

As we tighten our entry criteria it is also logical to restrict our settlement criteria to ensure that only the brightest and best and those the country needs are able to stay in the UK permanently. The Government's aim is to introduce greater selectivity to the immigration system so that we have more control over those who enter and those who remain. The restrictions on numbers entering will therefore be complemented by an increase in those leaving the UK and contribute to the net migration target. The April rules changes will contribute to this objective.

Language requirement

Tier 1 (General), Tier 2 (General), Tier 2 (ICT) and Work Permit migrants are currently required to demonstrate Knowledge of Life and Language (KoL) in the UK when applying for settlement. They can meet this by either passing the Life in the UK (LitUK) test or successfully complete an English for Speakers of Other Languages (ESOL) with Citizenship course.

The Life in the UK test is set at the Common European Framework of Reference (CEFR) English language level B1. Those taking the ESOL route are required only to demonstrate progression from one level to the next, meaning they do not necessarily have to reach level B1.

Removing the ability of PBS Tier 1 and Tier 2 migrants (and their predecessor routes) to meet the Knowledge of Language and Life in the UK requirement by completing an ESOL with citizenship course would mean this group would need a language standard of at least B1 to gain settlement. There will be a

small reduction in the numbers granted settlement as a result, although no immediate impact on net migration as those already in country and who fail the requirement will be able to apply for further leave to remain meaning they may not leave the UK.

Criminality test

We expect those who come here to respect British values and abide by the rules. We have taken an increasingly robust approach within the immigration system to migrants who break the law in recent years. Foreign national prisoners who meet the relevant criteria are no longer released without considering deportation. We have amended the immigration rules to reduce the grounds on which deportation might be prevented, and we have legislated through the UK Borders Act so that foreign prisoners convicted of serious crimes will face automatic deportation. Since January 2008 we have tightened our policy on citizenship so that foreign nationals will not normally be allowed to become British if they have criminal convictions.

We will now tighten the criminality test applied at the settlement stage, bringing it more closely in line with that required for citizenship (naturalisation) applications. The changes will mean any migrant applying for settlement with an unspent conviction will generally be refused. Aligning the criminality requirements for settlement and citizenship reflects the similarity in rights and benefits of both statuses. We have assumed a small reduction in settlement grant rates as a result of this policy. We estimate that this could reduce net migration by up to 800 people per year.

Economic criteria

Migrants in Tier 1 and T1 predecessor routes currently have to demonstrate they are 'economically active' before being granted ILR. Tier 2 and Tier 2 predecessor migrants require confirmation from their employer that they are still needed for employment. Neither of these criteria test whether the migrant continues to meet the income criteria which applied when they last sought an extension of leave.

Therefore from April 2011 onwards we will require Tier 1, Tier 2 and predecessor migrants to meet the minimum income criteria that applied when they last extended their permission to stay.

Academic evidence suggests that while migrants salaries can be lower than natives when they arrive in the UK, their wages assimilate with UK workers salaries over time.¹⁹ This implies that migrant workers will experience an increase in pay until their wages reach the native level, meaning they are likely to meet the criteria described above. Thus we have assumed that the majority of migrants will meet this condition and it will not affect net migration.

Further Leave to Remain for ICTs

¹⁹ Dickens, R. and McKnight, A. (2011) *Assimilation of Migrants into the British Labour Market* February, CASE paper 133.

Since April 2010 those entering on the Intra-Company Transfer (ICT) route have no longer been able to settle after 5 years in the UK. We plan to reinforce the temporary nature of the ICT route by limiting ICT migrants' stay in the UK to a maximum of 5 years and removing any right to settlement. *We also plan to stop granting further leave to remain to migrants who have not passed the Knowledge of Language and Life in the UK requirement when eligible to apply for ILR. We will apply these policies to new migrants who enter the UK from April 2011 only.* Thus there will be no impact on net migration until after these migrants' leave expires in 2016. This is outside the scope of this impact assessment.

Estimated impact of the April package on net migration

The table below shows the impacts of the policies described above. The changes will have a limited impact on net migration.

	2011	2012	2013	2014	2015
B1 language requirement	0	0	0	0	0
Criminality	600	800	750	750	550
Reaffirm on-entry income requirement	0	0	0	0	0
Total	600	800	750	750	550

Impact on UKBA costs and income

We estimate the additional operational costs of these policies to be minimal. There will be some additional caseworking costs as a result of checking migrants continue to meet income criteria.

The impact of the proposed April changes on net migration will be limited but they are likely to result in reduced UKBA income through a small reduction in settlement and citizenship applications. There may also be a possible increase in appeal costs as a result of refusing more settlement applications and setting removing directions against those who do not leave voluntarily (a refusal of indefinite leave to remain itself does not carry a right of appeal). However, if applications fail, appeals are also likely to fall.

Actual costs will depend on behavioural factors – for example, whether a migrant who fails the criteria still makes a (charged) application, leading to a refusal and appeal, or whether he does not make the application in the first place.

The table below presents possible scenarios of the impact on income and appeal costs, assuming:

- Migrants will not apply for settlement if they are going to be refused;
- If migrants had successfully applied for settlement they would have gone on to apply for citizenship;

- It takes no account of failures to pass the Life in the UK Test which will delay settlement applications (deferring income) but create additional further leave to remain (FLR) applications and revenue;
- And the current 60 percent appeal rate, after refusal of settlement, remains constant. If migrants do not apply for settlement because of likely refusal they will not have the right of appeal. Thus the appeal costs are the maximum figure and may be overstated.

It is important to note that these effects are not cumulative. The actual impact will depend on behavioural factors and is likely to include a degree of lost income and a degree of increased appeal costs.

Income impacts of new criteria					
Estimated income hit (£)	2011	2012	2013	2014	2015
Income from lost ILR (£900 per app)	540,000	720,000	675,000	675,000	495,000
Income from lost Citizenship (£700 per app)		560,000	525,000	525,000	385,000
Total (£m)	540,000	1,280,000	1,200,000	1,200,000	880,000

Increased appeal costs £s (assuming 6% ILR refusal rate and 60% appeal rate)	430,000	575,000	540,000	540,000	400,000
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5.3 Summary Costs and Benefits Table

The table below sets out the estimated costs and benefits associated with the low scenario for Option 2 on the public, private and third sector:

