

# Limits on Migration

Limits on Tier 1 and Tier 2  
for 2011/12 and supporting policies

Migration Advisory Committee

November 2010



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**Migration Advisory Committee**

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## Chairman's Foreword



In June this year the Home Secretary commissioned the Migration Advisory Committee (MAC) to advise on the level at which “limits on Tier 1 and Tier 2 of the Points Based System (PBS) be set for their first year of operation

in 2011/12 in order to contribute to achieving the Government’s aim of reducing net migration to an annual level of tens of thousands by the end of this Parliament”. In doing so, we were asked to take account of economic, public service and social impacts.

The Long Term International Migration (LTIM) statistics, which record changes to country of residence of more than one year, show that in 2009 net migration had risen by 33,000 from 2008 to 196,000. It is this measure which ‘tens of thousands’ refers to. However, the Annual Population Survey (APS) tells a significantly different story about net migration. The LTIM and APS data measure different things, but there is merit in examining all available information. This will apply in particular when the results of the 2011 UK Population Census are available: after the last census, in 2001, it was found that the LTIM data were under-counting out migration.

Until 1998 net annual migration (LTIM) was never above 80,000. Since 1998 it has never been below 140,000, and it has exceeded the 200,000 mark in three of those years. Therefore, the Government’s wish to limit net migration is wholly understandable.

Three main channels of migration exist: work, study, and family. And there are three citizenship groups: British, European Economic Area (EEA) and non-EEA. This can be expressed as a three by three matrix with nine cells. In this report, the MAC is only dealing with one of the nine cells, namely the non-EEA work route. In 2009 work-related non-EEA migration, excluding dependants, accounted for 1-in-5 of the non-EEA inflow and just one tenth of the total inflows. And Tiers 1 and 2 of the PBS comprised only half of the non-EEA work inflow. So, even if Tiers 1 and 2 were shut down, it is unlikely that net migration would fall to tens of thousands. This goal can only be achieved by also cutting net migration under the study and family routes.

It has been necessary to make a number of judgements and assumptions in providing our advice, including: the assumed initial level of net migration in 2010; the precise nature of the Government’s net migration objective for the end of this Parliament; the trajectory in terms of how quickly migration flows move towards that objective; the extent to which EEA migrants will replace limited non-EEA migrants; the likely relationship between the LTIM data and visa numbers; the number of dependants per main visa holder; and, crucially, the share of reductions in net non-EU migration to be borne by the work routes, rather than by the student and family routes.

Two possible sets of limits on Tiers 1 and 2 are presented, which can be viewed as defining a potential range. These limits comprise the first tranche of the reduction in the non-EU work inflow required to reach the tens of thousands net migration figure by the end of

this Parliament. In both of the two scenarios we have assumed that the study and family routes bear their pro-rata share of the required reduction, but have made different assumptions about the fraction of the pro-rata share of non-EEA work-related routes borne by Tiers 1 and 2.

It would be remiss not to point out that there is widespread concern among employers regarding the impact that limits on migration could have. Many major companies – including those responsible for substantial UK investment and jobs – argue for the intra-company transfer element of Tier 2 to be excluded. Public sector employers argue for flexible limits which could be interpreted as requesting that any limit should not apply to them. Bodies such as the Trades Union Congress (TUC) and UK Commission for Employment and Skills (UKCES) also oppose such limits.

Such a response is not surprising. The introduction of the PBS coupled with the global recession has already caused the work component of the non-EU LTIM inflow to halve between 2004 and 2009. In 2009 there were 50,000 work-related visas issued under Tier 1 General plus Tier 2. The further reduction in work visas needed to bring net migration down to tens of thousands by the end of this Parliament is non-trivial. For 2011/12 we estimate that the required reduction falls into the range of 6,300 to 12,600, a fall of between 13 and 25 per cent.

Evidence distilled in this report suggests that non-EU Tier 1 and Tier 2 migrants, at present levels: have a small positive impact on GDP per head; do not increase inflationary pressure; contribute positively to net public finances; play a small but important part in the provision of education, health and social services; increase pressure in the housing market a little; and probably have little effect on crime and cohesion.

On the other hand, as the Home Office's Migrant Journey Analysis has made clear, migrants coming to the UK to work add to the population and many individuals not only come

for limited periods but choose to settle here and make the UK their home. And whilst there is no quantitative evidence that foreign-born migrants are directly displacing resident workers, it is possible that the open-ended provision of migrant labour is creating an environment that means businesses and those responsible for education and training do not focus sufficient effort on increasing the skills and potential of the resident population.

It is plausible that any small adverse impact of a limit on GDP and the public finances will be partially offset via: recruiting from the UK unemployed or inactive; recruiting from the EU; and in the longer-term by up-skilling UK workers and changing production methods (capital deepening). But, in the meantime, it is vital that the allocation mechanism to implement any proposed limits on Tiers 1 and 2 targets for exclusion those marginal migrants who contribute least to the UK. This implies giving priority, for example, to migration that leads to foreign direct investment and employment of UK workers, or which contributes significantly to the public finances. Some priority may also be required for limited migration into vital public services such as health, education and social care.

On the basis of the above, the MAC suggests that more stringent reductions should be made to Tier 1 than Tier 2, given the weight of evidence we received from employers presenting strong arguments in support of Tier 2. Under Tier 1 we suggest making the Post-Study Work Route (PSWR) more selective and for out-of-country applicants we propose raising earnings and qualification thresholds. The issue of salary multipliers (which convert pay in a foreign country to UK sterling) also needs urgent resolution.

Tier 2 will, however, have to share some of the burden. The points thresholds need to be recalibrated to ensure those migrants who contribute the most economically are given priority. The intra-company transfer route needs to become more selective in terms of which migrants can come for only three years and those who can come for longer. The use

of allowances under this route, which we are concerned could lead to undercutting of UK workers, also needs to be examined. The shortage occupation list should be reviewed, and may have to become more selective in terms of targeting those more skilled migrants that cannot be sourced in sufficient quantity from within the EEA.

Limits on work visas could be eased if, for example: the study and family routes bear more than their pro-rata share of any cuts; in-country work extensions and switching are limited to boost the outflow from Tiers 1 and 2; and the link between work visas and settlement is weakened. But these latter two policies, even if pursued, are unlikely to have much of an impact on the net migration figures that will be available by the end of this Parliament. On the other hand, if the study and family routes do not bear their proportionate share, the work visa limit will have to be tightened over and above our suggestions, with possible serious long term consequences for investment and job generation.



**Professor David Metcalf CBE**

This report shows what needs to be done in 2011/12 for the work route to make a reasonable progress towards the tens of thousands net migration objective for this Parliament. The MAC's future work programme will be decided by the Government. But we are assuming that this is an iterative process and that we shall be asked to advise on subsequent limits once the evidence in this report is digested and policies are introduced concerning the work, study and family routes.

We have only had 3 months to report. The MAC is especially grateful to our corporate partners for their written and face-to-face evidence, particularly those who hosted events on our behalf, allowing us to consult more widely than in any of our previous reviews. We received over 400 written submissions and met over 1,000 firms and other organisations. Our small, hard working secretariat has, as ever, been professional, innovative and gracious – upholding the best traditions of public service.



# The Migration Advisory Committee and secretariat

## Chair



Professor David Metcalf CBE

## Members



Dr Diane Coyle OBE



Dr Martin Ruhs



Professor Jonathan Wadsworth



Professor Rob Wilson

## UK Commission for Employment and Skills representative



Professor Mike Campbell OBE

## UK Border Agency representative



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## The secretariat:

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## Summary

### Our task

1. The Migration Advisory Committee (MAC) is a non-departmental public body comprised of economists and migration experts which provides transparent, independent and evidence-based advice to the Government on migration issues. The questions we address are determined by the Government. The Government decides whether or not to accept our advice.

2. We have been commissioned by the Government to answer the following question: *at what levels should limits on Tier 1 and Tier 2 of the Points Based System be set for their first full year of operation in 2011/12, in order to contribute to achieving the Government's aim of reducing net migration to an annual level of tens of thousands by the end of this Parliament, and taking into account social and public service impacts as well as economic impacts?*

3. We provide, in our report, an assessment of the required limits for Tiers 1 and 2 of the Points Based System (PBS) in 2011/12. The limit for Tier 1 will apply to the current Tier 1 General route only. The Post-Study Work Route (PSWR) is outside the scope of the Tier 1 limit. The Entrepreneur and Investor routes under Tier 1 are also excluded. The limit for Tier 2 will cover the current Resident Labour Market Test (RLMT) and shortage occupation routes. We also consider whether the limit should cover the intra-company transfer route, and advise that route should be included. The Tier 2 limit will not apply to the sportspeople and ministers of religion routes.

4. We consider whether in-country migrants switching into, and extending under, Tier 1 General and the relevant routes of Tier 2 should be included within the limit. We also examine whether dependants of migrants coming under relevant routes should be included.

5. Throughout this process we have been mindful that we are operating in a broader context. The Government is simultaneously consulting on the mechanism for limits on Tiers 1 and 2 of the PBS. The Government may subsequently amend policy in areas not directly within our remit for this report, such as student and family migration, and the rules relating to settlement.

6. We are also acting in a climate of some uncertainty. Net migration is influenced by factors effectively outside the control of migration policy, such as British and EU migration. There is also limited data availability, and the scope for reconciling the different data sources that are critical to this work is similarly limited.

7. We have taken a pragmatic approach to the above issues. Where we have needed to make assumptions, we have done so. We have made all efforts to ensure that the assumptions are well informed, and explicit. Where there are uncertainties, we highlight that. We also make suggestions as to how the use of evidence and analysis to guide development of policy on migration limits may be made as robust as possible over future years.

## Policy context

8. The PBS is for migrants from outside the European Economic Area (EEA) who wish to work or study in the UK. It has five tiers in total, including Tiers 1 and 2, which are the focus of this report.

9. Out-of-country applications are those made when the applicant is outside the UK. In-country applications consist of switching and extension applications, and are the means whereby applicants can switch from one route into another, or extend within one.

10. PBS migrants can bring their children, spouses, civil partners, same sex partners, and unmarried partners but no other dependants into the UK, providing the main applicant can support them without claiming benefits.

11. The **Tier 1 General route** is for persons who wish to obtain highly skilled employment in the UK. Applicants are awarded points based on qualifications, previous earnings, UK experience, age, English language skills and available maintenance funds. To reflect differences in income levels across the world the UK Border Agency uses what are known as salary multipliers to bring salaries earned overseas in line with their UK equivalents.

12. Tier 2 is for skilled migrants. A successful applicant must have an offer of employment from a sponsor employer and be coming to fill a job at National Qualification Framework level 3 (or equivalent) or above. Points are awarded for different requirements, including qualifications and prospective earnings. Applicants for Tier 2 must have a sponsor, which is a UK-based organisation that wishes to employ the applicant in the UK, licensed to undertake certain responsibilities to help with migration control.

13. The **shortage occupation route** of Tier 2 is for migrants entering occupations on shortage occupation lists for the UK and Scotland. Since 2008 the MAC has been responsible for recommending the shortage occupation lists to the Government.

14. Under the **Resident Labour Market Test (RLMT) route** of Tier 2 sponsoring employers are required to advertise the relevant vacancy through Jobcentre Plus and, as agreed in a sector code of practice, for at least four weeks, before employing a migrant from outside the EEA.

15. The **intra-company transfer route** is used by employees of multi-national companies with at least 12 months company experience, for employment in a skilled job in a UK-based branch of the organisation.

## Data context

16. The Government's intention is that its objective to reduce net migration will be measured by the International Passenger Survey (IPS). Net Long Term International Migration (LTIM), based on the IPS, was 196,000 in 2009. By the same measure, net migration of non-EU nationals in 2009 was 184,000. These are provisional estimates.

17. Non-EU work-related migrant inflows rose from 26,000 in 1994, to 114,000 in 2004, before falling to 55,000 in 2009. The numbers coming for family reasons rose from 33,000 in 1994 to 74,000 in 2004, before falling to 54,000 in 2009. Non-EU student inflows rose, from 30,000 to 110,000, between 1994 and 2004. But, in contrast to the work and family routes, student inflows continued to rise between 2004 and 2009, reaching 163,000.

18. Visa data are not directly comparable with the IPS data. In 2009 approximately 50,000 out-of-country visas were issued to main migrants through Tier 1 and 2 routes within scope for this report. It is this number that provides the starting point for

the required reductions in Tiers 1 and 2. It breaks down as follows:

- 13,900 under the Tier 1 General route;
- 300 under the Highly Skilled Migrant Programme (Tier 1 predecessor);
- 22,000 under the intra-company transfer route;
- 8,600 under the RLMT and shortage occupation routes combined; and
- 5,200 under work permit route (Tier 2 predecessor).

19. In the same year, 42,000 out-of-country visas were issued to dependants of Tier 1 and 2 migrants. Both the main migrant and dependant numbers above exclude in-country visas issued to Tier 1 and 2 migrants.

20. In 2008, of 18 OECD countries sampled, the UK ranked 13th highest in terms of the proportion of foreign-born inflows relative to the population, and 12th in terms of the proportion of the population that is foreign-born.

## Methodology

21. Various analytical frameworks could, in principle, potentially inform the setting of targets for migration or limits on work-related migration:

- A cost-benefit framework: all impacts of migration, including the social and public impacts, would be assigned an economic value, and only those migrants who will make a positive net contribution, and no others, would be admitted.
- Net fiscal analysis: this approach attempts to compare what migrants contribute to the public finances in terms of tax receipts, with what they take out in terms of consumption of public services.

- Population projections: these could be used to identify a level of annual net migration that achieves, or avoids, certain population targets, if this was seen as consistent with the objectives for migration policy.
- Historical comparison: this approach would identify a past period where net migration was at a level that is consistent with its desired level, and examine what share work-related migration contributed to net or gross migration at the time.
- International comparison: this approach would identify developed countries similar to the UK in which migrants make up a smaller proportion of the total labour force without any apparent detrimental impact on economic performance.

22. Although each of the above frameworks provides a potentially useful guide to the assessment of economic, public service and social impacts of migration, there are conceptual and practical limitations to each of them. Furthermore, the MAC is acting within the boundaries of an existing Government objective for net migration. Therefore, our framework for this report is based around three themes:

- Which criteria should be taken into account when developing limits for Tiers 1 and 2?
- What precise objective for net migration, and PBS migration, would be consistent with the Government's aim to reduce net migration to the tens of thousands by the end of this Parliament?
- What trajectory, for Tier 1 and Tier 2 migration over time, is most desirable in order to achieve the objective?

## Corporate partner views

23. In our report corporate partners, or partners, means all individuals or bodies with an interest in our work and its

outcomes. In our consultation document, published on 30 June, we set out specific questions which we believed needed to be addressed to inform our consideration of the above issues. We received over 400 written responses to our consultation, and attended a large number of meetings and events, meeting face-to-face with approximately 1,000 of our partners.

24. There was widespread concern amongst the employers who submitted evidence to us regarding restrictions on migration. They argued that restrictions could affect businesses' ability to be competitive, stunt economic recovery, and lead to reduced investment. Some concerns were expressed more directly in relation to the policy of migration limits itself. Some argued that limiting Tiers 1 and 2 would not address the real areas of public concern about migration. Others did favour limits on migration, in view of the impacts on use of public services and society at large.

25. Arguments were made that dependants should be limited because they do not contribute as much, economically speaking, as main migrants, although others believed that dependants should not be limited even if main migrants were.

26. Many partners believe that the policy underpinning the introduction of limits will be a critical consideration. Partners recognise that, in a scenario where there is more demand for non-EEA migration than places available, judgements will need to be made regarding the relative value of applications to make sure the benefit of non-EEA migration is maximised.

27. Up-skilling was a strong theme. Employers told us that it takes a considerable length of time to train skilled workers. Some believe that, although in time there would be scope to up-skill resident workers to do some skilled jobs, there would always remain a proportion

of very skilled non-EEA workers who will be required. Partners acknowledge that employers have a role to play in up-skilling the UK workforce, but believe this to be a responsibility for the Government too.

28. It was put to us that skilled migrants' net contribution to the public finances is positive, with corporate partners arguing that most Tier 1 and 2 migrants pay far in excess of average tax and use fewer public services. The role that migrants play in providing key public services was emphasised. In education, there were some reports that dependants placed pressure on places and that schools needed to cater for more diverse languages. More negative social impacts of migration were reported where new and emerging communities were developing in areas which had not previously received large volumes of migration. Areas which have seen migrants arriving for many years had adapted well, we were told.

### **Economic, public service and social impacts**

29. We were asked to consider public service and social impacts of migration, as well as economic impacts. We conducted a review of the data and academic literature in relation to the economic, public service and social impacts of migration, and assessed it alongside evidence received from our partners. There is virtually no academic literature in relation to specific impacts of Tier 1 and 2 migrants, but we consider the implications of the more general literature for the likely impacts of those migrants.

30. All things being equal, migration clearly has a positive impact on **Gross Domestic Product (GDP)**, through its effect on the size of the UK workforce. The impact of migration overall on **GDP per head**, which is the more relevant metric in many cases, is less clear-cut. This impact will be influenced by the impact of migrants

on productivity, trade, investment and skill development of resident workers. It is likely that Tier 1 and 2 migrants, on average, have a positive impact on GDP per-head.

31. A reduction in migration through Tiers 1 and 2 will have significant effects on the micro-economy, in terms of impacts on individual sectors and occupations. For instance, the occupation 'IT, software professionals' accounts for 27 per cent of total Tier 2 Certificates of Sponsorship issued, and 48 per cent of those issued under the intra-company transfer route.

32. Nonetheless, in the short-term, the overall impacts on GDP and GDP per head will be relatively small. In the longer-term, the effects may be more significant, due to a continued accumulation over time of the relatively small static effects.

33. The economy will adjust to some extent in response to a reduced supply of migrants. Employers will have stronger incentives to train UK workers, and there may be expansion in sectors and occupations that are less reliant on migrant workers.

34. Additionally, migration policy that is more selective in its design can ensure that those migrants who make the biggest economic contribution to the UK economy can still come. It is critically important that policy on skills and migration is used to mitigate any adverse impacts that would otherwise occur, particularly in relation to those sectors and occupations most affected.

35. Any impact of Tier 1 and Tier 2 migration on **inflation** is likely to be very modest. It should not be a major consideration in setting limits for Tiers 1 and 2.

36. Migration has significant impacts across the wage distribution in the labour market. Evidence suggests that Tier 1 and 2 migrants are more likely to be complements

to resident workers and capital, and hence are less likely to place downwards pressure on **pay** than those competing with less skilled workers. Tier 1 and Tier 2 migration is unlikely to reduce the **employment** of resident workers in the aggregate, but there is repeated anecdotal evidence of negative effects being felt by individuals at the local level in certain sectors and occupations.

37. Based on the available evidence it can be inferred that Tier 1 and Tier 2 migrants are highly likely, on average, to make a positive **net fiscal contribution**, especially in the short-term. If these migrants remain in the UK, they will age and make a greater call over time on state services such as pensions and healthcare. Migration through Tiers 1 and 2 can lead to settlement. Migration that does not lead to settlement is more likely to have a positive effect on government finances than migration that does.

38. Regarding **provision of public services**, migrants, including Tier 1 and 2 migrants, help alleviate skill shortages in key public service occupations in areas such as health and education. In the longer-term, the extent to which Tier 1 and 2 migration alleviates shortages, and relieves pressure on wages in the fiscally constrained public sector, will depend on training and up-skilling of the resident population.

39. Migrants, naturally, also contribute to **consumption of public services**. Tier 1 and 2 migrants are likely to be relatively light consumers of health services in the short term, as they tend to be young and healthy on arrival in the country. In the longer term the impact will increase as those migrants become older. They are likely to consume education services corresponding to the number and age of the children they have, both upon and after arrival in the UK. Significant numbers of child dependants do accompany Tier 1 and 2 migrants. As well as consuming public

services, migrants also fund them, through their contribution to tax receipts.

40. Migrants also interact with the **housing market**. There is some evidence that migrants, through adding to the population, exert upward pressure on house prices. However, in the short term, Tier 1 and 2 migrants are more likely to directly contribute to higher rents, albeit also indirectly to higher house prices through the buy to let market. In the longer term their impact is likely to shift from rents to house prices, as they move from the private rented sector to the owner occupier sector.

41. The impact on **crime** is likely to differ between migrant groups. The total amount of crime committed by Tier 1 and 2 migrants is likely to be small due to the selection mechanism of the PBS which ensures that they are highly employed, well paid and highly educated.

42. Tier 1 and 2 migrants will contribute to total **congestion**. They are likely to generate more congestion than the average UK resident, reflecting the fact that they are more likely to work, and therefore live, in London.

43. Locally concentrated surges in migration may have a negative impact on **social cohesion**, although the difficulties in defining social cohesion, and the absence of comprehensive data, make the relationship difficult to estimate. It is not possible to estimate with any degree of confidence the likely impact of Tier 1 and 2 migrants on social cohesion: they are often employed in the provision of public services and are likely to have good English language skills, and these factors may help to mitigate any potential negative impacts.

44. Many of the public service and social impacts of Tier 1 and 2 migration, both positive and negative, will increase and fall in line with the impact on **population**. Over the long term, migration has a non trivial impact on population. With annual net

migration of 50,000, the UK population is projected to rise by 4.5 million less between 2009 and 2035 than under the Office for National Statistics' principal projection (based on net migration of 180,000 per annum).

### Limits on Tier 1 and Tier 2 in 2011/12

45. The Government's objective is that net migration be reduced to the tens of thousands by the end of the current Parliament. This objective could, in principle, imply net migration of any level above zero but below 100,000.

46. Because it is the Government's chosen measure, analysis of net migration in our report is based on LTIM, as measured by the (IPS). Potential reasons for using this measure are that it is the official and most commonly reported measure of net migration.

47. There are a number of issues associated with using the IPS data. First, because the IPS is a sample survey, the resulting estimates of net migration have wide error margins. Second, it is not straightforward to estimate the impact of changes in the number of visas issued on net IPS migration. Third, there is inherent uncertainty involved in assessing what may happen in the future: for example, migrants and employers may change their behaviour in response to changes in policy and economic circumstances, in the UK and abroad.

48. Given the scale of uncertainty, and assuming that the upside and downside risks are equally balanced, the best chance of achieving net migration in the tens of thousands is to aim for the middle of the range. For the purposes of our main calculations in this report we therefore assume a precise objective for net migration of 50,000 in April 2015. This assumption does not constitute a judgement about what the Government's precise objective is, nor what it should be.

49. A major additional source of uncertainty is that the Government has no direct control, through migration policy, over some components of net migration, such as British and EU migration. These flows may change, and will have consequent impacts on net migration, regardless of what immigration policy is adopted. Taken literally, the Government's objective would imply stricter limits on non-EEA migration if, for instance, Bulgarians and Romanians gaining free access to the UK labour market leads to an increase in net EU migration from those countries. The reverse logic would also apply if net EU migration fell due to other countries, such as Germany, fully opening their borders to workers from the A8 countries that acceded to the EU in 2004.

50. The Labour Force Survey (LFS) and the Annual Population Survey (APS) provide other alternative potential measures of net migration of non-UK nationals, using a different methodology. Net migration may be calculated from the change in numbers of non-UK and non-EEA nationals in the UK population between two years. The APS estimates that net migration of non-EEA nationals was 53,000 in 2009, considerably below the IPS non-EU estimate of 184,000. The LFS and APS measures of net migration exhibit considerable volatility, and there are a number of reasons why these data sources provide different estimates to the IPS. Further examination of these data sources would be justified.

51. For reasons set out above, it is not possible to reliably forecast future net migration to and from the UK. Nonetheless, our analysis is based on two basic working assumptions, which have some basis on past trends:

- Net flows of British, EU and the non-IPS components of net migration over which the Government has limited control are held constant from 2009 levels, until 2010/11, and further until the end of this Parliament.

- Net migration of non-EU nationals in 2010/11 is held constant at its 2009 level.

52. Even closing all non-EU work-related migration routes altogether would not bring net migration down to the tens of thousands on its own. To reach the tens of thousands, the student and family routes will have to take a substantial share of any overall reduction. Therefore, in order to assess the contribution that Tiers 1 and 2 might make towards reducing net non-EU migration, it is necessary to consider what contribution other routes may make. In the absence of a formal comparison of the costs and benefits of migration through different routes, a potential starting point is to look at each route's proportionate share in migration inflows. On this simple basis, we identify two potential options:

- **Option A:** Tier 1 and 2 main applicants make a combined contribution on behalf of all work-related migration: 20 per cent of the reduction in non-EU migration.
- **Option B:** Tier 1 and 2 main applicants make a combined contribution in proportion to their actual share of IPS inflows: 10 per cent of the total reduction. This would additionally require that Tier 5 and permit-free employment also make a 10 per cent contribution to reducing net migration, in proportion to their share of inflows.

53. On the basis of our numerous assumptions, for net LTIM to reach 50,000 by April 2015 requires that it falls at a rate of 36,500 per year from 2011/12 to 2014/15. The corresponding reductions that would need to come from Tier 1 plus Tier 2, in net migration terms, are in the range of 3,650 to 7,300 per year, with options A and B as the top and bottom ends of that range respectively. Under these assumptions, the remainder of the required reduction will need to come from the student and family routes.

54. Translating the above analysis into limits on Tiers 1 and 2 requires us to define the coverage of the limit, specifically in relation to three issues:

- Should the Tier 1 and 2 limits apply to out-of-country migration only, or also cover in-country migrants switching from other routes or extending within a particular route? On the basis of both practical and economic considerations, we decide to exclude in-country applicants from our limits for 2011/12.
- Should dependants of main migrants also be included within the Tier 1 and 2 limits? On the basis that dependant numbers should fall broadly in line with main applicants anyway, we exclude dependants from our limits.
- Should intra-company transfers be included in the Tier 2 limit? On the basis that this is the largest of the four Tier 1 and 2 routes we are concerned with, we include intra-company transfers in our limits.

55. We are also required to consider the trajectory for non-EEA work-related migration over this Parliament. On balance, we think there is merit in the argument that employers should be given time to adjust to limits on migration, and this implies that limits on Tiers 1 and 2 should become increasingly restrictive over time. A linear trajectory, with identical cuts year-on-year between 2011/12 and 2014/15, would be consistent with this. A trajectory that delayed the largest cuts until later on would risk employers limiting or delaying action required to accelerate the training and up-skilling of UK workers. In addition, plotting a trajectory is not an exact science, meaning that there is an argument for simplicity. Therefore, we assume a linear trajectory for 2011/12.

56. Volumes of visas issued for work-related migration are considerably higher than the inflows of work-related migrants

in the IPS. The result of this is that options A and B, as defined in terms of IPS data, substantially underestimate the required reduction in the number of visas issued. We therefore compare visa flows with those recorded in the IPS and derive scaling factors to allow us to translate between visa data and the IPS. The correct scaling factor to use is subject to some uncertainty, but we use the best estimate currently available. The scaling factor plays an important role in driving the overall results.

57. Our best estimate is that the Government objective to reduce net migration to the tens of thousands over the lifetime of this Parliament implies a **reduction of between 6,300 and 12,600 Tier 1 and 2 visas to be issued in 2011/12.**

58. In order to calculate limits from these reductions, we use the latest annual published full-year visa data, from 2009, as our baseline. The baseline figure, as set out in paragraph 18 above, is 50,000. **The total required limit for Tier 1 General and Tier 2 combined in 2011/12 is therefore between 37,400 and 43,700.** The Government may choose to apply our reductions to a more recent baseline before the actual annual limits are put in place in April 2011.

59. The next step is to translate the total reduction in Tier 1 and 2 visas into separate reductions for Tier 1 General on the one hand, and Tier 2 on the other. On balance, the evidence supports a greater proportionate reduction to Tier 1 than to Tier 2 in 2011/12. We apportion the reduction in net migration between the two routes on that basis.

60. For Tier 1 General the required overall reduction could translate into a cut in the number of entry clearance visas, compared to 2009, in the range of 3,150 to 6,300. For Tier 2 the required overall reduction could translate into a corresponding cut also in the range of 3,150 to 6,300.

61. The above limits and reductions do not include dependants. If dependants were to be included in the limits, the limits would need to be higher to reflect that. In our report we calculate how much higher, using historic visa data on the ratio of dependants to main migrants under Tier 1 General and Tier 2.

62. Options A and B are based on numerous necessary assumptions and judgements. Some of the assumptions are required due to the inherent uncertainty involved in trying to influence overall net migration using Tier 1 and 2 migration as a lever. The assumptions made about British and EU migration are in that category. The Government has little control over these factors. Some of the other required assumptions are with regard to migration policy and its objectives, which the Government does have some control over. The final decision as to which precise limits to use needs to be influenced by various considerations.

63. The Government may need to aim towards the lower end of our range, or potentially even below it (i.e. may need to make the deepest cuts to visas in 2011/12) under the following circumstances:

- Tiers 1 and 2 bear the total proportion of the total cut in migration relative to inflows through all economic routes, including Tier 5 (i.e. 20 per cent), rather than simply in proportion to the shares of Tiers 1 and 2 alone (i.e. 10 per cent).
- The Government decides to aim for overall net migration of below 50,000, in order to be more confident of achieving net migration of below 100,000.
- The Government decides to aim to reduce net migration to the tens of thousands by 2013, the last complete year for which LTIM data will be available by the time of the General Election in May 2015.

- Family migration takes less than its proportionate share of the required reduction in net migration, meaning that larger cuts have to be found elsewhere.
- Non-EEA students take a disproportionately low share of the reduction in overall net migration, or continue to rise rapidly as in recent years.
- Flows through the PSWR remain at their current levels, or increase.
- The ratio of dependants to main applicants increases from 2009 levels.

64. Alternatively, the Government would be able to aim towards the higher end of our range, or potentially even above it (i.e. may need to make the least severe cuts to visas in 2011/12) under the following circumstances:

- The Government decides to aim for overall net migration of higher than 50,000, targeting, for instance, a figure of 80,000 or 90,000 instead.
- Policy is put in place so that out-of-country reductions to Tiers 1 and 2 can be traded-off against increased outflows achieved through reductions in in-country extensions and switching (although it is important to note that the required limits currently hold outflows constant, during a period when inflows will fall, meaning that some such policy to boost the ratio of outflows to inflows will be required anyway to keep in line with the required trajectory for net migration). The full impacts of action to boost outflows, however, may not be experienced by the end of this Parliament.
- Family or student migration takes more than its proportionate share of the required reduction in net migration.
- Flows through the PSWR fall, or the route is closed down altogether.

- The ratio of main migrants to dependants rises, possibly as a result of policies with this aim in mind.

65. In addition, the Government could aim to achieve less than 10 and 20 per cent of its objective for net migration through reductions to Tiers 1 and 2, possibly on the basis that those tiers are judged to be more economically beneficial, and that work accounted for a higher share of non-EU migration in the early to mid-1990s, when net migration was last in the tens of thousands. It could also choose to apportion visas between Tiers 1 and 2 on a different basis to that which we have used above.

66. Another policy option is to consider whether the link between work-related migration and settlement should be weakened. Such a policy could have significant effects on net migration in the long term, although less so before the end of the current Parliament.

### Supporting Policies

67. One of the criteria we applied, when we reviewed Tiers 1 and 2 of the PBS for the former Government in 2009, was to ensure better identification and attraction of migrants who have the most to contribute to the UK. If there is a limit on work-related migration from outside the EEA, and that ceiling is reached, any migrant to the UK displaces another who would otherwise have been able to come. This means that identifying and attracting the migrants who have the most to contribute to the UK becomes even more critical.

68. We make policy suggestions to accompany our analysis of the required limits which focus, in particular, on improving the selectivity of the system. Some key suggestions are:

- Taking action to ensure that the skills and training system plays a key role in systematically identifying and addressing shortages, of economically or otherwise important workers, that might otherwise occur as a result of, or be exacerbated by, limits on work-related migration.
- Recalibrating the Tier 1 General points table in order to ensure that it appropriately selects the most skilled migrants.
- Introducing the requirement to be employed in a skilled graduate-level occupation at the Tier 1 extension stage.
- Revising the methodology for updating the multipliers so that new salary multipliers are put in place as quickly as possible.
- Amending the points calibration for Tier 2 in order to ensure that only the most skilled migrants can come to the UK under this Tier.
- Scaling down the allowances used for points purposes in relation to the points required for earnings for intra-company transfers.
- Applying criteria at the extension stage for intra-company transfers that are more selective than those at the point of initial entry.
- Giving consideration to strengthening the RLMT route through the introduction of a certification regime.
- Commissioning the MAC to review the shortage occupation lists in the context of the limits.

69. In addition, we note that migrants who report that they are coming to the UK for under 12 months do not count towards the LTIM inflow. We suggest that visas of under 12 months duration under Tier 2 could be

excluded from the limit on that Tier if, and only if, either:

- such short-term visa holders will not be permitted to switch in-country to other work-related routes; or
- any in-country visas issued in cases where such migrants are permitted to switch are counted towards the (otherwise out-of-country) limits on Tiers 1 and 2.

70. The numerical limit for Tiers 1 and 2 presented above was calculated on the assumption that all visas, including those of less than 12 months' duration are covered by the limit. If visas lasting for less than 12 months were to be excluded, the levels of the limits would need to be adjusted to account for this.

71. We additionally suggest that the Government reviews its policy in relation to settlement, and considers whether explicit economic criteria should be applied to decisions regarding whether or not migrants are allowed to settle permanently in the UK.

72. We also suggest that consideration be given to whether, in future years, a proportion of visas should be auctioned, within the limits on Tiers 1 and 2. This would mean that, if a worker was so economically critical that a sponsored employer was prepared to pay whatever amount was required to bring that person into the UK, there would be allowance in the system for such cases.

### **Next steps**

73. The MAC will be happy to advise the Government on limits on Tiers 1 and 2 for future years, and other issues as appropriate. We emphasise that our report sets out required limits for 2011/12 only. The level and coverage of limits may

change in future years. Limits on work-related migration for future years will need to be based on consideration of factors that are not yet fully known, including:

- the mechanisms that will ultimately be put in place for Tiers 1 and 2 alongside the introduction of annual limits;
- evidence on the economic, public service and social impacts of the limits and mechanisms;
- future policy on other economic routes for non-EEA migrants outside the scope of limits set out in this report, including Tier 5 and the PSWR;
- future policy on the student and family routes;
- future policy on switching, extensions and permanent settlement in the UK; and
- future net flows of UK and EEA migrants to and from the UK.

74. Data on PBS migrants, in terms of their characteristics and labour market outcomes, are still limited. For example, the UK Border Agency does not currently publish the points scored by successful Tier 1 and 2 applicants. We welcome the recent improvements to the management information systems, and acknowledge the data improvements that have resulted from that, but we urge the UK Border Agency to consider further steps required to facilitate the collection and the accessibility of relevant data on PBS migrants.

75. Our report highlights gaps in the existing evidence base, particularly around the social and public service impacts of migration. The MAC has a small research budget, and we will consider commissioning research to best address some of the key evidence gaps in this area.



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## 1.1 The Migration Advisory Committee

1.1 The Migration Advisory Committee (MAC) is a non-departmental public body comprised of economists and migration experts which provides transparent, independent and evidence-based advice to the Government on migration issues. The questions we address are determined by the Government. Previously we have provided advice on the design of Tiers 1 and 2 of the Points Based System (PBS) for managed migration, the shortage occupation lists used under Tier 2, and transitional labour market access for citizens of new European Union (EU) accession states.

## 1.2 What we were asked to do

1.2 On 20 May 2010, the Coalition Government published a paper which committed the Government to introducing an annual limit on the number of non-EU economic migrants admitted into the UK to live and work. The paper states “We will introduce an annual limit on the number of non-EU economic migrants admitted into the UK to live and work. We will consider jointly the mechanism for implementing the limit” (Cabinet Office, 2010).

1.3 The Government published *Limits on non-EU economic migration: a consultation* (UK Border Agency, 2010a) on 28 June 2010. In this paper, the Government announced that it will consult on how an annual limit for Tiers 1 and 2 of the PBS will work in practice, and the mechanism through which it should be achieved. The Government also announced that it had commissioned the MAC to consult and provide advice on the levels at which the first annual limits on migration should be set.

1.4 On the same date the Home Secretary wrote to the Chair of the MAC setting out the precise question on which the MAC should advise: “*at what levels should limits on Tier 1 and Tier 2 of the Points Based System be set for their first full year of operation in 2011/12, in order to contribute to achieving the Government’s aim of reducing net migration to an annual level of tens of thousands by the end of this Parliament, and taking into account social and public service impacts as well as economic impacts?*”. The Home Secretary asked that the MAC report by the end of September 2010.

### 1.3 Our interpretation of the question

1.5 The commissioning letter stated that the Government has an aim of reducing overall net migration (i.e. including migration flows of British, other European Economic Area (EEA), and non-EEA nationals) to an annual level of tens of thousands by the end of this Parliament. We take that aim as given and do not assess the impacts of this policy regarding overall net migration. This report is not a critique of whether or not limits should be placed on overall net migration. It focuses on how Tiers 1 and 2 may contribute towards achieving the given aim.

1.6 The numerical limits on overall net migration hinge on two considerations:

- First, what does the target range of ‘tens of thousands’ imply in terms of the precise objective for net migration?
- Second, what proportion of the required total reduction in net migration should come from reduced flows through Tiers 1 and 2?

1.7 Addressing the first of these questions requires that we consider the Government’s aim, and what in practical terms needs to be done in order to be confident of achieving it. This is influenced substantially by factors over which the Government has limited control, including migration of British and EU citizens.

1.8 The second question requires that we make assumptions about

the scope for reducing inflows of work-related migrants from outside the EEA, as opposed to the family or student routes. We are not reviewing the family or student routes in this report, so we have had to make assumptions about future numbers coming through those routes.

1.9 The numerical limits for Tiers 1 and 2 that we believe are required in order to meet the Government’s aim largely flow from the arithmetic that follows from the two questions above, and the assumptions we make in relation to them.

1.10 Alongside the above, we have examined the evidence on economic, public service and social impacts of migration in detail. These impacts, and how they may be mitigated, influence our consideration of specific issues of policy design. The design of the underpinning policy is as important as the numerical levels of the limits on Tiers 1 and 2, if not more so.

1.11 The report presents findings in three critical areas:

- It calculates numerical limits for 2011/12, based on our interpretation of the Government’s aim to reduce net migration to the tens of thousands.
- It sets out different policy options for how any reductions in migration through Tiers 1 and 2 may be achieved in the most beneficial manner with reference to the economic, public service and social impacts of such reductions.

- It suggests avenues for further analysis and gathering of evidence so that future decisions can be based on the best possible understanding of the issues involved.
- 1.12 We trust that this report will be of assistance to the Government by highlighting some of the key balances that need to be struck in reducing net migration.
- 1.4 Scope of this work**
- 1.13 Only Tiers 1 and 2 of the PBS are in scope for this work. The limit for Tier 1 will apply to the current Tier 1 General route only. We consider whether in-country migrants switching into, and extending under, Tier 1 General should be included within the limit. The Post-Study Work Route (PSWR) is outside the scope of the limit: the Home Secretary has said that the Government will be reviewing other migration routes and bringing forward further proposals in due course. The Investor and Entrepreneur routes under Tier 1 are also excluded.
- 1.14 The limit for Tier 2 will cover the current Resident Labour Market Test (RLMT) and shortage occupation routes. The Government is consulting on whether these routes should be merged. We also consider whether the limit should cover the intra-company transfer route, although we note that the Government is consulting on whether this route should be included in the limit. As with Tier 1, both out-of-country migrants and in-country switchers and extenders are potentially in-scope. The limit will not apply to the elite sportspeople and ministers of religion routes.
- 1.15 The Government is consulting on whether dependants of main migrants through these routes should be included within a limit. We consider the implications of doing so.
- 1.5 Our approach**
- 1.16 On 30 June 2010 we published on our website a consultation document (MAC, 2010b) and sent a copy of this document to our corporate partners (throughout this report where we refer to either ‘corporate partners’ or just ‘partners’ we mean all parties with an interest in our work and its outcomes, so both private and public sector employers, trade unions, representative bodies and private individuals are all included within this term). The document asked that responses be provided by 7 September 2010.
- 1.17 In addressing the question the Government posed to us, we identified three main themes that we needed to address, namely:
- What criteria should be taken into account when considering limits for Tiers 1 and 2, and how should those criteria be balanced?
  - What precise objective for net migration, and PBS migration, would be consistent with the Government’s aim to reduce net migration to the tens of thousands by the end of this Parliament?
  - What trajectory, for Tier 1 and Tier 2 migration over time,

is most desirable in order to achieve the objective?

**1.18** In our consultation document, we set out specific questions which we believed needed to be addressed to inform our consideration of the above issues. We received over 400 written responses to our call for evidence, and attended a large number of meetings and events, meeting face-to-face with approximately 1,000 of our partners. We reviewed the relevant academic literature and consulted with leading academics. We also carried out in-house analysis. Further details of these activities, and how we brought the information, evidence and data together to form our final conclusions, are presented in this report.