COSTS	Assume implementation from April 2011				TOTAL 4 year
	Yr 1	Yr 2	Yr 3	Yr 4	
SET UP COSTS					
Public Sector					
1.a. Case worker retraining	£ -	£ -	£ -	£ -	£ -
2.a. Case-worker Re-reading guidance	£ -	£ -	£ -	£ -	£ -
3. IT costs	£ 1,000,000	£ 1,000,000	£ -	£ -	£ 2,000,000
Total Public Sector Setup Costs	£ 1,000,000	£ 1,000,000	£ -	£ -	£ 2,000,000
Private sector					
1. Staff familiarisation costs - sponsors	£ 300,000	£ -	£ -	£ -	£ 300,000
2. Staff familiarisation costs - legal advisers	£ 100,000	£ -	£ -	£ -	£ 100,000
Total Private Sector Set Up Costs	£ 400,000	£ -	£ -	£ -	£ 400,000
Third sector					
1. Staff familiarisation costs - sponsors	£ -	£ -	£ -	£ -	£ -
2. Staff familiarisation costs - legal advisers	£ 100,000	£ -	£ -	£ -	£ 100,000
Total Third Sector Set Up Costs	£ 100,000	£ -	£ -	£ -	£ 100,000
Total Set Up Costs	£ 1,500,000	£ 1,000,000	£ -	£ -	£ 2,500,000
ONGOING COSTS					
Public sector					
UKBA costs					
1. Increased case work costs	£ 6,300,000	£ 8,300,000	£ 8,500,000	£ 8,600,000	£ 31,700,000
2. Reduction in fee income	£ 19,800,000	£ 27,700,000	£ 28,700,000	£ 29,900,000	£ 106,100,000
Total Public Sector On Going Costs	26,200,000	36,000,000	37,200,000	38,500,000	137,800,000
Private sector					
1. Additional ongoing familiarisation costs	£ 300,000	£ 300,000	£ 400,000	£ 400,000	£ 1,300,000
2. Additional sponsor registration costs	£ 4,400,000	£ 6,000,000	£ 6,100,000	£ 6,300,000	£ 22,700,000
3. Additional sponsor obligation costs	£ 800,000	£ 1,100,000	£ 1,200,000	£ 1,200,000	£ 4,300,000
Total Private Sector On Going Costs	£ 5,400,000	£ 7,400,000	£ 7,600,000	£ 7,800,000	£ 28,300,000
Third sector					
1. Additional ongoing costs	£ -	£ -	£ -	£ -	£ -
Total Third Sector On Going Costs	£ -	£ -	£ -	£ -	£ -
Economy	See Evidence Base				
Total On Going Costs	£ 31,600,000	£ 43,400,000	£ 44,800,000	£ 46,400,000	£ 166,100,000
Total Costs	£ 33,100,000	£ 44,400,000	£ 44,800,000	£ 46,400,000	£ 168,700,000
Total costs (present value)	£ 33,100,000	£ 42,900,000	£ 41,800,000	£ 41,800,000	£ 159,700,000
BENEFITS					
ONGOING BENEFITS					
Public Sector					
1. Reduction in ongoing case worker training	£ -	£ -	£ -	£ -	£ -
2. Reduction in ongoing case worker familiarisation	£ 200,000	£ 200,000	£ 200,000	£ 200,000	£ 600,000
3. Reduction in ongoing case-working costs	£ 5,900,000	£ 8,100,000	£ 8,500,000	£ 9,000,000	£ 31,500,000
4. Increase in ongoing UKBA income	£ 6,600,000	£ 8,500,000	£ 8,700,000	£ 8,900,000	£ 32,700,000
Total Public Sector On Going Benefits	£ 12,700,000	£ 16,800,000	£ 17,400,000	£ 18,000,000	£ 64,800,000
Private sector					
1. Reduction in ongoing private sector staff familiarisation	£ 300,000	£ 300,000	£ 400,000	£ 400,000	£ 1,300,000
2. Reduction in ongoing private sector staff familiarisation - lawyers	£ 200,000	£ 200,000	£ 200,000	£ 200,000	£ 600,000
3. Reduction in private sector sponsor admin burdens	£ 200,000	£ 300,000	£ 300,000	£ 300,000	£ 1,100,000
4. Reduction in sponsor registration fees	£ 1,100,000	£ 1,500,000	£ 1,500,000	£ 1,600,000	£ 5,700,000
Total Private Sector On Going Benefits	£ 1,700,000	£ 2,300,000	£ 2,400,000	£ 2,400,000	£ 8,800,000
Third sector					
1. Reduction in ongoing third sector staff familiarisation	£ 300,000	£ 300,000	£ 400,000	£ 400,000	£ 1,300,000
2. Reduction in ongoing third sector staff familiarisation - lawyers	£ 200,000	£ 200,000	£ 200,000	£ 200,000	£ 600,000
Total Third Sector On Going Benefits	£ 400,000	£ 500,000	£ 500,000	£ 500,000	£ 2,000,000
Total Benefits	£ 14,800,000	£ 19,600,000	£ 20,200,000	£ 21,000,000	£ 75,600,000
Total benefits (present value)	£ 14,800,000	£ 18,900,000	£ 18,900,000	£ 18,900,000	£ 71,500,000
NET IMPACTS	£ 18,300,000	£ 24,800,000	£ 24,600,000	£ 25,400,000	£ 93,100,000
Discount rate					
NPV	£18,300,000	£24,000,000	£22,900,000	£22,900,000	£88,200,000

Note – Numbers may not add due to rounding. Estimates are based on internal modelling and subject to uncertainty

5.4 Sensitivity Analysis and Ranges

Given the uncertainty surrounding the assumptions and impact estimates, particularly around behavioural change, we have provided a range in the Impact Assessment summary boxes. These ranges are estimated based around changes to the behavioural assumptions that have been used.

The table below sets out the low, central and high migration reduction scenarios, what the behavioural assumptions are, and what the estimated impacts are:

Scenario	Behavioural assumptions	Estimated policy impact on main applicant grants in the first full year of policy	Estimated total net present value 2011-2015
Low impact	75% of Tier 1 General migrants apply and qualify for Tier 2 General; 75% of Tier 2 ICT migrants earning between £24,000 and £40,000 apply and qualify for Tier 2 General. 100% of ICTs that do not qualify for Tier 2 General switch into less than 12 month visas Low impacts of policy proposals English language levels in Tier 2 General; Some uplifting of salaries and allowances by migrants/employers.	6,300 fewer out of country main applicant visas than 2009 levels (4,000 fewer visa grants than 2011 baseline plus 7,000 fewer in country grants).	-£88.2m
Central impact	50% of Tier 1 General migrants apply and qualify for Tier 2 General; 50% of Tier 2 ICT migrants earning between £24,000 and £40,000 apply and qualify for Tier 2 General. 75% of ICTs that do not qualify for Tier 2 General switch into less than 12 month visas Some salary and occupational uplifting by migrants/employers	Compared to 2011 baseline, 9,000 fewer visa grants; 11,000 fewer in country grants.	-£96.2m
High impact	25% of Tier 1 General migrants apply and qualify for Tier 2 General; 25% of Tier 2 ICT migrants earning between £24,000 and £40,000 apply and qualify for Tier 2 General. No salary and occupational uplifting by migrants/employers	Compared to 2011 baseline, 16,000 fewer visa grants; 16,000 fewer in country grants.	-£102.5m

The same modelling strategy was followed for the central and high impact scenarios as for the low scenario- the likely path of work-related visas until 2015 was examined; the reductions in visas that result from the interaction of the policy package and a numerical limit were estimated; and then changes were converted to reductions in the net migration figure as measured by the International Passenger survey (IPS) at the ports.