**1.19** Throughout this process we have been mindful that we are operating in a broader context. The Government is simultaneously consulting on the mechanism for limits on Tiers 1 and 2 of the PBS. As mentioned above, whether the Government's objective for net migration is achieved will also be influenced by any subsequent policy changes made in areas not directly within our remit for this report, such as student and family migration, as well as by changes to rules relating to settlement and citizenship. It will also be affected by factors effectively outside the control of migration policy, such as British and EU migration. Finally, there are limited data available, and the scope for fully reconciling different data sources is limited.

**1.20** We have taken a pragmatic approach to the above issues. Where we have needed to make

assumptions, we have done so. We have also made all efforts to ensure that the assumptions are well informed, and explicit. Where there are uncertainties, we highlight them. We also make suggestions as to how the use of evidence and analysis to guide development of policy on migration limits may be made as robust as possible over future years.

## **1.6 Structure of this report**

**1.21** The early chapters provide context to our report. Chapter 2 provides details of the policy on limits on migration, the design of the PBS, and other relevant aspects of policy and legislation. It also briefly reviews relevant practice in other countries. Chapter 3 sets out and discusses data on migration, migrant characteristics, the labour market and the UK economy.

**1.22** In Chapters 4 and 5 we discuss our approach to this work in more detail. Chapter 4 discusses how we carried out our consultation and provides an analysis of the responses we received. Chapter 5 discusses potential frameworks for analysing limits on migration in general, and our specific analytical approach to considering limits for Tiers 1 and 2 of the PBS.

**1.23** Chapters 6 to 9 provide our main analysis of the evidence and data we examined. First, in Chapter 6 we set out our quantitative analysis of the role work-related non-EEA migration may play in contributing to the Government's overall objective for net immigration. Next, we consider the evidence in relation to the economic impacts (Chapter 7) and the public service and social

impacts (Chapter 8) of migration. Chapter 9 sets out the limits for Tiers 1 and 2 in 2011/12 that we believe are required to meet the Government's objective and examines potential policy options to underpin the limits.

1.24 In Chapter 10 we summarise our conclusions and describe next steps and areas for future research.

## 1.7 **Thank you**

1.25 We are extremely grateful to all the organisations and individuals who responded to our consultation, who we met with, and who took the trouble to give us their views. We are particularly grateful to those organisations that hosted events for us or who coordinated responses to our call for evidence; they helped us to access a wider range of opinions and evidence than would otherwise have been possible. Lists of those who responded to our consultation (and who have not asked for anonymity), and those who met with us are provided as annexes to this report.



## 2.1 Introduction

2.1 In this chapter we set out a brief overview of the main routes via which migrants can come to the UK, together with a more detailed look at Tier 1 and Tier 2 of the Points Based System (PBS). The chapter also describes the Government's policy on limits, its consultation on Tiers 1 and 2, and gives details of our consultation on the levels of the limits. Then we consider policies introduced by other countries to limit migration. Finally, we draw out relevant implications and issues for consideration later in this report.

2.2 The particular focus is on Tiers 1 and 2 of the PBS, as they are most directly in scope for this report. Nonetheless, because Tier 1 and 2 migrants make up only a component of total migration, we also discuss other routes that have relevance to the Government's overall aim of reducing net migration to the 'tens of thousands'.

## 2.2 Routes of migration to the UK

2.3 This section summarises the main routes of migration to the UK, starting with migration by returning British citizens and by nationals from within the European Union.

### Returning British citizens and UK ancestry

2.4 British citizens have the right to live and work in the UK without being subject to immigration control. Nationals from Commonwealth countries with at least one grandparent born in the UK (including the Channel Islands and the Isle of Man and, if the grandparent was born before 31 March 1922, the Republic of Ireland) have the right to live and work in the UK.

### European Economic Area migration and automatic entitlements

2.5 Nationals of the European Economic Area (EEA)<sup>1</sup>, Swiss nationals and their families have

<sup>1</sup> Nationals of Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Irish Republic, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom. Iceland, Liechtenstein and Norway are not members of the European Union (EU) but citizens of these countries have the same rights to enter, live in and work in the United Kingdom as EU citizens. Switzerland is not in the EEA, but its nationals are subject to the same immigration control processes as those for EEA countries. References to policy in relation to EEA (non-EEA) nationals in this report therefore include (exclude) Switzerland.

the right to come to the UK to visit, live or work. Family is defined as:

- a partner;
- a child or a partner's child;
- a grandchild or a partner's grandchild providing the grandchildren are dependent on them; and
- a parent or grandparent and a partner's parent or grandparent.

**2.6** Czech, Estonian, Hungarian, Latvian, Lithuanian, Polish, Slovakian or Slovenian nationals need to register, with some exceptions, under the Worker Registration Scheme if they are taking up employment in the UK. See our report on restrictions on A8 nationals for more information about this scheme (MAC, 2009a).

**2.7** Nationals of Bulgaria or Romania may need permission to work in the UK. See our report on restrictions on A2 nationals for more information (MAC, 2008b).

**2.8** After an EEA national has lived in the UK for a continuous period of five years, they can apply for confirmation of permanent residence.

### **Turkish nationals**

**2.9** Under the European Community Association Agreement (ECAA) with Turkey, Turkish nationals can apply to enter the UK in the Turkish ECAA business category, or to switch into this category if they are already here legally in a different category. This route is only for persons intending to

establish themselves in business in the UK and successful applicants must be able to demonstrate that they have the ability and commitment to do so. Successful initial applications are given 12 months permission to enter or stay in the UK, with the possibility of a three year extension. At the end of that four year period, the Turkish national can apply for settlement in the UK.

### **Points Based System**

**2.10** Persons not covered by the provisions outlined above, and who are coming to the UK for the purpose of work or study, must generally apply under the PBS for managed migration. There are some other non-PBS extant routes which regulate economic migration (for example, the business visitor route) and these are discussed later in this chapter. The PBS consists of five Tiers:

- **Tier 1:** Highly skilled individuals to contribute to growth and productivity. Tier 1 is discussed in detail below.
- **Tier 2:** Skilled workers with a job offer to fill gaps in UK labour force. Tier 2 is discussed in detail below.
- **Tier 3:** Low skilled workers needed to fill specific temporary labour shortages. Tier 3 has never been open, and is presently suspended.
- **Tier 4:** Students. This route is outside the scope of this report and is therefore not described in detail.

- **Tier 5:** Youth mobility and temporary workers. Those allowed to work in the UK for a limited period of time to satisfy primarily non-economic objectives.

2.11 To qualify for each tier, individuals must earn a given number of points in relation to requirements such as education and qualifications, current or prospective earnings, and maintenance. Requirements, and their associated points, vary by tier and the entry route through which the immigrant is applying. The system is designed to be flexible, and the requirements and points can be changed by the Government at any time.

### **In-country, out-of-country and switching applications**

2.12 Applications to migrate to the UK through the PBS can be made in-country or out-of-country. In-country applications are made while the applicant is present in the UK having secured entry through one of the primary routes outlined in this chapter. This will involve making an application to either extend an existing permission to stay under the same route or applying to switch into another route from the route under which the initial permission to come to the UK was granted.

2.13 Out-of-country applications are made from outside of the UK, either in the applicant's country of origin or another country, and are made via UK diplomatic posts.

2.14 Switching applications are made in-country and are the means whereby applicants can switch

from one route into another. Generally speaking, persons can only switch in-country to a PBS route if they are currently in the UK under another PBS route or one of the deleted routes that were replaced by the PBS in 2008.

2.15 In the past, some PBS migrants have claimed that material published by the UK Border Agency at the time they came to the UK created a legitimate expectation that they would be allowed to extend their stay. For its part, the UK Border Agency maintains that its guidance only sets out the criteria that exist for applications made at that time. We make no judgements, either implicitly or explicitly, on such legal matters in this report. But, where such factors have potential relevance to the issues under discussion, we make reference to them.

### **2.3 Dependants and the right to family life**

2.16 Article 8 of the European Convention on Human Rights states: *“Everyone has the right to respect for his private and family life, his home and his correspondence. There shall be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others.”*

**2.17** The Human Rights Act 1998 incorporates the European Convention into UK law. The UK's obligations under Article 8 will need to be taken into account in placing limits on the ability of dependants to join main applicants in the UK.

### **Dependants of settled persons**

**2.18** Non-EEA and non-Swiss nationals can come to or remain in the UK as the partners, children or elderly dependant relatives of people who are already settled in the UK (i.e. who have the right to permanent residence here).

**2.19** With some exceptions, persons who are the husband, wife, civil partner or unmarried/same-sex partner of a settled person will be given permission to come and live here for 27 months, or to remain here for another 2 years if they are already in the UK when they apply. Shortly before the end of this period, they will be able to apply for permission to settle permanently in the UK. If they are the fiancé(e) or proposed civil partner of a settled person, they will be given permission to enter and live here for six months while they get married or register their civil partnership. They can then apply to switch into the category of husband, wife or civil partner.

**2.20** Persons who are settled in the UK may be able to bring their children, or child dependants, to live here permanently. Children cannot normally come to settle in the UK unless both parents are settled here or have been given permission to come and settle here.

**2.21** As well as partners and children under 18, the following relatives can apply to join a settled person in the UK if they are financially wholly or mainly dependent on the person. They must also be adequately accommodated and maintained without recourse to public funds, and have no other close relatives in their own country to whom they could turn for financial support:

- widowed mothers and widowed fathers aged 65 or over;
- parents or grandparents who are travelling together, if one of them is aged 65 or over; and,
- if there are exceptional compassionate circumstances, sons, daughters, sisters, brothers, uncles and aunts over the age of 18, and parents and grandparents under the age of 65.

### **Dependants of Points Based System migrants**

**2.22** PBS migrants can bring their children, spouses, civil partners, same sex partners, and unmarried partners, providing the main applicant can support them without claiming benefits. PBS migrants are not able to bring other dependants into the UK.

## **2.4 Asylum**

**2.23** Applications for asylum are considered under the 1951 United Nations Convention Relating to the Status of Refugees. To be recognised as a refugee, applicants must have left their country and be unable to go back because they have a well-founded

fear of persecution because of race, religion, nationality, political opinion, or membership of a particular social group.

2.24 A person who comes to the UK to seek asylum can include their dependants in their application for asylum, if those dependants have travelled with them to the UK. Persons granted asylum can apply to be reunited with their pre-existing families (the spouse, civil partner or unmarried/same-sex partner plus any children under 18 who formed part of the family unit at the time the refugee left) through the UK Border Agency family reunion programme. The UK Border Agency may allow family reunion for other family members on compassionate grounds.

## 2.5 Tier 1

2.25 Tier 1 of the PBS allows skilled persons to come to the UK to take up employment, subject to gaining sufficient points. Persons coming under Tier 1 do not require an offer of employment before they come to the UK.

2.26 Tier 1 currently has four routes:

- **General (Highly Skilled Worker):** for persons who wish to obtain highly skilled employment in the UK;
- **Post-Study Work Route:** for international graduates who have studied in the UK;
- **Entrepreneur:** for those wishing to invest in the UK by setting up or taking over, and being actively involved in the running of, a business; and

- **Investor:** for high net worth individuals making a substantial financial investment in the UK.

2.27 Even if applicants gain sufficient points, the application may still be refused for other reasons, such as previous migration abuses.

2.28 The first annual limit for Tier 1 will apply to main migrants through the General route only. We discuss that route, and the Post-Study Work Route in more detail below, before discussing dependants of Tier 1 migrants.

### Tier 1 General Route

2.29 The Tier 1 General route is for persons who wish to obtain highly skilled employment in the UK. Applicants are awarded points based on qualifications, previous earnings, UK experience, age, English language skills and available maintenance funds.

2.30 Persons can apply under the Tier 1 General route if they are:

- already in the UK in an immigration category from which switching into the highly skilled worker route is permitted; or
- already in the UK under the Tier 1 General route and wish to extend their permission to stay within this route; or
- already in the UK under the previous Highly Skilled Migrant Programme, and wish to extend their permission to stay and are eligible to switch into the Tier 1 General route; or

- outside the UK and eligible to apply for permission to enter the UK under the Tier 1 General route.

**2.31** Under Tier 1 General, the initial leave to remain entitlement is two years, followed by an extension of up to three years subject to evidence that the individual is in highly skilled employment.

**2.32** Table 2.1 illustrates how the requisite points can be achieved under the current Tier 1 General route for initial applications. This table reflects the changes to the total point requirement following the introduction of interim limits on 28 June 2010. It is otherwise consistent with recommendations the MAC made when we last reviewed Tier 1, at the request of the former Government, in MAC (2009e).

**Table 2.1: Points under the Tier 1 General route**

Route / requirement		Points criteria		
<b>General (100 points required)</b>	<b>80 points required</b>	Qualifications	Bachelor's	30
			Master's	35
			PhD	45
		Previous Earnings (£s per annum) <sup>(1)</sup>	Under £25,000	0
			£25,000 - £29,999	5
			£30,000 - £34,999	15
			£35,000 - £39,999	20
			£40,000 - £49,999	25
			£50,000 - £54,999	30
			£55,000 - £64,999	35
	£65,000 - £74,999		40	
	£75,000 - £149,999		45	
	£150,000 or above		80	
	Age	29 or under	20	
		30 to 34	10	
		35 to 39	5	
		Over 40	0	
		£25,000 or higher previous earnings or qualifications were gained in the UK	5	
<b>20 points required</b>	English language <sup>(2)</sup> (10 points)			
	Maintenance <sup>(3)</sup> (10 points)			

Notes: (1) An earnings multiplier applies to overseas earnings for initial applications. There are 5 bands of multiplier, ranging from 1 to 11.4, depending on the country in which money was earned. (2) English Language requirements may be met by either: passing an English language test (equivalent to grade C or above at GCSE level or level 6.5 on the International English Language Testing System – General Training or Academic Module), being a national of a majority English speaking country, or having taken a degree taught in English. (3) Maintenance is set at £2,400 plus start-up costs of £400. If there are dependants, maintenance for the first dependant is set at £1,600 and at £800 for each subsequent dependant.

Source: UK Border Agency, 2010

## Extensions under Tier 1 General

**2.33** After 2 years of living and working in the UK under Tier 1, migrants can apply to extend their stay under this route for a further three years (or two years if they are a Tier 1 General migrant whose permission to stay was granted before 6 April 2010). At the end of this period, migrants may have lived continuously in the UK for five years and can apply to settle here permanently. A Tier 1 migrant who is not then eligible for settlement can apply for permission to extend their stay under Tier 1 General again.

## Points awarded for an extension application under Tier 1 General

**2.34** The tables below show the points awarded to migrants already in the UK under Tier 1 General and who wish to extend their stay. These tables set out the extension arrangements for migrants whose permission to stay in the UK was granted on or after 6 April 2010. Different arrangements apply to extension applications by Tier 1 migrants whose permission to stay was granted prior to that.

**2.35** Table 2.2 shows the points awarded for age to migrants whose permission to enter or stay was granted on or after 6 April 2010.

**Table 2.2: Points for age for a Tier 1 General extension application on or after 6 April 2010**

Age on date of application	Points
Under 32 years	20
32 to 36 years	10
37 to 41 years	5
42 years or over	0

Source: UK Border Agency, 2010

**2.36** Table 2.3 shows the points awarded for qualifications to migrants whose permission to

enter or stay was granted on or after 6 April 2010.

**Table 2.3: Points for qualifications for a Tier 1 General extension application on or after 6 April 2010**

Qualification	Points
Bachelor's degree	30
Master's degree	35
PhD	45

Source: UK Border Agency, 2010

**Table 2.4: Points for previous earnings for a Tier 1 General extension application on or after 6 April 2010**

Previous earnings	Points
£25,000-£29,999	5
£30,000-£34,999	15
£35,000-£39,999	20
£40,000-£49,999	25
£50,000-£54,999	30
£55,000-£64,999	35
£65,000-£74,999	40
£75,000-£149,999	45
£150,000 or more	80

Source: UK Border Agency, 2010

2.37 Table 2.4 shows the points awarded for previous earnings to migrants whose permission to

enter or stay was granted on or after 6 April 2010.

**Table 2.5: Points for UK experience for a Tier 1 General extension application on or after 6 April 2010**

Type of UK experience	Points
Migrant successfully scores points for previous earnings, and £25,000 or more of those earnings were made in the UK	5

Source: UK Border Agency, 2010

2.38 Table 2.5 shows the points awarded for UK experience to migrants whose permission to enter or stay was granted on or after 6 April 2010.

2.39 Migrants will meet the English language requirement for a Tier 1 General extension if they were given permission to stay under a Tier 1 category (other than investors or post-study workers), or were given permission to stay as a highly skilled migrant under the immigration rules that came into force on 5 December 2006.

2.40 Migrants applying for a Tier 1 extension must also score 10 points for the maintenance requirement. In-country applicants will meet this if they can show that they have £800 in available funds, and out-of-country applicants will meet this if they can show they have access to £2,800 in available funds. The applicant must be able to show that the relevant funds have been in their account for at least three months before they apply, and be able to send documents that show the money has been there for that time.

## Tier 1 Documentary evidence

2.41 Original documents must be supplied, rather than copies. Applicants must supply two recent passport photographs together with their passport, along with proof of:

- their qualifications: usually the original certificate of award;
- their previous earnings, corroborated by usually at least two of the following for each source of earnings claimed:
  - payslips;
  - personal bank statements;
  - letter from employer;
  - official tax document;
  - dividend vouchers;
  - letter from managing agent or accountant;
  - invoice explanations or payment summaries;
  - company or business accounts;
- UK experience: there are no specific documentary requirements for claims for earnings made in the UK because the necessary documentation will have been sent to prove previous earnings;
- knowledge of English language: proof that the applicant is a national of a majority English speaking country (usually their passport), or proof they have

passed an English language test (the original test result certificate); and,

- sufficient funds to cover the maintenance requirement: evidence relating to the maintenance requirement must be in the form of cash funds. Other accounts or financial instruments, for example, shares, bonds, pension funds or agreed overdraft facilities, are not accepted as evidence of relevant funds.

## Use of salary multipliers in Tier 1 General

2.42 To reflect differences in income levels across the world, and in the pay of equally skilled workers, the earnings level required to score points varies depending on where the applicant was working at the time they earned the money. The UK Border Agency uses a series of calculations (known as salary multipliers) to bring salaries previously earned overseas in line with UK equivalents. The level of uplift depends on the average income in the country in which the earnings were made.

2.43 Our report on Tier 1 of the PBS (MAC, 2009e) set out how the UK Border Agency calculates the salary conversion rates. The broad rationale behind the calculation appears to be as follows:

- Poorer countries are generally characterised as having lower GDP per capita, reflecting lower productivity. Even after a spot exchange rate is applied, individuals from these countries will have lower average incomes than those in the UK.

- Countries with low average incomes are also characterised by a smaller proportion of employment in occupations that would be considered 'highly skilled' in the UK. For example, a nuclear physicist could be in the top 1 per cent of the pay distribution within a less developed country, but only within the top 10 per cent of the distribution in a country developed to a similar level as the UK.

2.44 The salary conversion model takes the above factors into account by defining where 'highly skilled' individuals sit within each country's earnings distribution in order to generate the appropriate conversion rate.

2.45 As set out in MAC (2009e), the methodology was seemingly developed along the following lines:

- Countries were allocated to five bands according to GDP per capita on a purchasing power parity (PPP) basis in 2002.
- Band A consists of the countries with highest GDP per capita (PPP), and Band E the lowest.
- It was assumed that the top 10 per cent of the income distribution for Band A countries is 'highly skilled' based on, we presume, the assumption that 10 per cent of the UK workforce is highly skilled. For countries in Band B, the assumption is that the equivalent 'highly skilled' group is the top 5 per cent; for Band C it is 3 per cent; for Band D it is 2 per cent and; for Band E it is 1 per cent. Broadly speaking, this implies that

someone in the top 10 per cent of the income distribution in a Band A country is equally skilled to someone in the top 1 per cent in a Band E country.

- Income percentiles were taken from the World Bank's *Global Income Inequality* database for some countries in 1993.
- Conversion rates were then calculated by comparing the equivalent points in the earnings distribution between the UK and the appropriate band. For example, for Band E, the average 99th percentile of the income distribution for countries with data available would be compared to the 90th percentile in the UK. From this, in the case of Band E, a multiplier of 11.4 is calculated.
- We were told that the original work also compared the wages of several occupations across countries as a broad sense-check of the magnitude of the multipliers; however, the data on this were very limited.

2.46 Table 2.6 provides the current conversion rates used by UK Border Agency for each band and a selection of countries included within these bands.

2.47 In our report on Tier 1 (MAC, 2009e), we expressed concerns about the way the salary multipliers are calculated, and recommended that the former Government carried out a full review of the salary conversion model. Our concerns are discussed in more detail in Chapter 9.

**Table 2.6: Salary bands and income conversion factors currently used in Tier 1 of the Points Based System**

Band	Conversion rate	Selection of countries by band
A	1	Australia, Canada, Japan, Kuwait, USA
B	2.3	Argentina, Barbados, Botswana, Chile, Libya, Malaysia, Mexico, New Zealand, Saudi Arabia, Venezuela
C	3.2	Albania, Algeria, Belarus, Brazil, China, Egypt, El Salvador, Iran, Jamaica, Russia, South Africa, Tonga
D	5.3	Angola, Armenia, Bangladesh, Burma, India, Iraq, Mongolia, Pakistan, Serbia, Ukraine, Zimbabwe
E	11.4	Afghanistan, Burundi, Congo (Democratic Republic of), Chad, Mozambique, Nigeria, Somalia, Uganda

Source: UK Border Agency, 2010

### Post-Study Work Route

- 2.48 The Tier 1 Post-Study Work Route (PSWR) of the PBS allows non-EEA graduates, who have graduated from a recognised UK Higher Education Institution (HEI), to work in the UK for up to two years without the need to have a sponsor employer. These graduates can switch into another tier of the PBS, provided they meet the relevant requirements.
- 2.49 Table 2.7 shows how the requisite points can be obtained under the PSWR.

**Table 2.7: Points under the Post-Study Work Route**

<b>Post-Study Work Route (95 points required)</b>	Has successfully obtained either:
	<ul style="list-style-type: none"> <li>• A UK recognised degree at bachelor’s level or above (20 points); or</li> <li>• A UK recognised Postgraduate Certificate in Education, Professional Graduate Diploma of Education, or Professional Graduate Diploma in Education obtained in Scotland (20 points); or</li> <li>• An HND from a Scottish institution (20 points).</li> </ul>
	At a UK institution that is either a UK recognised or listed body; or on the Tier 4 sponsors register (20 points).
	Obtained the qualifications while in the UK with student leave or as a dependant of someone with valid leave in an immigration category permitting the bringing in of dependants (20 points).
	Made the application within 12 months of obtaining the eligible qualification (15 points).
	English language <sup>(1)</sup> (10 points)
	Maintenance <sup>(2)</sup> (10 points)

Notes: (1) English Language requirements may be met by either: passing an English language test (equivalent to grade C or above at GCSE level), being a national of a majority English speaking country, or having taken a degree taught in English. (2) Maintenance is set at £2,400 plus start-up costs of £400. If there are dependants, maintenance for the first dependant is set at £1,600 and at £800 for each subsequent dependant.

Source: UK Border Agency, 2010

**2.50** In our report on Tier 1 (MAC, 2009e) we made several recommendations to the former Government in relation to this route. One was that it commissions a detailed analysis of the economic returns to studying at particular institutions and for particular degree subjects. We said that the Government should then review whether the current policy with regard to equal PSWR allowance for graduates of all qualifying institutions and degree subjects should be amended.

### Dependants

**2.51** Successful applicants under Tier 1, including under the PSWR, may bring dependants (children,

spouses, civil partners, same sex partners, and unmarried partners) into the UK if they can prove that they can maintain them. Dependants of migrants under Tier 1 are not able to switch into any PBS tier other than as a dependant of a successful applicant. If dependants subsequently wish to apply to be in the UK in their own right, they must first leave the UK in order to do this. Dependants granted leave to enter or remain can take on any employment provided that the PBS migrant has been granted more than 12 months permission to stay in the UK, subject to the following restriction: there is a prohibition on undertaking employment as a doctor in training.

2.52 In MAC (2009c) we looked at dependants of PBS migrants and concluded, on the basis of poor data and incomplete evidence, that on balance dependants should probably continue to be allowed to accompany the principal migrant to the UK and that there should not be any restrictions placed on their ability to work here. However, this line of argument needs to be reconsidered in the light of the new policy of limits on migration, as discussed later in this report.

## 2.6 Tier 2

2.53 Tier 2 is for skilled migrants only. A successful applicant must have an offer of employment from a sponsor employer, be coming to fill a job at National Qualification Framework level 3 (or equivalent) or above, and be paid at least the 'appropriate rate' that would be paid to a skilled resident worker doing similar work. Points are awarded for different requirements and the overall pass mark is currently set at 70.

2.54 The MAC last reviewed Tier 2, at the request of the former Government, in MAC, 2009c. We made a series of recommendations in terms of how the route should be amended. Many, but not all, of those recommendations were accepted by the Government. Those recommendations that were accepted are reflected in the policy discussion below.

2.55 Tier 2 has five routes. Two of these, for sportspeople and ministers of religion, are not covered by our suggested limit and are not discussed in detail

here. The other three routes are described in detail below.

2.56 Tier 2 also includes switching from the Post-Study Work Route category of Tier 1. Applicants need to have a sponsoring employer and, if they satisfy certain requirements, can score 30 points for sponsorship based on previous experience with that company, without the requirement for that company to carry out the Resident Labour Market Test (RLMT).

2.57 Points are awarded for different requirements and the overall pass mark is currently set at 70. Table 2.8 summarises the requirements and the corresponding points allocated.

2.58 Aspects of Tier 2 pertinent to this review are discussed in more detail below.

### Sponsorship

2.59 Applicants for Tier 2 must have both a sponsor and a valid Certificate of Sponsorship before applying. The sponsor is a UK-based organisation that wishes to employ the applicant in the UK. To sponsor applicants, an employer must become licensed and accept certain responsibilities to help with immigration control. Before the applicant can apply for leave to enter, the sponsor must assign a Certificate of Sponsorship, without which an immigrant worker's application would be refused.

2.60 Where a salary is taken into account in the allocation of points, it is required that the salary for the job be at the appropriate rate for that occupation which is intended to circumvent attempts to use the PBS to undercut UK jobs.

**Table 2.8: Points and requirements under Tier 2 of the Points Based System**

Section	Routes:	Requirements: Qualifications (or equivalents)	Requirements: Prospective Earnings (£)
<b>A (50 points needed)</b>	Offer of job in shortage occupation	50	No qualifications 0 Below £20,000 0
	Offer of job that passes Resident Labour Market Test	35	GCE A-level 5 £20,000 - £23,999 10
	Intra-Company Transfer	25	Bachelors or Masters 10 £24,000 - £27,999 15
	Switching from a Post-Study category	30	PhD 15 £28,000 - £31,999 20
			£32,000 or above 25
<b>B</b>	Maintenance requirement (mandatory)		10
<b>C</b>	Competence in English (mandatory)		10

Notes: Prospective earnings are before tax, and can be adjusted periodically to reflect inflation and/or labour market requirements. Allowances will be taken into consideration in calculation of salary. This table only includes the points and requirements for certain routes.

Source: UK Border Agency, 2010

## Shortage occupations

**2.61** Successful applicants entering by the shortage occupation route gain 50 points which, along with the 20 points from the mandatory requirements, allow applicants to obtain the pass mark of 70 points. The shortage occupation list applies to the whole of the UK, and Scotland has its own list of additional shortage occupations.

**2.62** Since 2008, the MAC has been responsible for recommending the shortage occupation list to the Government. We have carried out one full review of the lists in MAC (2008a) and three partial reviews in MAC (2009b) (2009d) and (2010a). The former Government accepted virtually all of our recommendations in terms of

the shortage occupation list. The current Government has not yet responded to the recommended changes set out in MAC (2010a).

## Resident Labour Market Test

**2.63** For the Resident Labour Market Test (RLMT), employers are required to advertise the relevant vacancy through Jobcentre Plus, and as agreed in a sector code of practice (for example in a trade magazine), for at least four weeks at a level of earnings deemed reasonable by the UK Border Agency for that job. When issuing a certificate of sponsorship, the sponsor must either confirm that the test has been conducted, or that it does not apply. Thirty points are obtained for coming via this route, with the other 20 points in

part A of Table 2.8 needing to be obtained through a combination of prospective earnings in the job and qualifications.

### **Intra-company transfers**

- 2.64** Intra-company transfers are used by employees of multi-national companies with at least 12 months company experience to be transferred to a skilled job in a UK-based branch of the organisation. Twenty-five points are obtained for coming via this route, which need to be supplemented by points for earnings and qualifications. Under this route, the English requirement becomes mandatory after three years.
- 2.65** Under the previous work permit arrangements the sponsor had to confirm that sponsored employees had company specific knowledge and experience that was specifically required for the post on offer and which could not be provided by a resident worker. Similar requirements are in place in other countries, for example in Ireland. Under the PBS, employers are not required to confirm that their sponsored employees have company specific knowledge and experience that is required for the post on offer and which could not be provided by a resident worker, unlike under the work permit system. However, the requirement for 12 months previous employment with the company is intended to be a proxy for this.
- 2.66** Following a recommendation made in our report on Tier 2 last year (MAC 2009c), this route no longer provides a direct route to settlement in the UK.

### **Trade agreements and intra-company transfers**

- 2.67** The UK is a party to the World Trade Organisation's (WTO) General Agreement on Trade in Services (GATS). The GATS was created to extend to the service sector the system for merchandise trade set out in the General Agreement on Tariffs and Trade, but with some differences to reflect the different nature of services trade. The GATS entered into force in January 1995.
- 2.68** Under the GATS, the UK is committed to allowing the temporary presence of intra-company transferees where: they are managers or specialists (both categories defined in fairly narrow terms); and are transferred to the UK by a company established in the territory of another WTO member; and are transferred here in the context of the provision of a service through a commercial presence in the UK. The UK is committed to doing this where the worker has been employed by the sending business for at least one year. It is also committed to do it without applying an economic needs test, such as the RLMT.
- 2.69** The UK's existing provisions under the intra-company transfer route give effect to its GATS commitments. The admission of intra-company transferees to the UK under the GATS is not limited in terms of numbers.
- 2.70** The existing GATS does not specify any commitments in respect of length of stay for intra-company transferees although such a commitment may be considered implicit within the GATS, since the commitment to

admit intra-company transferees would be meaningless if their permitted length of stay was reduced below a certain point.

**2.71** In 2003, European Union (EU) member states reached agreement on a revised offer in WTO negotiations in respect of its GATS commitments. This revised offer included a commitment to admit intra-company transferees for up to 3 years. While this offer has not been translated into an agreement at the WTO level, it has been used as the basis for all other subsequent, similar trade negotiations at the bilateral level (i.e. conducted by the EU with other countries or blocs of countries) including commitments on intra-company transfers. Some of those negotiations have concluded – in particular the EU-CARIFORUM<sup>2</sup> Economic Partnership Agreement and the EU-Korea Free Trade Agreement. Negotiations have also finished on the EU-Andean Countries Free Trade Agreement (with Peru and Colombia) and the EU-Central America FTA (with a group of six Central American states<sup>3</sup>).

**2.72** In addition, the EU is currently engaged in services negotiations with other countries. Negotiations are ongoing with partners such as India, Canada, Mexico (reviewing the existing Free Trade Agreement), Ukraine, the

Mercosur countries<sup>4</sup>, the Gulf Cooperation Council<sup>5</sup>, the Euromed countries<sup>6</sup>, and some of the ASEAN countries.<sup>7</sup>

**2.73** In information provided to us for this review, the Department for Business, Innovation and Skills told us that commitments on intra-company transferees such as those embodied within GATS are an integral part of the UK's commitments on trade in services. They told us that limiting the UK's ability to take commitments in this area by including intra-company transfers within a limit could negatively affect the EU's ability to conclude new trade deals potentially reducing the benefits for the UK from these agreements, or potentially causing outline deals to unwind.

### **Extensions under Tier 2**

**2.74** Migrants making successful applications to live and work in the UK under Tier 2 are initially given permission for stay for up to three years, depending on the period requested by their sponsor. They can then apply for an extension of up to two years at the end of that period.

**2.75** If a migrant has previous permission to stay as a work permit holder, they can apply under the transitional arrangements for permission to

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<sup>2</sup> Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Lucia, St. Kitts and Nevis, St Vincent and the Grenadines, Suriname, Trinidad and Tobago.

<sup>3</sup> Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

<sup>4</sup> Argentina, Brazil, Paraguay and Uruguay.

<sup>5</sup> Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

<sup>6</sup> Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian Authority, Syria and Tunisia.

<sup>7</sup> Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

stay for a time that takes them to five years in the UK in an eligible category. For example, if they have been here for two-and-a-half years with permission as a work permit holder or under the transitional arrangements, they can apply for a further two-and-a-half years' permission to stay.

2.76 Migrants may apply for settlement once they have been in the UK in an eligible category for five years. If they do not apply for settlement, they must make a new application under the PBS.

2.77 Tier 2 migrants who apply to extend their stay and who have a Certificate of Sponsorship to continue working in the same job for the same employer, will score 50 points.

2.78 The English language requirement will be met, without the migrant having to send further evidence, if they were given permission to stay in the past under Tier 2 and have already provided evidence that they meet the English language requirement.

2.79 The maintenance requirement will be met without the migrant having to provide further evidence, if they have permission to stay in the UK under Tier 2 at the time of making their extension application.

### **Supplementary work and benefits**

2.80 All Tier 2 migrants are able to undertake supplementary work, without the need for the RLMT or additional sponsorship. Any such work must be in the same profession, and at the same professional level, as their main employment. The migrant must

not exceed 20 hours per week, falling outside of normal working hours only, in their additional employment.

2.81 PBS migrants are not generally immediately entitled to access public funds, such as income-related benefits including income based jobseekers allowance, housing benefit and council tax benefit. Where migrants have paid National Insurance contributions they will qualify for contributory benefits, including contribution-based jobseeker's allowance and incapacity benefit (now replaced by contributory Employment Support Allowance). Contributory benefits are not classed as public funds.

### **Allowances**

2.82 We considered allowances in our review of Tier 2 (MAC, 2009c). We also considered separately the issue of London weighting (MAC, 2010c) but this latter report did not recommend a change to the *status quo*. The Government has not announced any proposed changes to the allowances system and therefore, for ease of reference, we repeat our earlier material on allowances here.

2.83 Allowances are included in the calculation for total salary under the Tier 2 shortage occupation and RLMT routes when that allowance would be paid to the equivalent domestic worker. For example, London weighting would be included, while transport from home country to the UK would not. Other benefits, such as overtime, bonus or incentive pay, travel and subsistence are not included.

**2.84** Allowances included under the intra-company transfer route are more complex. Some allowances count towards the salary calculation that would not be included under the other routes, such as daily payments to cover the additional cost of living whilst in the UK, but not including expenses to cover travel between the home country and the UK. In many cases, the immigrant remains on their overseas salary for the duration of their stay in the UK with the balance to the UK appropriate going rate made up through cost of living allowances. There is no limit set on these allowances, with the exception of those payable in regard to the cost of accommodation.

**2.85** In the case of allowances provided solely for the purpose of accommodation, only those up to 30 per cent of the total gross salary package are taken into account for the purposes of awarding points and assessing whether the salary achieves the appropriate going rate. This applies whether such allowances are made available in cash or in kind. For example, where an applicant's prospective salary plus (accommodation and other) allowances is £20,000, the maximum accommodation allowance that will be taken into account is 30 per cent of £20,000, which is £6,000. If the accommodation allowance is £6,000 or less, the UK Border Agency will take all of it into account. If it is more than that, UK Border Agency will only take £6,000 into account.

**2.86** Due to the higher costs of short-term accommodation, in revised

UK Border Agency guidance for sponsors, accommodation allowances up to 40 per cent of the gross salary will be taken into account for short-term transfers of 12 months or less. In the example above, this means that up to £8,000 (40 per cent of £20,000) will be taken into account.

## Dependants

**2.87** The same rules governing the dependants of Tier 1 migrants also apply to Tier 2 migrants, as discussed in section 2.5.

## 2.7 Other routes of migration

**2.88** There are other routes for migrants both within and outside the PBS, some of which can potentially impact on net Long Term International Migration (LTIM), measured from the International Passenger Survey (IPS) conducted by the Office for National Statistics.

**2.89** **Tier 5** is the PBS route for youth mobility and temporary workers. This route is for people allowed to work in the UK for a limited period of time to satisfy primarily non-economic objectives. Switching into another route of the PBS is not allowed for most persons who are in the UK under a Tier 5 route (there is a concession for football players switching from Tier 5 into Tier 2).

**2.90** Successful applicants under this tier must have a job offer from a licensed sponsor, a valid Certificate of Sponsorship and pass the points-based assessment. There are a number of different routes under this tier for temporary workers including

those coming here to work in a creative and sporting, charity or religious context. Additionally, some persons are admitted under a government authorised exchange scheme as well as under international agreements. The Youth Mobility Scheme allows for young people from participating countries to come and experience life in the UK. The countries in the scheme are Australia, Canada, Japan, New Zealand and Monaco.

**2.91** The types of employment covered by Tier 5 include persons coming to the UK to work for up to 12 months as internationally established sports people and suitably qualified sports coaches, entertainers or creative artists, employees of overseas governments and international organisations and private servants in diplomatic households. Some of these can extend their stay for up to 24 months, namely: creative workers, religious workers, persons on a government authorised exchange scheme, and persons on a Youth Mobility Scheme. Workers under the international agreement category may be able to stay for longer if they are applying as a private servant in a diplomatic household or as an employee of an overseas government or international organisation. These people can apply to extend their stay for a maximum of 12 months at a time, up to a total of six years.

**2.92** **Permit-free employment** covers some types of work which do not require either a work permit or a Certificate of Sponsorship under the PBS, such as work as the sole representative of an overseas company in the UK or

as the representative of overseas newspapers, news agencies and broadcasting organisations. Dependants may not accompany persons under this category and have to apply in their own right.

**2.93** **The business visitor visa** allows a visa national (nationals of countries whose citizens require a visa every time they come to the UK, unless they are settled here) to enter the UK for a period of up to six months as a business visitor. Non-visa nationals (nationals of countries whose citizens do not require a visa every time they come to the UK) do not require a business visitor visa to come to the UK as a business visitor. Academic visitors can stay for a maximum of twelve months using this visa, but they must obtain a business visitor visa regardless of their nationality if they wish to do this. Permissible activities include:

- attending meetings or conferences;
- arranging deals, negotiating or signing trade agreements or contracts;
- undertaking fact finding missions provided the information is of benefit to a branch abroad only, checking details or goods; and
- conducting site visits and promotional activities.

**2.94** Persons using business visitor visas to come to the UK may not switch into a route under the PBS while they are here. Dependants may not accompany persons under his category and have to apply in their own right.

2.95 In our report on Tier 2 (MAC, 2009c) we reported that we were told on several occasions that those using business visitor visas would sometimes work, in breach of the injunction that they do not do so.

2.96 Persons can come to the UK on a **special visitor visa** if they are coming here:

- as child visitor;
- for private medical treatment;
- for marriage;
- as a parent of a child at school;
- as a student visitor;
- as a prospective student; or
- as a visitor in transit.

2.97 Special visitors can come to the United Kingdom for up to six months unless they are a parent of a child at school, in which case they can stay for up to 12 months; or they are a visitor in transit, in which case they can stay for 48 hours.

2.98 All visitors for marriage and prospective students need permission to come to the UK, and parents of children at school need permission to come if they are visiting for more than six months. Persons only need permission to come as a child visitor, for private medical treatment, as a student visitor or as a visitor in transit if they are a visa national.

2.99 Non-visa nationals do not need permission to come as a special

visitor for six months unless they are coming for marriage or as a prospective student. Special visitors are not allowed to work and may not switch into a Points Based System route. Dependants may not accompany persons under this category and have to apply in their own right.

## 2.8 Policy and consultation on limits

### Policy on limits

2.100 The Coalition's Programme for Government, published on 20 May 2010, confirmed the Government's intention to introduce an annual limit on the number of non-EU economic migrants admitted into the UK to live and work.

2.101 The Government's consultation document on immigration limits, discussed below, stated that "Limits on non-EU economic migration: a consultation" stated that *"it is the Government's aim to reduce levels of net migration back to the levels of the 1990s – tens of thousands, not hundreds of thousands – over the lifetime of this Parliament... We recognise the importance to the UK economy of attracting the brightest and the best from around the world who can make a real difference to the country's economic growth. But we should not be bringing in migrants we do not need, and we should be taking action across government and with the Devolved Administrations to upskill British workers and get them into jobs and sectors which have been too reliant on migrant labour"* (UK Border Agency, 2010a). The Government recognises that there is a careful balance to be struck

and is consulting with business and other interested sectors before taking final decisions on the implementation mechanisms for these limits and the level at which they should be set.

- 2.102 On 20 July 2010 the Minister of State for Immigration gave evidence about the immigration cap before the House of Commons Home Affairs Committee. In his evidence he stated the Government's intention to review both the family route and Tier 4 of the PBS. The Minister said *"We are looking at every route as you would expect... We are looking at the student and educational route which just in terms of sheer numbers is the biggest single route within the points-based system. We are looking also at family reunification and rights of settlement..."*

### **Government consultation on limits for Tiers 1 and 2**

- 2.103 The Government's consultation document (UK Border Agency, 2010a) was published on 28 June 2010. The questions on which the Government sought views were:

1. Do respondents agree that operating a pool for highly skilled migrants on the basis described above will be the fairest and most effective approach?
2. Do respondents agree that operating a first come first served system for skilled migrants available to individual sponsor employers will be the fairest and most effective approach?
3. Do respondents believe that where a quarterly quota is filled applications that have not yet been considered should be rolled over to the following release or not?
4. Should we consider raising the minimum criteria for qualification under Tier 1 of the points-based system?
5. Should we provide for additional points to be scored for:
  - higher level English language ability;
  - skilled dependants;
  - UK experience;
  - shortage skills;
  - health insurance?Are there any other factors that should be recognised through the points system?
6. Do respondents agree that Tier 1 (Investors) and Tier 1 (Entrepreneurs) should not be included within the annual limit?
7. How do respondents believe that the UK could make itself more attractive to investors and entrepreneurs who have the most to offer in terms of driving economic growth?
8. Do respondents agree that the Intra-Company Transfer route should be included within annual limits?
9. Do respondents agree that dependants should be accounted towards the limit?

10. Do respondents believe that the Shortage Occupation and Resident Labour Market Test routes should be merged in this way? What would be the advantages and disadvantages of doing so? Over what timescale might this change be implemented? What consideration should be given to advertising requirements?
11. Do respondents believe that there is merit in extending sponsor responsibilities in these ways?
12. Do respondents believe that there is merit in raising the English language requirement for Tier 2? If so to what level?
13. If a supply of migrant workers is no longer readily available, what action will you take to train and source labour from the domestic market?

**2.104** Some of the questions above overlap with the issues that need to be covered in this report. We offer our advice freely, in accordance with our view and the evidence we examined, but with recognition that the Government will want to consider the results of its own consultation before making a decision regarding acceptance of our suggestions. Particularly closely linked to this report are questions 4, 5, 8, 9, 10 and 13.

## **2.9 MAC consultation on levels of limits**

**2.105** We published a consultation document on 30 June 2010 MAC (2010b) which set out what we were thought were the key issues to be considered in setting the

level of a limit and which asked the following questions:

1. What factors should the MAC take into account, in order to inform its recommendations for Tiers 1 and 2 in 2011/12, when assessing the impacts of migration on the economy; the provision and use of public services; and wider society?
2. How should the MAC measure or assess these impacts?
3. How should the MAC trade off, prioritise, and balance the economic, public service and social impacts of migration?
4. To what extent and how quickly can alternatives to employing Tier 1 and Tier 2 migrants, including training and up-skilling of UK resident workers, reduce reliance on such migration? What can Government and other bodies do to facilitate this?
5. What trends do you expect to see over the lifetime of this Parliament in non-PBS migration, including of British and European Economic Area (EEA) citizens? Will limits on non-EEA migration affect this? Please provide reasons.
6. The stock of main (non-dependant) migrant workers under Tiers 1 and 2 is determined by (i) new migration from outside the UK and (ii) extensions and switching between routes by migrants within the UK. If migration is to be reduced, do you most favour achieving this via cuts in (i) or (ii)?

7. To what extent should reductions in flows through Tiers 1 and 2 be met through reduced migration of dependants? Should dependant numbers be reduced by proportionately more than those of main migrants?
8. What would be the likely impact on your organisation, sector or local area of reducing (from 2010) the number of main migrants through the Tier 1 general route in 2011/12?
9. What would be the impact on your organisation, sector or local area of reducing the number of main migrants through the Tier 2 shortage, Resident Labour Market Test, and intra-company transfer routes?
10. The Government's objective is to lower net migration overall. If you are proposing small or zero reductions in migration through a particular tier or route, through which Tier 1 and 2 routes do you think migration should be reduced instead?

2.106 We report further on our consultation and the evidence we received in Chapter 4 of this report.

2.107 We stated in our consultation document that we needed to consider the following questions, discussed in more detail in Chapter 5; to answer the question posed by the Government:

- What **criteria** should be taken into account when recommending a limit for Tiers 1 and 2, and how should those criteria be balanced?

- What precise **objective** for net migration, and PBS migration, would be consistent with the Government's aim to reduce net migration to the tens of thousands over the lifetime of this Parliament?
- What **trajectory**, for Tier 1 and Tier 2 migration over time, is most desirable in order to achieve the objective?

## 2.10 International comparisons

2.108 This section briefly sets out how limits on migration are used by other countries, with a focus on Australia, the US, Canada, New Zealand, Singapore and Switzerland. It discusses the stated objectives and coverage of their limits. Some of the routes discussed were covered in more detail in MAC (2009c) and MAC (2009e).

### Australia

2.109 Australia's migration system is broadly comprised of permanent and temporary components. Permanent components include the Skill Stream, which is designed to target migrants who have skills, proven entrepreneurial capability or outstanding abilities that will contribute to the Australian economy, and the Family Stream, which enables the migration of immediate family members of Australian citizens. Dependants of those entering through these streams are counted as entering through that same stream.

2.110 The Skill Stream is composed of three categories. The General Skilled Migration category, similar to the UK's Tier 1, allows

individuals that are not sponsored by an employer to obtain a visa if they gain the sufficient number of points for characteristics, such as age, English language and recent experience. The Employer Sponsored category, similar to the UK's Tier 2, allows Australian employers to recruit foreign workers to fill skilled vacancies in their business. The Business Skills Migration category allows suitably qualified business persons into Australia.

**2.111** Until recently, additional points were available if the individual's nominated occupation (i.e. their current occupation or an occupation that the individual has engaged in for several years) was on the Migration Occupations in Demand List (MODL), which identified skilled occupations in national skill shortage. The MODL has since been revoked constituting a shift in emphasis from the supply side (i.e. individual-led) to the demand side (i.e. employer-led) as it makes the General Skilled Migration route more difficult to enter through, and therefore makes the Employer Sponsored route relatively more attractive.

**2.112** The Government sets the size and composition of the permanent components by setting planning levels. The levels are set for each category of route and were originally considered targets to be aimed for, although in December 2008 the Government stated that these levels should be considered as ceilings which should not be exceeded. They are set annually and may be changed at any point.

**2.113** The original planning level for 2008-09 was 190,000. In March 2009, in response to the changing economic conditions, the level was revised to 172,000, with all of the reduction coming from the Skilled Stream. The planning level for 2009-10 is set at 168,700, with 64 per cent allocated to the Skilled Stream.

### **United States**

**2.114** Approximately 140,000 immigrant visas per annum are available for permanent workers with the right combination of skills, education and/or work experience. Although the US has no equivalent scheme to the UK's Tier 1 General route, there are similar schemes such as the EB-1 route, which does not require a job offer and is for those who possess extraordinary ability, or are outstanding professors and researchers or multinational managers or executives.

**2.115** There are a number of routes that are similar to the UK's Tier 2, in the sense that a job offer is required. The EB-2 route is for professionals holding advanced degrees, or for persons with exceptional ability in the arts, sciences or business. EB-3 is for professionals, skilled workers and other workers who must perform work for which qualified workers are not available in the US. The EB-2 and EB-3 routes require certification that the requirements of the routes have been met. The H-1B route is for temporary workers who wish to perform services in a speciality occupation, for which a bachelor's or higher degree is normally required. The prospective employer must attest that they will pay the worker the

prevailing wages and that other employees will not be adversely affected (US Department of Labor, 2009). This route is subject to an annual limit of 65,000 visas. Each of these routes requires a job offer. The L-1A and L-1B routes are for intra-company transferees. These routes are not subject to an annual limit.

- 2.116 Family-related immigrants (other than immediate family of US citizens which are not limited) are assigned a limit of 226,000 per annum. Applicants for limited routes are selected by lottery if there is a surplus of applications.

### Canada

- 2.117 Similar to Australia, Canada's immigration program comprises three elements, each of which is assigned an annual target planning level, which is considered to be a target to be met: economic, for which 156,600 places are allocated; family, for which 71,000 places are allocated; and humanitarian, for which 37,400 places are allocated.

- 2.118 In response to an accumulated backlog of applications, Canada has made changes to the relevant legislation allowing a limit on new applications.

### New Zealand

- 2.119 The skilled migrant route is for those that gain sufficient points for age, skills, experience and other factors which activate a two year residency visa which can be extended indefinitely. The number of points required can be adjusted by the Government. Temporary

visas are available for those with a job offer or those that wish to enter the country to find a job. There is an intermediate category for those that cannot gain sufficient points to be awarded a skilled migrant visa

- 2.120 The Long Term Business Policy route is for those wishing to establish a business in New Zealand. Visas are granted initially for 9 months, with a further 27 months granted after submitted evidence demonstrating that the business has been established.

- 2.121 The overall target planning level in New Zealand is 45,000 per annum, which again is considered a target to be met. Sixty per cent of the overall level is allocated to the skilled/business routes; 30 per cent to the family routes; and 10 per cent to the humanitarian route.

### Singapore

- 2.122 In contrast to the three countries above, Singapore imposes sector-specific 'dependency ceilings' for some visa types which are not to be exceeded and which specify the maximum quota of work visas available to a business or organisation.

- 2.123 In Singapore, visas are allocated using a pricing mechanism: businesses and organisations that obtain foreign worker visas pay a monthly 'foreign worker levy' to maintain the visa. These levies are flexible and reflect the migrant's skill level, and they increase with the share of migrants in the company.

## Switzerland

2.124 European Union (EU) and European Free Trade Association (EFTA) citizens are subject to a limit of 15,000 workers per annum. Non-EU/EFTA citizens are subject to a limit of 4,000 per annum, half of which is allocated on a regional level, half on the federal level. Some sectors, such as public health, teaching and agriculture, are exempt from the quota system.

## 2.11 Implications

2.125 Of all the ways by which migrants can come to the UK, this report looks in depth at only two: Tier 1 and Tier 2. Additionally, this report looks at only some of the routes under these tiers: namely, Tier 1 General and Tier 2 shortage occupation, Resident Labour Market Test and intra-company transfer routes.

2.126 There is a range of factors that need to be considered when placing limits on Tiers 1 and 2, including:

- the scope for reductions in lows through other PBS and non - PBS routes, including of students and family members;
- whether or not the current points tables for Tier 1 General and Tier 2 remain appropriate in the context of immigration limits, including in relation to each other;

- the relative role of in-country and out-of-country migration through Tiers 1 and 2 in reducing overall net migration to the UK;
- the role of dependants in influencing net migration and the implications for their inclusion or exclusion from limits on Tiers 1 and 2;
- whether or not some or all intra-company transfers should be included in the limit for Tier 2, and the role of international trade agreements in influencing that decision;
- whether the RLMT is sufficiently rigorous in order to prevent employers from bringing in migrant labour when UK workers are available, and whether it can be more so; and
- whether the function and design of the shortage occupation route needs to change in the context of limits on migration.

### 3.1 Introduction

3.1 This chapter provides the data context to our analysis of limits on Tiers 1 and 2 of the Points Based System (PBS). First, it provides background on the state of the UK economy and labour market. Then, it presents the latest available data on the volume of international migration to and from the UK, both in terms of the stock of resident migrants and flows into and out of the UK. Next, we examine data for Tiers 1 and 2 and consider how these migration routes relate to estimates of net migration. We look at the characteristics of migrants in the UK and their role in the UK labour market, and focus particularly on Tiers 1 and 2, where data allow. Last, we examine the volume of migration in other countries and make comparisons with the UK.

### 3.2 The UK economy

3.2 From 1992 to 2007 the UK experienced a sustained period of growth in Gross Domestic Product (GDP), averaging 2.8 per cent per annum. This contrasts with the six consecutive quarters of negative growth from the second quarter of 2008. Over this period, UK GDP contracted by 6.5 per cent (Office for National Statistics (ONS), 2010a). As presented in Figure 3.1, the UK showed

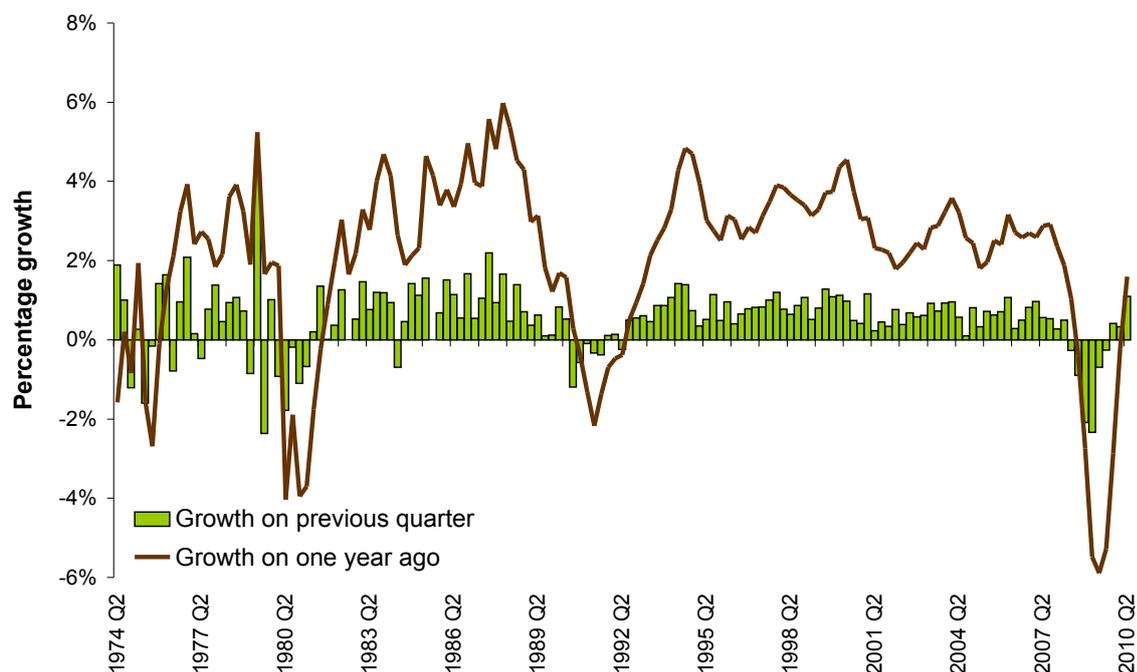
modest positive economic growth in the fourth quarter of 2009 which has continued into 2010. The UK economy grew by 1.7 per cent between the second quarter of 2009 and second quarter of 2010. The growth between the first and second quarter of 2010 was 1.2 per cent.

3.3 The recent trend of UK GDP growth reflects the state of the global economy, which in 2008 and 2009 was in severe recession following a financial crisis and loss of confidence in financial markets. The International Monetary Fund (IMF) (2010) estimates that world output declined by 0.6 per cent in 2009, its first annual decline since 1946. However, world output is projected to recover in 2010 with growth of 4.6 and 4.3 per cent projected for 2010 and 2011, as shown in Table 3.1.

In terms of GDP growth, the UK was one of the countries worst hit by the recession in the G7, contracting in 2009 by 4.9 per cent compared to an average of 3.2 per cent for all advanced economies. The UK economy is projected by the IMF to grow by 1.2 per cent in 2010.

3.5 Short and medium-term forecasts are subject to uncertainty and are continually revised. The independent Office for Budget

**Figure 3.1: One quarter and four quarter growth of real Gross Domestic Product, UK, 1974 Q2 to 2010 Q2 (provisional)**



Notes: Seasonally adjusted, chained volume measure, constant 2005 prices. The 2010 Q2 figure is provisional.

Source: Office for National Statistics (2010a)

**Table 3.1: International Gross Domestic Product growth projections**

		Per cent annual growth		
		2009*	2010**	2011**
World		-0.6	4.6	4.3
Advanced economies <sup>1</sup>		-3.2	2.6	2.4
European Union		-4.1	1.0	1.3
G7 countries	United Kingdom	-4.9	1.2	2.1
	United States	-2.4	3.3	2.9
	Japan	-5.2	2.4	1.8
	France	-2.5	1.4	1.6
	Germany	-4.9	1.4	1.6
	Canada	-2.5	3.6	2.8
	Italy	-5.0	0.9	1.1

Notes: \*Outturn. \*\*Forecast. (1) There are 33 countries in the advanced economies group which are listed in Table B in the source document.

Source: International Monetary Fund (2010)

Responsibility (OBR) (2010) forecasts that UK GDP will grow by 1.3 per cent in 2010, followed by 2.6 per cent in 2011 and 2.6 per cent in 2012. A selection of forecasts from leading institutions suggests that the UK economy is forecast to grow by 1.5 per cent in 2010 and 2.0 per cent in 2011 (HM Treasury, 2010).

**3.6** As set out in the June 2010 Budget, the Coalition Government intends to reduce the budget deficit that escalated following the recession of 2008 and 2009 as an urgent priority. Public sector net borrowing and public sector net debt as a percentage of GDP have risen since 2007/2008. In the financial year 2009/2010, public sector net borrowing was 11 per cent of GDP, and public sector net debt was 54.0 per cent which compares to 2.4 per cent and 36.5 per cent respectively for 2007/8 (HM Treasury Public Finances Databank, 2010). Migration can also be a factor affecting the public finances, both through the tax revenues it generates and the services migrants consume. The net fiscal impact of migration is discussed in Chapter 7.

**3.7** Consumer Price Index (CPI) annual inflation, the Bank of England's target measure, was 3.1 per cent in July and August, down from 3.2 per cent in June. Retail Price Index (RPI) annual inflation was 4.7 per cent in August, down from 4.8 per cent in July. As an internationally comparable measure of inflation, the CPI shows that the UK inflation rate in

June was above the provisional figure for the European Union (EU). The UK rate of 3.2 per cent in June compared to 1.9 per cent for the EU as a whole (Office for National Statistics, 2010j). The relationship between migration and inflation is discussed in Chapter 7.

### **3.3 The UK labour market**

**3.8** The labour market is showing signs of recovery in the latest data for 2010. Employment growth and unemployment reductions typically lag an upturn in GDP by approximately a year. Historically, GDP growth in excess of 2 per cent per annum has been needed before unemployment has begun to decline substantially.

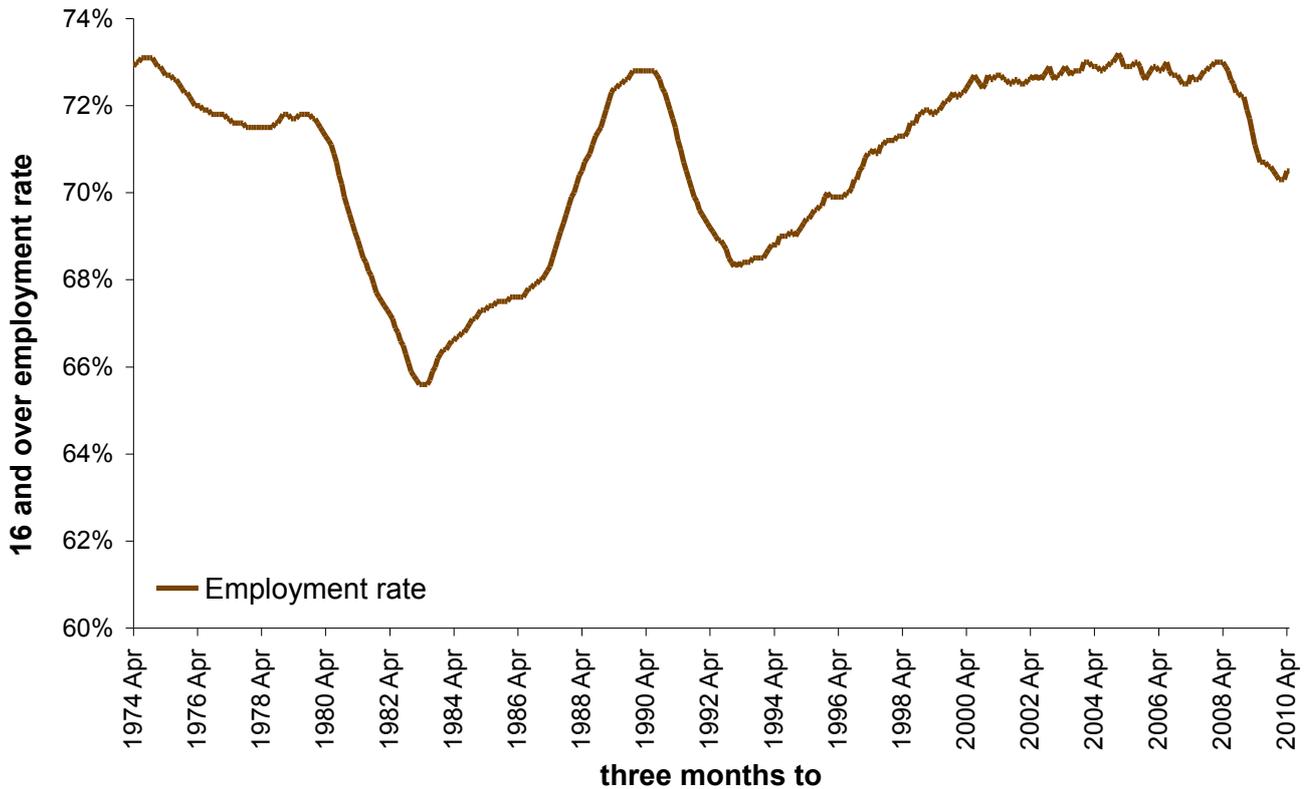
**3.9** Figure 3.2 shows that the UK working-age<sup>8</sup> employment rate was 70.5 per cent in the three months to May 2010. This compares with 70.9 per cent in the same period in 2009 and 72.9 per cent in 2008. The employment rate in the three months to March 2010 was 70.3 per cent, its lowest level since 1997. The employment rate in this recession has remained above its low of the last recession.

**3.10** Figure 3.3 shows that the unemployment rate (as defined by the International Labour Organisation (ILO)), reached a recent high of 8.0 per cent measured by the Labour Force Survey (LFS) in the three months to February 2010 and decreased slightly to 7.8 per cent in the three

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<sup>8</sup> The Office for National Statistics recently revised the definition of 'working age' to men and women aged 16 to 64 inclusive. The figures presented here use this new definition.

**Figure 3.2: UK working age employment rate, Apr 1974 to May 2010**



Notes: Seasonally adjusted. The employment rates are those calculated in the three months to the date shown. The employment rate is calculated from the Labour Force Survey (LFS) and is given by the number of working-age individuals, defined as both men and women aged 16 to 64, who did at least one hour's paid work in the week prior to their LFS interview, or who have a job that they are temporarily away from, as a proportion of the working age population.  
 Source: Office for National Statistics (2010b)

months to May 2010. Similarly, the claimant count rate, which captures Job Seekers Allowance claimants, reached 5.0 per cent towards the end of 2009, before falling slightly to 4.5 per cent in the three months to July 2010.

**3.11** The recent downturn has not been as severe as previous recessions in terms of employment loss, even though it has been as severe in terms of GDP. In the 1980s recession the unemployment rate peaked at 11.9 per cent, and in the 1990s recession unemployment peaked at 10.6 per cent. The

**3.12**

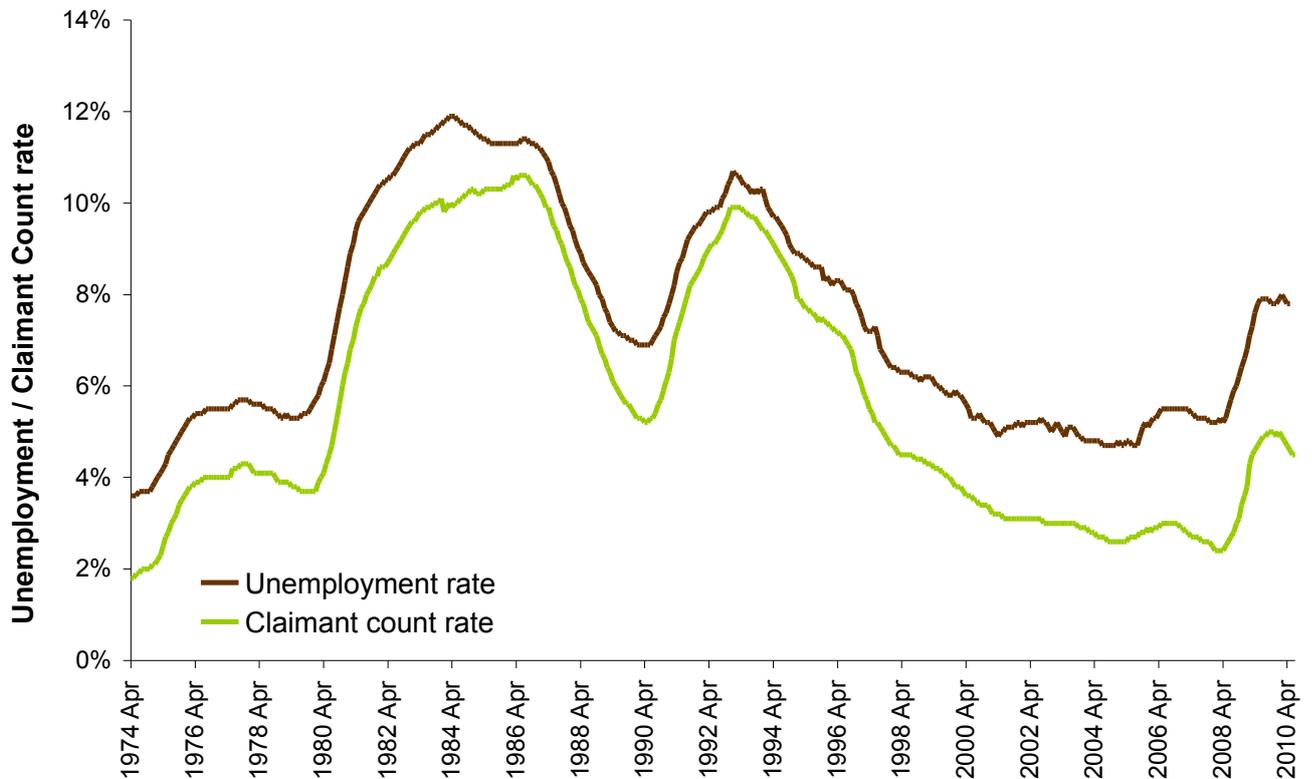
**3.13**

highest rate reached during the recent recession was 8.0 per cent in the three months to February 2010.

OBR (2010) forecasts that the ILO unemployment rate will increase to 8.4 per cent by the end of 2010, then decrease to 7.4 per cent in 2011 and continue falling until 2014. The claimant count rate started to fall earlier, at the onset of the recovery, and is expected to continue falling until 2014.

Figure 3.4 shows that, according to the ONS Vacancy Survey, there

**Figure 3.3: UK unemployment rate, Apr 1974 to May 2010  
UK claimant count rate, Apr 1974 to Jul 2010**



Note: Seasonally adjusted. The unemployment rates are those calculated in the three months to the date shown. The claimant count consists of all people between the ages of 18 and State Pension age claiming Jobseeker's Allowance at Jobcentre Plus local offices. They must declare that they are out of work, capable of, available for and actively seeking work during the week in which their claim is made. The claimant count rate is the number of claimants expressed as a percentage of the sum of claimants and workforce jobs (mid-year estimates are used). The definition of unemployment is internationally agreed and recommended by the International Labour Organisation. Individuals are defined as unemployed if they are without a job, want a job, have actively sought work in the last four weeks and are available to start work in the next two weeks; or are out of work, have found a job and are waiting to start it in the next two weeks. The unemployment rate is calculated from the LFS and is given by the proportion of the economically active population (those who are in employment or unemployment) who are unemployed.

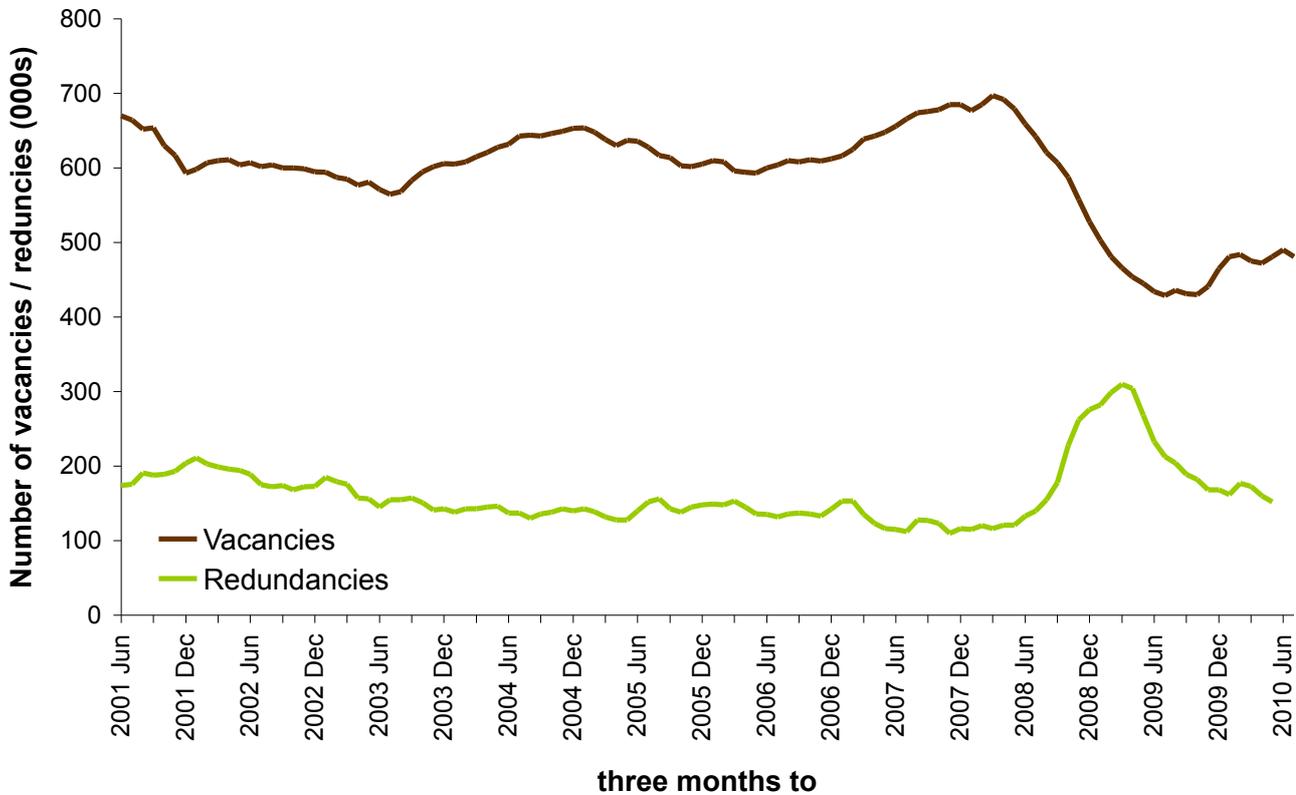
Source: Office for National Statistics (2010b)

were 481,000 job vacancies in the three months to July 2010. This is an increase from the recent low of 429,000 the year before, but a slight fall from 490,000 in the three months to June 2010. This upturn in the recent trend is indicative of a tentative recovery in the labour market.

3.14

As shown in Figure 3.4, there were 152,000 redundancies in the three months to May 2010, as measured by the LFS. This is a significant decrease from the peak of 310,000 in the three months to March 2009. Redundancies typically peak in the midst of a recession. Usually firms'

**Figure 3.4: Total vacancies, Mar-Jun 2001 to Apr-Jul 2010  
Total redundancies, Mar-Jun 2001 to Feb-May 2010**

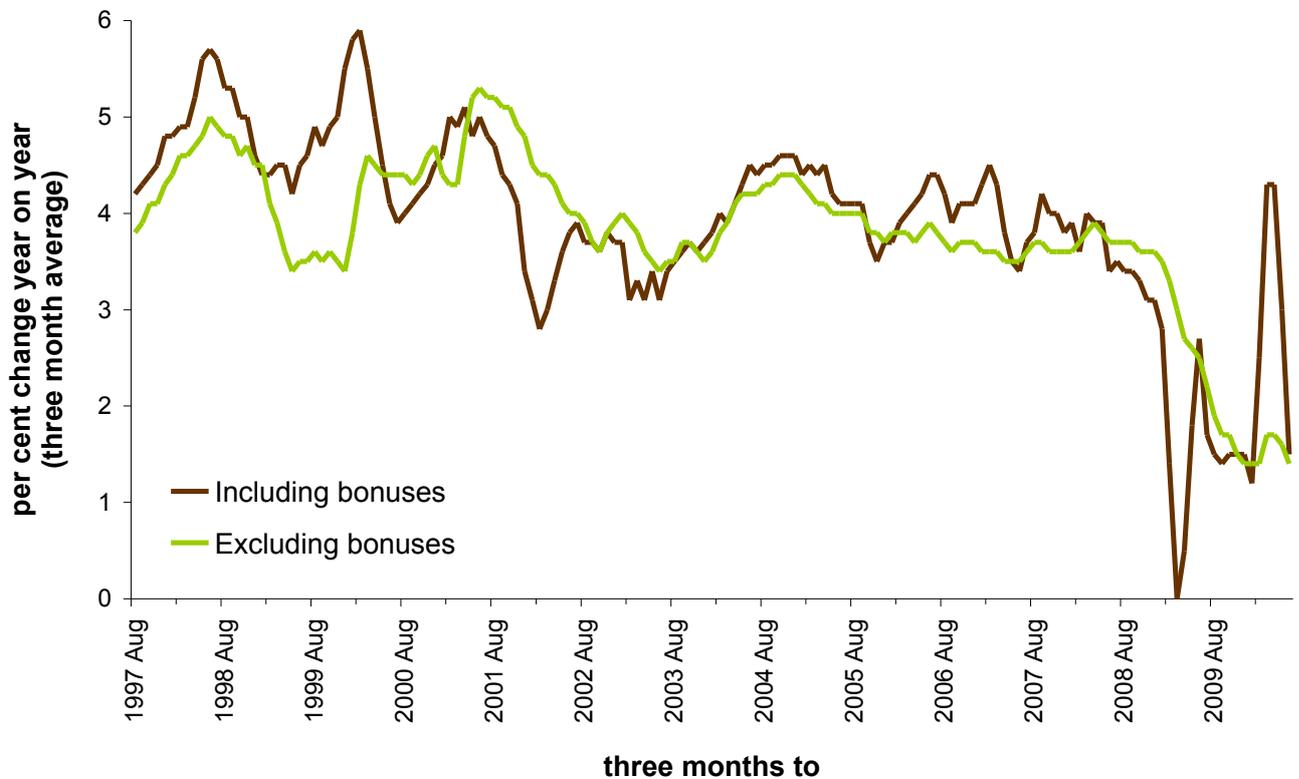


Notes: Seasonally adjusted. Total redundancies are estimated from the LFS and describe the number of people who had been made redundant or had taken voluntary redundancy in the month of the survey or in the two calendar months prior to this. Total vacancies are estimated from the monthly Vacancy Survey, which asks employers how many vacancies they have in total for which they are actively seeking recruits from outside their organisation, for example, by advertising or interviewing. The figures for both total vacancies and redundancies refer to the three-month period to the date shown.  
Source: Office for National Statistics (2010b)

initial response to an economic downturn is to cease hiring workers. Then, if the downturn continues, the number of redundancies increases. The fact that the number of redundancies is now falling indicates that the worst of the labour market shock may be over.

**3.15** Changes in earnings are an important indicator of labour market pressure. Figure 3.5 shows the deterioration in overall year-on-year earnings growth, excluding bonuses, since the end of 2008. Earnings growth, including bonuses, fell to zero in the three months to March 2009 and grew substantially in March and April 2010.

**Figure 3.5: Average earnings growth, Great Britain, Jun-Aug 1997 to Mar-Jun 2010**



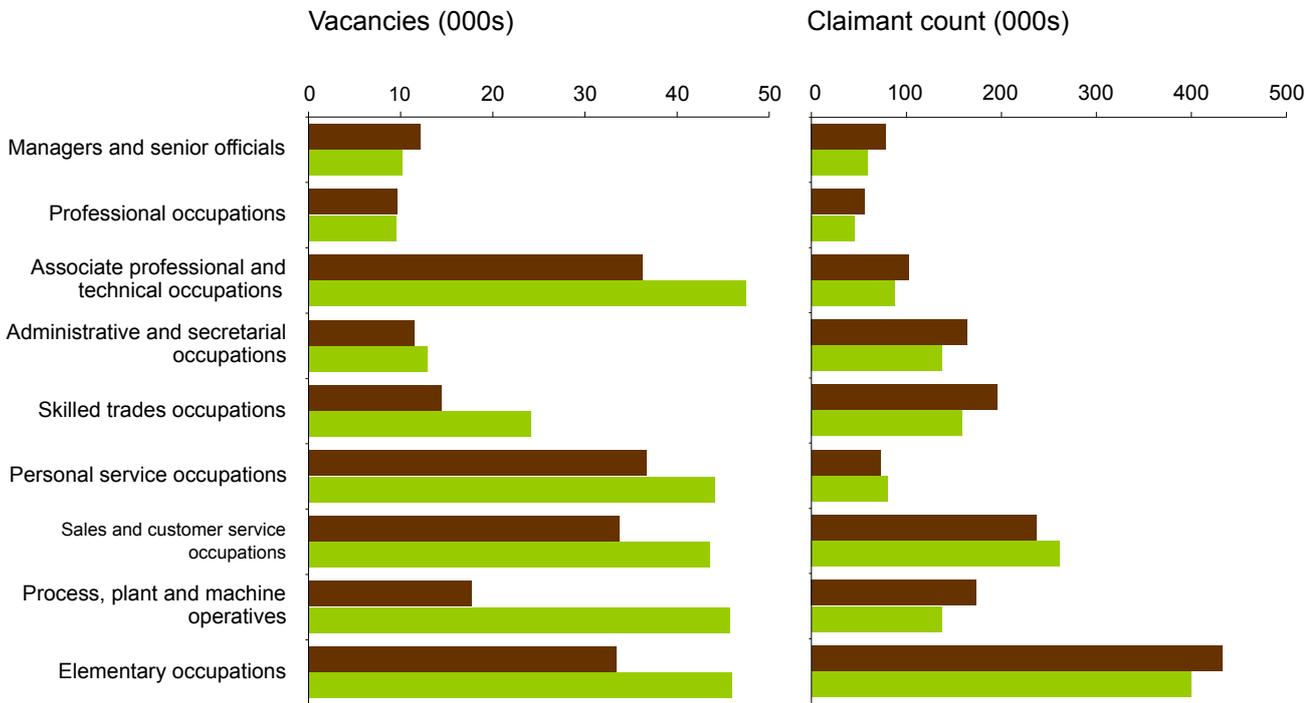
Notes: Seasonally adjusted. Average earnings are calculated by dividing the total amount paid by the total number of employees paid. The growth rate is equal to average earnings over a three-month period against the same three-month period a year ago. The figures presented are for Great Britain. Source: Office for National Statistics (2010b)

**3.16** Next we consider labour market information split by occupation. In July 2010 the claimant count was lower than in July 2009 for all occupations at the most aggregated (1-digit) Standard Occupational Classification (SOC) level, apart from sales and customer service occupations and personal service occupations, as shown in Figure 3.6. Less skilled occupations generally have higher numbers of claimants in absolute terms. In July 2010 the number of vacancies was higher than

in July 2009 for all occupations at 1-digit SOC level, apart from managers and senior officials and professional occupations. Here, total vacancies are limited to those recorded at Jobcentre Plus and therefore represent only a portion of total vacancies in the UK.

**3.17** The number of vacancies relative to unemployment (the V/U ratio) is an additional measure of the state of the labour market, also shown in Figure 3.6. The V/U ratio in July 2010 had increased compared to a year earlier for all 1-digit

**Figure 3.6: Jobcentre vacancies, claimant count and vacancies per claimant by occupation, Great Britain, July 2008, July 2009 and July 2010**



	V/U Ratio		
	July 2008	July 2009	July 2010
Managers and senior officials	0.64	0.15	0.17
Professional occupations	0.41	0.17	0.21
Associate professional and technical occupations	1.33	0.35	0.55
Administrative and secretarial occupations	0.22	0.07	0.09
Skilled trades occupations	0.38	0.07	0.15
Personal service occupations	0.98	0.50	0.55
Sales and customer service occupations	0.33	0.14	0.17
Process, plant and machine operatives	0.49	0.10	0.33
Elementary occupations	0.25	0.08	0.12

Notes: Seasonally adjusted. Total vacancies are estimated from the monthly Vacancy Survey, which asks employers how many vacancies they have in total for which they are actively seeking recruits from outside their organisation, for example, by advertising or interviewing. The claimant count consists of all people between the ages of 18 and State Pension age claiming Jobseeker's Allowance at Jobcentre Plus local offices. They must declare that they are out of work, capable of, available for and actively seeking work during the week in which their claim is made. The claimant count rate is the number of claimants expressed as a percentage of the sum of claimants and workforce jobs (mid-year estimates are used).