The central impact scenario is estimated to have the effect shown below on net migration:

Total Impacts	2009	2010	2011	2012	2013	2014	2015
Baseline Non-EU Inflow	292	289	289	293	298	302	306
Baseline Non-EU Outflow	109	111	113	113	113	114	115
Baseline Net Non-EU	184	178	176	180	185	188	191
Policy Non-EU Inflow	292	289	278	280	284	288	292
Policy Non-EU Outflow	109	111	118	118	117	117	118
Policy Non-EU Net	184	178	160	162	167	171	174
Brits, EU and LTIM adjustment	14	14	14	14	14	14	14
BASELINE NET LTIM	198	192	190	194	199	202	205
POLICY NET LTIM	198	192	174	176	181	185	188

Net migration is estimated to be lower under the central scenario than under the low scenario; approximately 5,000 lower in 2011, and 6,000 lower in 2015.

The results for the high scenario are as follows:

Total Impacts	2009	2010	2011	2012	2013	2014	2015
Baseline Non-EU Inflow	292	289	289	293	298	302	306
Baseline Non-EU Outflow	109	111	113	113	113	114	115
Baseline Net Non-EU	184	178	176	180	185	188	191
Policy Non-EU Inflow	292	289	274	269	274	277	280
Policy Non-EU Outflow	109	111	121	122	117	116	118
Policy Non-EU Net	184	178	153	147	157	161	162
Brits, EU and LTIM adjustment	14	14	14	14	14	14	14
BASELINE NET LTIM	198	192	190	194	199	202	205
POLICY NET LTIM	198	192	167	161	171	175	176

Net migration is estimated to be lower under the high scenario, than for both the low scenario and the central scenario. Compared to the low case, net migration is estimated to be approximately 12,000 lower in 2011 and 18,000 lower in 2015.

Annex 6 - Wider economic impact

6.1 Growth

Evidence suggests that an increase in the potential labour supply has not led to the displacement of non-migrant workers.

There is strong consensus in the literature that any impact of migrants on the displacement of non-migrant workers is, if statistically significant, small, or, in the majority of cases, simply insignificant. For example, Blanchflower, Saleheen and Shadforth (2007) suggest little or no evidence that immigrants have had a major impact on non-migrant labour market outcomes such as wages and unemployment; whilst the Institute of Public Policy Research (2009) find no evidence to suggest that migration has any substantial negative impact on either wages or employment. Nor is it clear that displacement has any more a role to play in recessionary conditions, although a recent US study by Peri (2010) does find a short-run negative impact on non-migrant employment, principally in low-skill sectors.

On the basis of the extant literature we assume no displacement of non-migrant workers by migrants, although in a time when growth in the economy is less well-established, there might be more scope for displacement to occur.

How important are Tier 1 and Tier 2 migrants?

We estimate that, on average, the annual contribution of Tier 1 and Tier 2 principal migrants and their dependents, including those in and out of work, are roughly double that of the equivalent contribution of UK population, with the exception of the ICT group whose contribution is relatively much higher.

Route	Estimated average contribution to output of group	Ratio compared to UK residents
UK population	£12,000	1.0
Tier 1	£18,000	1.5
ICT	£44,000	3.5
RLMT	£33,000	2.7
Shortage occupation	£23,000	1.9

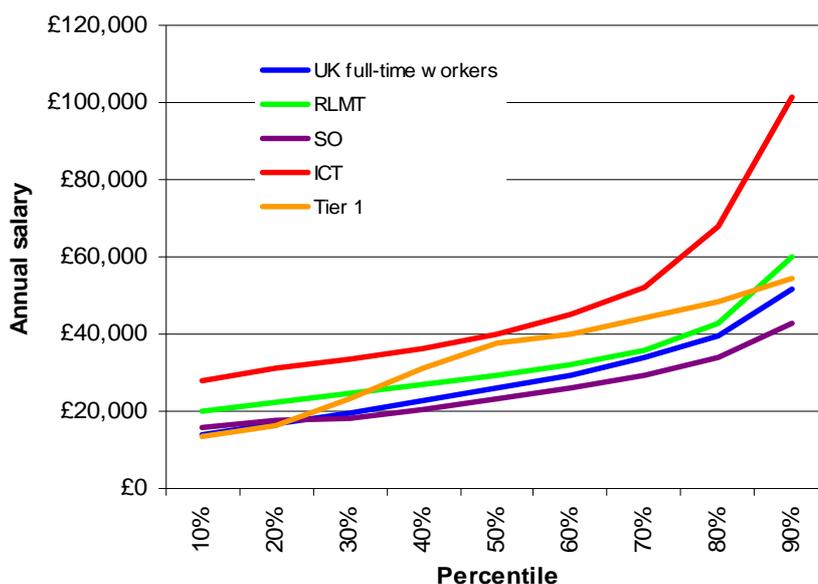
It is perhaps unsurprising that the migrant contribution for these work-related routes is higher than the UK population as a whole, as we could expect their employment rates to be higher. Given that migrants under Tier 2 enter with a definite job offer, the short run employment rate is assumed to be 100 percent. For Tier 1 migrants, a post-implementation survey of migrants found the employment rate to be around 90 percent. The MAC have also suggested that around 60 percent of all spouses that accompany non-EU migrants are employed, and this is supported by an experimental variable in the labour force survey.

Employment rates of non-EEA born individuals by main reason for coming to the UK, 2010 Q1 and Q2:

Reason for coming to the UK	Sample size	Employment rate (percent)
As a spouse/ dependent of UK citizen	906	59
Employment	897	83
Get married/ form civil partnership	403	*
Other	589	65
Seeking asylum	366	*
Spouse/ dependent of someone coming to UK	829	59
Study	810	58
Visitor	137	*

Source: Labour Force Survey, 2010 Q1 and Q2. Note: The 'WHYUK10' variable is an experimental variable included in the first two quarters of the Labour Force Survey for 2010. The question asks "What was your main reason for coming to the UK?" The sample size is too small at present to break these data down by year of entry; therefore respondents will have entered the UK in different years and through different visa routes. The LFS is panel survey that follows individuals over five quarters, therefore some individuals will be sampled twice in the pooled Q1 and Q2 sample. Employment rates are given for working age population (defined as females aged 16-59 and males aged 16-64). (*) Figures are withheld where the sample falls below 500 people.

The following graph compares earning distributions of Tiers 1 and 2 principal applicants against the earning distribution of all UK full-time workers in 2009 prices:



Note: Tier 1 data: UK Border Agency initial applicants and further leave to remain applications, Q1 2007. Note: Salaries were self-reported by a sample of HSMP migrants, and were not cross-checked by UKBA. This data may not be representative, since Tier 1 and the HSMP routes use different selection mechanisms. Tier 2 data: UK Border Agency management information, July 2009 to June 2010. Note: Tier 2 annual salaries are calculated as the salary for the given period plus allowances. Salaries were provided by employers applying for Certificates of Sponsorship (CoS) on behalf of Tier 2 applicants. Given that not all of these potential applicants will be admitted to the UK (due to failure to meet PBS requirements or immigration rules), this dataset also includes salaries of unsuccessful Tier 2 applicants. UK full-time workers data: Office for National Statistics 2009 ASHE survey.

The conclusion from this analysis is that, although Tier 1 and Tier 2 migrants, and in particular ICTs, may generate more output per head as groups than non-migrants overall, the apparently wide distribution of their earnings implies that a more selective approach to the admission of migrants might pay dividends – a conclusion reinforced by analysis of the migrant contribution to productivity.

6.1.1 Productivity

The longer-run impact of migrants will depend on whether they raise productivity in the economy, and by how much.

Wages are correlated with productivity at the individual level and as such can be used as a proxy for productivity. In 2007 Dustmann et al. estimated that a 1 percentage point increase in the migrant share in the working age population increased non-migrant wages on average by between +0.3 and +0.4 percent.²⁰ This result was supported by an estimate of similar magnitude in a later study by Lemos and Portes, albeit insignificant.²¹ Each study highlighted differing impacts on specific groups. In particular Dustmann et al found that the impact of an increase in the migrant share on low paid non-migrants was negative, with those in the first decile experiencing a wage reduction of -0.5 percent. Lemos & Portes found a positive impact of 0.11 percent but this result was not significant.

Notably, more recent papers by Nickell & Saleheen (2008)²² and the IPPR (2009)²³ have found a negative impact of a 1 percentage point increase in migrant share of the working age population on non-migrant wages, of 0.04 percent and 0.3 percent respectively. Nickell & Saleheen found a negative association for semi/ unskilled service workers of 0.5 percent.

The empirical literature suggests that the impact of migration on productivity may be mixed, and heavily dependent on the type of migrant coming to the UK.

Positive productivity effects

Migrants may increase UK productivity if they have higher productivity than non-migrants, raising overall productivity through a simple “batting average” effect.

Migrants may also increase productivity through specialisation; migrants of any skill level can fill a role and hence allow a non-migrant to move to their next best activity – this is the classic “gain from trade”. A study by Peri and Sparber (2001)²⁴ suggests that non-migrant workers will react to increased competition in the labour market caused by migrants by moving to occupations that reflect their comparative

²⁰ A Study of Migrant Workers and the National Minimum Wage and Enforcement Issues that Arise, Dustmann et al, 2007, <http://www.econ.ucl.ac.uk/cream/pages/LPC.pdf>

²¹ The Impact of migration from the new Eastern Union member states on non-migrant workers, DWP, Lemos S and Portes J, 2008, <http://research.dwp.gov.uk/asd/asd5/wp52.pdf>

²² The Impact of Immigration on Occupational Wages: Evidence from Britain, Stephen Nickell and Jumana Saleheen, Federal Reserve Bank of Boston, Working Papers No. 08-6, October 2008

²³ The Economic Impacts of Migration on the UK Labour Market, Howard Reed and Maria Latorre, February 2009, IPPR,

<http://www.ippr.org.uk/members/download.asp?f=%2Fecomm%2Ffiles%2Flabour+market+impacts%2Epdf>

²⁴ Giovanni Peri & Chad Sparber, 2008. "Highly-Educated Immigrants and Native Occupational Choice," CReAM Discussion Paper Series 0813, Centre for Research and Analysis of Migration (CReAM), Department of Economics, University College London

advantage in the labour market. In general this improved labour market sorting leads to non-migrants specialising in occupations requiring strong communication skills, and migrants specialising more in quantitative and analytical tasks.

If non-migrants stay in a role but work alongside migrants, there may be gains if they observe and adopt more efficient working practices. It is clear that migrants may have different skills that imply scope for innovation; there is some evidence that ethnic diversity leads to positive growth effects. A review by the National Institute of Economic and Social Research (NIESR) quotes a small range of studies for both the US and Germany, at the city or region level, which identify at least a correlation between diversity and productivity. For example, Ottaviano and Peri (2008) find that on average, US-born workers are made more productive by greater cultural diversity.²⁵ However, they do not identify the mechanism through which this occurs. NIESR also report studies by Matoo et al (2005) and Moen (2005) that emphasise, respectively, the ability of migrants to contribute to technology adoption and adaptation by directly contributing to innovation or by facilitating knowledge spill-overs.

At the same time, it is possible that language or assimilation problems may impair the ability of non-migrant and migrant workers to co-operate and hence reap the full potential for gains from co-operation in the workplace. For example, NIESR quote Quispe-Agnoli and Zavodny who found that labour productivity growth in the US manufacturing sector was lower in both high- and low-skill industrial settings in states with larger increases in the foreign-born population share. Because they view this as a problem of assimilation, they argue that the impacts may be essentially short-run.

Negative productivity impacts

The Quispe-Agnoli and Zavodny study opens up the possibility that the impact of migrants may not be universally beneficial (and, therefore, that the overall effect may be the result of positive and negative forces). The impacts may depend largely on the extent to which migrants are seen as substitutes or complements for non-migrant labour.

High skill migration may imply no need for employers to train their own staff or for non-migrants to develop skills to allow effective competition for jobs. A small range of academic papers have explored the possibility of migration contributing to a Low Skills Equilibrium for non-migrant workers, a situation characterised by limited incentives for non-migrant workers to engage in education and training, and limited job prospects. However, the theoretical direction of impact of high skilled migration on opportunities for non-migrant workers is unclear. High skilled migration may increase the probability of a Low Skills Equilibrium by reducing the return to skills or crowding out non-migrants from education and training courses. However, it may also reduce the likelihood of a Low Skills Equilibrium by allowing firms to organise production around highly-skilled workers, increasing demand for skilled non-migrant workers. Increased tax revenue from skilled migrant workers may also help fund additional education and training.

²⁵ Migrants' skills and productivity: A European perspective (NIESR 2010) Huber, Landesmann, Robinson and Stehrer

Belletini and Ceroni (2002)²⁶ find that the presence of highly skilled migrants may act as a direct incentive for investment in human capital accumulation, and Fuest and Thum (2001)²⁷ suggest that an influx of less skilled migrants will increase the return to skill development. On the other hand, Baker and Wooden (1992) examining the experience of Australia,²⁸ found that skilled migration significantly reduced in-house training, by some 10 percent. The reason adduced for this was, however, that high-skilled migrants were over-represented in low-training industries, rather than a causal effect of migration on training provision.