Source: Nomis (2010)

occupations, indicating that the demand for employees has risen relative to the supply. However, the V/U ratio still remains lower than it was in July 2008.

### 3.4 Overview of migration data sources

- 3.18 This section summarises the data sources available on migration to and from the UK and the key issues associated with each of them. Broadly, there are two types of data on migrant stocks and flows: survey-based and administrative.
- 3.19 Survey-based sources, such as the International Passenger Survey (IPS), Labour Force Survey (LFS) and Annual Population Survey (APS), provide a number of the official national statistics relating to migration. These sources tend to define migrants by length of stay and / or country of birth and nationality. They all allow analysis of migration by UK, EU and non-EU nationals. However, it is not possible to identify migration through Tiers 1 and 2 of the PBS.
- 3.20 Administrative data, such as the Control of Immigration Statistics, National Insurance Number allocations, and UK Border Agency management information, are derived from systems and databases used by public bodies to administer controls and services. Most administrative data sources define migrants by immigration status or nationality. These data allow Tier 1 and 2 migrants to be identified, but are

limited to measuring only migrant inflows, not outflows. In the remainder of this chapter we refer to people migrating into the UK as ‘inflows’, and those emigrating as ‘outflows’. Further details of each data source are provided in Box 3.1.

- 3.21 Immigration policy only relates to migration from outside the European Economic Area (EEA), but published data from the IPS is generally only available for non-EU migration (as well as for British and EU migration). Since flows to and from Iceland, Liechtenstein, Norway and Switzerland<sup>9</sup> are very small in terms of migration stocks and flows, we use IPS non-EU migration data as a proxy for flows from non-EEA countries. In practice, non-EEA migration is a subset of total non-EU migration and is likely to be only a very tiny fraction smaller.

### 3.5 Net migration and population growth

- 3.22 The precise question asked by the Home Secretary for the MAC to report on, stated in Chapter 1, referred to the Government’s aim of “*reducing net migration to an annual level of tens of thousands by the end of this Parliament*”. On 20 July 2010, the Minister of State for Immigration confirmed to the House of Commons Home Affairs Select Committee that the Government’s objective to reduce net migration will be measured by the IPS.<sup>10</sup> As described in Box 3.1, LTIM figures are based on the results of the IPS with certain adjustments made to account

<sup>9</sup> Switzerland is not a member of the EEA but is often treated as such for the purposes of immigration policy.

<sup>10</sup> [www.publications.parliament.uk/pa/cm201011/cmselect/cmhaff/uc361-i/uc36101.htm](http://www.publications.parliament.uk/pa/cm201011/cmselect/cmhaff/uc361-i/uc36101.htm)

### Box 3.1: Data sources on migration to and from the UK

**International Passenger Survey (IPS)** is a survey of passengers arriving in, and departing from, the UK. Migrants can be identified according to their country of birth, nationality, intended purpose of visit, and length of stay. Approximately one in every 500 passengers travelling through UK ports is surveyed, but the migrant sample (i.e. those intending to change their usual place of residence for a year or more) is only a fraction of this. In 2008 3,216 immigrants and 1,901 emigrants were surveyed. The low sample size means that the confidence intervals around IPS estimates are significant (shown in Annex B).

**Long Term International Migration (LTIM)** is defined as those persons intending to change their place of residence for a year or more, which matches the UN definition of a migrant. The figures for LTIM are based on the results from the IPS with certain adjustments made to account for flows to and from the Irish Republic, asylum seekers, and migrant and visitor switchers. Results for the IPS component are available quarterly.

**Labour Force Survey (LFS)** is a quarterly survey of around 60,000 households. The LFS provides estimates of the stock of foreign-born individuals in the UK and their labour market status. Immigrants can be identified according to their country of birth, nationality and length of stay in the UK, but not by their immigration status. Results are available quarterly.

**Annual Population Survey (APS)** is an annual household survey largely based on the LFS. The APS includes additional regional samples that make it more appropriate for regional and local analysis, as well as more accurate population estimates. Results are available quarterly.

**Control of Immigration statistics (COI)** include the number of entry clearance visas granted by category to non-EEA nationals, the number of extensions of leave to remain in the UK, grants of settlement and citizenship and estimates of passengers admitted to the UK. It is now possible to distinguish between those granted leave under different tiers of the PBS and between main applicants and their dependants. Entry clearance visas can be used to proxy inflows of migrants, although not all individuals who are issued visas will actually come to the UK. Since immigrants may extend or change their visa more than once, in-country data on extensions are not useful proxies for flows into or out of the UK.

**Management Information data (MI)** are data from the PBS and the predecessor arrangements collected by the UK Border Agency but not routinely published. Some of these data have been made available to the MAC to support the analysis for this report. It is important to note that these data are neither National Statistics nor quality-assured to National Statistics standards, and are, therefore, presented for research purposes only. These data allow further examination of applications granted through Tiers 1 and 2, including details of Certificates of Sponsorship issued to employers to sponsor applicants through Tier 2.

**National Insurance Number allocations (NINo)** describe the volume of citizens of different nationalities gaining a National Insurance number, which is required for legal employment, to pay tax and to claim some welfare benefits. These data may be used as a proxy for inflows of some types of immigrants, both from within and outside the EEA, to the UK. Figures are published quarterly by the Department for Work and Pensions.

for flows to and from the Irish Republic, asylum seekers, and migrant and visitor switchers.

- 3.23 This section begins by examining estimates of migration inflows, outflows and net flows measured by LTIM. Then, we consider an alternative approach to estimating net migration calculated by looking at the change in the UK stock of migrants over time, from the APS and LFS, and compare these estimates. Finally, we consider how net migration is likely to affect UK population growth.

### Migration flows

- 3.24 Since the end of the recession of the early 1990s inflows of long-term migrants (defined as those intending to change their place of residence for one year or more) have exceeded outflows, resulting in positive net migration to the UK, shown in Figure 3.7.

- 3.25 The provisional LTIM estimate for 2009 indicates that net migration was 196,000, an increase from 163,000 in 2008. In 2009 567,000 long-term migrants came to the UK and 371,000 left. Although net migration increased in 2009, both inflows and outflows decreased relative to 2008. The increase in net migration was driven by a relatively larger fall in outflows. These figures include British, EU and non-EU nationals.

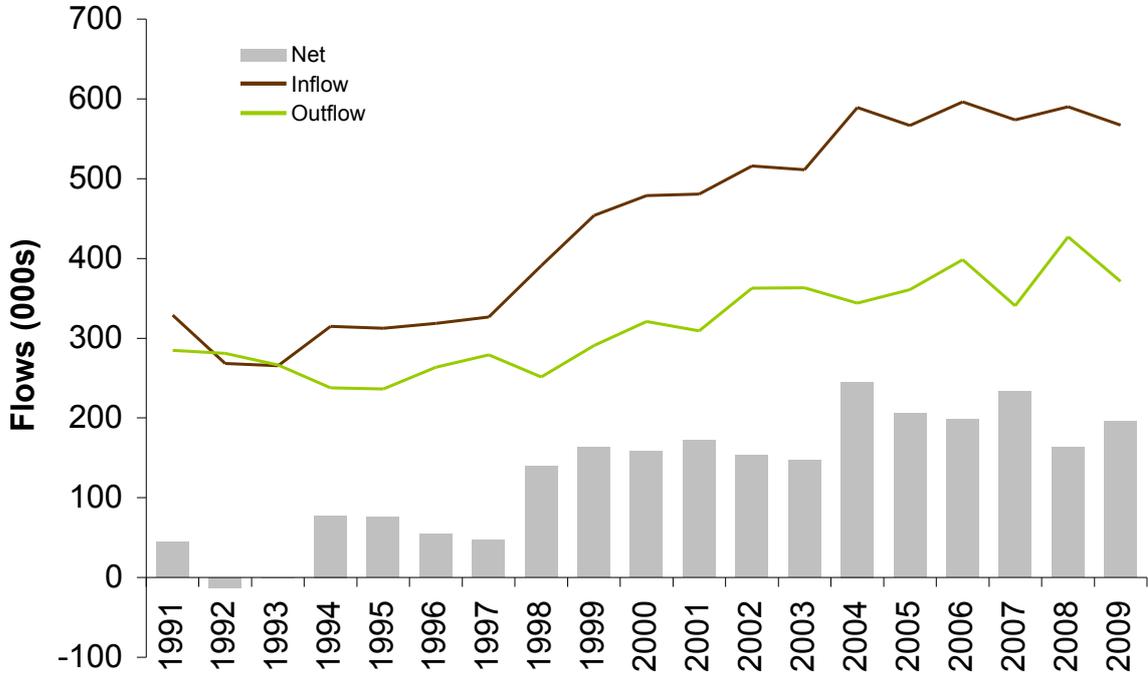
- 3.26 Figure 3.7 also shows the breakdown of the provisional LTIM net migration estimates into their constituent components, namely net migration of British, EU and non-EU nationals

(the IPS component) and the adjustments made to account for flows to and from the Irish Republic, asylum seekers, and migrant and visitor switchers (the non-IPS component).

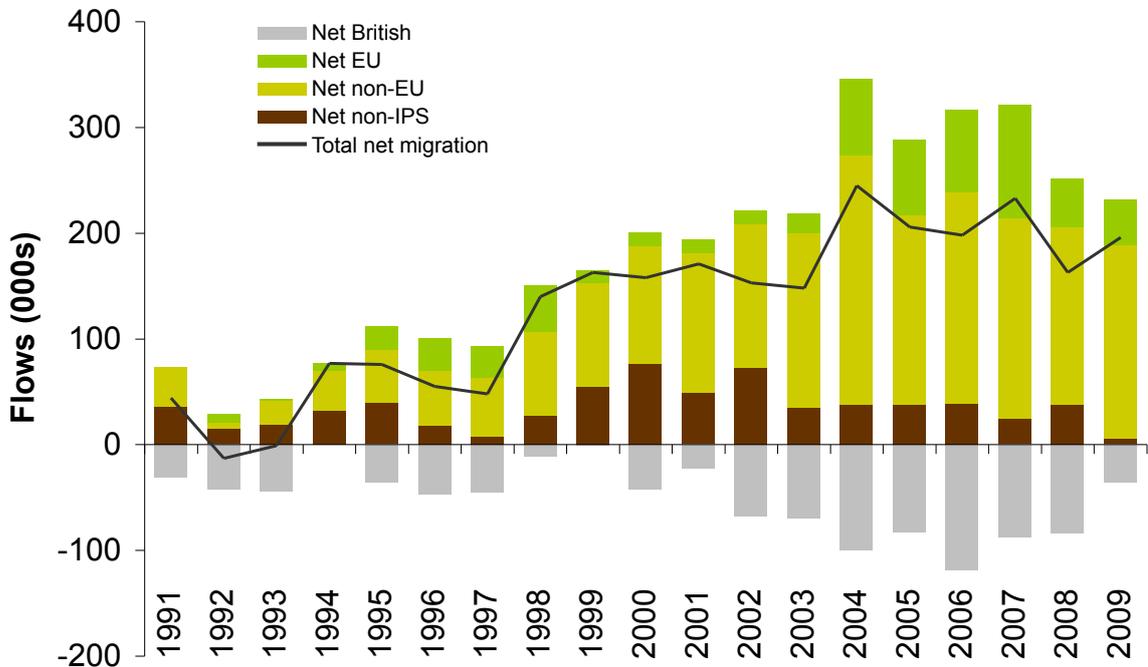
- 3.27 The increase in net migration between 1997 and 2004 was largely due to an increase in non-EU net migration. EU net migration to the UK increased between 2004 and 2008 following the expansion of the EU in 2004. There was also significant British net emigration between 2002 and 2008. However, a major contributor to the increase in overall net migration in the provisional 2009 figures relative to 2008 was a reduction in British outflows.

**Figure 3.7: Flows of long-term migrants to and from the UK and net long-term migration by citizenship, 1991 to 2009 (provisional)**

**Inflows, outflows and balance of long-term migrants to and from the UK, 1991 – 2009 (provisional)**



**Net long-term migration by citizenship, 1991 – 2009 (provisional)**



Notes: Long-term migrants are defined in the International Passenger Survey as those individuals who intend to change their place of residence for a year or more. This definition includes all nationalities, including British nationals. This figure shows published figures for the calendar years 1991 to 2008 and provisional estimates for 2009. EU includes EU15, A8, Bulgaria, Romania, Malta and Cyprus. 2009 LTIM figures are provisional – non-IPS components are based on provisional LTIM figures minus provisional IPS figures.

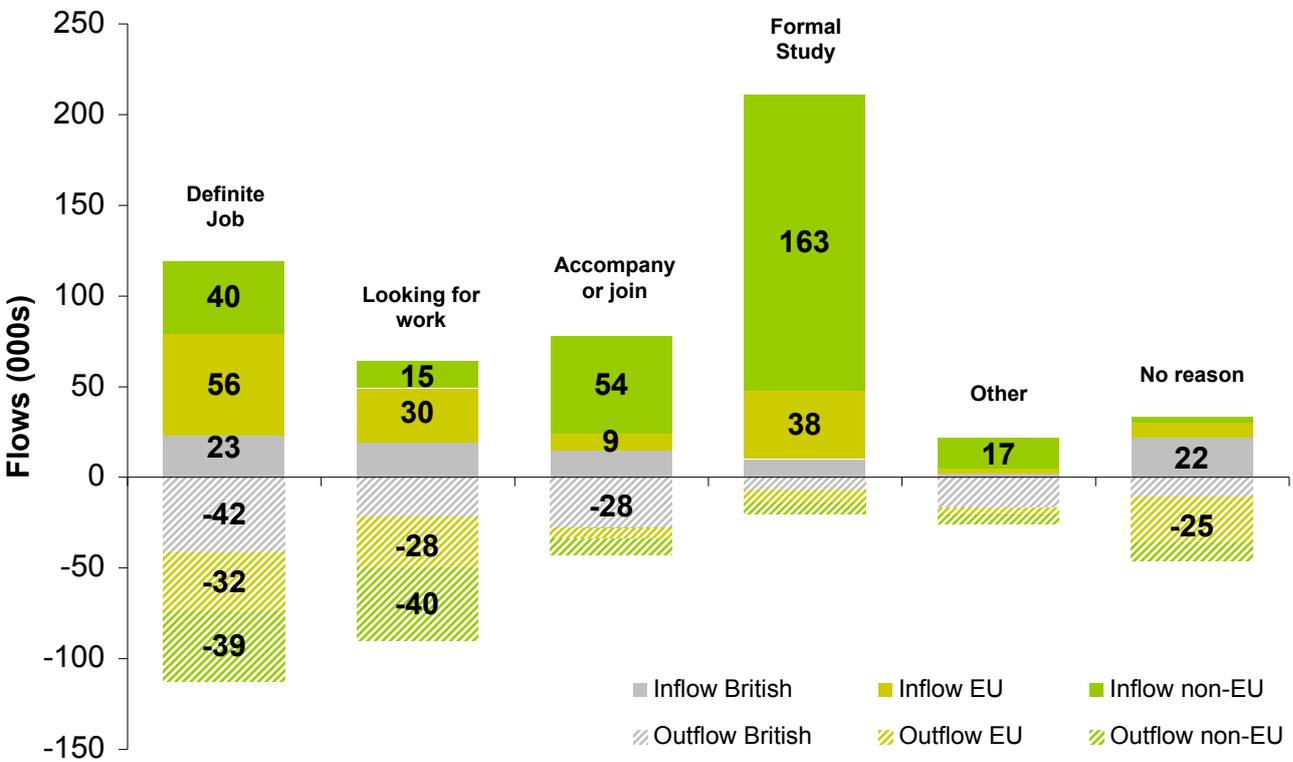
Source: International Passenger Survey, 1991-2009, published in Office for National Statistics (2010c)

3.28 The IPS components of the LTIM estimate can be broken down further to examine the 'reason for migration', shown in Figure 3.8. In 2009, the largest inflows of long-term migrants were the 163,000 students who came to the UK from outside the EU. 55,000 long-term migrants came to the UK from outside the EU for work-related reasons, either with a definite job or looking for work, compared to 79,000 non-EU nationals who left the UK for work-related reasons. However, it is important to recognise that this does not mean that net migration of non-EU work-related migrants to the UK was negative. This is because the reason a migrant leaves the UK is likely to differ from the reason why

he or she first came to the UK. For example, students will come to the UK for the reason of formal study, but once they graduate may leave the UK for work-related reasons, and be counted in the work-related outflow.

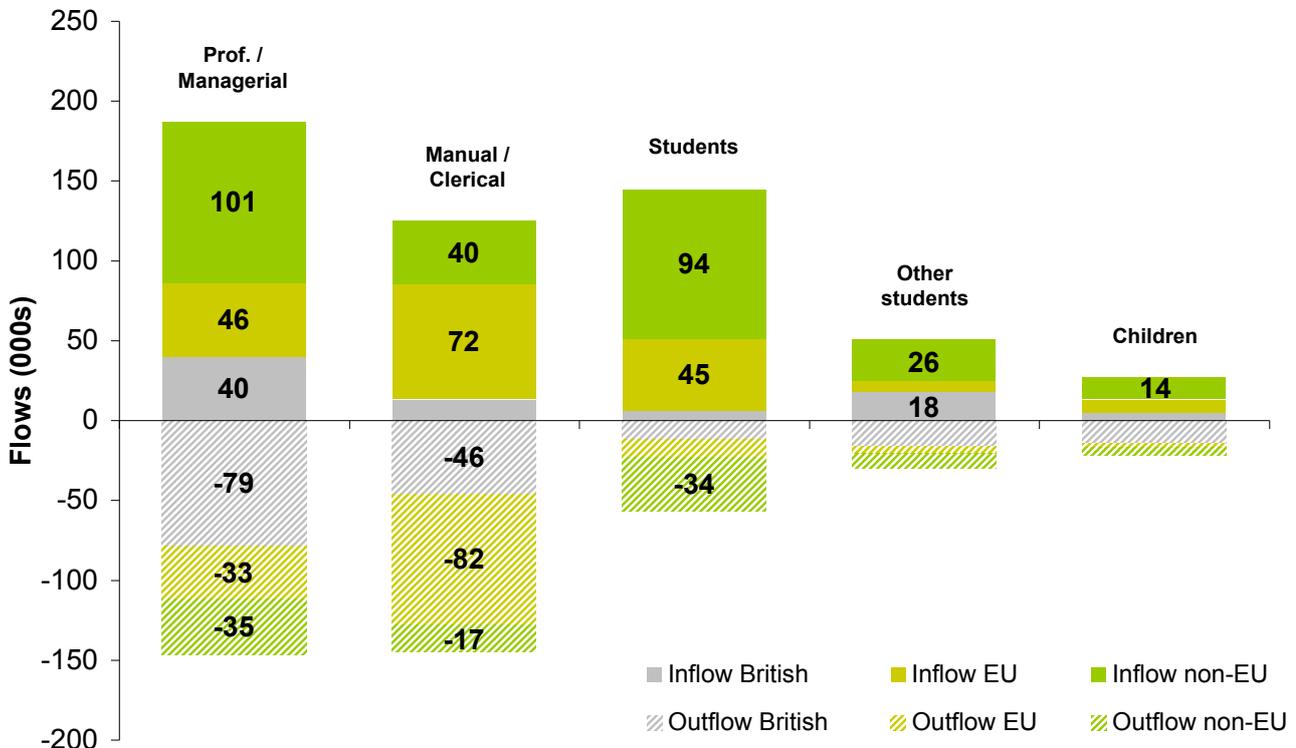
3.29 The IPS does not record the initial reason for coming to the UK in the outflow data. Instead, the IPS collects information on the 'usual occupation prior to migration'. This provides a better indication of the initial reason for coming to the UK than the outflow data presented in Figure 3.9. The latest data available on 'usual occupation prior to migration' in the IPS is for 2008. In 2008 an estimated 52,000 non-EU nationals left the

**Figure 3.8: Inflows and outflows of long-term migrants by reason for migration, 2009 (provisional)**



Notes: The figures describe the inflows and outflows of long-term migrants intending to change their place of residence for a year or more. Figures provided are in thousands.  
 Source: International Passenger Survey, 2009, published in Office for National Statistics (2010c)

**Figure 3.9: Inflows and outflows of long-term migrants by usual occupation prior to migration, 2008**



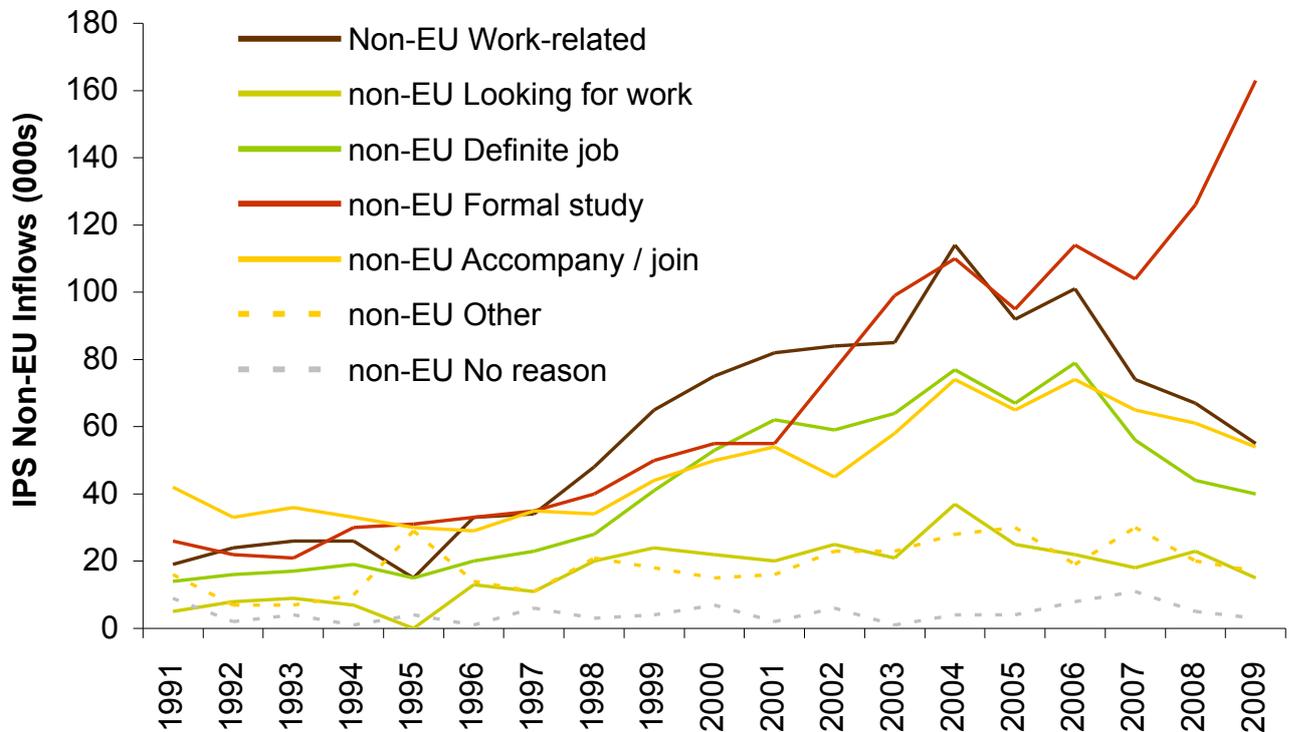
Notes: The figures describe the inflows and outflows of long-term migrants intending to change their place of residence for a year or more. Figures provided are in thousands.  
 Source: International Passenger Survey, 2008, published in Office for National Statistics (2010c)

UK who were formerly employed in the UK, and 34,000 left who were previously studying. However, it is still very likely that some migrants will have a different 'usual occupation' when leaving the UK compared to their original reason for first coming. Again, one example would be a migrant who initially comes to the UK to study, but who then graduates and starts working before leaving the UK. This may explain the particularly low non-EU outflow figures for those who were previously studying relative to the volume of inflows of non-EU students. We discuss this issue in more detail in Annex B.

**3.30**

Figure 3.10 examines non-EU inflows by reason for migration estimated by the IPS in more detail. Non-EU work-related migrant inflows rose from 26,000 in 1994 to 114,000 in 2004, before falling to 55,000 in 2009. The numbers coming for family reasons (the 'accompany / join' IPS category) rose from 33,000 in 1994 to 74,000 in 2004, before falling to 54,000 in 2009. Non-EU student inflows rose from 30,000 to 110,000 between 1994 and 2004. However, in contrast to the work and family routes, student inflows continued to rise from 2004, reaching 163,000 in 2009.

**Figure 3.10: Inflows of non-EU long-term migrants by reason for migration measured by the International Passenger Survey (IPS), 1991 to 2009**



Notes: The figures describe inflows of non-EU long-term migrants intending to change their place of residence for a year or more. Figures for 2009 are provisional. The non-EU 'work-related' category is the sum of the non-EU 'definite job' and 'looking for work' categories.  
Source: International Passenger Survey, 1991-2009, published in Office for National Statistics (2010c)

### Alternative estimate of net migration

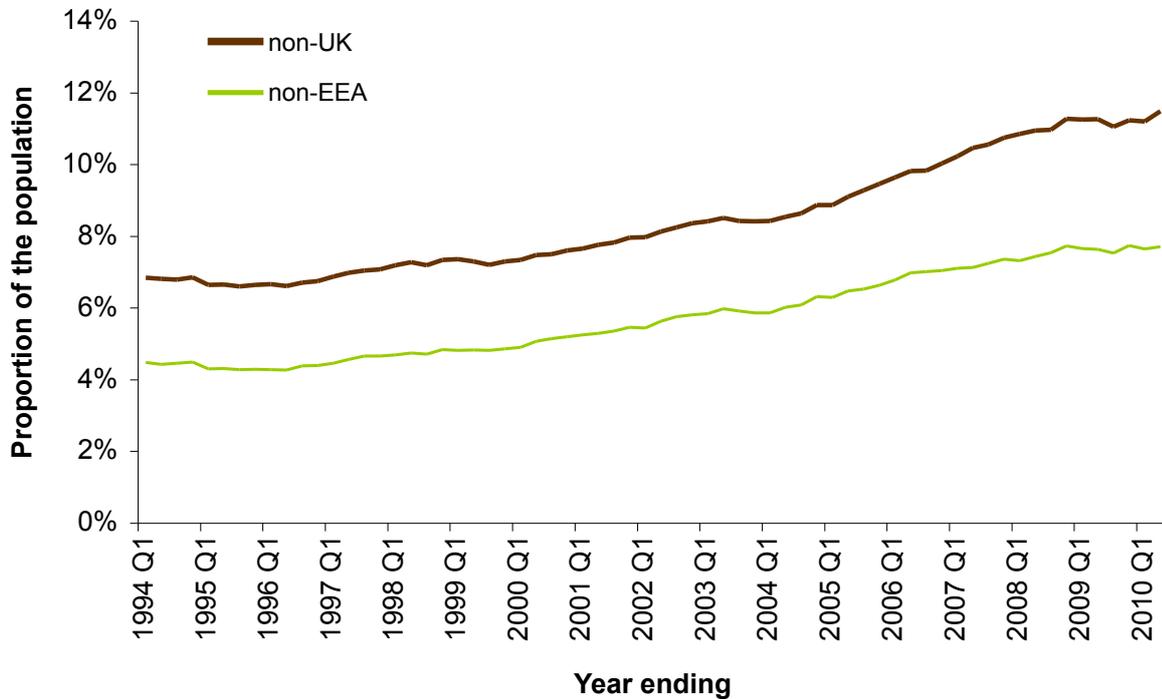
**3.31** The stock of migrants resident in the UK can be estimated each quarter from the LFS and each year by the APS. Figure 3.11 shows the proportion of the UK population that are non-UK and non-EEA born from the first quarter of 1994 to the second quarter of 2010, measured by the LFS. The stock of non-UK born measured in the LFS has increased from 3.8 million in the first quarter of 1994 to 7.0 million in the second quarter of 2010. The most recent figure

equates to around 12 per cent of the UK population. Similarly, the stock of non-EEA born has increased from 2.5 million in the first quarter of 2009 to 4.7 million in the first quarter of 2010, 8 per cent of the UK population.

**3.32** The latest annual data from the APS for 2009 confirms the LFS estimates, and similarly shows that the stock of non-UK born was 6.9 million (13 per cent of the UK population) and non-EEA born 4.7 million (9 per cent of the UK population).<sup>11</sup>

<sup>11</sup> The figures for the stock of non-UK born and non-EEA born differ slightly between the LFS and APS. This is likely to be a result of the differences in methodology employed by each survey.

**Figure 3.11: Proportion of the UK population born outside the UK and outside the European Economic Area (EEA), 1994 Q1 to 2010 Q2**



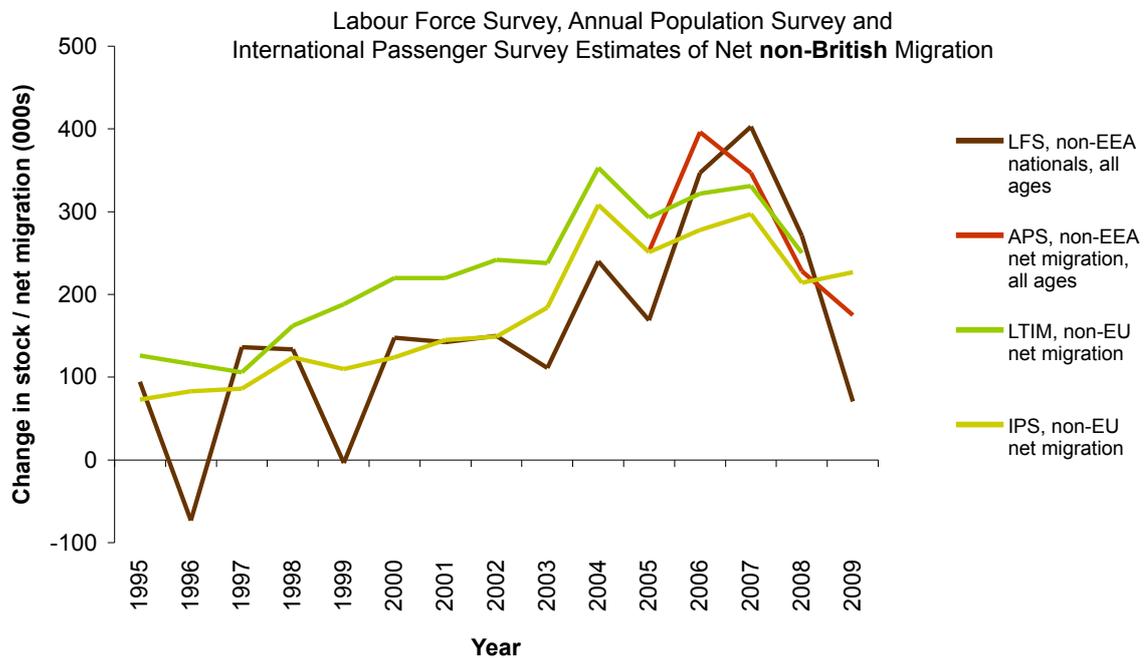
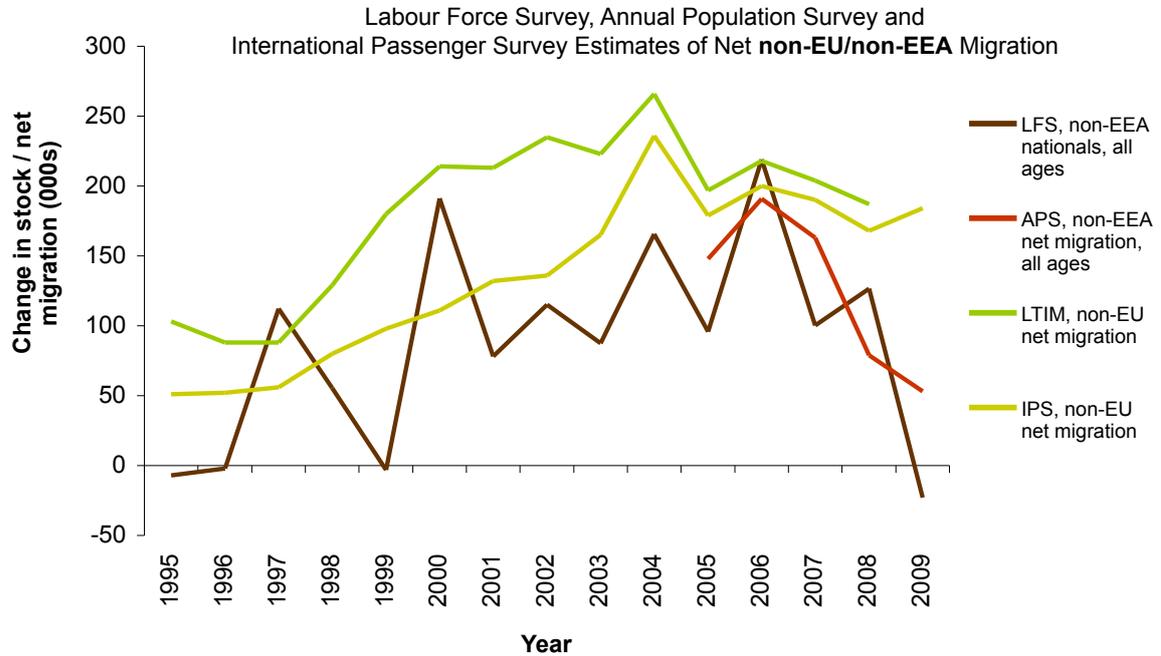
Notes: Estimates are based on the number of foreign-born individuals of all ages in the quarterly Labour Force Survey as a proportion of the total population.  
 Source: MAC analysis of the Labour Force Survey, 1994 Q1 to 2010 Q2

**3.33** The APS and LFS can also be used to estimate net migration by examining the change in the stock of the migrant population over time. This should represent the difference between inflows and outflows of migrants to the UK. Figure 3.12 examines the change in stock of non-British and non-EEA nationals over time and compares this with LTIM and IPS estimates of net migration. We define migrants in the APS and LFS by nationality, rather than by country of birth, in order to best compare with the LTIM estimates, which also define migrants by nationality. The annual LFS estimates are calculated as the

average over the four quarters in each year.

**3.34** Using the LFS measure, net migration of non-British and non-EEA nationals has been volatile over time. Net migration of non-British nationals has broadly increased since the mid-1990s and peaked in 2007. Net migration of non-EEA nationals was broadly positive between 2000 and 2008. However, in 2009, net migration of non-EEA nationals estimated by the LFS was negative. The trend in the APS measure of net migration has been similar to that measured by the LFS since 2004 (data are only available from

**Figure 3.12: Comparison of net migration estimates from the Labour Force Survey, Annual Population Survey and International Passenger Survey, 1995 to 2009**



Notes: Labour Force Survey (LFS) and Annual Population Survey (APS) estimates are calculated by examining the change in the average annual estimate of the stock of foreign nationals using the quarterly LFS. LFS estimates from 2006 Q3 onwards use the latest 2009 population weights. Long Term International Migration (LTIM) estimates are not available by nationality for 2009. However, the provisional International Passenger Survey (IPS) components of the LTIM estimates are available broken down by nationality; these figures are provisional. The IPS estimates do not contain any adjustments made for migration flows to and from the Irish Republic, asylum seekers, or migrant and visitor switchers. Source: MAC analysis of the Labour Force Survey 1994 to 2009; MAC analysis of the Annual Population Survey, 2004 to 2009, published in Office for National Statistics (2010d); International Passenger Survey, 1995 to 2009, published in Office for National Statistics (2010c)

2004) for both non-British and non-EEA nationals. In 2009, net migration of non-EEA nationals estimated by the APS also decreased from the previous year, although it remained positive.

**3.35** The IPS estimates that net migration to the UK by non-EU nationals in the most recent provisional data for 2009 was 184,000. Over the same period the APS estimates that net migration from non-EEA nationals was 53,000 and the LFS estimates -23,000. However, this is not the first period where these series have produced very different results, as shown in Figure 3.12. The quarterly LFS data (calculated as change on one year ago) also show considerable volatility, with net non-EEA migration (by the above measure) varying between 66,000 in the first quarter of 2009 and -93,000 in the third quarter of 2009, for instance. Latest quarterly LFS data show modest positive net migration in the first two quarters of 2010.

### Comparing estimates of net migration

**3.36** The available data sources that can be used to estimate the scale of net migration to the UK, namely the IPS, the APS and the LFS, suggest different trends in net migration to the UK over time. The IPS is a sample of net migration flows, whereas the APS and LFS are samples of the stock of migrants which can be used to estimate the implied net migration flows. There are a number of

reasons why the IPS is producing different estimates to the APS and LFS. These are discussed in more detail in the ONS report on *Estimating International Migration* (Office for National Statistics, 2009a), and include:

- The IPS defines migrants as people either coming to the UK or leaving the UK for more than a year. The APS and LFS estimates include temporary migrants coming to the UK for less than a year.<sup>12</sup>
- The APS and LFS do not sample international students living in communal establishments, which includes halls of residence, unless at least one parent is resident in a private household in the UK. Students make up the most significant proportion of non-EU inflows, in both the IPS and the proportion of non-visitor visas issued, and therefore are likely to cause a significant disparity between the IPS and APS / LFS. The 2001 census identified that 14 per cent of all recent international migrants (defined as those living outside the UK the year before) were resident in halls of residence or other communal establishments (Office for National Statistics, 2009a).
- The APS and LFS are also likely to under-represent asylum seekers living in the UK. They will be included in the survey if living in a private residence, although they may be reluctant

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<sup>12</sup> The APS and LFS define migrants by nationality (or country of birth) and, until January 2008, only included those who had been in the UK for at least six months. This restriction was removed in January 2008 and the ONS estimates that this has not made any difference to the figures produced (Office for National Statistics, 2009a).

to participate, but will not be included if living in a communal establishment. The IPS may capture a few asylum flows in the main sample, but adjustments are made by the LTIM component to capture these flows.

- As a survey, the IPS relies heavily on the self-reporting of people's true intentions. For example, someone coming to the UK may initially intend to come to the UK for less than a year but end up staying longer and vice versa. Similarly, those leaving the UK may wish to return within a year but never actually do so. The ONS makes adjustments in the final LTIM figures produced to account for these changes in behaviour but may not capture their full extent.
- There is significant sampling error in the IPS due to the relatively small sample size. In 2008, the main IPS sample contained over 230,000 interviews, of which 5,117 were migrants. In Annex B we estimate that the 95 per cent confidence bands around the 2009 LTIM estimate of net migration are of the order of +/- 38,000. This means that the true estimate of LTIM net migration is likely to lie between 158,000 and 234,000 with a 95 per cent probability.
- Similarly, the LFS is also a sample survey and will contain sampling error. The sample size for the APS and LFS is larger than for the IPS. The proportion of migrants in the population, although standing at around 12

to 13 per cent of the population, is still relatively small, meaning that the sampling error could be quite considerable. This is improved in the APS, which uses quarterly LFS estimates and local area sample boosts to produce an annual estimate.

- There may also be 'non-response' issues that differ across both surveys. For example, the APS / LFS weighting system does not take into account differences between migrant and non-migrant response rates.
- Finally, births and deaths in the foreign national population will be included in the net migration estimates generated from the APS and LFS. This does not affect LTIM net migration, which covers flows of people to and from the UK.

3.37 Net migration can also be estimated from the UK population census by examining the change in the composition of the population. The census is conducted every decade and informs the population weights in the LFS. The last census was conducted in 2001. The next one will be conducted in 2011.

3.38 A key finding from the 2001 census was that the UK had 800,000 fewer young males than had been estimated from birth, deaths and LTIM net migration. The most significant factor identified by the ONS was how it measured emigration from the UK.<sup>13</sup> The IPS captures travellers' intentions at

<sup>13</sup> Implications of the 2001 Census Results, ONS, <http://www.statistics.gov.uk/census2001/implications.asp>

the time of departure, which are prone to change once people are abroad, particularly among young males, perhaps due to the fact that they have fewer ties at home. The ONS estimates that between 1991 and 2001, net migration measured by LTIM was overestimated by 346,000.<sup>14</sup> The ONS has since updated its methodology for the IPS and revised past estimates of LTIM net migration, but there is no guarantee that other imperfections in the methodology have not developed.

**3.39** Comparing net migration estimates with the results from the census will be key to understanding the true extent of migration to and from the UK between 2001 and 2011. It will also help illuminate the key differences between the LTIM, APS and LFS measures, as well as their respective reliability. The provisional results for the 2011 census are likely to be published in 2013.

### Net migration and population growth

**3.40** The ONS produces UK population projections based on assumptions about future levels of fertility, mortality and net migration. The assumed level of future net migration is produced by projecting forward IPS time-series data.<sup>15</sup>

**3.41** The ONS population projections comprise estimates for British and non-British net migration.

The principal projection produced by the ONS assumes long-term annual net migration to the UK of 180,000. This comprises a net outflow of approximately 120,000 British citizens, a net inflow of approximately 280,000 non-British citizens, and an adjustment to the IPS data (that takes into account migrant and visitor switchers, asylum seekers and flows to and from the Irish Republic) that results in a further net inflow of approximately 25,000 individuals.<sup>16</sup> In its evidence to the Cross-Whitehall Migration Analysts Group the ONS said that, according to this principal projection, the UK population would increase from an estimated 61.8 million in mid-2009 to 72.3 million in 2035.

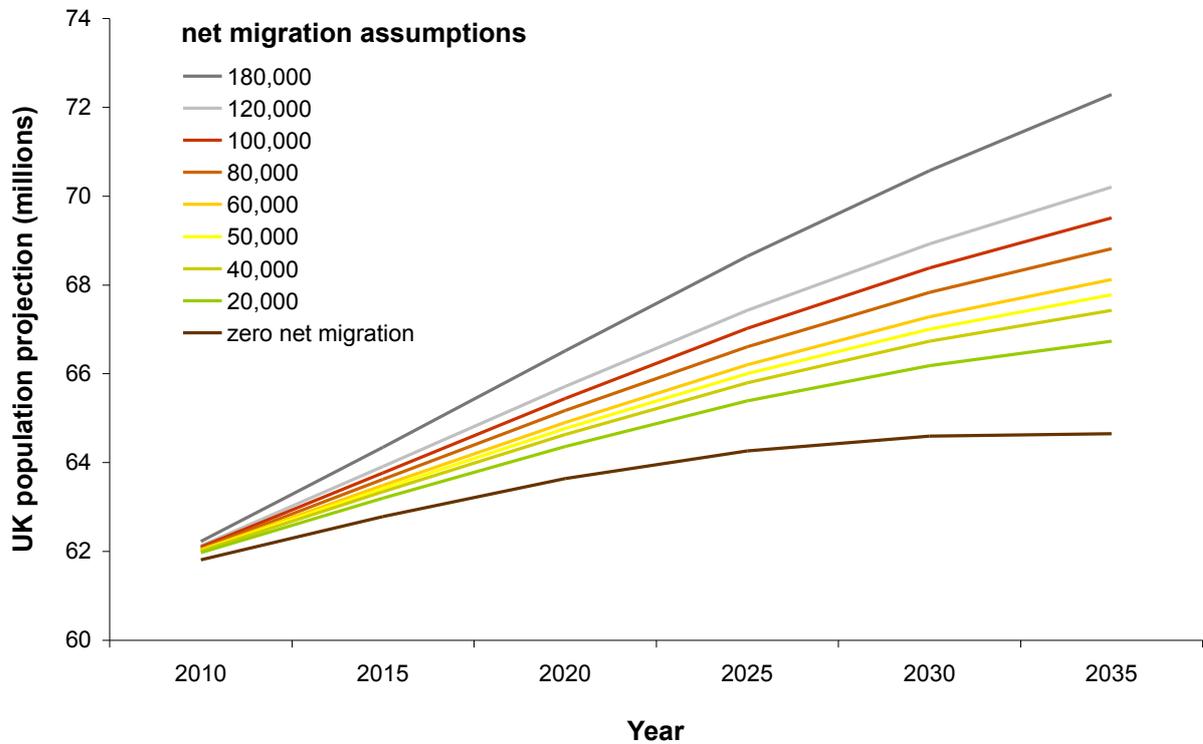
**3.42** The ONS has also produced variant population projections for the UK (Office for National Statistics, 2010e). These include population projections that assume the same future levels of fertility and mortality as the ONS' principal projection but make varying assumptions about future levels of net migration. The effects of these variants on the UK population are illustrated in Figure 3.13. By 2035 the population would rise to 69.5 million with annual net migration of 100,000, and 64.7 million if annual net migration were zero. With annual net migration of 50,000, which is the mid-point of the Government's desired range for overall net migration in the tens

<sup>14</sup> Methodology for Revised International Migration Estimates 1992-2001, [http://www.statistics.gov.uk/downloads/theme\\_population/Methodology%20for\\_Revised\\_International\\_Migration\\_Estimates.doc](http://www.statistics.gov.uk/downloads/theme_population/Methodology%20for_Revised_International_Migration_Estimates.doc)

<sup>15</sup> For full details of how the population projections were produced, please see [http://www.statistics.gov.uk/downloads/theme\\_population/pp2no27.pdf](http://www.statistics.gov.uk/downloads/theme_population/pp2no27.pdf)

<sup>16</sup> These figures are rounded to the nearest 5,000.

**Figure 3.13: UK population projections between 2010 and 2035 according to various assumptions of the annual level of net migration**



Note: The Office for National Statistics population projections are produced using long-term assumptions for annual net migration from mid-2014 onwards. They allow for annual changes in the level of net migration between 2008 and 2014.  
Source: Office for National Statistics (2010e)

of thousands, the UK population is projected to rise to 67.8 million by 2035. Therefore, with annual net migration of 50,000, the UK population is projected to rise by 4.5 million fewer people between 2009 and 2035, than under the ONS’s principal projection.

### 3.6 Tier 1 and Tier 2 context

3.43 This section presents the latest data available relating to Tiers 1 and 2. We use published Control of Immigration statistics to examine the composition of flows through the different routes within Tiers 1 and 2. Where data allow, we also present information on the main characteristics of migrants

who were granted leave to enter or remain under these routes. At the end of this section we also briefly present the latest data on other Points Based System (PBS) migration, including Tier 5 and permit-free employment and Tier 4 student migration. We present available data on the role of Tier 1 and 2 migrants in the labour market in section 3.7.

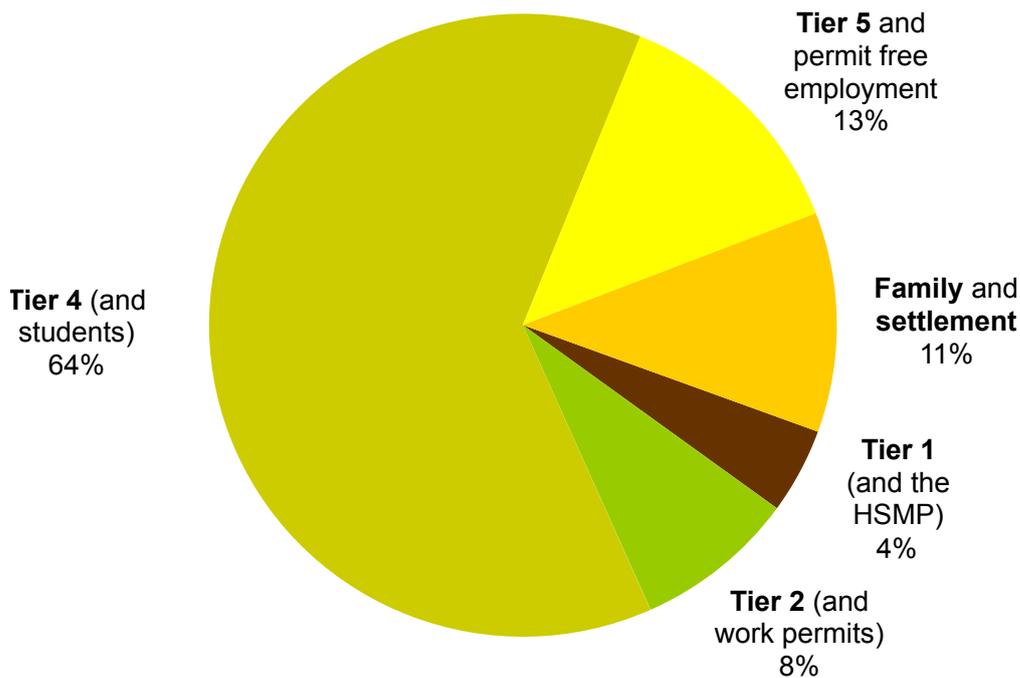
3.44 The UK Border Agency does not currently publish the points scored by Tier 1 or Tier 2 applicants. As recommended in our reviews of Tier 1 and Tier 2 in 2009 (MAC (2009e), MAC (2009c)) we strongly urge the UK Border Agency to put robust

recording procedures in place to be able to report on the points scored by individuals applying through these routes. We recognise the efforts being made by the UK Border Agency to improve the collection and reporting of these data. Without complete data it is more difficult to examine the skills and characteristics of migrants coming through these routes in order to inform any policy recommendations.

**Routes**

3.45 Figure 3.14 provides an overview of the share of total entry clearance visas issued for out-of-country applicants under Tiers 1 and 2. This figure does not include inflows of asylum seekers and refugees. In 2009 Tier 1 and its predecessor route, the Highly Skilled Migrant Programme (HSMP), made up only 4 per cent of total visas issued. Tier 2 and its predecessor, the work permit

**Figure 3.14: Out-of-country entry clearance visas for main applicants for Tiers 1, 2, 4, 5, family and settlement, 2009**

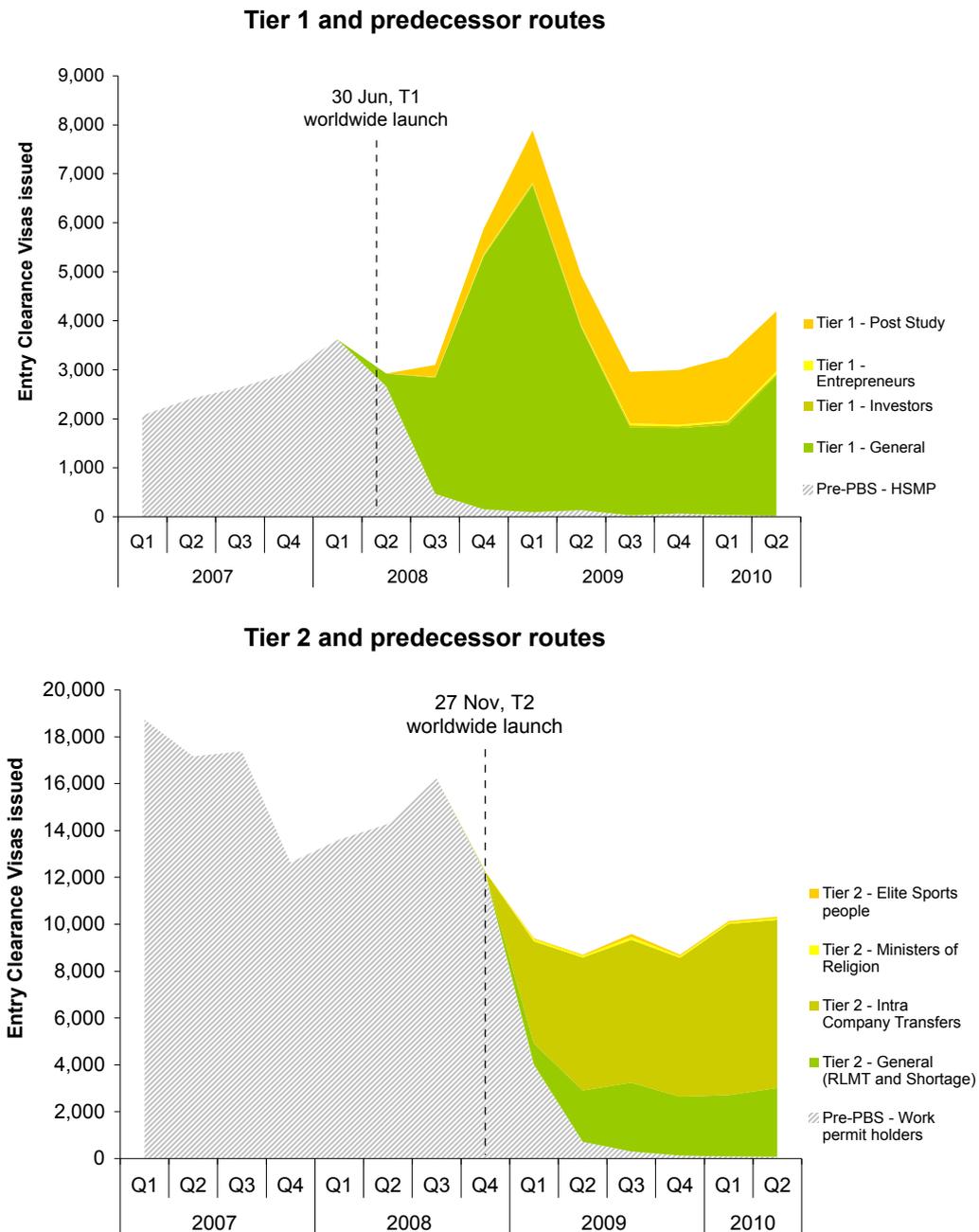


Notes: Tier 1 includes the remaining visas issued under the Highly Skilled Migrant Programme (HSMP), which closed in 2008. This figure does not include any visas for the predecessor routes to the Tier 1 Post-Study Work Route, which include the International Graduate Scheme (IGS) and Science and Engineering Graduate Scheme (SEGS). Tier 2 includes the remaining visas issued under the work permit system, which also closed in 2008. Tier 4 includes visas issued under the predecessor student route, but does not include student visitors. Tier 5 and permit-free employment includes working holiday makers. Family includes spouses, civil partners and fiancés.  
 Source: MAC analysis of the Home Office Control of Immigration statistics (2010)

route, comprised only 8 per cent of visas issued. Tier 4 students made up by far the largest share of entry clearance visas issued with 64 per cent of the total.

3.46 Figure 3.15 provides a breakdown, by route, of the total number of out-of-country entry clearance visas issued through Tiers 1 and 2 and their predecessor routes in 2009. The data show that 18,780 visas for Tier 1 and the HSMP were issued in 2009, compared to 36,380 for Tier 2 and work permits. Tier 1 General made up the largest component of Tier 1 with 13,930 visas, 74 per cent of the total. The Tier 2 intra-company transfer route made up the largest component of Tier 2 with 22,030 visas, 60 per cent of the total.

**Figure 3.15: Quarterly out-of-country entry clearance visas issued for main applicants for Tiers 1 and 2, 2007 Q1 to 2010 Q2**



Notes: Tier 1 was launched in-country on 29 February 2008 and out-of-country for India only on 1 April 2008. The worldwide launch was on 30 June 2008. The Highly Skilled Migrant Program (HSMP) was the predecessor route to Tier 1 General. Data are not presented for the predecessor routes to the Tier 1 Post-Study Work Route, which include the International Graduate Scheme (IGS) and Science and Engineering Graduate Scheme (SEGS). Further information on these routes can be found in MAC (2009c). Tier 2 was launched on 27 November 2008. The work permit system was the predecessor to Tier 2. Tier 2 General includes the Resident Labour Market Test (RLMT) and shortage routes. Operational procedures before and after the introduction of the Points Based System (PBS) were different, which may potentially distort any 'before-and-after' comparisons. In particular, migrants would previously have had to apply first under the HSMP or for a work permit and then for a visa, whereas in the PBS these processes take place at the same time. Source: MAC analysis of Home Office Control of Immigration statistics (2010)

## Out-of-country and in-country

3.47 While EEA nationals are subject to no restrictions regarding the length of time they are allowed to reside in the UK, non-EEA nationals are limited by the length of the visa issued to them. Under some visa categories it is possible for individuals to apply in-country to extend their leave to remain or switch to another visa category. Table 3.2 shows the number of out-of-country and in-country granted

applications for main applicants through Tiers 1 and 2 in 2009. As shown, 78 per cent of Tier 1 (and its predecessor route) grants were in-country compared to 43 per cent for Tier 2 (and its predecessor route). The vast majority of Tier 1 Post-Study Work Route (PSWR) grants were in-country, as this route is typically made up of graduates who previously studied in the UK with a Tier 4 or student visa.

**Table 3.2: Granted main applications for Tiers 1 and 2 and their predecessor routes, 2009**

	Out-of-country	In-country	Percentage in-country
HSMP	335	31,485	69
Tier 1 - General	13,930		
Tier 1 - Investors	155	235	46
Tier 1 - Entrepreneurs	120		
Tier 1 – Post-Study	4,245	34,180	89
<b>Total Tier 1 and HSMP</b>	<b>18,780</b>	<b>65,900</b>	<b>78</b>
Work permit holders	5,160	7,285	59
Tier 2 - General (RLMT and Shortage)	8,555	12,900	60
Tier 2 - Intra-company transfers	22,030	6,625	23
Tier 2 - Ministers of religion	370	610	49
Tier 2 - Elite sports people	265		
<b>Total Tier 2 and Work Permits</b>	<b>36,380</b>	<b>27,420</b>	<b>43</b>
<b>Grand Total</b>	<b>55,165</b>	<b>93,320</b>	<b>63</b>

Notes: The figures for in-country are grants of leave to remain in the UK, including extensions and those switching visa categories. The Highly Skilled Migrant Program (HSMP) was the predecessor route to Tier 1 General. Data are not presented for the predecessor routes to the Tier 1 Post-Study Work Route, which include the International Graduate Scheme (IGS) and Science and Engineering Graduate Scheme (SEGS). Further information on these routes can be found in MAC (2009c). Tier 2 was launched in 2008. The work permit system was the predecessor to Tier 2. Tier 2 General includes the Resident Labour Market Test (RLMT) and shortage routes. There are also additional pre-PBS routes for out-of-country and in-country applicants which are not included in this table, such as other employment (leading to settlement), and ministers of religion / missionary, which made up a small number of flows in 2009.

Source: Home Office Control of Immigration statistics (2010)

## Dependants

3.48 Table 3.3 presents the number of out-of-country and in-country dependants accompanying main applicants through Tiers 1 and 2 and their predecessor routes. In 2009, on average, every 10 main out-of-country applicants through

Tier 1 were accompanied by approximately 8 dependants. This ratio was 10 to 4 for in-country migrants. In the same year every 10 main out-of-country applicants through Tier 2 were accompanied by, on average, approximately 7 dependants. This ratio was 10 to 8 for in-country migrants. These

**Table 3.3: Granted dependant applications for Tiers 1 and 2 and their predecessor routes, 2009**

	Out-of-country		In-country	
	Dependants	Ratio of dependants to main applicants	Dependants	Ratio of dependants to main applicants
HSMP	1,680	0.8	22,405	0.7
Tier 1 - General	10,385			
Tier 1 - Investors	280	1.8	365	1.6
Tier 1 - Entrepreneurs	180	1.5		
Tier 1 – Post-Study	2,480	0.6	5,515	0.2
<b>Total Tier 1 and HSMP</b>	<b>15,105</b>	<b>0.8</b>	<b>28,285</b>	<b>0.4</b>
Work permit holders	11,485	2.2 <sup>(1)</sup>	7,150	1.0
Tier 2 - General (RLMT and Shortage)			9,285	0.7
Tier 2 - Intra-company transfers	15,505	0.5	5,715	0.9
Tier 2 - Ministers of religion			530	0.9
Tier 2 - Elite sports people				
<b>Total Tier 2 and Work Permits</b>	<b>26,990</b>	<b>0.7</b>	<b>22,680</b>	<b>0.8</b>

Notes: In-country grants are grants of leave to remain in the UK, including extensions and those switching visa categories. The Highly Skilled Migrant Program (HSMP) was the predecessor route to Tier 1 General. Data are not presented for the predecessor routes to the Tier 1 Post-Study Work Route, which include the International Graduate Scheme (IGS) and Science and Engineering Graduate Scheme (SEGS). Further information on these routes can be found in MAC (2009c). Tier 2 was launched in 2008. The work permit system was the predecessor to Tier 2. Tier 2 General includes the Resident Labour Market Test (RLMT) and shortage routes. There are also additional pre-PBS routes for out-of-country and in-country applicants which are not included in this table, such as other employment (leading to settlement), and ministers of religion / missionary, which made up a small number of flows in 2009. (1) The work permit scheme ended in 2009. Dependants are likely to lag behind main applicants and since there were more dependants in 2009 than there were main applicants for this route, the ratio is high. Source: Home Office Control of Immigration statistics (2010)

simple ratios do not account for the fact that many dependants may be following previous cohorts of main applicants. For example, a dependant may have entered the UK in 2009 because of their relationship to a main applicant who entered the UK in 2007.

### Settlement

**3.49** After a certain length of time migrants may be eligible to apply for settlement or indefinite leave to remain in the UK. Table 3.4 shows the number of grants of settlement for main applicants and dependants for employment-related routes. In 2009 there were 34,275 grants of settlement to main applicants for employment-related routes and 46,910 grants of settlement for employment-related dependants.

### Age and sex

**3.50** Figure 3.16 shows the distribution of ages for granted main applicants and adult and child dependants for Tiers 1 and 2. The median age for a Tier 1 main migrant was 28 (including those on the PSWR) compared to 30 for a Tier 2 migrant. The median age for adult dependants was 29 for Tier 1 (again including those on the PSWR) and 31 for Tier 2. 62 per cent of child dependants of Tier 1 and 2 migrants were aged five or under. To enable comparison, Figure 3.5 also presents the proportion of the UK population by age, estimated using the LFS. The median age in the UK population is 38, therefore, the average Tier 1 and Tier 2 main applicant is younger than the average person in the UK population.

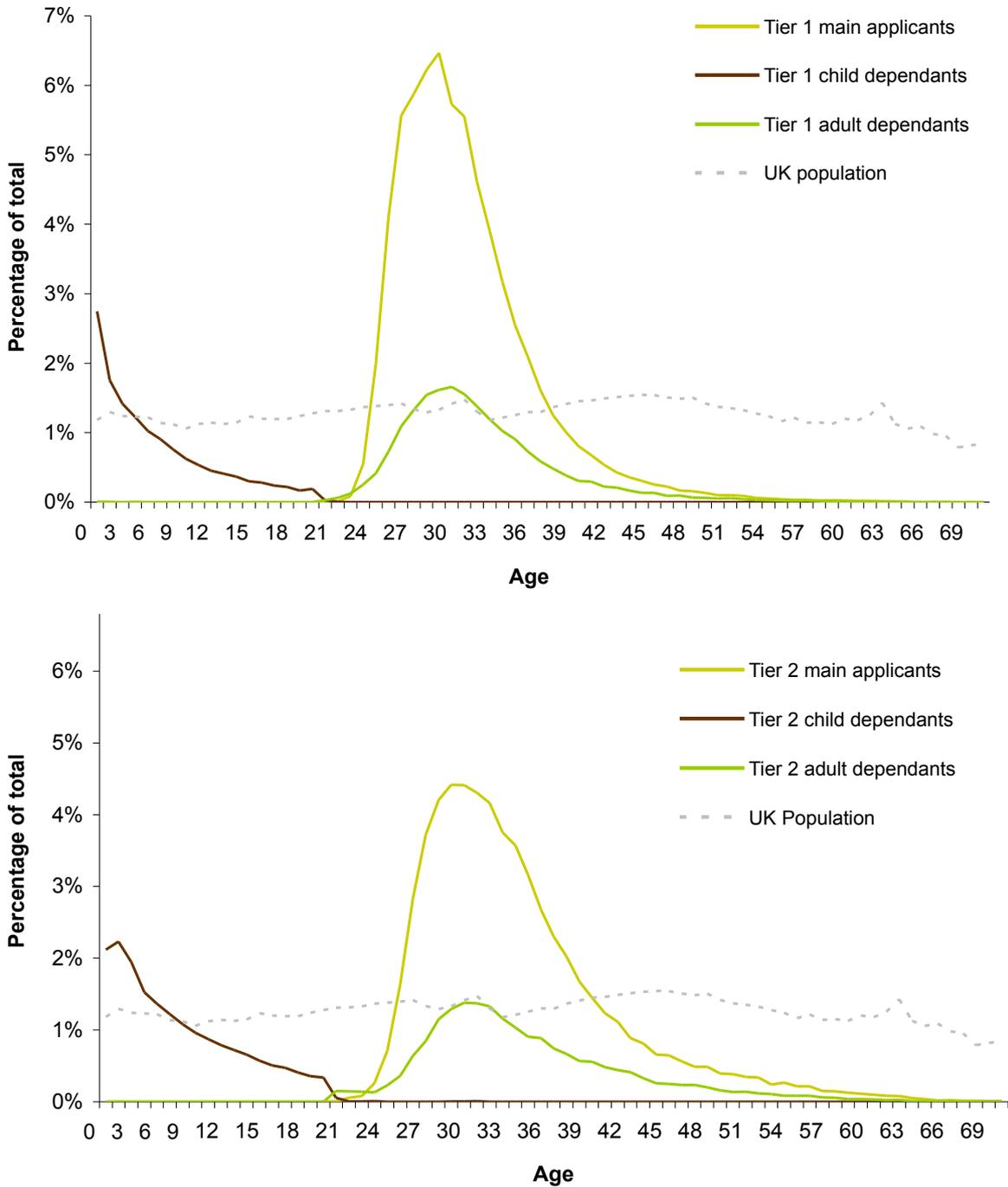
**Table 3.4: Grants of employment-related settlement, 2007 to 2009**

	2007 (1)	2008	2009
Main applicants	17,705	27,430	34,275
Dependants	19,495	33,340	46,910

Notes: (1) In April 2006 the qualifying period for settlement in all employment-related categories changed from four to five years, thus delaying grants of settlement that would otherwise have occurred earlier. This is likely to have led to lower grants of settlement in 2007.

Source: Home Office Control of Immigration statistics (2010)

**Figure 3.16: Age breakdown of granted Tier 1 and 2 main migrants and their dependants, 2009 Q1 to 2010 Q1**



Notes: The chart shows the distribution of ages for granted main applicants and adult and child dependants. The percentages are calculated as the proportion of the total for each tier. For example, the proportion of Tier 1 adult dependants by age is the proportion of the total of granted main applicants, child and adult dependants for Tier 1. The proportion of the UK population by age is calculated as the proportion of the total UK population.

Source: UK Border Agency Management Information, 2009 Q1 to 2010 Q1; MAC analysis of the Labour Force Survey 2009 Q3 to 2010 Q2

**Table 3.5: Percentage of Tier 1 and 2 main applicants and dependants by sex, 2009 Q1 to 2010 Q1**

	Tier 1 (per cent)		Tier 2 (per cent)	
	Main	Dependants	Main	Dependants
Male (adults)	68	10	70	11
Female (adults)	32	47	30	41
Children	-	44	-	48
<b>Total</b>	100	100	100	100

Note: Children are unable to apply as main applicants through Tiers 1 and 2.  
Source: UK Border Agency Management Information, 2009 Q1 to 2010 Q1

**3.51** Table 3.5 presents a breakdown of main applicants and dependants by sex. For both Tiers 1 and 2 around 70 per cent of main applicants and 10 per cent of dependants were male. 44 per cent of Tier 1 dependants and 48 per cent of Tier 2 dependants were children.

### **Nationality**

**3.52** Table 3.6 shows the top 10 nationalities admitted under each route within Tier 1 and Tier 2. Indian nationals make up by far the largest proportion of total

granted applications for Tiers 1 and 2. 41 per cent of Tier 1 General, 68 per cent of Tier 2 intra-company transfer and 24 per cent of Tier 2 General granted applications were for Indian nationals. Migrants from China, Pakistan and the US are also strongly represented across Tiers 1 and 2. Nigerian nationals make up a significant proportion of approved applications for Tier 1 General and the PSWR. Russian and Chinese nationals are particularly prevalent in the Tier 1 Investor route.

**Table 3.6: Top 10 migrant nationalities of approved applications through Tiers 1 and 2, 2009 Q1 to 2010 Q1**

<b>Top nationalities for Tier 1 approvals (per cent of total)</b>			
<b>Tier 1 General</b>	<b>Post-Study Work Route</b>	<b>Investor</b>	<b>Entrepreneur</b>
India (41)	India (31)	Russia (38)	United States (18)
Pakistan (13)	China (16)	China (12)	India (12)
Nigeria (9)	Pakistan (15)	United States (7)	Pakistan (12)
Australia (6)	Nigeria (10)	Kazakhstan (5)	China (8)
China (4)	Bangladesh (4)	Pakistan (4)	Australia (8)
United States (4)	Sri Lanka (3)	India (3)	Nigeria (4)
Sri Lanka (3)	United States (3)	Iraq (3)	Russia (4)
New Zealand (2)	Ghana (1)	Australia (3)	Tanzania (3)
South Africa (2)	Iran (1)	Azerbaijan (3)	Israel (3)
Bangladesh (2)	Russia (1)	Egypt (2)	Japan (3)
<b>Top nationalities for Tier 2 approvals (per cent of total)</b>			
<b>Intra-company transfer</b>	<b>General (1)</b>	<b>Other (2)</b>	<b>Dependants (3)</b>
India (68)	India (24)	United States (27)	India (45)
United States (13)	United States (9)	India (16)	United States (13)
Japan (5)	China (8)	Nigeria (7)	Japan (5)
Australia (2)	Philippines (6)	Australia (7)	Philippines (4)
Canada (2)	Australia (6)	Canada (6)	Pakistan (3)
China (1)	South Africa (5)	South Africa (5)	China (3)
South Africa (1)	Pakistan (5)	Pakistan (3)	Australia (2)
Russia (1)	Canada (3)	Ghana (3)	Nigeria (2)
Brazil (1)	Nigeria (3)	Brazil (2)	Zimbabwe (2)
Pakistan (<1)	Zimbabwe (3)	New Zealand (2)	South Africa (2)

Notes: (1) Tier 2 General includes migrants through the Resident Labour Market Test and shortage routes. (2) Tier 2 Other includes migrants from the ministers of religion and elite sportspeople routes. (3) Tier 2 Dependants includes dependants of main migrants through all Tier 2 routes. In the data available it is not possible to separate Tier 2 dependants by route. The figures for Tier 1 include both main applicants and their dependants.

Source: UK Border Agency Management Information, 2009 Q1 to 2010 Q1

**Other Points Based System (PBS) migration**

- 3.53 As identified in the LTIM estimates of net migration, students make up the largest component of non-EU inflows. Similarly, student visas, (now Tier 4 of the PBS), make up the largest number of non-visitor, out-of-country entry clearance visas issued. Table 3.7 presents the number of visas issued under Tier 4 and its predecessor routes for both main applicants and their dependants. In 2009 273,000 student visas (excluding student visitors) were issued to main applicants and 30,000 to student dependants.
- 3.54 Tier 1 and Tier 2 are not the only routes through which non-EEA nationals are able to come to the

UK to work. Tier 5 and permit-free employment, described in Chapter 2, make up a significant proportion of work-related visas, also shown in Table 3.7. Tier 5 and permit-free employment are temporary routes and cannot lead to settlement, although applicants under some routes within Tier 5 can extend their leave to remain in the UK (Chapter 2 provides a more detailed description of these routes). Individuals are not eligible to switch from Tier 5 or permit-free employment to other visa categories once in the UK. In 2009 Tier 5 and permit-free employment made up 51 per cent of work-related visas issued to non-EEA nationals (49 per cent were Tiers 1 and 2 and their predecessor routes).

**Table 3.7: Out-of-country entry clearance visas for Tier 4 and students, Tier 5 and permit-free employment, 2007 to 2009**

		2007	2008	2009
Tier 4 & students	Main applicants	223,545	208,800	273,435
	Dependants	19,295	24,200	30,170
Tier 5	Main applicants	*	380	31,105
	Dependants	*	*	755
Permit-free employment	Main applicants	51,150	44,295	21,395
	Dependants	21,740	20,660	7,015

Note: Tier 4 and students does not include figures relating to student visitors. (\*) Tier 5 of the Points Based System was launched in 2008. The figures presented in this table do not include migrants entering the UK through the 'working holidaymakers' route, which was closed in 2008 and replaced by Tier 5.  
Source: Home Office Control of Immigration statistics (2010)

## Temporary and permanent migration

**3.55** Outflows measured by the IPS comprise people who were either born in the UK or who have previously migrated to the UK. The composition of inflows will therefore affect future outflows. Since outflows make up an important component of net migration estimates, it is important to understand the extent to which flows through Tiers 1 and 2 are temporary or permanent.

**3.56** The latest research on the length of time migrants stay in the UK is the UK Border Agency research report on The Migrant Journey (UK Border Agency, 2010b). This analysis tracks migrants through UK Border Agency administration databases, linking data on entry clearance visas issued to enter the UK with subsequent grants of leave to remain and settlement. The analysis uses data for the cohort of migrants that entered in 2004 and analyses the proportion

that still have valid leave to remain after five years. The dataset is not only a rich source of information to understand migrant lengths of stay, but also to understand the extent to which migrants switch between different migration routes. The data are unable to capture whether or not an individual has actually left the UK, but are a reasonable proxy for migrants' duration of stay in the UK.

Nonetheless, there will be cases where migrants overstay their legal entitlement in the UK and others where they leave before their entitlement expires. This study examines the entry cohort of migrants in 2004; the behaviour of migrants coming to the UK in later years may be different.

**3.57** Table 3.8 presents the estimates from UK Border Agency (2010b) of the proportion of migrants who entered the UK with a valid visa in 2004 and who still had valid leave to remain, or had been granted settlement in 2009.

**Table 3.8: Estimates of the percentage of migrants who entered the UK in 2004 and who still had valid leave to remain in 2009**

Category entering the UK in 2004	Percentage of migrants in 2004 cohort with valid leave to remain in the UK in 2009
Work (citz)	40
Work (non-citz)	11
Study	21
Family	63

Notes: Work (citz) refers to work-related visas issued in 2004 that could lead to citizenship, in other words the predecessor routes to Tiers 1 and 2. Work (non-citz) refers to work-related visas in 2004 that could not lead to citizenship, in other words routes equivalent to Tier 5 and permit-free employment routes. Study refers to the predecessor route to Tier 4. Family refers to family reunion visas.

Source: UK Border Agency (2010b).

There were several changes to visa categories over this time, so the authors group the types of visa into broad categories. Work (citz) refers to work-related visas that can lead to settlement and British citizenship, including Tiers 1 and 2. Work (non-citz) refers to work-related visas that cannot lead to settlement or citizenship, including Tier 5 and permit-free employment. As shown, 40 per cent of those initially entering under the work (citz) category still had valid leave to remain after five years.

### Tiers 1 and 2 and net migration

3.58 The objective of reducing net migration to the tens of thousands over the course of this Parliament, set out in the question asked to us by the Home Secretary, refers to LTIM estimates of net migration and will thus be measured by this metric. However, the lever that the Government can use to control inflows relevant to this review is the number of Tier 1 and 2 visas and grants of extensions of leave to remain.

3.59 An important question for this review is the extent to which changes in the number of visas issued for Tiers 1 and 2 relate to estimates of net migration. There are two key issues that need to be addressed when tackling this question. Both are discussed in further detail in Annex B and Chapter 6, but we introduce them here. They are:

- reconciling different measures of work-related inflows; and

- understanding the relationship between past inflows and current outflows (or current inflows and future outflows).

3.60 Regarding the first issue, unfortunately neither the IPS nor the LFS record migrant status or the visa category through which a migrant has entered the UK. Therefore, it is not possible to identify exactly how Tier 1 and Tier 2 migrants feature in those estimates of net migration.

3.61 As presented earlier in this section, in 2009 55,000 main out-of-country visas were issued for Tiers 1 and 2 (and their predecessor routes) and 58,000 were issued for Tier 5 and permit-free employment (and their predecessor routes). Work-related visas through these routes, therefore, total approximately 113,000. Most migrants coming to the UK with these visas are likely to be recorded in the non-EU work-related inflows by the IPS. However, in 2009 non-EU work-related inflows were 55,000.

3.62 The definition of a migrant in the IPS is someone moving between countries for a year or more. The IPS is also a sample survey of travellers coming to and going from the UK, and as such is susceptible to a degree of sampling error (presented in Annex B). Furthermore, not everyone with a valid visa will eventually come to the UK. Therefore, there will always be a degree of discrepancy between the number of visas issued and the inflows measured by the IPS.

3.63 Regarding the second issue, any policy that seeks to change the level of inflows under Tiers 1 and 2 in one period is then likely to affect outflows in the longer term. The impact on outflows from any change in inflows will be lagged, and the length of that lag will depend on how long migrants stay in the UK. Any change in the level of inflows in one period is likely to lead to a less than one-for-one change in the level of net migration in the longer term. We explore this issue further in Annex B.

### 3.7 Migrants and the labour market

3.64 In this section we describe the role of migrants in the UK labour market. We compare the labour market outcomes of the stock of migrants with the labour market outcomes of non-migrants in the UK, with a particular focus on Tiers 1 and 2 where data allow. Unless otherwise stated, the main source of data used is the LFS, and migrants are defined by country of birth rather than nationality.

#### Employment

3.65 The employment rate for non-UK born individuals in the second quarter of 2010 was 67 per cent, compared to 71 per cent for British nationals. There is considerable variation by country of birth. As shown in Table 3.9, employment rates for those born in Australia and New Zealand were 80 per cent, compared to 46 per cent for those born in Pakistan and Bangladesh.

3.66 The LFS does not record migrant status or the type of visa issued. However, a new question is currently being trialled by the ONS which asks respondents their main reason for coming to the UK. This question is experimental and was first introduced into the LFS in the first quarter of 2010. Consequently, the sample size when examining responses for non-EEA migrants is small. The sample size is also too small to examine responses by year of entry to the UK, meaning that results will relate to migrants who have entered the UK through a variety of visa routes in different years. As shown in Table 3.10, provisional estimates suggest that the employment rate of those who initially came for employment reasons was 83 per cent in 2010. The figure for migrant dependants was 59 per cent.

3.67 To enter the UK through Tier 2, an individual needs an employer to sponsor their visa. Therefore, it is reasonable to assume that close to 100 per cent of Tier 2 migrants will be employed. Tier 1, on the other hand, allows individuals to enter the UK without a job offer.

3.68 Data from the UK Border Agency PBS Evaluation Survey (UK Border Agency, 2009b) indicate that over 90 per cent of Tier 1 General migrants surveyed were employed. Of those, as shown in Figure 3.17, nearly 90 per cent were employed in the more highly-skilled occupations: managers and senior officials; professional occupations; and technical occupations. For the Tier 1 PSWR, the picture is quite different. Around 50 per cent of those in employment were in the

**Table 3.9: Employment rates and employment levels by country of birth, 2010 Q2**

	Employment rate		Employment level	
	Percentage	Change on year	Number (000s)	Change on year (000s)
<b>Total</b>	70.3	-0.4	28,933	101
UK-born	70.9	-0.5	25,080	-15
Non-UK born	66.5	0.5	3,846	114
EU14 countries	70.0	-1.8	680	10
A8 countries	82.9	1.4	560	38
US	68.3	-1.2	106	16
Africa (excluding South Africa)	60.9	2.4	560	10
South Africa	78.7	-2.1	148	-4
Australia & New Zealand	80.3	-4.2	130	3
India	73.2	7.6	398	61
Pakistan & Bangladesh	46.4	-1.5	233	-30

Notes: Employment rates are given for the working age population (defined as males and females aged 16 to 64). Employment levels are given for those aged 16 and over. Data are not seasonally adjusted. EU14 refers to all members of the EU prior to 2004 except the UK. The employment level figures are rounded to the nearest thousand.

Source: Office for National Statistics (2010f)

**Table 3.10: Employment rates of non-EEA born individuals by main reason for coming to the UK, 2010 Q1 and Q2**

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

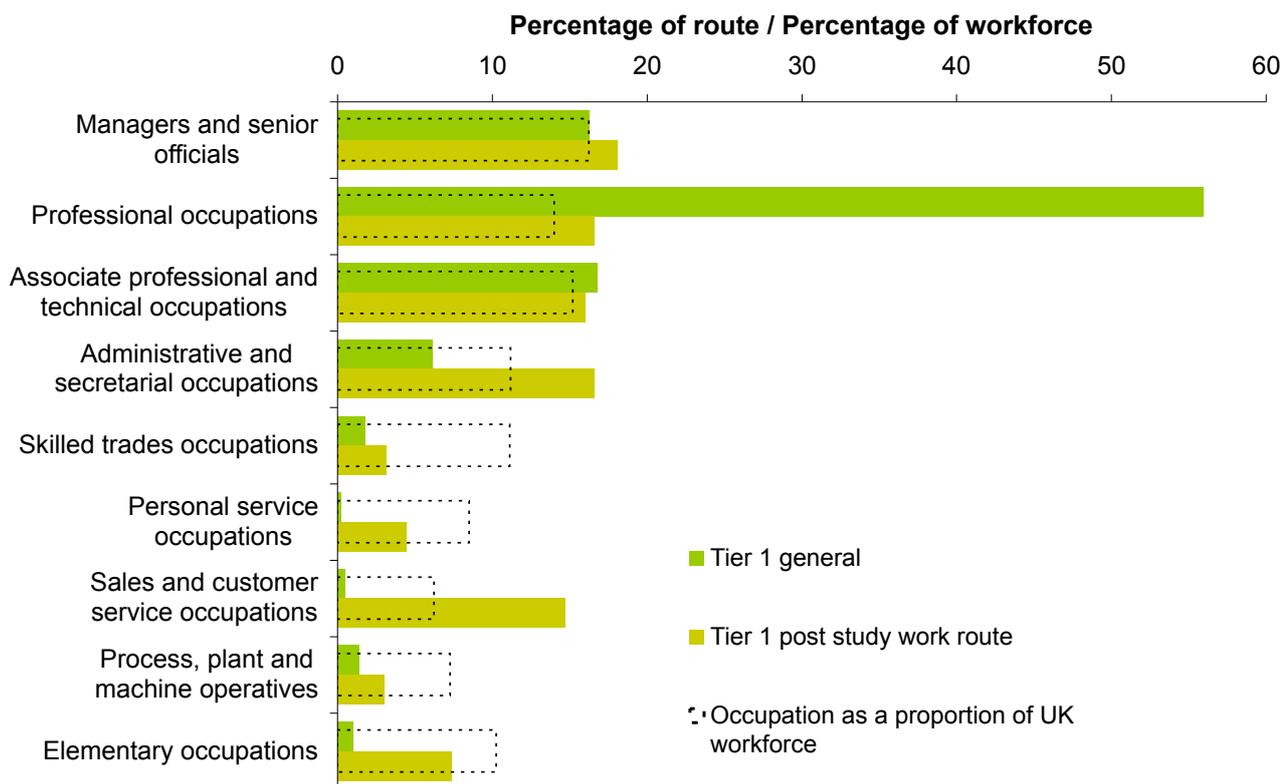
Note: The 'WHYUK10' variable is an experimental variable included in the first two quarters of the Labour Force Survey for 2010. The question asks, "What was your main reason for coming to the UK?" The sample size is too small at present to break these data down by year of entry, therefore respondents will have entered the UK in different years and through different visa routes. The LFS is a 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 to 59 and males aged 16 to 64). (\*) Figures are withheld where the sample falls below 500 people.