Low skill migrants may reduce the incentive to invest in capital intensive production methods as the relative costs of capital would be higher. The classic example is of the different paths followed by Californian and Australian wine producers, with the former exploiting the available immigrant labour to move to a labour-intensive production technology, compared to the capital-intensive approach in Australia. Lewis (2005) finds that low-skilled labour and automated production processes are indeed substitutes,²⁹ and, more than this, that producers may be more likely to sustain methods involving the use of low-skilled labour, because of the tendency of migrants to follow the geographic, industrial and occupational routes taken by their migrant predecessors.

Our reading of the relevant literature suggests that the empirical studies of the migrant impact on productivity have generated results which are somewhat mixed. If migrants do contribute to productivity, they tend to do so if they combine successfully with capital, and if they find work in areas that complement their particular skill sets, and if they have successfully assimilated to life in the UK.

6.2 Business

Migrant Dependency

One reason to be concerned about the relationship between migration and growth is the emergence of a possible damaging dependency on migrants to supply certain essential goods and services. The sudden withdrawal of the migrant flow might leave the economy struggling to adapt effectively until the deficiency is made good. This is a similar argument to the one sometimes advanced as a risk to highly open economies who benefit from free-trade and who give up the possibility of self-sufficiency.

Potential for resident workers to fill skill shortages

To meet the demand for workers left as a result of the policy change, DWP could encourage unemployed domestic workers or certain inactive groups to take up the roles which may otherwise have been filled by non-EU workers. Unemployed and inactive individuals may already hold relevant qualifications.

²⁶ Belletini, G. and Ceroni, C. B. (2002). *Migration and Human Capital Accumulation*. Department of Economics, University of Bologna.

²⁷ Fuest, Clemens & Thum, Marcel, 2001. "Immigration and skill formation in unionised labour markets," *European Journal of Political Economy*, Elsevier, vol. 17(3), pages 557-573, September.

²⁸ Baker, M. and Wooden, M. (1992), *Immigration and Its Impact on the Incidence of Training in Australia*. Australian Economic Review, 2nd Quarter 1992.

²⁹ *Immigration, skill mix, and the choice of technique* by Ethan Lewis, 2005: <http://econpapers.repec.org/paper/fipfedpwp/05-8.htm>

Qualifications held by nationality and economic status (%):

	Employed			Unemployed			Inactive		
	UK	EEA	Non EEA	UK	EEA	Non EEA	UK	EEA	Non EEA
Below level 2	22	36	30	39	38	41	46	50	49
Level 2	21	22	18	26	19	20	20	20	18
Level 3	20	11	11	18	14	12	17	15	11
Level 4 +	36	31	41	17	28	28	17	15	12

Source: LFS (Q1 2010)

Unemployed Individuals

Using the broader ILO measure, the most recent labour market statistics show that there are currently 2.49 million people unemployed.

A significant proportion of unemployed individuals are educated to at least A-level or equivalent, suggesting that they may have the skills to take up highly skilled positions.

Highest level of education of unemployed individuals groups:

	Unemployed individuals (working age)
Degree or equivalent	362,648
Higher education	140,301
GCE, A-level or equivalent	506,725
GCSE grades A* -C or equivalent	739,932
Other qualifications	395,745
No qualifications	363,343
Do not know	17,433

Source: LFS (Q3 2010)

Those counted as ILO unemployed are actively seeking work, and we know that many do find work relatively quickly. This process is going on all the time in the labour market but despite this shortages of workers in specific occupations still exist. However, up-skilling and better incentivising work for the long term unemployed and inactive groups could lead to less reliance of migrant labour.

Example: Computer Science graduates

Of the 333,720 first degrees completed in the UK in 2008-09, 14,035 were in computer science. A survey of 2008-09 graduates from full-time first degrees found that computer science graduates have particularly low employment rates compared to the average (81.8 percent and 89.9 percent respectively).

Inactive individuals

	Inactive individuals (working age)
Degree or equivalent	1,220,770
Higher education	776,218

GCE, A-level or equivalent	2,141,116
GCSE grades A* -C or equivalent	2,477,106
Other qualifications	1,628,025
No qualifications	3,018,933
Do not know	82,137

Source: LFS (Q3 2010)

While some inactive people may have the requisite skills, the fact that many might have been out of work for many years will make it an added challenge not just to move them into work but (directly) into a skilled job. This suggests that training policies will take time to fully come into effect and the current skill shortages will continue to exist in the short term.

Annex 7 – Public services and Other Wider Impacts

Migrants affect both the demand for, and supply of, public services.

The impact of migration on the *demand* for public services varies by route of entry. Migrants tend to be disproportionately of working age, and thus require proportionately less health care and education services than the non-migrant population, although certain groups, such as refugees and asylum seekers, tend to have greater health needs.

The impact of migrants on public services will depend in part on the rate at which their demands change. Unexpected increases in migration in particular areas, with correspondingly rapid demands on public services, will tend to create greater strain and incur higher costs than planned migration.

Migrants also contribute substantially to the *supply* of public services. In 2009 over 25 percent of foreign nationals worked in the public administration, education and health sector.

7.1 Education

Compulsory education

Supply of teachers

The supply of teachers has moved towards greater self-sufficiency, leading to a downward trend in the number of work permits issued.

School/College Teachers – UKBA Visa approvals 2003-2009:

Year	Work Permits and CoS Issued
2003	6,463
2004	5,083
2005	4,348
2006	4,042
2007	3,816
2008	3,477
2009	1,966

Source: UKBA Management Information

The deployment of migrant teachers is important in helping to fill vacancies in particular subject areas or particular parts of the country. In secondary schools the overall vacancy rate is 0.5 percent in 2010, but rises to nearly double that in Mathematics and is also just higher than average in Science and English (0.6 percent). Secondary school teachers of science or maths, together with teachers of children with special educational needs, are currently on the shortage occupation list. And although the vacancy rate has declined noticeably from 1.4 percent over the course of the decade, vacancy rates in London, East of England and the West Midlands remain higher than in the rest of England. The number of work permits issued for London, Anglia, the South East, and the Central South are much higher than in other regions.