Source: MAC analysis of the Labour Force Survey, 2010 Q1 and Q2

top three occupational groups, a slightly greater proportion than the UK labour force as a whole. But a significant number were found to be in less skilled occupations. Data collection for this study was carried out between February and April 2009. The data comprised 1,564 observations and the response rate was approximately 39 per cent. Data were weighted to adjust the sample design and response bias.

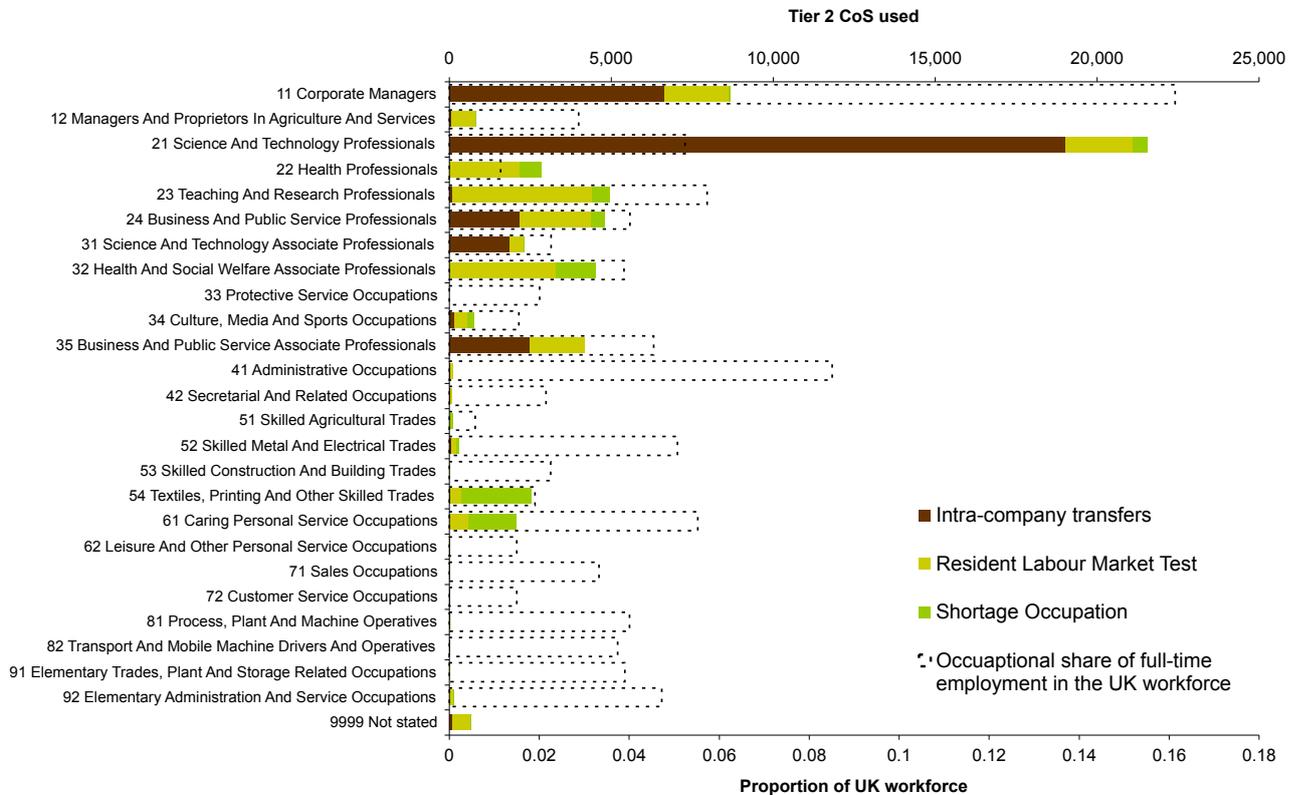
3.69 UK Border Agency Management Information data on Certificates of Sponsorship (CoS) for Tier 2, set out in Figure 3.18, show that those migrants coming to the UK through the Tier 2 intra-company transfer route tend to be employed in more skilled occupations. In the year to June 2010, 58 per cent of intra-company transferees were science and technology professionals. Flows through the Resident Labour Market Test

**Figure 3.17: Distribution of Tier 1 migrants in employment by 1-digit SOC occupation, Feb to Apr 2009**



Notes: Only those in employment are included. Entrepreneur and Investor routes are excluded due to the very small numbers represented in the sample.  
 Source: MAC analysis of UK Border Agency (2009b), also published in MAC (2009d); MAC analysis of the Labour Force Survey 2009 Q2

**Figure 3.18: Distribution of Tier 2 jobs by 2-digit SOC occupation, Jul 2009 to Jun 2010**



Note: Occupational distribution of Tier 2 immigrants is derived from UK Border Agency management information on the number of Certificates of Sponsorship used in the year to June 2010. The figures describe used Certificates of Sponsorship, where a migrant application that corresponds to the certificate has been submitted but not necessarily approved. The occupational share of full-time employment in the UK workforce is estimated from the Labour Force Survey.

Source: UK Border Agency management information, July 2009 to June 2010; MAC analysis of the Labour Force Survey 2010 Q2

(RLMT) route were more mixed. The largest flows were teaching and research professionals, and health and social welfare associate professionals. In contrast, the shortage occupation route is used more heavily by migrants working in textiles, printing and other skilled trades (this category includes chefs and cooks), and caring personal service occupations.

### 3.70

Table 3.11 shows the top 10 Tier 2 jobs (by 4-digit SOC occupation) in terms of the number of CoSs used as a proportion of UK full-time sector specific employment in the year to June 2010. Scientific research occupations had the highest proportion of Tier 2 jobs as a proportion of UK full-time employment, which suggests that these occupations are most dependent on Tier 2 migrants. The

4-digit SOC occupation with the second highest proportion of Tier 2 migrants in its workforce was IT and software professionals, which also used the largest absolute

number of Tier 2 migrants in the year to June 2010. IT and software professionals accounted for 27 per cent of total CoSs used and 48 per cent of the intra-

**Table 3.11: Top 10 Tier 2 jobs by 4-digit SOC occupation, Jul 2009 to Jun 2010**

<b>Top 10 Occupations, by Tier 2 jobs as percentage of UK full-time employment in that occupation</b>	<b>Total Tier 2 jobs</b>	<b>Tier 2 jobs as percentage of UK full-time employment</b>
2321 Researchers, scientific	1,476	11.4
2132 IT, software professionals	16,839	5.7
2329 Researchers n.e.c.	1,002	2.9
2444 Clergy	701	2.3
1112 Directors / chief executives of major organisations	1,105	2.1
3534 Finance and investment analysts / advisers	1,920	1.7
2211 Medical practitioners e.g. doctors and surgeons	2,434	1.7
3537 Financial and accounting technicians	359	1.6
3214 Medical radiographers	270	1.5
2423 Consultants, actuaries, economists, statisticians	1,744	1.5
<b>Top 10 Occupations, by total Tier 2 jobs</b>	<b>Total Tier 2 jobs</b>	<b>Tier 2 jobs as percentage of UK full-time employment</b>
2132 IT, software professionals	16,839	5.7
3211 Nurses	3,689	1.1
2211 Medical practitioners e.g. doctors and surgeons	2,434	1.7
5434 Chefs, cooks	2,412	1.3
1136 Managers, information and communication technology	2,020	0.8
3534 Finance and investment analysts / advisers	1,920	1.7
6115 Care assistants and home carers	1,844	0.5
2423 Consultants, actuaries, economists, statisticians	1,744	1.5
1132 Managers, marketing and sales	1,589	0.3
2321 Researchers, scientific	1,476	11.4

Notes: Total Tier 2 jobs are calculated as the sum of used Certificates of Sponsorship for Tier 2 between July 2009 and June 2010, which includes the Resident Labour Market Test (RLMT), shortage and intra-company transfer routes. The Tier 2 jobs as a percentage of UK full-time employment is calculated by dividing the number of total Tier 2 jobs by the level of UK occupation specific full-time employment by 4-digit Standard Occupational Classification.

Source: UK Border Agency management information; MAC analysis of UK Border Agency management information and the Labour Force Survey, July 2009 to June 2010

company transfer route. Nurses, medical practitioners, chefs and cooks also made up large numbers of all Tier 2 CoSs issued.

**3.71** Universities UK, Guild HE and Universities & Colleges Employers Association (UCEA) provided us with information from the Higher Education Statistics Agency (HESA) on the number of non-EU staff working at UK Higher Education Institutions (HEIs) in the academic year 2008/2009. Their data show that the majority of non-EU nationals at UK HEIs are academic staff (67 per cent). The academic subject areas with the highest number of non-EU nationals were: clinical medicine, social studies, and business and management studies. The academic subject areas with the highest number of non-EU nationals as a proportion of academic staff were: engineering (various types), mathematics, chemistry and physics.

**3.72** In its response to our consultation, the Department for Business Innovation and Skills (BIS) provided us with estimates of the contribution of non-EU migrants to sectoral growth between 2005 and 2008. BIS produced these estimates by comparing sectoral Gross Value-Added (GVA) from the national accounts with LFS employment data that show the nationality of all individuals employed within each sector.

**3.73** BIS found that five sectors accounted for almost 50 per cent of total GVA in 2008: financial intermediation; real estate, renting and business activities; hotels and restaurants; health and social work; and transport storage and

communication. Furthermore, these five sectors accounted for a disproportionately high share of total non-EU employment: 60 per cent of all non-EU workers were employed in these sectors, compared to 39 per cent of all employed UK nationals.

**3.74** Migrants were also found to comprise an above-average proportion of the total workforce in the four sectors with the highest GVA: 10.2 per cent of all workers in the hotels and restaurants sector were non-EU migrants, as well as 6.3 per cent of all migrants employed in health and social work.

## Education

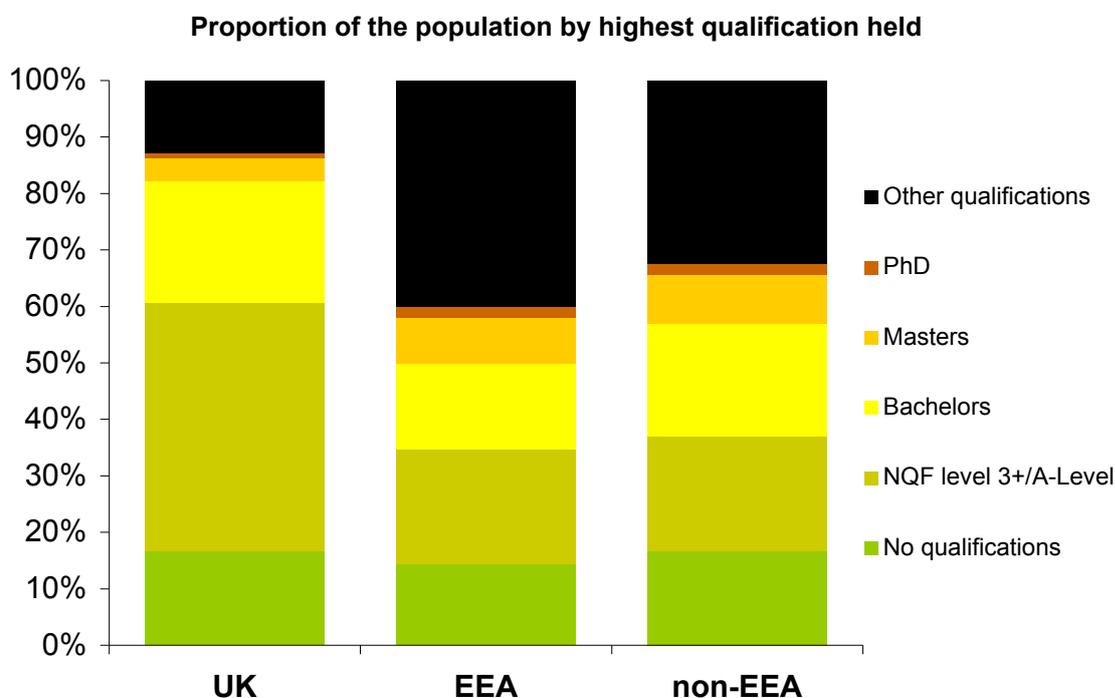
**3.75** Compared to UK-born individuals, a greater proportion of non-EEA born individuals are qualified to degree level or above, as shown in Figure 3.19. However, as discussed in Manacorda *et al.* (2006), it is not always easy to translate foreign qualifications to UK equivalents. This is highlighted in Figure 3.18, which shows a larger proportion of foreign-born individuals reporting having 'other' qualifications. As an alternative, Figure 3.19 presents the proportion of migrants by the age that they were last in full-time education. As shown, 45 per cent of non-EEA born individuals finished full-time education after the age of 21, compared to 23 per cent of UK-born individuals. The proportion of individuals in full-time education after the age of 21 can be used as a proxy for the proportion enrolled in higher education. These data will also reflect migrants in the UK who may have entered before the PBS

and predecessor schemes were in operation.

3.76 As highlighted earlier in this chapter, the UK Border Agency does not currently publish the points scored for Tier 1 and Tier 2 migrants. Therefore, it is difficult to ascertain the qualifications held by Tier 1 and Tier 2 migrants.

However, due to the points systems in place for each route, it is reasonable to assume that Tier 1 migrants will hold at least a bachelor's degree (or equivalent qualification), and Tier 2 migrants will either hold at least a National Vocational Qualification (NVQ) level 3 qualification, or be skilled to that level.

**Figure 3.19: Proportion of the UK-born and non-UK born population by highest qualification held and the proportion of the population by age last in education, 2009 Q3 to 2010 Q2**



**Proportion of the UK, EEA and non-EEA born population by age that they were last in full-time education (per cent)**

Age	16 – 17	18 – 20	21 and over
UK-born	55	22	23
EEA-born	21	38	41
non-EEA born	25	30	45

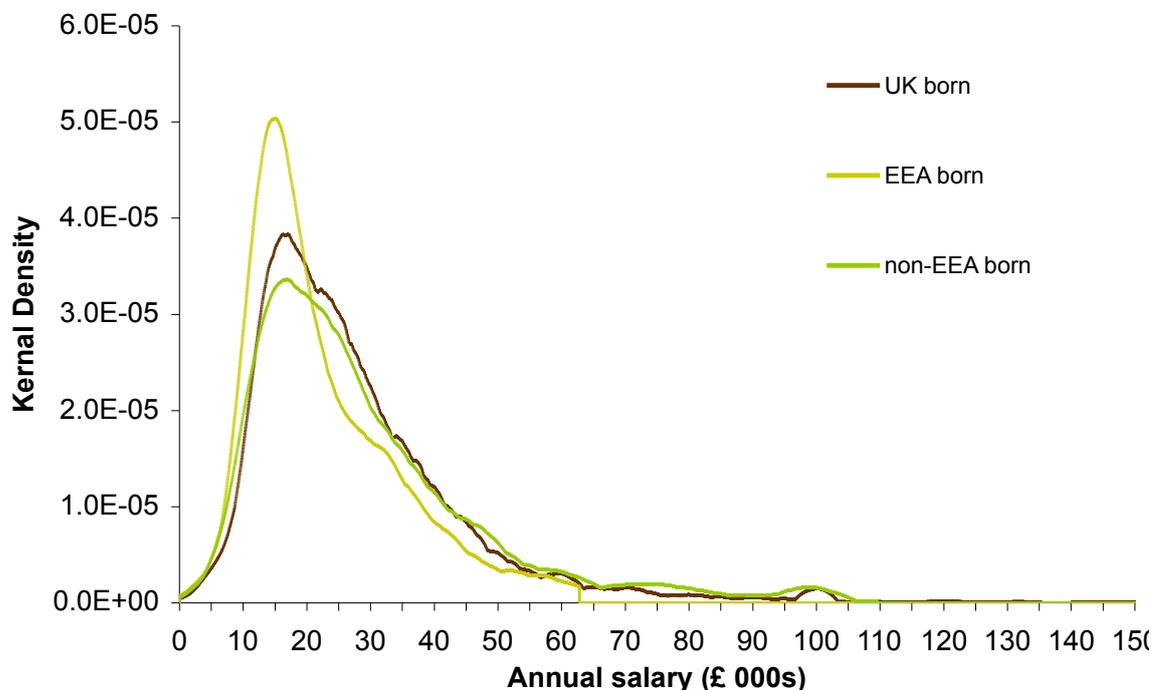
Notes: Only those in employment are included. Entrepreneur and Investor routes are excluded due to the very small numbers represented in the sample.  
 Source: MAC analysis of UK Border Agency (2009b), also published in MAC (2009d); MAC analysis of the Labour Force Survey 2009 Q2

## Earnings

3.77 The Annual Survey of Hours and Earnings (ASHE) is the usual measure of earnings for employees in the UK workforce. In 2009, the mean gross annual pay for all employees was £26,470 and the median was £26,582. For full-time employees, mean gross annual pay was £31,916 and the median was £25,816. Since the ASHE does not record country of birth or nationality, we use the LFS to examine earnings by country of birth. Figure 3.20 presents the distribution of full-time earnings for UK, EEA and non-EEA born individuals in the UK in the year to 2010 Q2. On average, non-EEA

born migrants earn more than both EEA-born migrants and the UK-born population. The median earnings for UK-born individuals were £24,000, for EEA-born £20,000 and for non-EEA born £25,000. A greater proportion of EEA-born migrants had salaries at the lower end of the salary distribution (given by the spike in the distribution around £20,000) than the UK and EEA born groups. At the top end of the distribution, non-EEA migrants also earn more than both EEA-born and the UK-born population. The 75th percentile earnings for UK-born individuals were £34,000, for EEA-born £31,000 and for non-EEA born £36,000.

**Figure 3.20: Distribution of full-time earnings of UK, EEA and non-EEA born individuals, 2009 Q3 to 2010 Q2**



Notes: The sample contains employees and self-employed individuals in all occupations. The kernel density estimator is used. This technique uses a weighting function to estimate the density function of a random variable to generate a weighted histogram. It allows a more visual comparison of the shape of the two distributions and is truncated at £150,000 for presentation purposes.  
Source: MAC analysis of the Labour Force Survey, 2009 Q3 to 2010 Q2

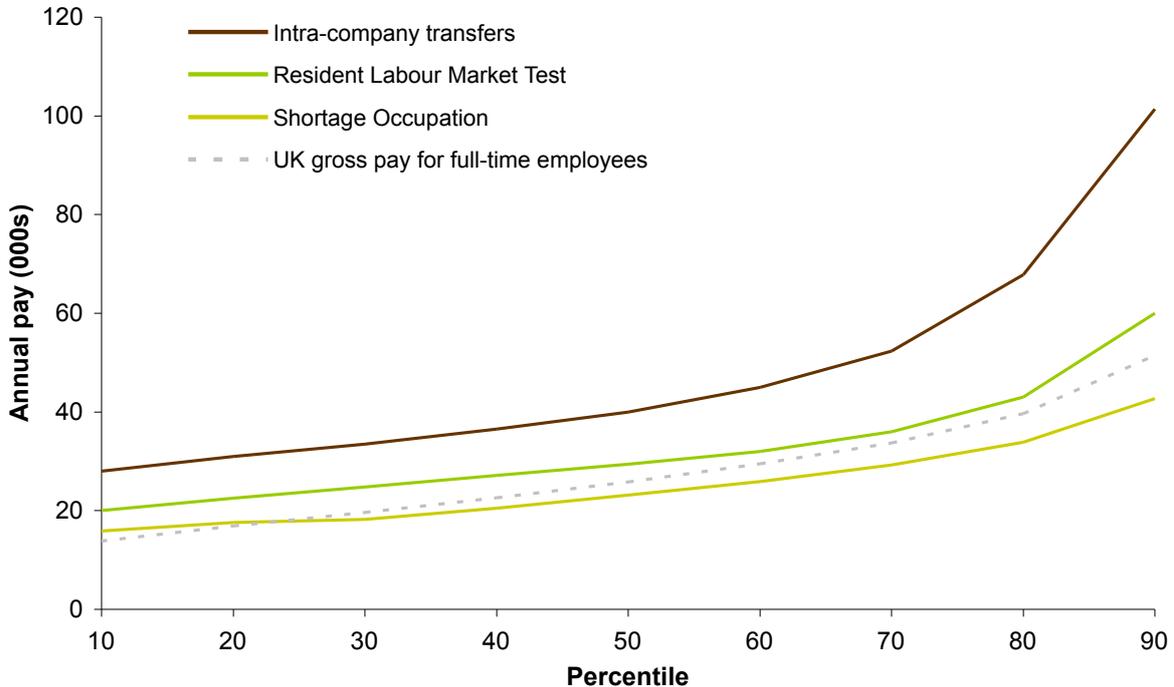
3.78 There is currently no information available on the earnings of recently arrived Tier 1 migrants in the UK. In MAC (2009d) we referred to information on the points scored under the Highly Skilled Migrant Programme (HSMP) and at extension stage in 2007. However, these data are now out-of-date, and the selection mechanism for highly-skilled migrants has changed significantly since 2007.

3.79 Information on entry salaries is available for Tier 2 from UK Border Agency Management Information CoS data. Figure 3.21 shows the distribution of earnings

recorded on Tier 2 CoSs for the intra-company transfer, RLMT and shortage routes. As shown, 50 per cent of intra-company transfer route migrants earn over £40,000 per annum, 50 per cent of RLMT route migrants earn over £29,000 and 50 per of shortage occupation route migrants earn over £23,000. Mean earnings under Tier 2 are £56,830.

3.80 Table 3.12 analyses the distribution of salaries for Tier 2 migrants in more detail and presents the median salaries by 2-digit SOC occupation and Tier 2 route.

**Figure 3.21: Distribution of entry salaries recorded on Tier 2 Certificates of Sponsorship used by route, 2009**



Notes: Tier 2 annual salaries are calculated as the salary for the given period plus allowances. These data are collected on Tier 2 Certificates of Sponsorship. UK gross pay for full-time employees is taken from the Annual Survey of Hours and Earnings.

Source: UK Border Agency management information, July 2009 to June 2010; Office for National Statistics (2009b)

**Table 3.12: Median salary for Tier 2 jobs by 2-digit SOC occupation and Tier 2 route, July 2009 to June 2010**

2-digit SOC occupation	Intra-company transfer route (£, 000s)	Resident Labour Market Test route (£, 000s)	Shortage occupation route (£, 000s)
11 Corporate managers	72	37	30
12 Managers and proprietors in agriculture and services	47	23	-
21 Science and technology professionals	37	34	32
22 Health professionals	-	43	39
23 Teaching and research professionals	41	31	27
24 Business and public service professionals	57	29	31
31 Science and technology associate professionals	31	27	27
32 Health and social welfare associate professionals	28	24	25
33 Protective service occupations	-	-	-
34 Culture, media and sports occupations	44	30	50
35 Business and public service associate professionals	53	38	-
41 Administrative occupations	35	24	-
42 Secretarial and related occupations	46	24	-
51 Skilled agricultural trades	-	21	-
52 Skilled metal and electrical trades	34	25	25
53 Skilled construction and building trades	24	29	-
54 Textiles, printing and other skilled trades	24	20	18
61 Caring personal service occupations	-	15	15
62 Leisure and other personal service occupations	-	22	-
71 Sales occupations	26	24	-
72 Customer service occupations	22	-	-
81 Process, plant and machine operatives	40	22	-
82 Transport and mobile machine drivers and operatives	57	-	-
91 Elementary trades, plant and storage-related occupations	-	-	14
92 Elementary administration and service occupations	24	20	-
9999 Not stated	34	20	-

Notes: The median annual salaries for each Tier 2 route are calculated from salaries recorded by Certificates of Sponsorship (CoS). Figures are rounded to the nearest thousand. (-)No CoSs were issued for these occupations. Only salary data for occupations which contain 4-digit occupations or job-titles on the shortage occupation list are shown: a small number of CoSs were misallocated in error.

Source: UK Border Agency management information, July 2009 to June 2010

## Regions

**3.81** London has a higher share of the population of individuals born outside the UK than any other country or region of the UK, reflecting an historic bias in patterns of migration towards London. The latest data available for October 2008 to September 2009, given in Table 3.13, show that 34 per cent of London's population was born outside the UK and 25 per cent was born outside the EEA. These

proportions have increased from 30 per cent and 23 per cent respectively in 2004.

**3.82** Table 3.13 also shows that London exhibited the fastest rates of change in terms of increases in the proportion of the population that are EEA and non-EEA born. The East of England had the second highest rate of change in terms of EEA migrants, and the West Midlands for non-EEA migrants.

**Table 3.13: Stocks of non-UK born migrants by regions of the UK, 2004 and 2009**

	Migrant share of population in 2004 (per cent)		Migrant share of population in 2009 (per cent)		Difference in migrant share of population in 2004 to 2009 (percentage points)	
	EEA	non-EEA	EEA	non-EEA	EEA	non-EEA
United Kingdom	2.5	6.3	3.6	7.8	1.1	1.4
Scotland	1.4	2.7	2.6	3.7	1.2	1.0
Wales	1.3	2.1	1.9	3.0	0.5	0.9
Northern Ireland	2.8	1.5	3.6	2.2	0.8	0.7
England (total)	2.7	7.1	3.8	8.6	1.1	1.5
of which...						
North East	1.0	2.4	1.4	3.5	0.4	1.1
North West	1.5	3.6	2.2	5.1	0.7	1.6
Yorkshire & the Humber	1.5	4.4	2.5	5.4	1.0	0.9
East Midlands	1.7	4.5	2.9	5.6	1.1	1.1
West Midlands	1.7	5.9	2.8	7.8	1.1	1.9
East	2.4	4.8	3.7	6.0	1.2	1.2
London	7.1	22.6	8.7	25.1	1.7	2.6
South East	2.8	5.6	3.7	7.1	0.9	1.8
South West	2.1	2.9	3.0	3.3	0.9	0.4

Notes: In this figure EEA and non-EEA migrants are defined by country of birth. The migrant share refers to the proportion of the total population that are non-UK born.

Source: Annual Population Survey, Jan to Dec 2004, Jan 2009 to Dec 2009, published in Office for National Statistics (2010d)

3.83 Similarly, the magnitudes of inflows and outflows of long-term migrants (defined as those entering or leaving the UK for a year or more) to and from London are greater than for any other country or region of the UK, shown in Table 3.14. Approximately 28 per cent of LTIM inflows in 2008 were destined for London, while 26 per cent of the outflows were from London. London's share of the UK migration inflow has declined from a peak of 45 per

cent in 1998 to 28 per cent in 2008, although the total stock of migrants in London has increased over the same period. The IPS records reasons for migration, including work-related reasons. However, estimates at the regional level are subject to substantial margins of error.

3.84 It is not possible to determine accurately where Tier 1 or Tier 2 migrants live in the UK. However, Tier 2 immigrants are tied to a

**Table 3.14: Flows of long-term migrants to and from countries and regions of the UK, 2008**

	Long Term International Migration (LTIM) (000s)		
	Inflow	Outflow	Balance
United Kingdom	590	-427	163
Scotland	44	-25	20
Wales	16	-16	1
Northern Ireland	18	-10	8
England (total)	512	-377	135
of which...			
North East	23	-7	16
North West	45	-41	4
Yorkshire & the Humber	53	-20	32
East Midlands	23	-22	1
West Midlands	37	-25	12
East	54	-38	16
London	163	-113	50
South East	84	-71	13
South West	31	-41	-10

Notes: The first three columns report Long Term International Migration, which is based on the International Passenger Survey plus adjustments for asylum, changes of intentions and movements to and from the Republic of Ireland.

Source: Estimates of Long Term International Migration 2008, published in Office for National Statistics (2010c)

sponsoring employer and the location of this employer is known. Between November 2008 and March 2010 45 per cent of Tier 2 visas were issued for London employers. More specifically, 50 per cent of intra-company transferees worked for London employers, as well as 42 per cent of migrants coming to the UK via the RLMT route and 32 per cent of migrants entering the UK via the shortage occupation route. We are not currently able to examine disaggregated Tier 2 data for other regions of the UK. Tier 1 migrants do not need to be sponsored by an employer and there are currently no data that reliably record their place of work.

### 3.8 International comparisons

3.85 It is difficult to compare international data on flows and stocks of migrants across countries. Each country will have different systems and processes in place to record migrant flows and each will have different definitions to distinguish between permanent and temporary migrants. In its report on the International Migration Outlook the Organisation for Economic Co-operation and Development (OECD) publishes data on both migrant stocks and inflows, as a proportion of the population that are foreign-born, as shown in Figure 3.22. Of the countries sampled, the UK had the thirteenth largest inflows as a proportion of the population and was ranked twelfth in terms of the proportion of the population that were foreign-born.

### 3.9 Implications

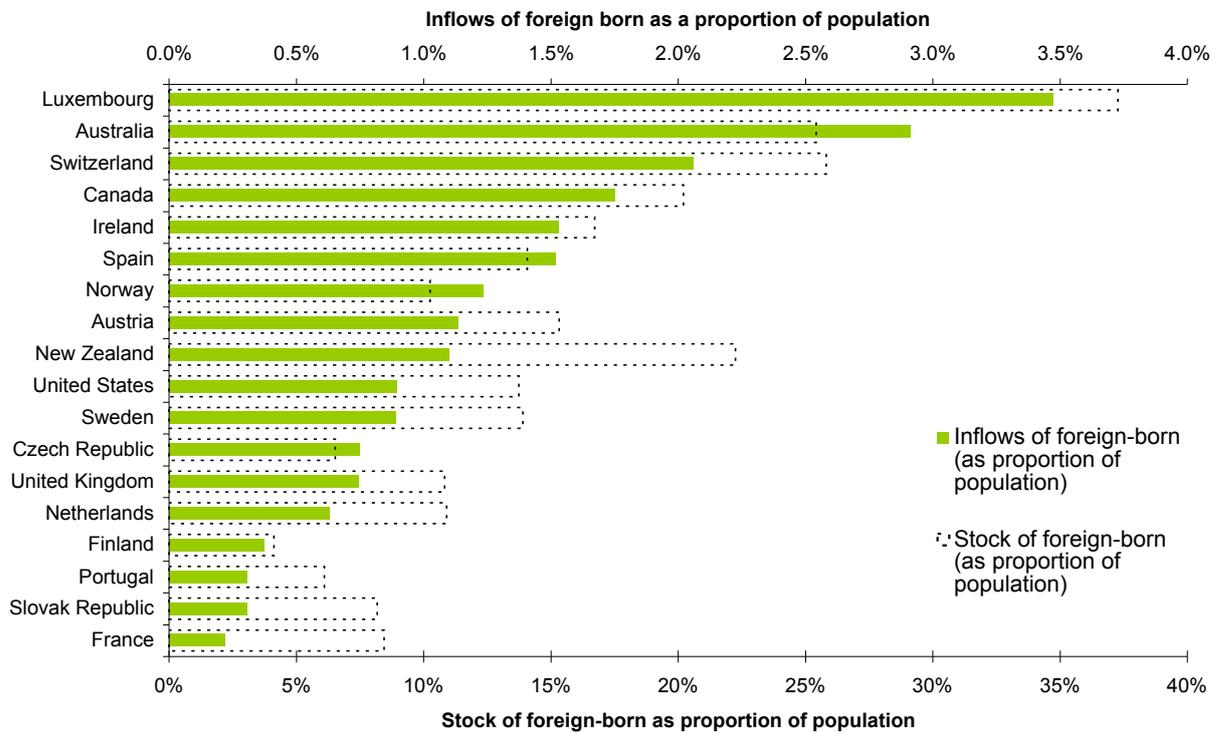
3.86 The main themes that have emerged from our examination of the data are summarised here. First of all, there are tentative signs of an upturn in the UK economy and labour market, although the prospects for growth in the remainder of 2010 and 2011, in the UK and other countries, are subject to some uncertainty.

3.87 The Government's intention is that its objective to reduce net migration will be measured by the International Passenger Survey (IPS). Net Long Term International Migration (LTIM), based on the IPS, was 196,000 in 2009. By the same measure, net migration of non-EU nationals in 2009 was 184,000. These are provisional estimates. Substantial reductions, of at least 96,000 net flows, will be required in forthcoming years to meet the objective of annual net migration in the tens of thousands.

3.88 Non-EU work-related migrant inflows rose from 26,000 in 1994, to 114,000 in 2004, before falling to 55,000 in 2009. The numbers coming for family reasons rose from 33,000 in 1994 to 74,000 in 2004, before falling to 54,000 in 2009. Non-EU student inflows rose, from 30,000 to 110,000, between 1994 and 2004. But, in contrast to the work and family routes, student inflows continued to rise between 2004 and 2009, to reach 163,000.

3.89 The LFS and the APS provide other alternative potential measures of net migration of non-UK nationals, using a different

**Figure 3.22: Inflows and stock of foreign-born migrants as a proportion of the population in OECD countries, 2008**



Notes: These figures are taken from the individual contributions of national correspondents appointed by the Organisation for Economic Co-operation and Development (OECD) Secretariat with the approval of the authorities of member countries. These data have not been standardised and are therefore not fully comparable at an international level. Because of the great variety of sources used and differences between countries' criteria for registering population or conditions for granting residence permits, measurements may differ. Several countries have been omitted where data for 2008 are unavailable.

Source: MAC analysis of data from Organisation for Economic Co-operation and Development (OECD, 2010)

3.90 There are a number of important differences between the LTIM and LFS measures of net migration. Most notably, they

3.91 each define migrants differently and the LFS does not sample foreign students living in communal establishments. Visa data are not directly comparable with the IPS data. Twice as many out-of-country visas were issued to Tier 2 migrants than to Tier 1 migrants in 2009. Intra-company transfers were the largest route of Tier 2 and Tier 1 General was the largest route of Tier 1.

3.92 In 2009, approximately 50,000 out-of-country visas were issued to main migrants through Tier 1 and 2 routes within scope for this report. This figure breaks down as follows:

- 13,900 under the Tier 1 General route;
- 300 under the Highly Skilled Migrant Programme (Tier 1 predecessor);
- 22,000 under the intra-company transfer route;
- 8,600 under the RLMT and shortage occupation routes combined; and
- 5,200 under work permit route (Tier 2 predecessor).

3.93 In-country extensions, which include people switching between visa categories, make up a substantial proportion of visas issued for both Tier 1 and Tier 2. Dependants of Tier 1 and Tier 2 migrants are also substantial in number. In the same year, 42,000 out-of-country visas were issued to dependants of Tier 1 and 2 migrants. Both the main migrant and dependant numbers above exclude in-country visas issued to Tier 1 and 2 migrants.

3.94 Tier 2 migrants are highly likely to be employed in the UK and are generally highly paid and highly qualified. Data for Tier 1 General in particular is partial in its nature.

3.95 According to data published in the International Migration Outlook 2010 (OECD, 2010), the UK ranked thirteenth in terms of the proportion of foreign-born inflows relative to the population, and twelfth in terms of the proportion of the population that are foreign-born, of the OECD countries sampled.

## 4.1 Introduction

4.1 This chapter sets out the work we did in order to develop our conclusions about the levels of the first annual limits for Tier 1 and Tier 2 of the Points Based System (PBS) required to meet the Government's objective of reducing net migration to the 'tens of thousands' by the end of this Parliament. We base our conclusions on a combination of evidence from corporate partners and analysis of data and academic evidence.

4.2 Below we outline the consultation process we undertook. We provide details of the meetings we held and the events we attended with key corporate partners. We also explain what we did to access other relevant sources of evidence. We identify the key themes that emerged from the evidence we received, including a brief account of those that are not of direct relevance to this report. We then summarise the main strands of our analysis of the data and academic evidence.

## 4.2 How we consulted

### Consultation

4.3 We published a consultation document on 30 June 2010. We sent details of our consultation

directly to over 500 corporate partners and links to our consultation were included in various UK Border Agency circulations, including a letter to all Tier 2 sponsors (some 17,000 individual employers).

4.4 Our consultation asked various questions in order to help structure the evidence in a way that would be most useful to us when forming our suggestions. The questions we asked are set out in Chapter 2 of this report and were organised around our analytical framework – criteria, objective and trajectory – which we discuss in more detail in Chapter 5.

4.5 We received over 400 written responses to our consultation. A list of all respondents and other organisations or groups we liaised with, with the exception of those who asked not to be identified, is in Annex A to this report.

### Meetings and events

4.6 As part of our consultation we organised and attended an extensive range of meetings and events to engage directly with as wide a variety of corporate partners as possible.

4.7 We hosted two large events in London at which approximately 90 corporate partners were

present. In addition we met with a number of partners individually. We also spoke at over 40 events and meetings arranged by others around the UK including Deloitte, Skills for Care, PricewaterhouseCoopers UK, Skills for Health, Visalagic, the Greater London Authority, the Law Society, Equality South West and many of the Regional Migration Partnerships around the UK. These events enabled us to consult directly with around 1,000 representatives of different organisations.

4.8 We consulted with government departments to inform our review. For example:

- the Department for Education on the role migrants play as both consumers of education and children and family social services, and providers of these services as members of the workforce;
- HM Treasury on the contribution of migrants to the UK economy;
- the Department of Health on the role migrants play as both consumers and providers of healthcare and social services;
- the Department for Transport on the impact of migrants on the use of public transport and congestion;
- the Department for Communities and Local Government on the role migrants play as the consumers of local services, and in the provision of those services;

- the Department for Business, Innovation and Skills on the role migrants play in supporting business and promoting investment in the UK, how skills policy can be most effectively linked to migration policy, and the role of migrants in the Higher Education workforce; and
- the Department for Work and Pensions on migrants' use of the welfare system.

4.9

We contacted the Devolved Administrations to seek their views with a particular focus on the impacts of migration and on up-skilling, which is a devolved matter. We attended meetings in:

- Scotland, where we met with corporate partners as part of their regular meetings with the UK Border Agency;
- Wales, at a forum event for corporate partners; and
- Northern Ireland, where we also held a forum for corporate partners.

4.10

The MAC has its own Stakeholder Panel, whom we consult on aspects of our work that are of direct interest to corporate partners. The Panel comprises representatives from the Trades Union Congress (TUC), the Confederation of British Industry (CBI), the British Chambers of Commerce (BCC) and NHS Employers. We convened a special meeting of the Panel to discuss our approach to this work and share our emerging findings. We also held bilateral meetings

- with the BCC, the TUC, the CBI and health sector representatives.
- 4.11 We wrote to representatives of a number of foreign governments, drawing their attention to our consultation, and received responses from many. We also met with representatives from Embassies including those of Australia, Canada, Japan, New Zealand, Singapore and Thailand.
- 4.12 We were mindful, throughout the process, of the Government's request that we take account of the public service and social impacts of migration in forming our conclusions. We took particular care to ensure that relevant partners with an interest or expertise in those issues had the opportunity to contribute to our review, and went to significant lengths to gather information, evidence and opinions.
- 4.13 Key to this was the help the Regional Migration Partnerships provided in both facilitating events around the country and in distributing our consultation at a local and regional level, particularly amongst those with an interest in social and public service impacts. The Partnerships are formed by collaboration among relevant organisations representative of the statutory, voluntary and private sectors. Their function is to provide a regional (national for Scotland, Northern Ireland and Wales), multi-sector, multi-agency partnership and to facilitate and promote effective contact, co-ordination and partnership among key partners including local authorities, police services, health and education.
- 4.14 Six Partnership events were arranged and attended by over 80 corporate partners from: local government; the police; the housing sector; employers; employer representative organisations; Job Centre Plus; the higher education sector; and the voluntary sector.
- 4.15 During the course of meetings and corporate partner events we attended we spoke to, and heard evidence from, local authorities around the UK. In addition, some submitted written evidence to our consultation. This helped us to understand some of the public service and social impacts. In addition, we held a seminar with leading economists and academics at the London School of Economics to discuss theory and evidence on public service and social impacts.
- 4.3 Consultation evidence received**
- 4.16 Given the amount of evidence we received, and the range of contributors, it is perhaps not surprising that a variety of views were put to us. Throughout this report we refer to evidence we received. However, below we briefly highlight several themes that were particularly prominent in the oral and written evidence we received. The views expressed in this section do not necessarily represent the views of the MAC.
- 4.17 We were clear throughout this process that it was not the role of the MAC to advise on whether limiting economic migration in order to reduce overall net migration to the tens of thousands

was the right policy. Our task was to take that objective, and advise on appropriate limits for Tier 1 and Tier 2 of the PBS.

4.18 Nonetheless, for understandable reasons, many of those we consulted did not draw a clear distinction between the policy of migration limits in itself and the potential impacts of a more restrictive migration policy on businesses' ability to attract the number and type of migrant workers that they believe they need.

4.19 Although we did not ask in our consultation whether a policy centred on restricting migration was a good thing, it was clear from the evidence we received that many partners objected to restrictions or limits on non-EEA economic immigration. Many also had reservations about the manner in which limits might be implemented.

*"We are strongly opposed to the Government's current proposals to cap migration through Tiers One and Two of the points-based system by implementing a permanent limit."*

Federation of Small Businesses response to MAC consultation

*"As well as seeing the proposed cap as being detrimental to the economy the TUC also sees it as being detrimental to the very social cohesion of our diverse society."*

Trades Union Congress response to MAC consultation

4.20 Some specific concerns expressed in terms of **restrictions on migration** included the following:

- Some corporate partners argued that restrictions on migration could restrict businesses' ability to be competitive and could stunt economic recovery by being harmful to UK employers.

*"AFB and BBA Members are currently at a critical point in the economic cycle. They need to recruit quickly to key posts to maintain the competitiveness of their UK based operations."*

Joint response from the Association of Foreign Banks and the British Bankers' Association to MAC consultation

*"A cap on non-EU economic migration would have an adverse effect and would act as a barrier to economic growth and competitiveness."*

Federation of Small Businesses response to MAC consultation

*"The annual limit is too blunt an instrument to address the complex needs of an economy growing its way out of a recession. What Scotland needs is an immigration system based on economic need, not on ideology."*

Scottish Government response to MAC consultation

- It was pointed out that any further restriction on businesses' ability to move people could result in lower trade and investment into the UK. It was argued that firms were more likely to move the work abroad than hire less qualified resident workers.

*“Skill shortages are already emerging in the oil and gas industry in Aberdeen and if it is not possible to recruit in the North East these jobs will be permanently lost to overseas locations.”*

Orion Consultancy Services Ltd  
response to MAC consultation

*“If AFB and BBA members are unable to expand as they need to within the UK because of immigration controls, they will instead expand overseas. In addition to the roles which will not be created in the UK, this will also have an impact on essential knowledge transfer to the UK workforce.”*

Joint response from the Association of Foreign Banks and the British Bankers' Association to MAC consultation

- Some businesses expressed the view that uncertainty about being able to recruit workers with the right skills may cause them to look at outsourcing abroad as a way to provide some certainty around their needs and growth plans.

- It was suggested that a lack of migrants could hurt large projects, such as Crossrail, because there is not, for example, sufficient ongoing demand for the UK to train and maintain 200 resident tunnelling engineers. Equally, it was argued that large projects could use up allowances, leaving no space for small businesses.

- Some corporate partners spoke of non-EEA workers being employed in priority areas in terms of the UK's economic growth prospects, such as engineering, technology, and renewable energy.

*“We would argue that the international flow of highly qualified and skilled scientists and technologists is necessary for the proper advancement of science and for the development of a knowledge based economy that depends on that advancement of knowledge and the UK's full participation in the global enterprise of scientific research and discovery.”*

The Beatson Institute for Cancer Research response to MAC consultation

- Corporate partners argued that the small numbers of migrants who enter the UK via the shortage occupation route greatly improve the flexibility of the UK labour market, and so restrictions on that route would be damaging.

4.21 Some concerns were expressed more directly in relation to the **policy of migration limits itself**, or its coverage, while other partners expressed satisfaction with the broad concept of limits:

- Some told us that the use of 2009 figures as a starting point was not helpful because it was not a 'normal' year. It was argued that both the 2010 interim limit and the illustrative 2008 figures used in our consultation paper refer to times of recession. Firms were encountering problems due to the fact that their allowance for the interim limit was based on a highly unusual recession year when they were not recruiting.
- There was concern that limits on economic migration would send the signal that the UK was not 'open for business'.

*"Business has no ideological objection to a cap – but protecting global mobility is essential to retaining the UK's reputation as an attractive place in which and from which to invest and do business."*

Confederation of British Industry response to MAC consultation

- It was suggested that Tiers 1 and 2 were not the main focus of public concern about migration, and hence a limit on Tier 1 and Tier 2 would not ease these concerns.

- Partners felt that reducing net migration by limiting work-related migration routes would affect some regions and occupations more than others, which could create the need for regional shortage lists for local shortages.
- We were told that intra-company transferees should not be considered as 'normal' migrants as most have no intention of staying in the UK permanently, and should therefore be exempt from a limit.

*"It needs to be emphasized that Japanese companies' employees and Japanese doctors will usually stay in the UK for 3 to 5 years on personnel rotation and that they have no intention to stay permanently in this country. It would be misleading and wrong to categorize them as 'migrants'."*

Embassy of Japan response to MAC consultation

*"We believe ... that it is critical to the UK's attractiveness as a place in and from which to invest and do business that ICTs of less than 3 years duration are excluded from the limits in Tier 1 and 2. We believe it is essential to distinguish between migration leading to settlement and genuine temporary knowledge and skills transfer which is so important to businesses with a global footprint."*

Confederation of British Industry response to MAC consultation

- Some corporate partners said that they sent as many transferees overseas as they received and, therefore, their contribution to net migration was either nil or negligible.
- Some individuals who responded to our consultation approved of limits on non-EEA economic migration. In many cases this appeared to be as a result of real or perceived, current or predicted, negative public service and social impacts.
- Arguments were made that dependants should be limited because they do not contribute as much in economic terms as main migrants. However, counter arguments were also put to us that dependants often play important roles working in some sectors (e.g. social care) and that main migrants would not come if they could not bring their dependants.

*“It is not realistic to support an international assignment for a duration of 2-3 years and not permit the employee to be accompanied by immediate dependants.”*

PepsiCo UK & Ireland response to MAC consultation

- It was argued that a limit on dependants may discriminate against certain types of people, such as older migrants or married migrants, who are relatively more likely

to have dependants they wish to bring with them, and may place employers in the invidious position of having to discriminate against their older and married employees.

#### 4.22

Many partners believe that the **policy underpinning the introduction of limits** was a critical consideration. Some of the themes raised were of most relevance to the Government consultation running parallel to ours, but many also had implications for our consideration of levels of limits on Tier 1 and Tier 2:

- Partners recognised that, in a scenario where there is more demand for non-EEA migration than places available, judgements will need to be made regarding the relative value of applications to make sure the benefit of non-EEA migration is maximised.
- Some corporate partners reported that interim limits on Tier 2 were biting to a much greater extent than those on Tier 1. There was also concern that interim allocations had been based on usage during a recession, resulting in a nil allocation for some.
- Concern was also frequently expressed about the ability to obtain in-country extensions for existing key personnel in the months and years to come.

*“Restrictions on extensions would remove the ability of migrants to plan for the medium to long term (e.g. buy a house without worrying they will have to leave the country in a couple of years), and would make the UK and sponsored UK jobs less attractive.”*

Sybersolve Solutions Limited response to MAC consultation

- Corporate partners felt that the proposed pool system in relation to Tier 1 added an element of unpredictability for the purposes of business planning and, as such, was undesirable.
- It was argued that combining the Tier 2 Resident Labour Market Test (RLMT) and shortage occupation routes would be complicated and had the potential to tie the system up with speculative applications from employers for inclusion on the shortage occupation list.
- Corporate partners argued that most health insurance cover does not cover consultation with a GP, so this measure is not likely to significantly reduce any burden on primary care.
- As discussed elsewhere in this report, concern was expressed in relation to intra-company transferees displacing resident workers in the IT industry. It was argued that policies needed to be put in place to prevent this displacement from occurring.

*“BCC does not support the suggestion that sponsors should have to give their non-EU migrant workers health insurance.”*

British Chambers of Commerce response to MAC consultation

**4.23 Up-skilling** was a strong theme in the responses received. The evidence received from the UK Commission for Employment and Skills is discussed in detail in Chapter 9 of this report. Some views expressed by other partners included the following:

- A number of employers argued that, given the current economic uncertainty, the trajectory of the levels of the limits should be less steep to begin with. They suggested that this would allow time for the up-skilling of resident workers. We were also told that up-skilling was underway in certain sectors but that more time is needed.

*“To be able to recruit alternatives to Tier 1 and Tier 2 general from the UK workforce would take some years as either there is generally a shortage of the skills and experience we are looking for here in the UK or we are looking to develop global talent by hiring non-UK nationals into our businesses headquartered in the UK.”*

Shell response to MAC consultation

- It was put to us that it takes a considerable length of time to train skilled workers and that employers may respond to restrictions on hiring skilled non-EEA workers by recruiting similarly skilled EEA-domiciled workers (resulting in no reduction to net migration).
- Corporate partners pointed out that, although in time there would be scope to up-skill resident workers to some skilled jobs, there would always remain a proportion of very skilled non-EEA workers who will be required (for example, a production engineer from Japan to work in a car factory in the UK).

*“Alternatives cannot be found. Generally speaking, Tier 2 Japanese immigrants from Japanese companies are responsible for adjustment and liaison between offices in the UK and Japan. They need considerable knowledge and experience of the Japanese head office’s policies and decisions, as well as communication ability in Japanese and English.”*

Nissin Travel Service (UK) Ltd  
response to MAC consultation

- Nevertheless, partners acknowledged that employers had a role to play in up-skilling the UK workforce through, for example, the Sector Skills Councils, but that the

Government and the education sector needed to do more to increase the take-up of vocational courses, perhaps through incentives to study technical subjects.

4.24 We also encountered a range of views on the **public service and social impacts of immigration**, and how these should be balanced against the economic impacts:

- It was put to us that skilled migrants’ net contribution to the public finances is positive, with corporate partners arguing that most Tier 1 and Tier 2 migrants pay far in excess of the average tax and use fewer services.
- Many of those we met, and who responded to our consultation, suggested that we should give higher priority to economic impacts over public service and social impacts. This was mainly derived from the assumption that public service and social impacts were minimal, and certainly much smaller than the economic impacts.

*“Due to their nature as highly skilled and skilled workers Tier 1 and 2 migrants are unlikely to have a major impact on public services and social integration. Migrants using Tier 1 and 2 are likely to contribute far more to the economy and UK society through their teaching, research and knowledge exchange than they take out through use of public services.”*

University of Plymouth evidence to  
MAC consultation

*“The FSB is of the view that the impact of skilled and highly skilled workers will be negligible on public services as these migrants will be in an excellent position to seek work and generate wealth for the country as a whole. This will lead to a positive impact on wider society via business growth and future job creation.”*

Federation of Small Businesses  
response to MAC consultation

- We heard that in some public service areas non-EEA migrants play a key role in providing services (e.g. in health and social care).

*“Skilled migrants contribute to the provision of public services; in our case the provision of health care in the Acute and Neurological Rehabilitation areas.”*

Ramsay Health Care UK response  
to MAC consultation

- We were told that, generally, Tier 1 and Tier 2 migrants are young, healthy and law abiding and therefore place minimal demands on services. Education was perhaps the only exception, where the impact was thought to be larger because of dependants (e.g. pressure on places and schools needing to cater for more diverse language requirements).

- Some evidence suggested that diverse communities needed to be served by diverse workforces, particularly when delivering front line services (e.g. health and social care).
- It was said that delays in recovery and growth might prolong unemployment amongst the resident population, resulting in negative impacts in terms of tensions between the migrant and resident communities.
- We received evidence that Tier 1 and Tier 2 migrants' use of the welfare state is relatively insignificant. It was argued that benefit tourism to the UK is a myth, and access to benefits for non-EEA migrants is severely limited: non-EEA migrants are only entitled to contributory benefits; they are not entitled to any income-related benefits.
- We were told that Tier 1 and Tier 2 migrants were unlikely to commit crime, but may well be more likely to be the victims of crime. Some also thought that migrants were less likely to report crime.

*“Reportedly, hate crime against tier 1 and 2 migrants is more prevalent than crime committed by these migrants.”*

East of England Strategic  
Migration Partnership response  
to MAC consultation

- We were also told that migrants play an important role in making communities more culturally rich.
- We heard about apparent misconceptions surrounding migration which can result in social tensions.
- We heard that migrants were playing a large part in rejuvenating some inner-city housing. They were moving into accommodation which had previously lain empty and this in turn was allowing shops and schools to stay open and providing the remaining resident population with important local services.
- More negative impacts of migration were reported where new migrant communities were developing in areas which had not previously received much migration. Areas which have seen migrants arrive for many years had adapted well, we were told.

4.25 The evidence we received on the economic, public service and social impacts of migration is set out in more detail in Chapters 7 and 8. The evidence relevant to Tier 1 and Tier 2 of the PBS, and the policy of annual limits on those tiers, is discussed further in Chapters 6 and 9.

#### 4.4 Analytical work programme

4.26 To complement the evidence we received we also carried out reviews of the academic literature and our own in-house data analysis.

#### Literature reviews

4.27 We carried out a literature review for each of the economic, public service and social impacts that we identified. The findings from these literature reviews, and their implications for our conclusions, are presented in Chapters 7 and 8.

4.28 The main body of our assessment comprises a review of the existing academic literature and evidence gathered from corporate partners and experts. We were also informed by the findings of the House of Lords Select Committee on Economic Affairs, which reported on the economic impact of immigration in 2008 (House of Lords, 2008).

4.29 To investigate how the various costs and benefits of immigration can be considered within an economic framework we commissioned a research project to Professor Christian Dustmann and Dr. Tommaso Frattini of E Policy Limited (Dustmann and Frattini, 2010). We publish their report alongside this one and draw on it in Chapters 7 and 8.

4.30 There is already a body of literature examining the economic impacts of immigration. Consequently, we experienced greater success in finding empirical studies that test the impacts of migration suggested by economic theory. However, there is comparatively little substantive evidence on the social and public service impacts of migration.

## Data analysis

- 4.31 We undertook a thorough review, and analysis, of available data on migration in order to understand the complex relationship between flows through Tier 1 and Tier 2 of the Points Based System, and Long Term International Migration (LTIM) as measured by the International Passenger Survey (IPS). Chapters 6 and 9, and Annex B to this report, provide details of this work. They also set out the risks, difficulties and uncertainties associated with making such calculations.

## 5.1 Introduction

5.1 This chapter discusses the use of analytical frameworks to set a limit on migration. We begin by reviewing some of the structures that could, in theory, be adopted before outlining the analytical framework that we use in this report to answer the question we were asked by the Government.

## 5.2 Frameworks for analysing limits on migration

5.2 In this report it is not our task to consider what the optimal level of net or gross migration to the UK should be. Nonetheless, in this section we briefly consider five potential frameworks for analysing that issue.

5.3 The first potential approach is to **adopt a cost-benefit framework** to determine the optimal annual level of migration. According to this approach, all impacts of migration, including the social and public impacts, would be assigned an economic value. Migrants would then be ranked according to their potential total net contribution and permitted entry to the UK up to the point where the marginal migrant – that is, the next additional migrant to enter the UK – makes a zero net contribution.

This analysis would also have to take account of the externalities of migration. Limiting migration in this way would in theory make it possible for the UK to maximise the benefit from migration because only those migrants who make a positive net contribution, and no others, are admitted.

5.4 A cost-benefit framework cannot be adopted in practice because, as we make clear in Chapters 7 and 8, it is not possible to accurately quantify, or even identify, all of the relevant costs and benefits of migration. Consequently, migrants cannot be selected purely on the basis of an entirely accurate and complete assessment of their net contribution to the UK. Additionally, there are difficult conceptual issues to consider, such as the treatment of dependants in the analysis, including children born to migrant parents in the UK, and the appropriate time horizons and discount factors to use. Also, as with all of the approaches discussed in this section, it is not possible to use this type of analysis to influence flows of British and European Economic Area (EEA) nationals, over which the Government has no direct control.

5.5 A second, simpler approach is to **assess the net fiscal impact of migration**. This approach attempts to compare what migrants contribute to the public finances, in terms of tax receipts, with what they take out, in terms of consumption of public services. Similar to the cost-benefit framework outlined above, migrants could in principle be admitted entry to the UK up to the point where the marginal migrant makes a zero net fiscal contribution, thus maximising the fiscal benefit of migration. Studies that adopt this approach are discussed in more detail in Chapter 7.

5.6 A third approach is to **consider the impact of migration on overall population levels**. As we discussed in Chapter 3, the Office for National Statistics (ONS) produces UK population projections based on various assumptions of the level of net migration to the UK. These population projections could be used to set a limit on annual net migration at a level that is designed to achieve, or avoid, specified population targets, assuming this was an objective of migration policy.

5.7 A fourth approach is to **compare the current level of net migration in the UK to that of previous years**. Such an approach would identify a period where net migration was at a level that is consistent with the current Government's objective. This period could then be examined to see what proportion of gross immigration or net migration comprised work-related migration.

5.8 For example, consider the year 1994, when total net Long Term International Migration (LTIM) was 77,000. This compares to a provisional estimate of 196,000 for 2009. As discussed in Chapter 3, the International Passenger Survey (IPS) components of LTIM estimates can be broken down to examine the 'reason for migration'. A comparison of IPS data for 1994 and 2009 (provisional data) for migrants of all nationalities shows that:

- For those individuals with a definite job offer or looking for work, the gross inflow to the UK was 94,000 in 1994, compared to a provisional estimate of 182,000 in 2009; and
- In 1994 the gross inflow of persons coming to the UK for formal study was 47,000, compared to a provisional estimate of 211,000 for the calendar year 2009.

5.9 Work-related inflows almost doubled between 1994 and 2009, while student inflows were approximately 4.5 times larger in 2009 than in 1994. Therefore, to return to a situation analogous to 1994 would potentially imply a cut in both work-related and student immigration, with a substantial rebalancing of the number of individuals coming to the UK for formal study against work-related immigration.

5.10 Finally, a fifth approach is to **examine the migrant proportion of the labour force in countries comparable to the UK**. For example, if migrants made up a smaller proportion of the labour force in other similarly developed

countries, that might lead to the crude conclusion that the UK economy could be successful with a smaller migrant workforce too. In terms of policy, however, it may be more relevant and practical to look at annual gross or net migrant flow as a share of the working age population or the total population. In either case, the UK could aim to align its migrant share of the workforce more closely with that of other countries over time. International data of this nature, discussed in Chapter 3, suggest that, as a proportion of the population, the UK's migrant stock and migrant inflow is currently relatively low compared to other OECD countries.

**5.11** Each of the approaches set out above may help inform our thinking when we consider the economic, social and public service impacts of migration in the context of limits on Tiers 1 and 2. However, we are acting within the boundaries of an existing Government objective for net migration, and our approach needs to reflect that. The analytical framework that we have used as the basis for this report is discussed in the following section.

### **5.3 Our framework**

**5.12** Our commission is to consider how limits on Tiers 1 and 2 can contribute towards achieving net migration in the 'tens of thousands', with reference to the economic, public service and social impacts of migration. We identified three broad issues we believe we need to address in order to answer that question, which we discuss in more detail below:

- which criteria should be taken into account when considering limits to Tiers 1 and 2?
- what precise objective for overall net migration, and PBS migration, would be consistent with the Government's aim to reduce net migration to the tens of thousands by the end of this Parliament?
- what trajectory, for Tier 1 and Tier 2 migration over time, is most desirable in order to achieve the objective?

### **Criteria**

**5.13** The Government asked that we take into account the economic, social and public service impacts of migration in considering the first annual limits on Tier 1 and Tier 2 in 2011/12. There is no universal definition of such impacts. In principle, any impact that affects the distribution of resources, or that can be quantified and monetised, could arguably be considered an economic impact.

**5.14** We attempt a crude categorisation of impacts into economic, public service, and social in this report. However, our main focus has been on identifying what we consider to be the largest and farthest-reaching impacts of migration and, in particular, of migration through Tiers 1 and 2.

**5.15** To construct the list of impacts that we focus on, we complemented our own thinking with discussions with migration experts and policymakers, an assessment of the existing academic literature, and consideration of the evidence we received from corporate

partners. The same factors were mentioned and discussed repeatedly. Therefore, we are satisfied that we have considered the most relevant impacts of migration in producing this report, given the time and evidence available to us. We consider:

- **economic impacts** to include those on GDP, GDP per head, inflation and the public finances. These effects will manifest themselves, in part, through the labour market, so employment, unemployment and earnings are also relevant;
- **public service impacts** to be on both the supply of public services (through the part that migrants play in the provision of these services) and the demand for them (through migrant use of such services); and
- **social impacts** to include consideration of diverse factors such as congestion, crime, the housing market and social cohesion.

5.16 Whatever precise categorisation is used, there are numerous complex inter-linkages between various economic, public service and social impacts of migration: for example, an immigrant's impact on social cohesion may, in turn, depend on his or her impact on other areas such as education, housing and healthcare.

5.17 Nor can our list of migration impacts be complete. To provide one specific example of how nuanced and widespread the impacts of migration can be, more than one corporate partner told us that migration has an impact

on the provision of services by public libraries. We were told that migrants make disproportionately high use of such facilities and that, in some cases, migrant demand has made it more difficult for UK citizens to access library services. However, we were also told that use by migrants of public libraries has led to more diverse services being offered, which can then be enjoyed by all local residents.

5.18 Having compiled a list of economic, social and public service impacts, it would then be desirable to use a consistent and all-encompassing analytical framework to analyse them. As we discussed earlier, there are numerous challenges involved in constructing such a framework. In practice, our assessment of the impacts needs to be part quantitative and part qualitative, and based on sound logic.

5.19 Over the course of our consultation several corporate partners told us that the economic impacts of migration should be considered over the social and public service impacts. This was argued on the basis that the fiscal support necessary to strengthen public finances could only be achieved by establishing a secure economic base and nurturing economic growth. However, other corporate partners were keen to emphasise the importance of migrants in the provision of UK public services. They argued that the size of migrants' contribution to sectors such as social care is not fully reflected in economic indicators such as earnings, and thus migration policy decisions should not be based purely on economic considerations.

5.20 In this report we do not assign any weights to the economic, social and public service impacts of migration. Instead, we consider these impacts individually, as well as alongside one another, in our overall assessment of the various costs and benefits of migration. Of course, it is possible that the relative magnitudes of these impacts may vary, in which case it would be necessary to give the largest impacts the greatest consideration when determining the limits on Tiers 1 and 2.

*“CBI members believe that the potential impact on the economy of restrictions in Tiers 1 and 2 outweigh the public service and social impacts of migration through these tiers. The committee has previously noted the net fiscal contribution migrants in these categories make to the UK. As we approach what is likely to be a slow and fragile recovery, the potential economic cost, particularly in terms of employment growth, of restrictions in these tiers must be paramount.”*

The Confederation of British Industry response to MAC consultation.

5.21 Our consideration of the economic impacts of migration is set out in more detail in Chapter 7. We discuss the social and public service impacts in Chapter 8. Our assessment of each impact begins with a discussion of the theory, followed by the evidence. In our assessment of each impact we first consider the effects of migration more generally, before focussing on Tier 1 and Tier 2 migrants. There is little specific evidence on the impacts of Tier 1 and 2 migrants, so our

consideration is based on a combined assessment of the available evidence and the likely or known characteristics of such migrants.

## Objective

5.22 The objective of reducing overall net migration to the tens of thousands by the end of this Parliament, interpreted literally, means reducing overall net migration, as reported in LTIM data, from the provisional ONS estimate of 196,000 in 2009 to a level below 100,000 and above zero by May 2015.

5.23 The Minister of State for Immigration has stated that limits to Tier 1 and Tier 2 will not be the only means by which this objective is to be achieved, although the contribution of these migration routes in 2011/12 is the requested focus of this report. In answering the question we have been set we had to consider two key questions in terms of the Government’s broader objective for net migration:

- First, what does the target range of tens of thousands imply in terms of the precise objective for net migration?
- Second, what proportion of the required total reduction in net migration should come from reduced flows through Tiers 1 and 2?

5.24 We need to make an assumption on the first issue in order to address the second one, which is central to our remit. We believe that a reasonable approach for this report is to assume that the

policy for non-EEA migrants needs to be set such that the Government can be as confident as possible, if not certain, that overall net migration will be within the tens of thousands range by the end of this Parliament.

- 5.25 To determine the required limits to Tier 1 and Tier 2 in achieving the Government's objective it is also necessary to make assumptions about the future levels of migration of British and EU nationals. We consider this issue in more detail, alongside further analysis of the Government's objective for net migration, in Chapter 6.

### Trajectory

- 5.26 In terms of trajectory, we could apply relatively large reductions (low limits) to Tier 1 and Tier 2 migration in 2011/12. Alternatively, we could apply smaller reductions (higher limits) to Tier 1 and Tier 2 in that year if we believe that this would be most beneficial, or least detrimental, to the UK economy. The final option is to apply limits on Tier 1 and Tier 2 in 2011/12 that are proportionate to reductions in subsequent years, so that the overall reductions to Tier 1 and Tier 2 migration follow a linear trajectory over the course of this Parliament.
- 5.27 In considering trajectory we take into account the evidence we received from corporate partners on the potential to upskill the resident workforce in order to adapt to a reduction in Tier 1 and Tier 2 migration. Our consideration of such issues is discussed in more detail in Chapter 9.

- 5.28 As important as the precise trajectory, or level of visa reductions in 2011/12, is the policy that is put in place to underpin those reductions in order to ensure that the UK continues to bring in those migrants it most needs. This critical issue is a key focus of Chapter 9, where we consider policy design issues and make a series of policy suggestions to support the required limits to Tiers 1 and 2.

### 5.4 Implications

- 5.29 The advice we have been asked to provide is not in relation to whether limits on overall net migration represent the right policy, but on how limits to Tiers 1 and 2 should contribute to this objective. In doing so, we need to consider the criteria to be used in developing migration policy, the objective of the policy, and the trajectory by which we progress to where the objective implies net migration needs to be. Our approach in the remainder of this report is as follows:

- In Chapter 6 we consider the potential implications of the Government's objective of reducing overall net migration for the limits on Tiers 1 and 2.
- In Chapter 7 we consider the evidence on some of the main economic impacts of migration in general, and its applicability to Tiers 1 and 2 in particular.
- In Chapter 8 we do likewise in terms of some of the main public service and social impacts.

- In Chapter 9 we consider the coverage of the limits for Tiers 1 and 2 and set out the limits that we believe are required to meet the Government's objective. We also examine what amendments could be made to the design of Tiers 1 and 2 in order to ensure the best possible outcomes for employers while working towards this objective, with reference to the economic, public service and social impacts of migration.

5.30 Finally, in Chapter 10 we summarise the conclusions of this report and set out the potential ways in which policy decisions and improvements to the evidence base would help to better inform the setting of limits to Tiers 1 and 2 in future years.

## 6.1 Introduction

6.1 This chapter discusses the implications for Tiers 1 and 2 of the Government's objective of reducing overall net migration to the 'tens of thousands' by the end of this Parliament. We consider the implications for Tiers 1 and 2 combined. The implications for each tier individually, and for routes within those tiers, are considered in Chapter 9.

6.2 There are four parts to this chapter. First, we examine the objective for net migration itself. Then we discuss migration that is not within the scope of a limit on Tiers 1 and 2, including migration of British and EU nationals, and migration for the purposes of asylum. Third, the implications of the Government's objective for potential flows through Tiers 1 and 2 are analysed. The last section summarises the implications of the analysis in this chapter.

6.3 When this report was commissioned by the Home Secretary, it was explicitly requested that we provide our advice with reference to the Government's objective of reducing overall net migration to the tens of thousands. In this report, we therefore take that objective as given.

6.4 Advice contained in this report is also limited to Tiers 1 and 2. We have not been asked to consider the student, family or other work-related routes. Nevertheless, the Government's objective for net migration cannot be met through a limit on Tiers 1 and 2 alone. Figures presented in this chapter show that these routes represent only a fraction of flows. Therefore, even closing Tiers 1 and 2 will not reduce net migration to the tens of thousands. As a result, we need to make some assumptions about the contribution that Tiers 1 and 2 must make to reducing net migration and, therefore, the flows through other routes.

## 6.2 Defining the objective for net migration

6.5 The Government's objective is that net migration will be reduced to the tens of thousands by the end of the current Parliament. This objective could, in principle, imply net migration of any level above zero but below 100,000. In this section we consider how net migration is measured and what precisely tens of thousands could or should mean in practice.

6.6 Net Long Term International Migration (LTIM) in 2009 was 196,000. Arithmetic dictates that net LTIM needs to decrease by

between 96,000 and 196,000 from current levels by the end of this Parliament to achieve net migration in the tens of thousands. For planning purposes, we assume the end of this Parliament to fall in spring 2015 prior to the presumed General Election in May 2015.

6.7 The calculations in this chapter are based on the assumption that there will be limits on Tiers 1 and 2 in each of the four years from 2011/12 to 2014/15, covering a period running from April 2011 to March 2015. We have chosen this period because it corresponds as closely as possible to the lifetime of this Parliament. However, lags in the reporting of LTIM mean that, according to current reporting schedules, the latest estimates available in May 2015 will relate to the year ending June 2014.

6.8 We assume that the Government chose to express its objective in terms of a range rather than a precise number, at least in part, because of the uncertainty involved in predicting the future path of net migration. Uncertainty will also increase when considering levels of migration further away in time, in the way that long-term weather forecasts are less precise than short-term ones, or the way the ranges around the Bank of England's inflation forecasts become wider the further ahead into the future they look. There are a number of sources of uncertainty:

- First, because the International Passenger Survey (IPS) is a sample survey, the resulting estimates of net migration have a certain margin of error

which is commonly expressed as a confidence interval. For example, we estimate in Annex B that there is a 95 per cent probability that the true IPS figure for net migration in 2009 will approximately lie within +/- 37,000 of the estimate produced. In other words, if the IPS were conducted 100 times in 2009, the resulting LTIM estimates of net migration would fall between 159,000 and 233,000 in 95 out of 100 times.

- Second, even for the flows that the Government can control, it is not straightforward to estimate the impact of policy changes on net migration. Various assumptions need to be made in order to calculate how a reduction in visas issued under the Points Based System will affect the numbers recorded as entering or leaving the UK in the IPS. Further details about how we calculate the impact of reductions to Tier 1 and 2 flows on net migration are given in Annex B.
- Third, there is inherent uncertainty involved in assessing what may happen in the future. Assumptions about future flows and how policy may affect these will generally be based on historic data. However, the past may not necessarily be a good guide to the future because, for example, migrants and employers may change their behaviour in response to policy changes.

6.9 A major additional source of uncertainty is that the Government has no direct control, through

migration policy, over some components of net migration, such as British and EU migration. These flows may change, and will have consequent impacts on net migration, regardless of what immigration policy is adopted. One suggestion made at a number of our consultation events is that the Government should consider only non-EU migration for its objective, in order to remove some of the uncertainty around flows it cannot directly control.

6.10 Nonetheless, the terms of reference for this work, and the discussion and calculations in this report, assume the objective relates to overall net migration of all nationalities.

6.11 The implication of the above is that whatever policy is adopted, we cannot be certain that net migration will be in the tens of thousands by the end of this Parliament. We provide further detail on how the potential error might be quantified in Annex B.

6.12 Although there are good reasons for the Government to prefer to use a target range, for the purposes of calculating specific required limits for Tiers 1 and 2 it is necessary to work with an assumed precise objective for overall net migration. One option for determining a precise objective for net migration is to aim for a level that maximises the probability of measured net migration in 2014/15 being between zero and 100,000.

6.13 Given the scale of uncertainty, and assuming that the upside and downside risks are equally balanced, the best chance of

achieving net migration in the tens of thousands is to aim for the middle of that range. For the purposes of the calculations in this chapter, we assume a precise objective for net migration of 50,000 in 2014/15. This assumption does not constitute a judgement about what the Government's precise objective is, nor what it should be. We consider in later chapters what would be the implications of a different assumed objective.

### 6.3 Accounting for flows outside the scope of a limit

6.14 Estimates of LTIM are comprised of British, EU and non-EU flows measured by the IPS (the IPS component) and adjustments that are made to take into account visitor and migrant switching, flows to and from the Irish Republic and asylum seekers (the non-IPS component). In terms of migration policy, the Government has less control over the British, EU and non-IPS components. Thus, any reduction in overall net migration can only be achieved by reducing net non-EU migration, which is measured in the IPS. To calculate the reduction in non-EU migration that must be made for the Government to meet its objective, we must make some assumptions regarding trends in British, EU and non-IPS net migration over the lifetime of this Parliament, despite the difficulties and uncertainties associated with doing so.

6.15 In addition, the first annual limit on Tier 1 and 2 migration will apply to 2011/12. The latest provisional LTIM estimates of net migration available are for 2009. Therefore, to calculate the scale of reductions

required in non-EU migration we also need to make an assumption on what the baseline level of overall net migration will be in 2010/11.

British, EU and non-IPS net migration over the lifetime of this Parliament.

**6.16** This section first provides further discussion of the difficulties in forecasting or predicting future British, EU and other net migration flows. We then outline the key assumptions we make for both the 2010/11 baseline of overall net migration and the likely trends in

### Predicting future migration flows

**6.17** Table 6.1 shows the 2009 levels for the various flows we discuss in this section. In order to isolate the flows over which the Government has more direct control, the table first distinguishes between the IPS and non-IPS components of LTIM,

**Table 6.1: Estimates of Long Term International Migration by nationality and reason for migration, 2009**

	Under government control?	2009 LTIM / IPS (thousands)		
		Inflow	Outflow	Net
<b>Long Term International Migration (LTIM)</b>	-	<b>567</b>	<b>-371</b>	<b>196</b>
<b>Non-IPS components (1)</b>	<b>No (2)</b>	<b>39</b>	<b>-34</b>	<b>5</b>
<b>IPS components</b>		<b>528</b>	<b>-337</b>	<b>191</b>
British	No	91	-127	-36
EU	No (3)	145	-102	43
<i>non-EU</i>	Yes	292	-109	184
<i>work</i>	Yes	55	* (4)	* (4)
<i>formal study</i>	Yes	163		
<i>Accompany / join (family)</i>	Yes	54		
<i>other / no reason</i>	(5)	20		

Note: (1) These are MAC calculations based on the provisional estimates of total Long Term International Migration and estimates by nationality from the International Passenger Survey (IPS). The finalised figures that are to be published in November 2010 may differ slightly. (2) The non-IPS components refer to flows in the Long Term International Migration estimates that are not derived from the IPS. These include adjustments made by the Office for National Statistics for asylum seekers, over which the Government has a small amount of discretion, migrant switchers, visitor switchers, and flows to and from the Irish Republic, over which the Government has less direct control. As discussed in Chapter 3, migrant switchers are defined as those that intended to enter or leave the UK for more than one year, but who actually entered or left for less than one year. Visitor switchers are defined as those that intended to enter or leave the UK for less than one year, but who actually entered or left for more than one year. (3) The Government currently has in place transitional arrangements for citizens of Bulgaria and Romania. (4) Reason for migration is not shown for Outflows or Net migration, as these figures do not relate to what a migrant has been doing while in the UK. (5) There is no information relating to the reason why migrants in the 'other' and 'no reason' categories came to the UK or what type of visa they are likely to have held.

Source: MAC analysis of International Passenger Survey, 2009, published in Office for National Statistics (2010c)

and then disaggregates the IPS components by nationality and reason for migration.

6.18 There are no official forecasts of net migration. The Office for National Statistics makes assumptions about future levels of net migration in order to inform population projections. However, although these are based on expert opinion and analysis, they are only assumptions. Some researchers, for example Mitchell and Pain (2003) and Hatton (2005), have attempted to identify economic factors which drive net migration, such as relative labour market conditions in the source and destination countries. In theory, if it were possible to forecast the drivers of migration accurately, and if those drivers had a stable and predictable relationship to migration flows, it would be possible to use the drivers to forecast migration. In practice, neither of these conditions fully holds.

6.19 In Annex B we estimate, based on historic data, that there is a 95 per cent probability that net British, EU and non-IPS net migration will be between -37,000 and 61,000 in 2014. To put these figures into context, between 1991 and 2009, the maximum level of British, EU and non-IPS net migration was 65,000 and the minimum was -24,000. The range of uncertainty is illustrated in Figure 6.1 and discussed in more detail in Annex B.

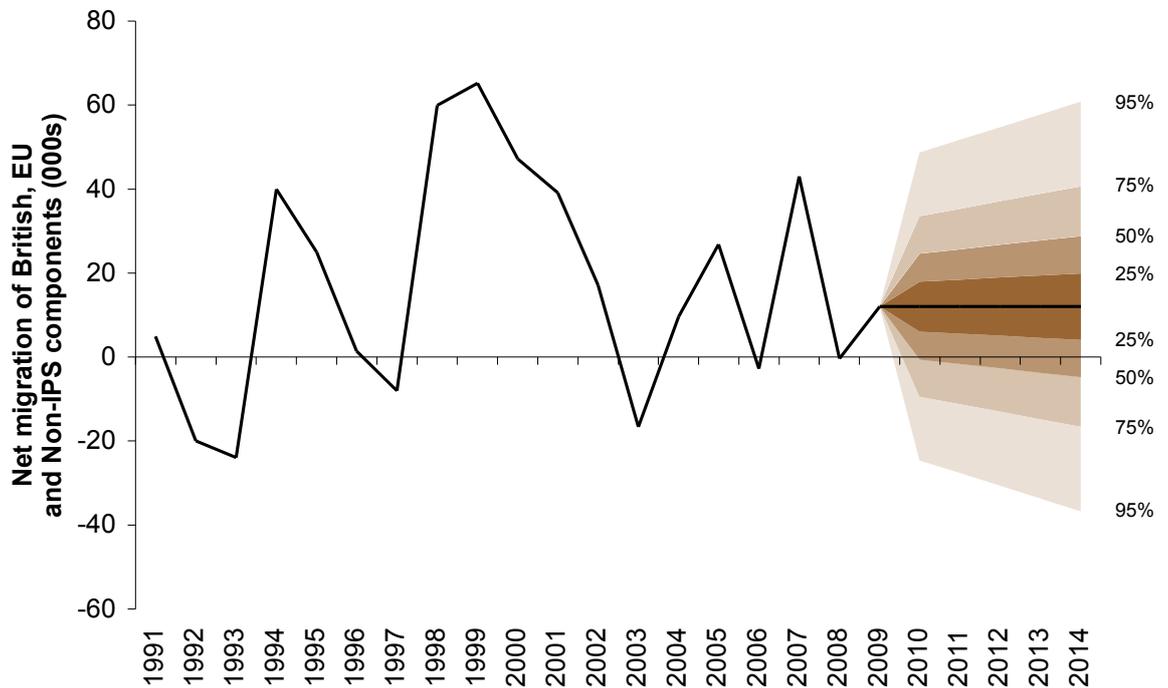
6.20 Both net British outflows and net EU inflows have increased in magnitude in recent years (although not consistently). But, in combination, they have broadly

balanced out, resulting in no clear upward or downward trend. At times of greater EU net inflows, these have been balanced by greater net outflows of British nationals. Similarly, when EU net inflows have been smaller, net outflows of British nationals have also been smaller.

6.21 There is a possibility, however, that British and EU flows will not continue to balance each other out in the future. Net British outflows in 2009 were less than half the magnitude of those recorded in 2008, illustrating the volatility of that variable. There are also a number of upside and downside risks that could mean that British and EU net migration may vary significantly in the future, including:

- the lifting of transitional arrangements in place in other European countries, designed to regulate access to the labour market for nationals of the countries (the A8) that acceded to the EU in 2004, could mean that fewer A8 nationals choose to come to the UK;
- comparative economic conditions between other countries and the UK may change, resulting in greater inflows and lower outflows or vice versa;
- future accession of countries to the EU or lifting of transitional arrangements for Bulgaria and Romania may increase EU inflows; and
- in the event that employers are prevented from recruiting non-EU nationals, they may seek to

**Figure 6.1: Probability distribution around the assumption that future British, EU and non-IPS net migration will stay constant over time**



Note: The chart shows the probability distribution, or confidence intervals, around the assumption that net migration from British, EU and non-IPS will stay constant going forward. The probability distribution is calculated assuming a normal distribution of errors, with mean 12,000 and the assumed standard error listed in Annex B. The standard errors were calculated from the distribution of errors that result if actual historical net migration figures are compared with the assumption that net migration would have stayed constant  $t+h$  periods ahead.