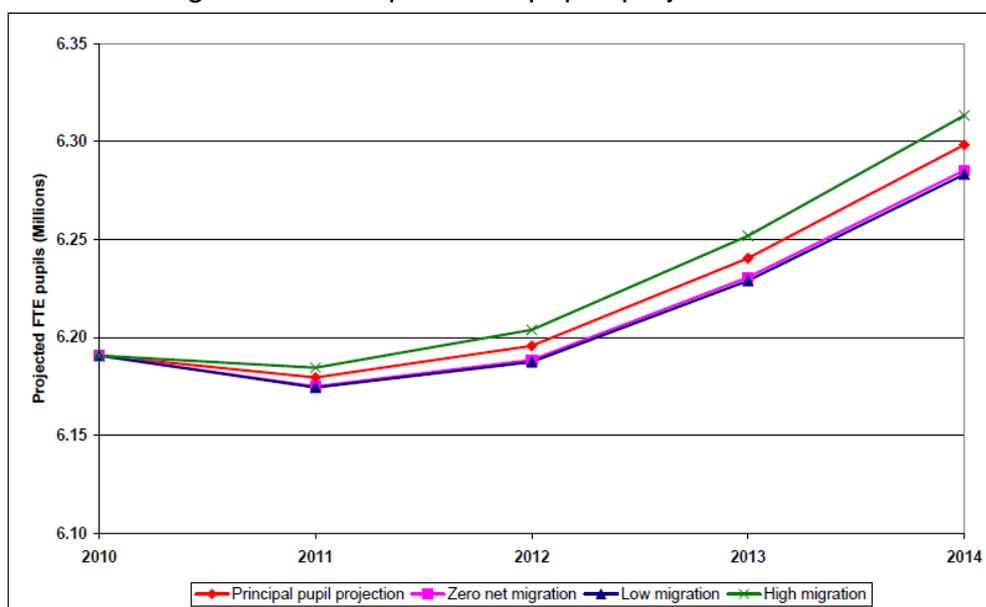
Local recruitment and retention difficulties can potentially be met by using teachers' pay arrangements to make additional awards to teachers such as recruitment and retention, teaching and learning responsibility payments and special educational needs teaching.

Demand for teachers

The principal pupil number projection, based on the ONS principal assumptions for migration and other demographic variables, projects that the number of pupils aged 5 to 15 is set to rise from 6,191,000 in 2010 to 6,304,000 in 2014.³⁰ This is a relatively modest increase (1.8 percent) although the projection is on an upwards trend by the end of the period.

Under the low ONS migration scenario (i.e. with 60,000 lower net migration across all ages than in the principal projection), there are forecast to be 14,800 fewer pupils – just 0.3 percent lower. Nevertheless, there could be much more marked impacts at local level, particularly in areas which currently have relatively high net migrant inflows.

Effect of different migration assumptions on pupils projections:



Source: DfE National Pupil Projections: Future Trends in pupil Numbers OSR 15/2010, Figure 4

³⁰ The ONS migration scenarios relate to long-term migrants i.e. those who change their country of usual residence for a period of at least a year. See Table 3 and Footnote 7 of the National Pupil Projections Statistical First Release: <http://www.dcsf.gov.uk/rsgateway/DB/STR/d000921/index.shtml>

7.2 Health

Historically the NHS has relied on migration to bolster workforce supply. International recruitment has either filled vacancies in specific geographies or specialist areas; or facilitated workforce expansion that would ordinarily be dependent on long training lead times. This has led to a significant proportion of medical professions coming from EEA and non-EEA countries.

Medical FTEs by country of qualification:

Staff group (percent)	UK	EEA	Non-EEA
Consultant	68	7	24
Registrar	61	6	33
Foundation year 2	87	3	10
House Officer and FY 1	91	2	6

The qualified non-medical NHS workforce (which includes nurses, scientific therapeutic and technical staff and trained ambulance staff) is also moving towards greater self-sufficiency. For example, in 2009/10 around 24,000 nursing and midwifery undergraduate courses were commissioned at English Higher Education Institutions and this number has remained broadly constant since 2002/03. The Department of Health believes that this number of commissions is sufficient to provide a sustainable workforce supply in this staff group, but in any event shorter training lead times for non-medics mean that inflows into the non-medical workforce can respond more quickly to need.

The Migration Impact Forum concluded in 2009 that migrant pressures on the NHS were manageable but could be challenging in some areas at neighbourhood or GP practice level. This was usually in places where services had to cope with already disadvantaged populations.

7.3 Housing

The principal 2008-based household projections forecast growth in the number of households of 232,000 per annum between 2008 and 2033.³¹ ONS/ DCLG estimate that net migration will directly contribute 83,000 (or 36 percent) of household growth over the period with natural change accounting for the remaining 64 percent, although different assumptions that capture likely migrant household “headship” rates and tenure patterns suggests a lower estimated contribution of migration to household growth.

Whilst upon arrival most migrants live in the private rented sector, and form large households (some because they share accommodation, others because they live with their extended family), migrants tenure and headship rates converge to those of the UK-born as their length of time in the country increases, as shown in the table overleaf.

³¹ See: <http://www.communities.gov.uk/publications/corporate/statistics/2033household1110>

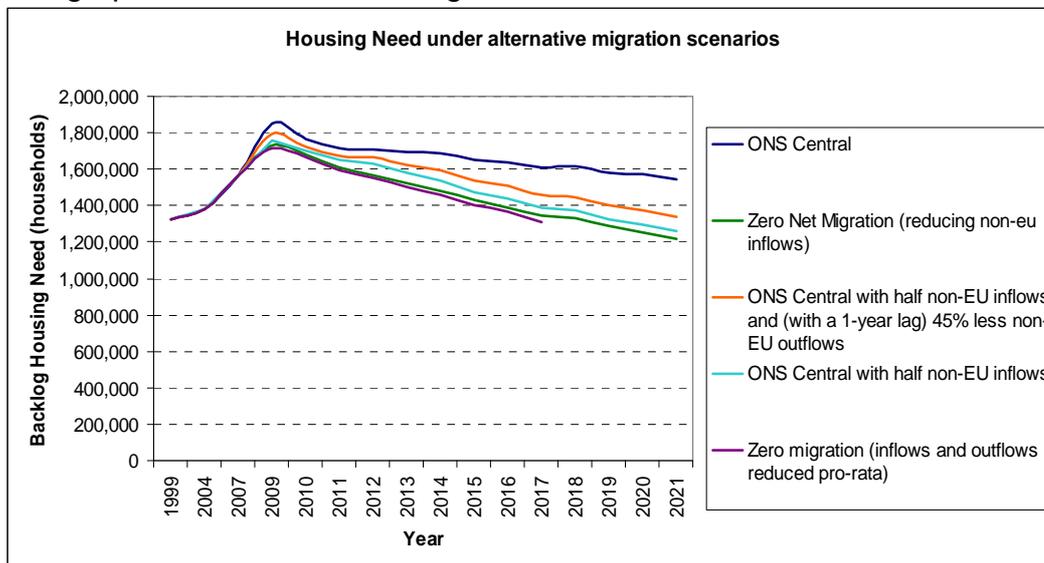
Migrants' Length of Stay and Tenure:

Time Lived in the UK (Years)	Owner Occupied	Private Rented Sector	Social Housing
1	10%	80%	10%
2	14%	77%	9%
3 to 5	24%	62%	14%
6 to 10	40%	37%	23%
10 to 20	54%	19%	27%
20 to 50	73%	9%	18%

Source: Labour Force Survey (LFS), 2009 Q4

When different tenure patterns and headship rates of the migrant population (based on observation of the characteristics for A8 migrants), it is estimated that the contribution of net migration to household growth could be as low as 41,000, (i.e. 60 percent less than when different tenure and headship rates are not taken into account).

The graph below shows housing need under alternative scenarios for net migration:



Source: CLG: Housing need model using 2006-based estimates of household growth and net migration.

A common misconception by the public is that migrants receive priority in the allocation of social housing. A report by the Equality and Human Rights Commission rejected this claim, and found that less than two percent of all social housing residents are people who have moved to Britain in the last five years and that nine out of ten people who live in social housing were born in the UK.

7.4 Population

The mid-2009 estimated resident population of the UK was 61.8 million, up by 394,000 (0.6 percent) on the previous year. Net migration directly accounted for 45 percent of this increase, and added indirectly due to its effect on natural change.

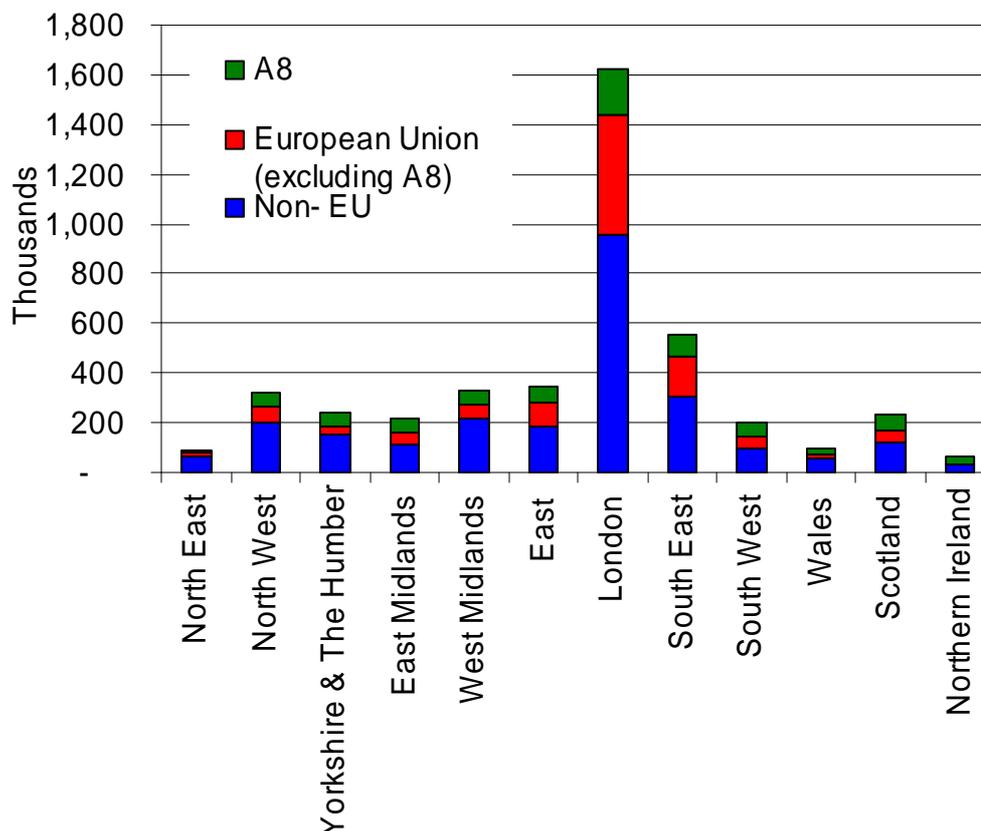
Foreign national population

The foreign born stock as a percentage of the population is around the OECD average. However, the migrant population in the UK has been rising; which has created public concern. In 2009 there were 4.3 million foreign nationals resident in the UK (almost 8 percent of the resident population). The foreign stock had increased by 1.4 million in five years.

Most foreign nationals are resident in London- where they make up 21 percent of the resident population. Northern Ireland has the smallest number of non-British residents, but Wales has the smallest number proportionally.

The regional impacts of migration differ significantly. Some areas have expressed specific concerns around the number of migrants in their area (for example concerning EAL provision, homelessness, unaccompanied asylum seeking children); whilst there have been calls for more migrants in Scotland, Northern Ireland and the North East to help maintain and sustain their economically active population.

Foreign national population, by region, 2009:



Source: ONS, Population by country of birth and nationality from the Annual Population Survey

Of the UK foreign national stock in 2009, 2.5 million (57 percent of the foreign population) were non-EU nationals. The most common non-EU 14 nationality in the UK was Polish; apart from in the North East they were also the most common nationality in every region in the UK. Between 2007 and 2009 the number of Polish nationals in the UK increased by over a third.

**Estimated population resident in the United Kingdom, by foreign nationality
January 2009 to December 2009**

Nationality	Estimate (thousands)
British	56,590
Non-British	4,344
<i>Of which</i> European Union	1,858
<i>European Union 14</i>	1,006
<i>European Union A8</i>	745
<i>Malta, Cyprus, Bulgaria, Romania</i>	107
Non- European Union	2,486

Source: ONS, Population by country of birth and nationality from the Annual Population Survey

Population projections

The Office for National Statistics (ONS) publish population projections; which are based on assumptions regarding past trends and contingent on the ONS view of past and continuing trends in fertility and mortality, and net migration. The projections take no account of current changes to migration policy, or further changes in the future, changing economic circumstances or other factors that might influence demographic behaviour.

Although these projections are not forecasts and do not attempt to predict the impact that future government policies, changing economic circumstances or other factors, it is possible by comparing projections based on alternative migration assumptions to infer something about the impact of a migration limit on population.

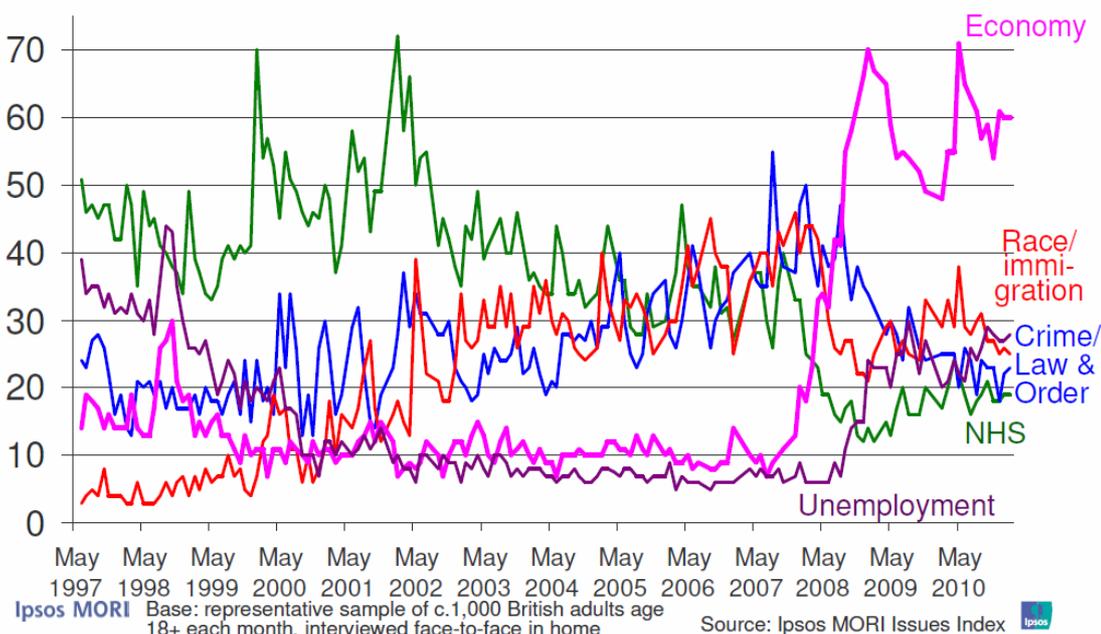
7.5 Public opinion and Social Cohesion

Public opinion

Concerns about the economy are currently at the forefront of the mind of the British public, yet migration remains an issue of concern. An independent survey by Ipsos Mori in February 2011 put it as the third most important issue, with 25 percent of those surveyed mentioning race relations or immigration.³²

³² Ipsos Mori, February 2011 Issues Index, <http://www.ipsos-mori.com/researchpublications/researcharchive/2724/February-2011-EconomistIpsos-MORI-Issues-Index.aspx>

What do you see as the most/other important issues facing Britain today?



The reasons given for public concern include the perceived abuse of public services, pressure on jobs and employment, and numbers of immigrants.

A recent YouGov poll (published on the 30th November 2010) found that over 80 percent of those surveyed supported the governments plan to limit the number of economic migrants from outside the EU who are entitled to work in Britain.³³

Social Cohesion

Few studies have examined the relationship between migration and cohesion directly; those that have conclude that:

- (i) High levels of residential turnover (of both immigrants and non-migrants) has the potential to undermine the ability of residents to form cohesive communities and build up strong social capital; and
- (ii) Perceived (and in some cases “real”) competition for finite resources – e.g. housing – and tensions around differing norms of behaviour, especially compounded by poor English proficiency could intensify the impact population churn might have on cohesion.

³³ See: <http://www.migrationwatch.co.uk/excel/YouGov-Poll-Restricting-NonEC-Mig301110.xls>

Annex 8: Occupations Affected

The following table sets out the occupations that the Migration Advisory Committee has suggested were skilled to NQF level 3 in their 2008 report, but are not skilled to NQF4 in 2011. These occupations are the main ones that will be affected by the Tier 2 policy proposals.

SOC code and occupation title	SOC code and occupation title
1162 Storage and warehouse managers	3542 Sales representatives
1163 Retail and wholesale managers	3544 Estate agents, auctioneers
1211 Farm managers	3552 Countryside and park rangers
1221 Hotel and accommodation managers	3562 Personnel and industrial relations officers
1225 Leisure and sports managers	3563 Vocational and industrial trainers and instructors
1226 Travel agency managers 6 12.34 20.3 3 0	4111 Civil Service executive officers
1232 Garage managers and proprietors	4114 Officers of non-governmental organisations
1233 Hairdressing and beauty salon managers and proprietors	4142 Communication operators
1234 Shopkeepers and wholesale/retail dealers	5211 Smiths and forge workers
3111 Laboratory technicians	5212 Moulders, core makers, die casters
3112 Electrical/electronics technicians	5214 Metal plate workers, shipwrights, riveters
3113 Engineering technicians	5215 Welding trades
3114 Building and civil engineering technicians	5216 Pipe fitters
3115 Quality assurance technicians	5221 Metal machining setters and setter-operators
3119 Science and engineering technicians	5222 Tool makers, tool fitters and markers-out
3122 Draughtspersons	5223 Metal working production and maintenance fitters
3132 IT user support technicians	5224 Precision instrument makers and repairers
3216 Dispensing opticians	5233 Auto electricians
3217 Pharmaceutical dispensers	5241 Electricians, electrical fitters
3231 Youth and community workers	5242 Telecommunications engineers
3232 Housing and welfare officers	5243 Lines repairers and cable jointers
3311 NCOs and other ranks	5245 Computer engineers, installation and maintenance
3312 Police officers (sergeant and below)	5249 Electrical/electronics engineers
3313 Fire service officers (leading fire officer and below)	5311 Steel erectors
3314 Prison service officers (below principal officer)	5312 Bricklayers, masons
3421 Graphic designers	5314 Plumbers, heating and ventilating engineers
3434 Photographers and audiovisual equipment operators	5315 Carpenters and joiners
3441 Sports players	5319 Construction trades n.e.c.
3442 Sports coaches, instructors and officials	5414 Tailors and dressmakers
3443 Fitness instructors	5421 Originators, composers and print preparers
3449 Sports and fitness occupations n.e.c.	5422 Printers
3511 Air traffic controllers	5493 Pattern makers (moulds)
3514 Train drivers	5495 Goldsmiths, silversmiths, precious stone workers
3520 Legal associate professionals	5496 Floral arrangers, florists
3533 Insurance underwriters	8124 Energy plant operatives
3536 Importers, exporters	

Source: Migration Advisory Committee: Table 3.2: List of 4-digit SOC 2000 occupations skilled to NQF3+ in Migration Advisory Committee (2008) but not to NQF4+ (February, 2011): <http://www.ukba.homeoffice.gov.uk/aboutus/workingwithus/indbodies/mac/>

The following table sets out the occupations that the Migration Advisory Committee has reviewed in more detail to see if sub-occupations were skilled to NQF level 3 in their 2008 report, but are not skilled to NQF4 in 2011. These occupations are also likely to be affected by the Tier 2 policy proposals as the majority will not qualify under the new policy.

SOC code and occupation title	SOC code and occupation title
3113 Engineering technicians Commissioning engineer	5249 Electrical/electronic engineers n.e.c.
3119 Science and engineering technicians n.e.c	5431 Butchers, meat cutters
3434 Photographer and audiovisual equipment operators	5434 Chefs, cooks
5215 Welding trades	6115 Care assistants and home carers
5223 Metal working production and maintenance fitters	6139 Animal care occupations n.e.c.
5243 Line repairers and cable jointers	9119 Fishing and agriculture related occupations n.e.c.

Source: Migration Advisory Committee: Table 3.3: List of 4-digit SOC 2000 occupations where there are job titles under review to assess equivalence of skill level to NQF 4+: <http://www.ukba.homeoffice.gov.uk/aboutus/workingwithus/indbodies/mac/>