Source: MAC analysis of estimates of Long Term International Migration (LTIM) 1991-2009 (provisional), published in Office for National Statistics (2010c)

recruit British or EU nationals who are currently living at home or abroad, which may either decrease outflows or increase inflows and effectively displace any effect of a limit on Tier 1 and 2 migration.

6.22 There is also no clear trend for the non-IPS components of LTIM. Asylum flows are very difficult to predict accurately. Between 1998 and 2003 asylum flows were particularly large owing to a mixture of policy changes

and international events. The magnitude of switching between migrant and visitor categories (i.e. the adjustments the Office for National Statistics (ONS) make for those that originally intend to enter or leave as a migrant, but actually only stay long enough to be counted as a visitor, and vice versa) is also difficult to predict. Any further changes to the LTIM methodology used by the ONS will also affect the way these flows themselves are measured.

**Assumptions about future migration flows**

6.23 In the absence of any reliable method for forecasting migration flows, we must make assumptions about what levels might be expected over the lifetime of this Parliament, while recognising the potential risks associated with such assumptions.

6.24 Our basic working assumption is that net flows of the British, EU and non-IPS components, over which the Government has less control, will remain constant from 2009 levels until 2010/11 and, further, until the end of this Parliament. This assumption is partially informed by analysis of recent trends.

6.25 Net migration for non-EU flows that the Government can control will largely depend on Government policy. In 2009, net migration of non-EU nationals recorded in the IPS was 184,000. Our central estimate for 2010/11 holds that figure constant at its 2009 level. However, it may not necessarily be the case that flows outside the limit on Tiers 1 and 2 will remain constant in the absence of policy change. As set out in Chapter 3,

inflows of work-related and family migration have fallen over the last five years. Furthermore, we do not model the impact of interim limits on net work-related migration in 2010/11, although we expect such impacts to be small.

6.26 Inflows of those coming for formal study have grown almost exponentially. If student inflows continue to rise, the calculations set out in this chapter, and subsequent policy suggestions in this report, may not make sufficient contribution towards the objective of net migration in the tens of thousands. However, in the absence of any further information, we assume for our baseline that flows from outside the EU will remain constant at their level in 2009.

6.27 In summary, on the basis of the above discussion, we work with the assumptions that:

- the baseline for net migration in 2010/11 is equal to the level of overall net migration in 2009 (assumption (a) in Table 6.2); and
- net migration of the British, EU and non-IPS components of

**Table 6.2: Calculating the reduction in net non-EU migration required to meet the Government’s objective of ‘tens of thousands’**

(a) Assumed net Long Term International Migration (LTIM) in 2010/11	196,000
(b) Assumed precise objective for LTIM in 2014/15	50,000
(c) Assumed change in net British and other EU migration between 2010/11 & 2014/15	0
(d) Required reduction in non-EU net LTIM over four years between 2010/11 & 2014/15 (a-b-c)	146,000
(e) Reduction in non-EU net LTIM each year (d / 4)	36,500

Source: MAC analysis

LTIM will remain constant over the lifetime of this Parliament (assumption (c) in Table 6.2).

6.28 Therefore, the Government would need to reduce net non-EU work, family and student migration by 146,000 over a period of approximately four years. This calculation is outlined in Table 6.2. This implies an average reduction of 36,500 in net non-EU migration in each year over that period. Net migration of non-EU nationals was 184,000 in 2009, and therefore assuming this level stays constant in 2010/11, these reductions are equivalent to around 20 per cent of that baseline figure in each year.

#### 6.4 Estimating the implications for Tiers 1 and 2

6.29 In this section we discuss the contribution that Tiers 1 and 2 might make towards achieving the assumed objective of net migration of 50,000. Calculations in this section are based on the required reduction in non-EU migration we calculated in Table 6.2 (above) of 36,500 per year.

6.30 It is clear from Table 6.1 that shutting down non-EU work-related migration (which includes Tier 1 and 2 migration) will not bring net migration down to the tens of thousands. In 2009, net migration was 196,000. In the same year non-EU work-related inflows were 55,000. All other things being equal, reducing non-EU work-related inflows to zero would only bring net migration down to 141,000.

6.31 It is therefore necessary to assess the contribution that Tiers 1 and 2

might make towards reducing net non-EU migration, taking account of the contribution other routes may make. The Government has not yet stated what contributions the different immigration routes should make towards meeting the objective, and it is not within the remit of this report to carry out a formal assessment of the value of migration through the student and family routes ('formal study' and 'accompany / join' respectively in Table 6.1).

6.32 In the absence of a formal comparison of the costs and benefits of migration through different routes, a potential starting point for considering what share of a reduction in overall net migration each may provide, is to look at their share in net migration to date.

6.33 Ideally, we would base contributions on relative shares of net migration flows that the different routes represent. But attempting to estimate shares of net migration is difficult because, although the IPS inflow data can be disaggregated into work-related, study, and accompany / join categories, there is no equivalent data that allow IPS outflows to be disaggregated by specific reason for previous immigration. We have attempted to circumvent this problem by calculating different routes' contributions to future outflows on the basis of past inflows and migrants' lengths of stay in the UK. Using this approach, we found that the proportion of each category to total non-EU net migration was broadly similar to the proportion of total non-EU

inflows. However, the calculation was problematic because it was not possible to reconcile successfully the resulting estimates for outflows with actual IPS outflows for all migration routes. This analysis is described in more detail in Annex B.

6.34 We, therefore, look at the contribution that work-related and Tier 1 and 2 migration make to inflows, relative to other routes, rather than to net migration. Such a comparison is set out in

Table 6.3. It is important to stress that these figures are based on a number of assumptions and we calculate the percentages by excluding migration for 'other' or 'no' reason from the total. Further detail on how we convert specific migration routes into IPS flows is provided in Annex B.

6.35 Based on the above, it is possible to consider options, albeit crude ones that do not take into account the relative costs and benefits of each route, in terms of what share

**Table 6.3: Non-EU International Passenger Survey inflows by reason for migration and assumed contributions of Tier 1 and 2 migrants and dependants, 2009**

	<b>IPS and estimated inflows (000s) (1)</b>	<b>Percentage of inflow (excluding other / no reason) (2)</b>
<b>Total</b>	<b>292</b>	<b>100</b>
<b>Work-related</b>	<b>55</b>	<b>20</b>
...of which Tiers 1 and 2	28	10
...of which other work-related (3)	28	10
<b>Study</b>	<b>163</b>	<b>60</b>
<b>Accompany / join</b>	<b>54</b>	<b>20</b>
...of which dependants of Tier 1 and 2 migrants	17	6
...of which dependants of other work-related routes (3)	3	1
<b>Other / no reason (not included in percentage column)</b>	<b>20</b>	<b>-</b>

Note: (1) Actual IPS inflows for 2009 are shown in bold. The figures that are not in bold are calculated using the proportion of visas that are likely to match that IPS category. The visas that we allocate to each IPS category are listed in Annex B. (2) Proportions of inflows accounted for by Tier 1 and 2 migrants and dependants are calculated by apportioning IPS inflows according to the same proportion as visas in each IPS category in 2009. For example, in 2009 approximately 50 per cent of work-related out-of-country visas were Tier 1 and 2 and, therefore, we assume that 50 per cent of IPS work-related inflows were Tier 1 and 2 migrants. (3) Other work-related includes Tier 5 and permit-free employment. Source: MAC analysis of the International Passenger Survey, 2009, published in Office for National Statistics (2010c); Home Office Control of Immigration statistics (2010)

of the total reduction in non-EU migration may be allocated to Tiers 1 and 2.

6.36 We identify two options, both of which assume that total work-related migration should contribute to the necessary reduction in net non-EU migration in proportion to its share of inflows, i.e. 20 per cent. This implies that, in order for the Government to meet its objective, student and family routes need to contribute the remaining 80 per cent of the required reduction. This implies that student and family net migration would need to reduce by 116,800 by the end of this Parliament, which is equivalent to 29,200 per year (over four years). The two options differ in terms of the contribution that the other work-related routes (Tier 5 and permit-free employment) would need to make. The options are:

- **Option A:** Tier 1 and 2 main applicants make a combined contribution on behalf of all work-related migration. This implies a contribution that amounts to 20 per cent of the reduction in non-EU migration.

- **Option B:** We adopt a proportionate approach, allowing the Tier 1 and 2 main applicants to make a combined contribution in proportion to their actual share of IPS inflows. This implies a contribution of 10 per cent, but would additionally require that Tier 5 and permit-free employment also make a 10 per cent contribution to reducing net migration in proportion to their share of inflows. The 10 per cent represents the share that Tiers 1 and 2 inflows account for in IPS inflows, shown in Table 6.3.

6.37 Table 6.4 sets out the implications of these options in terms of the reduction required per year.

6.38 Additionally, both options are likely to lead to a reduction in the volume of dependants. A simple assumption is that dependant flows would reduce in proportion to reductions in main applicants. Because dependant flows are linked to those of main applicants, we consider whether or not dependants should be included within the limit in Chapter 9.

**Table 6.4: Options for required net Long Term International Migration reductions per year, 2011/12 to 2014/15**

	Net non-EU LTIM	Percentage of total reduction
<b>Total reduction required net non- EU migration per year</b>	36,500	100
Option A: reduction required from Tiers 1 and 2 per year	7,300	20
Option B: reduction required from Tiers 1 and 2 per year	3,650	10

Note: LTIM refers to Long Term International Migration. Required reductions are based on calculation of a reduction in net non-EU migration from 196,000 to 50,000 over four years.

Source: MAC analysis

6.39 The calculations set out above relate to IPS net migration, and do not make any assumptions about whether they are achieved via reductions in inflows or increases in outflows. We have also made calculations in terms of reductions required per year. We discuss the policy options for achieving these reductions, and the trajectory those policy options might follow, in Chapter 9.

## 6.5 Implications

6.40 This chapter set out to answer two key questions in order to inform the calculation of a limit for Tiers 1 and 2 that contributes towards net migration of tens of thousands. First we asked what precise objective for migration is consistent with the Government's objective. We believe that the policy impacts and levels of migration through routes the Government has less control of are so uncertain that it is plausible that net migration could exceed the upper or lower bounds of the tens of thousands range whatever policy is adopted. Nonetheless, the chances of reaching tens of thousands should be maximised by aiming for net migration of 50,000.

6.41 Based on the above, and making a number of assumptions about the magnitudes of other migration flows in the future, we calculate that net non-EU migration recorded in the IPS would need to fall by 146,000 between 2010/11 and 2014/15 for the Government to have the best chance of being able to demonstrate that it has met its objective by the end of this Parliament.

6.42 A limit on Tiers 1 and 2 cannot deliver the objective on its own because those routes represent only a small fraction of overall flows. Therefore, the second question we asked was what contribution Tiers 1 and 2 should make towards achieving the objective. Answering this question requires assumptions to be made regarding the potential contributions of other migration routes towards achieving the overall objective for net migration. This is not something the Government has asked us to consider. We, therefore, assume that the contribution that Tiers 1 and 2 should make towards this objective is either in proportion to the work-related share of non-EU IPS inflows, or the estimated corresponding share of Tier 1 and 2 main applicants.

6.43 The resulting reductions in Tier 1 and 2 migration, as measured by the IPS, from assumed levels in 2010/11 are as follows:

- If the limit contributes to the total reduction in proportion to the share that work-related migration accounts for in IPS inflows (bearing in mind that other routes also contribute to work-related inflows), this yields a reduction in IPS net migration of 7,300 main applicants per year.
- If the limit should contribute only in proportion to the contribution that Tiers 1 and 2 make towards inflows, this yields a net migration reduction of 3,650 main applicants per year: half the magnitude of the above approach.

6.44 The uncertainty around future British, EU and non-IPS net migration means that the objective for net migration in the tens of thousands is, in a sense, a moving target over time. Therefore, it is important to emphasise that these calculations relate only to reductions in 2011/12. These calculations would need to be revisited in following years in light of any changes to the level and composition of overall net migration.

6.45 The assumptions made in this chapter, and resulting calculations, are summarised in Annex C.

6.46 There are a number of issues that need to be considered further in order to arrive at a numerical limit for Tiers 1 and 2. These include:

- whether reductions should be met via reductions to inflows (i.e. visas issued) or via increases to outflows (i.e. restricting extensions and switching between routes);
- whether a specific limit for dependants of Tier 1 and 2 migrants is required, or whether it should be assumed that dependants will reduce approximately in line with main applicants;
- which routes under Tiers 1 and 2 should be included within the limits on those tiers, in order to contribute to the reductions set out above;

- whether it is appropriate to assume a linear trajectory for Tier 1 and 2 migration (i.e. whether visas issued should fall by the same amount each year, as assumed above); and
- given that the IPS defines migrants as those coming to or leaving the UK for one year or more, how to translate these reductions into limits on visas issued.

6.47 The above issues are discussed in Chapter 9. In the next two chapters we discuss the economic, social and public service impacts of migration, with particular reference to Tiers 1 and 2.

## 7.1 Introduction

7.1 The rationale for Tiers 1 and 2 of the Points Based System (PBS), as stated when it was put in place by the former Government (Home Office, 2005d and 2006), was to fill skills gaps, to attract highly productive and highly skilled workers, to attract investment and to increase productivity and flexibility in the labour market. The selection mechanisms that constitute Tiers 1 and 2 were designed to better identify and attract migrants who have the most to contribute to the UK. Therefore, the economic impacts of Tier 1 and 2 migrants are likely to be different from those of other migrants on average.

7.2 In this chapter we review the theory and evidence on four key economic impacts:

- economic growth and Gross Domestic Product (GDP) per capita;
- prices and inflation;
- the labour market; and
- the Government's budget (also known as the net fiscal impact).

7.3 Our discussion of each impact begins by examining the theory. We then examine the empirical evidence available to assess the presence and magnitude of any impacts. Each section concludes with discussion of the potential implications for Tiers 1 and 2, given the heterogeneity of skills and characteristics of migrants coming to the UK through these routes.

7.4 All things being equal, Tier 1 and 2 migration clearly has a positive impact on GDP through its affect on the size of the UK workforce. In a straightforward static analysis, Tier 1 and 2 migration makes a small but positive contribution to GDP per head. Such effects will accumulate over time and become more significant. Furthermore, the impact on GDP per head will also be influenced by dynamic factors such as the impact of migration on productivity, trade, investment and skill development of resident workers.

7.5 The above effects will not be evenly distributed. A reduction in migration through Tiers 1 and 2 will have significant effects on the micro-economy, in terms of the impacts on individual sectors and occupations, particularly those that make heavy use

of skilled migrant workers, or which rely on them to attract and support trade and investment. However, the economy will adjust to some extent. Employers will have stronger incentives to train resident workers or there may be capital deepening. There may also be expansion in sectors and occupations that are less reliant on migrant workers. Skills policy can also play a critical role in mitigating any adverse effects of reduced Tier 1 and 2 migration.

7.6 As set out earlier in this report, we commissioned Professor Christian Dustmann and Dr. Tommaso Frattini of E Policy Limited to investigate the economic cost-benefit analysis of migration (Dustmann and Frattini, 2010). This chapter draws on that report and on the contributions made to our consultation by the Cross-Whitehall Migration Analysts Group chaired by the Home Office with HM Treasury, the Department for Work and Pensions, the Department for Business, Innovation and Skills, the Department of Health, the Department for Education, the Office of National Statistics, the Department for International Development, the Foreign and Commonwealth Office, Communities and Local Government, and the Cabinet Office representatives. However, all views expressed are our own, unless otherwise indicated.

## 7.2 Economic growth and GDP per capita

### Theory

7.7 Migration can have an impact on the rate of growth of the economy, as measured by the growth in GDP. The House of Lords Select Committee on Economic Affairs report on the economic impact of immigration (House of Lords, 2008) argued: *“GDP – which measures the total output created by immigrants and pre-existing residents in the UK – is an irrelevant and misleading measure for the economic impacts of immigration on the resident population. The total size of the economy is not an indicator of prosperity or of residents’ living standards.”*

7.8 The House of Lords report suggested that GDP per capita is a more appropriate measure than GDP as it takes into account the growth in both GDP and population as a result of migration. However, GDP per capita can increase as a result of migration through a simple ‘averaging effect’: if a new migrant has a higher income than the average of the population as a whole, GDP per capita could increase without affecting the average income of the rest of the population. The report recommends that, *“Rather than referring to total GDP..., the Government should focus on the per capita income... of the resident population.”*

7.9 We agree with the sentiment of the report discussed above. However, we recognise that the availability of data and evidence required to assess the impact of

migration on the GDP per capita of the resident population is limited.

7.10 To assess the impact of migration on GDP per capita, it is important to consider its key determinants. There are a large number of theories and models in the academic literature that examine this issue. Here we discuss some of the main issues that have emerged:

- Does migration boost **productivity** through complementing existing residents' skills and capital, and through increasing the overall skills available and providing spillover benefits to the economy?
- Does migration boost **trade and inward investment**?
- Does migration boost other components of **trend economic growth** relative to the change in population size?

7.11 Regarding the first question, **productivity** is a measure of how well an economy can convert available inputs into outputs. It can be measured by either examining the output per unit of input, for example, output per worker or output per hour worked, or by measuring output per unit of aggregate input, known as Total Factor Productivity (TFP). TFP measures how effectively capital and labour are used together in the economy and depends upon a range of other effects, such as skills, technology, organisation, competition and economies

of scale. Migration can affect the level of productivity in the economy through several mechanisms.

7.12 Migration may generate benefits from specialisation through increasing the range of skills available in the economy. This is an extension of the arguments that traditionally support the gains from trade in goods and services. Increased specialisation of labour will mean workers specialise in the production of goods and services in which they have a comparative advantage. This would increase the efficiency, and thus productivity, of migrant as well as non-migrant workers.

7.13 Migration may also generate 'spillover' benefits, such as improved process and product innovation and through increased research and development. As discussed in the joint Home Office and Department for Work and Pensions submission to the House of Lords Select Committee on Economic Affairs (Home Office and Department for Work and Pensions, 2007), migration, particularly highly-skilled migration, can increase both process and product innovation for firms through contact with people from different backgrounds and experiences. Drinkwater *et al.* (2007) theorise that skilled migration can increase the incentives to engage in more skill-intensive research and development activity, thereby increasing long-term growth.

7.14 The impact of migration on productivity, in the form of output

per worker, will also depend on the amount of capital available in the economy. The more capital available per worker, the more productive each worker will be. If the economy adapts to migration by accumulating capital, there may be positive, dynamic effects arising from migration which may in the longer run dwarf any initial static effects on GDP and GDP per capita from having fewer migrants employed in the UK.

7.15 Migration may also have negative implications for productivity. It may reduce the incentives for employers and governments to upskill and provide training to the resident workforce. This effectively reduces the ability of the resident workforce to compete for skilled jobs. This effect may be amplified if resident workers are discouraged from competing in the labour market and opt out of investing in training and further education and take low skilled employment.

7.16 Regarding the second question, migration can play an important role in influencing levels of **trade and investment**. Facilitating trade and investment with other countries can, in some cases, increase labour demand, create employment opportunities for resident workers and increase the capital and range of services and technology available. This in turn can make resident workers more productive and boost economic growth and GDP per capita.

7.17 Trade in services, in other words cross-border movements of personnel employed by

businesses based overseas, may require migrants in connection with the supply of those services to clients in the UK. For example, global consultancy firms who provide services to UK clients may need employees to be based in the UK to deliver those services. The alternative may be for these services to be delivered offshore. The advantage of the former is that it encourages investment by overseas firms, boosting growth in the economy and increasing tax revenues.

7.18 Businesses based overseas that want to establish or maintain a branch in the UK may wish to transfer staff with necessary company-specific skills to the UK branch. The extent to which they are able to do so will be a material factor in their decision to establish and maintain their investment in the UK.

7.19 Migrants may expand trade in goods and services across countries, both through their own innovation and through the innovation of the business and personal networks they generate (Neumark and Mazzolari, 2009).

7.20 Migrants may have a greater tendency than the resident population to set up new businesses. Migration may also lead to an increase in levels of enterprise among the resident population if particular business opportunities are created that would not have existed otherwise. For example, migration can alleviate shortages of skilled workers that may prevent entrepreneurs and investors

from expanding or starting new businesses in the UK.

7.21 Certain types of migration, including low-skill migration, may also reduce the incentive to invest in capital intensive production methods. If it is cheaper to employ low-skilled migrants to do labour intensive manual tasks than it is to invest in new production methods, migration may restrain development in new technologies and inhibit the productivity of the workforce in those sectors.

7.22 Regarding the third question, the impact of migration on GDP per capita through other components of **trend economic growth** will depend on the size of the impact on GDP relative to the change in population size.

7.23 An economy's rate of trend growth represents the long-term growth potential of total GDP. The stylised model of trend growth used by the Office for Budget Responsibility (OBR) and HM Treasury is based on the accounting identity that the potential rate of growth is determined by four underlying components, each of which can be affected by migration:

- the size of the population aged 16 and over;
- productivity;
- average hours worked per person employed; and
- the employment rate.

7.24 Migration increases the size of the population aged 16 and over and, holding all else equal, will raise the rate of trend growth. However,

the population component of trend growth may have no effect on GDP per capita.

7.25 As discussed previously, migration can have an impact on productivity through complementing and increasing the range of skills available in the economy and through potential spillover effects. Migration can also increase productivity and employment opportunities by encouraging inward investment. If the net impacts of migration on GDP, including these factors, are relatively greater than the impact of their addition to the population, GDP per capita will increase.

7.26 It is possible that increased competition with migrant workers may induce an increase in individual labour supply for non-migrants, thus increasing the average number of hours worked.

7.27 The impact on the employment rate will depend on the level of displacement of non-migrant workers that occurs as a result of migration. This will largely depend on the extent to which migrant and non-migrant workers are complements or substitutes, which we discuss later in this chapter as part of the labour market impact of immigration. The employment rate taken together with the first component, the size of the UK population aged 16 and over, broadly gives the employment level. Therefore, if a migrant gains employment without displacing a resident worker, holding the other factors of economic growth constant, this will lead to a one for one increase in the employment level in the economy, thus leading to economic growth. However,

taking the other extreme, if an additional migrant displaces one UK worker, then there will be no change in the employment level as a result and no impact on economic growth.

- 7.28 The long-term, dynamic effects of changes in net migration are likely to be substantially larger than the short-term effects we have discussed above. The economic literature on ‘endogenous’ growth, such as Aghion and Howitt (1997), indicates an important role for human capital spillovers and scale effects in promoting productivity and (per capita) GDP growth. These effects are likely to compound over time, so that a positive productivity spillover which is small initially accumulates into a large one. Therefore, the positive impact of skilled migration on productivity growth should increase over time. This literature suggests that highly educated or high-skill migration should bolster GDP per capita growth to a potentially significant degree over time. However, although the mechanism is widely understood, it is difficult to identify these ‘virtuous circle’ growth mechanisms empirically.
- 7.29 In summary, there are a number of potential ways in which migration can have an impact on the level of GDP per capita. Next we discuss the available empirical evidence in relation to the impacts discussed above. The academic literature describes a variety of further and more complicated mechanisms. However, there is often little evidence on how such mechanisms work in practice.

## Evidence

- 7.30 Evidence on the impact of migration on GDP per capita is limited. We considered the three questions raised above: the impact of migration on productivity, inward investment and overall trend economic growth relative to the change in population size.
- 7.31 There is broad US and European evidence to show that migration, particularly high-skill migration, does increase **productivity** through the mechanisms described above. Using data from the US, Peri (2010) showed that in the long run migration has improved productivity, employment and income, but it involved adjustments. In the short run, when the economy is growing, new migration creates jobs in sufficient numbers to leave non-migrant employment unaffected. However, during downturns migration was found to have a small negative impact on non-migrant employment. The study finds that the long-term productivity and income gains become significant after 7 to 10 years.
- 7.32 Huber *et al.* (2010) analysed the impact of high-skilled migration using data from European countries. The authors found a positive impact on productivity and that the impact of high-skilled migration is complementary to the industries within which they work.
- 7.33 Hunt and Gauthier-Loiselle (2008) examined the impact of migration on innovation by examining migrants’ propensity to patent in the US. They found that every 1 per cent increase in migrant

college graduates leads to a 6 per cent increase in patents per capita in the US.

7.34 There is no equivalent academic literature available which uses data from the UK. However, it may be possible to infer the impact of migration on productivity by examining the impact on wages. In a perfectly competitive labour market, pay should reflect the marginal productivity of labour in that occupation. The more productive workers are, the higher wages will be. We discuss this further in Section 7.4.

7.35 As part of our consultation, we received evidence from Tata Consultancy Services (TCS) which explained that intra-company transfers are an essential part of its business model. They told us that introducing a limit on Tier 1 and 2 migration would prevent UK organisations from accessing and benefiting from global IT skills.

*“Imposing a cap on ICTs would damage our ability to provide and deliver IT and technology projects – efficiencies, transformation, competitive advantage – that UK organizations demand of us. We would need to seek to re-deploy some functions – regional ‘HQ’ functions, such as HR, legal and finance – outside of the UK, but the impact would not just be on our own business but also on our customers. The extent of the damage would depend on the severity of any cap.”*

Tata Consultancy Services response to MAC consultation

7.36 The Wellcome Trust told us that science is a key driver of Britain’s economic prosperity and competitiveness. They also told us that in 2007/08 11 per cent of all university academic staff and 12 per cent of biological sciences staff were non-EU nationals. They said that if the UK wants its world-class universities and scientific institutions to remain globally competitive, it is absolutely crucial that these institutions continue to have access to the best global talent and expertise.

*“In recent years there has been a concerted effort by Government, private sector and charitable organisations to encourage promising students to take up careers in Science, Technology, Education and Mathematics (STEM) subjects. While the Wellcome Trust strongly supports these efforts, we see them as complementary to the need to attract talented international scientists to work in the UK. If the UK wishes to sustain its world-class reputation for scientific research, we need the best people, not just an adequate number of people.”*

Wellcome Trust response to MAC consultation

- 7.37 Evidence on whether high-skilled migration discourages up-skilling of the non-migrant workforce is limited and inconclusive due to difficulties in establishing the direction of causality. Baker and Wooden (1992) examined the experience of Australia and found that skilled migration was correlated with reduced in-house training, although not external or on-the-job training. The authors suggested that this is likely to be because high-skilled migrants are over-represented in low-training industries, rather than because high-skilled migration limits training provision. On the other hand, Belletini and Ceroni (2002) adopted a theoretical framework to show that the presence of highly-skilled migrants may act as a direct incentive for investment in human capital accumulation.

- 7.38 Regardless of whether a systematic relationship between migration and up-skilling of resident workers can be observed in historical data, up-skilling remains a potentially important way in which the UK economy may adapt in response to reduced availability of skilled and highly-skilled migrant workers. We received evidence from The Chartered Institute for Personnel and Development (CIPD) that, in the absence of a skilled migrant worker to fill a role, the majority of employers indicated that they would look harder within their own workforce or within the UK workforce to fill the role. They said that the result of this would be a less experienced and/or skilled worker filling the role. They said that timescales for up-skilling would vary across occupations and that this would take longer for more skilled occupations.

*“Some employers, such as those who recruit for lower-skilled shortage occupations such as chefs, said that it would be relatively easy to train and up-skill resident workers, provided that a reasonable timeframe of a couple of years were given. Others, such as those employers that have difficulty filling more highly skilled occupations in finance, IT, engineering, doctor and nursing vacancies, suggest that training and up-skilling is a far lengthier task. They will require several years before they are in a position not to rely on non-EEA migrant workers.”*

Chartered Institute for Personnel and Development response to MAC consultation

7.39 The South West Forum for Migrant Workers and the South West Regional Employment and Skills Board argued that evidence supplied to them by Equality Southwest suggests that there are considerable challenges around training and up-skilling UK resident workers as an alternative to employing migrants. We were told that more work could be done by employers but that the timescales in which this work would come to fruition are likely to be long and would require more funding and support from government. This view was also presented by Sumitomo Mitsui Banking Corporation Europe Limited.

*“In general, training and up-skilling to the level of practical use may take a long time. The change should be made gradually. Immediate reduction may cause a severe impact on business.”*

Sumitomo Mitsui Banking Corporation Europe Limited  
response to MAC consultation

7.40 Identifying the likely effects of migration on trade and investment is difficult as it is hard to identify the counterfactual: what would have happened in the absence of migration. Some respondents to our consultation put forward the case that the potential costs of any limit on Tiers 1 and 2 with regards to inward investment would be substantial.

7.41 HM Treasury told us that the potential economic benefits of trade agreements to the UK are large. For example, the current EU-Korea Free Trade Agreement (FTA) could produce a £500m annual benefit to the UK, with similar benefits expected from the India and Canada FTA negotiations due to be completed next year.

7.42 HM Treasury also told us that commitments on intra-company transferees such as those embodied within the General Agreement on Trade in Services (GATS) are an integral part of the UK’s trade commitments. Limiting the UK’s ability to make commitments in this area by including intra-company transfers within a limit could negatively affect the EU’s ability to conclude new trade deals, potentially reducing the benefits for the UK from these agreements or causing outline deals to unwind.

7.43 In their response to our consultation, the Department for Business, Innovation and Skills (BIS) told us that the value of the UK’s trade in goods and services and foreign direct investment that may be potentially sensitive to migration is large, as presented in Boxes 7.1 and 7.2.

## Box 7.1: The impact of migration on trade

“... it is not possible to identify the amount of trade that is potentially sensitive to migration. A few studies have been conducted which suggest that, as expected, there may be positive links. A study of recent immigration to Spain estimated that at province level, a 1% increase in immigration was associated with an increase in trade with the country of origin of the migrants of 0.05%. An older study for the UK, found that a 1% increase in immigration to the UK was associated with a 0.16% increase in trade, although immigrants from commonwealth countries had a lesser effect on trade than those from other countries.

“The following provides some guidance to the potential order of magnitude of UK trade that might be affected by migration. The starting point is the total value of the UK’s trade in goods and services with non-EU countries. In 2009 in £ billions, this was:

Total value of the UK’s trade in goods and services with non-EU countries, 2009 (£bn)		
	Total	Services
Exports	198.3	95.1
Imports	202.4	54.5

“Although the value of trade in 2009 was depressed by the economic crisis, these still provide a fair guide to the overall level of UK trade.

“Within these totals, certain goods and services are more sensitive to migration than others. Whilst trade in any good or service could be sensitive to network effects or contract negotiations, cross-border movement of people tends to be most critical for services than goods and particularly for those services which depend on personal delivery. These include professional and technical advice and consultancy, education and training, computer and information services and intra-company services.

“Due to data limitations it is not possible to identify the level of trade in these services precisely. Nor, where some data is available, is it often possible to distinguish between trade with the EU and the rest of the world. However as the following shows, UK trade in these services is substantial, running into billions of pounds.”

UK’s trade in migration sensitive service sectors, 2009 (£bn)		
	Credit/export	Debit/import
With all countries		
Travel related education services	3.8	0.2
With non-EU countries		
Computer & information services	3.8	2.0
Other business services	25.4	14.8

Source: Department for Business, Innovation and Skills response to MAC consultation

### Box 7.2: The impact of migration on inward investment

*“In 2009-10, UKTI [UK Trade and Investment] played a role in securing 759 investment projects (mainly greenfield or expansion of greenfield projects) into the UK, nearly half of the total (1,619) investment projects recorded. Firms and organisations have indicated that they would be significantly less likely to make such investments in the UK if there were tighter limits on migration...*

*“It is much harder to assess whether tighter restrictions on migration would affect acquisitions or mergers. The following data shows the value of the total stock of inward FDI in the UK from non-EU countries and in some of the service sectors that might be more sensitive to migration.*

Stock of Inward FDI in the UK at the end of 2008 (£bn)	
<b>Total stock</b>	<b>342.0</b>
Of which ...	
real estate & business services	25.9
other services	20.2

*“Whilst a sizable stock has accumulated over the years, how much of this investment might be sensitive to tighter migration restrictions is unclear. Also the great majority of this investment (over 80%) comes from other OECD countries, with the US alone contributing over half of the non-EU’s investment in the UK.”*

Source: Department for Business, Innovation and Skills response to MAC consultation

**7.44** UK Trade & Investment (UKTI) told us that the stock of inward foreign direct investment into the UK was US\$1,125 billion in 2009. They told us that the UK attracted more inward investment projects than any other country in Europe in 2009, with 25 per cent of all service projects, 36 per cent of all software projects, 27 per cent of all financial service sector projects and 16 per cent market share of all European jobs related to inward investment. They also told us that, according to the European Investment Monitor, the UK attracted 54 per cent of all Indian inward investment projects placed in Europe in 2009.

*“Migration policy is of critical importance to the success of the UK (and UKTI) in attracting inward investment – both new investors and in trying to sustain and grow the significant stock of inward investors already in the UK. The FT’s [Financial Times]’ FDI Benchmark resource (used by UKTI) consistently shows that for many knowledge economy sectors the availability and quality of labour is a key investment location factor – and within that the attractiveness of a location to its international staff.”*

UK Trade & Investment response to MAC consultation

7.45 The Embassy of Japan told us that Japanese companies have made a vital contribution to the UK economy through the creation of wealth and job opportunities. They said that the vast majority of these companies' employees entered the UK through the Tier 2 intra-company transfer route. They expressed concerns that limiting the entry of Japanese employees through the intra-company transfer route, in particular, would negatively affect not only Japanese companies' operations in the UK but also job opportunities and the wider economy in the UK as a result of the possible withdrawal of those companies from this country.

7.46 Further, the Embassy of Japan stated that in August 2010 they conducted a survey of Japanese companies and clinics operating in the UK. They received 81 responses: 91 per cent of companies that responded thought that a cut in the number of jobs for British workers would be likely if Japanese companies were not allowed to smoothly transfer employees to the UK because of a limit on Tier 1 and 2 migration. They said that this was because Japanese companies would

have to reduce their business activities if the necessary number of Japanese intra-company transferees were not allowed to work in the UK. We were also told that 90 per cent of the companies that responded thought a limit would have a "negative" impact on their future investment in the UK and about half of them thought a limit would have a "severely negative" impact. 81 per cent of companies that responded said that they expected to consider the benefits of moving outside the UK if a limit on Tier 1 and 2 migration were introduced.

*"The Embassy of Japan believes that capping the Tier 2 (ICT) would effectively force Japanese companies operating in the UK to reduce their future investment and to withdraw from this country. This will result in a huge number of job cuts for British workers employed in these companies."*

Embassy of Japan response to  
MAC consultation

*“The CIPD is also concerned about the possibility of jobs being offshored if employers cannot access the skills they need in the UK. Qualitative interviews with our members... suggest that those organisations with global operations, particularly in IT and finance, may offshore jobs via their existing ‘offshore facilities’. With this in mind, many employers said that intra-company transfers (ICTs) were vital to the success of their global operations. Of the very small minority of employers who would be tempted to offshore jobs, many would be particularly attracted to countries such as India if the labour supply from outside the EU was cut off or reduced.”*

Chartered Institute for  
Personnel and Development  
response to MAC consultation

*“In common with the wider business community, RBC has concerns that a hard quota on Tier 1 (General) and Tier 2 will have substantial adverse effects on long term economic growth. In particular, a limit could irrevocably damage the UK’s current reputation as a key international business hub as global companies look to relocate from an increasingly hostile business environment. Many sectors, in particular the banking sector, see this measure as a “last straw” and are currently making impact assessments with a view to moving parts of their business offshore. A hard cap will particularly hit the graduate training programmes of many large organisations, including RBC.”*

Royal Bank of Canada response to  
MAC consultation

*“The contribution that Tier 1 and Tier 2 migrants can make in terms of inward investment is an aspect that is often overlooked. For example, PwC needs experienced Chinese and Arab nationals operating within the UK firm to ensure that it can give confidence to clients looking to invest in the UK. Inbound immigration of people of the right calibre from countries with high inbound investment potential can therefore be very beneficial for the UK economy.”*

PricewaterhouseCoopers response to  
MAC consultation

*“The ability to attract high levels of inward investment to the UK and establish London in particular as an international hub for global business, has been central to the UK’s relative economic prosperity over the last decade. As the UK emerges from recession, ensuring limits on the economic tiers are implemented in a way that does not jeopardise this reputation will be vital to securing the recovery. We are encouraged by the government’s recognition of the importance of the UK being seen as “open for business”; this perception must not be undermined by the cap.”*

Confederation of British Industry  
response to MAC consultation

*“It is important to recognise that the global mobility policies imply a degree of interdependence between countries in the number and timing of international assignments, which fluctuates as business needs change. Employers sense a serious risk that an adverse immigration climate in the UK will damage the country’s reputation as a global business hub and spill over to other countries where British staff are assigned. This could cause a double rebound for the UK economy, reducing interest in inward investment from overseas companies and reducing prospects for British staff to work abroad.”*

Permits Foundation response to MAC consultation

7.47 A range of organisations emphasised the importance of Tier 2 to their decision to invest in the UK. Fluor Limited told us that if the Tier 2 routes were subject to severe limits and the UK labour market became more rigid, its work could easily be diverted to offices in other countries with more flexible labour mobility rules.

7.48 We also received joint evidence from the Association of Foreign Banks and British Bankers’ Association that if Tier 2 migration was significantly reduced, banks would consider relocating parts of their business to other countries where migration rules will allow them to employ the staff they need when they need them.

*“If the ability of migrants to enter the UK under Tier 2 is significantly reduced, AFB and BBA members will create jobs overseas, that otherwise would have been created in the UK. As a result, the teams supporting those roles will also be located overseas.”*

Joint response from the Association of Foreign Banks and British Bankers’ Association to MAC consultation

*“Some businesses have been clear and said that the inclusion of ICTs in the cap will reduce the number of jobs their company bases in the UK, and may have affected their decision to set up here in the first place.”*

British Chambers of Commerce response to MAC consultation

*“The result of any restrictions on intra-company transfers would be that projects would have to be relocated to our head office in the Netherlands or our operations in the USA, which would be taking investment and business outside of the UK.”*

Shell response to MAC consultation

7.49 In terms of the regional impact on a company’s investment decision, the Greater London Authority told us that international migration has always been an engine of London’s economic growth

and productivity, and that any reduction in Tier 1 and 2 migration would pose a risk to London's attractiveness to business and people.

*“The proposals [for limits on Tiers 1 and 2] would therefore have a significant negative and disproportionate impact on London. In short, they will put the economic recovery at risk by creating skill gaps and placing London at a competitive disadvantage in the global competition for talent and inward investment. A limit in Tier 1 and Tier 2 migration would have a negative economic impact on London without significantly reducing net migration.”*

Greater London Authority response to MAC consultation

**7.50** Several studies have attempted to estimate the impact of migration on total **trend economic growth**. The most widely reported estimate of the impact of migration on economic growth is derived from HM Treasury analysis of trend growth reported in Home Office and Department for Work and Pensions (2007). Between the period 2001 Q3 and mid-2006 migration increased the working age population by 0.5 per cent per annum, contributing 15 to 20 per cent of total output growth over the period, equivalent to approximately £6 billion of output in 2006. A similar result, over a different period, was derived

by Riley and Weale (2006). They estimated that migration accounted for 0.9 percentage points, or 17 per cent of growth, of the total growth in GDP of 5.3 per cent between 2003 and 2005.

**7.51** Although migration may exert a positive impact on the size of the economy, the effects on GDP per capita are less clear. In Box 7.3 we present estimates by HM Treasury, provided to us in response to our consultation, of the potential relationship between Tier 1 and 2 migration and trend GDP growth, and Tier 1 and 2 migration and GDP per capita growth, taking into account:

- the effect of such migration on the size of the population; and
- the effect of the characteristics associated with Tier 1 and 2 migrants.

**7.52** For each scenario HM Treasury estimate the one year impact of a reduction in annual net Tier 1 and 2 migration of 50,000. The 50,000 figure was chosen simply for illustrative purposes. Such a reduction in migration implies a reduction of the UK population of 50,000, compared to the baseline scenario of no change in net migration. Because the estimates are for one year only, it does not matter whether the assumed reduction in annual net migration is temporary or permanent. Further below, when we present our own calculations, we discuss the longer-term effects under the assumption of a permanent reduction in annual net migration.

### Box 7.3: HM Treasury estimates of the one year impacts of a reduction in annual net Tier 1 and 2 migration of 50,000 on one year GDP growth and GDP per capita growth

A reduction in annual net Tier 1 and 2 migration (henceforth 'net migration') of 50,000 implies a reduction in the UK population in the following year of 50,000, compared to the baseline scenario of no change in net migration. In the calculations below it is assumed that such a reduction in population is entirely composed of those aged 16 and over.

It is important to note that the scenarios below assume that a reduction in net migration corresponds to a one-to-one change in overall net migration flows, with levels of emigration and net migration of other routes held constant. This also assumes no displacement into other routes. The estimates presented here should therefore be interpreted as indicative and, as such, could vary significantly depending on the underlying assumptions and approach used. The most direct way in which such a change in net migration will affect the UK's GDP growth rate and the growth in GDP per capita is through changing the rate of population growth. In addition, all else being equal, if migrants display higher (or lower) employment rates than the population as a whole then this could increase (or reduce) the impact of a given reduction in net migration on GDP growth and GDP per capita growth. Similarly, all else being equal, if migrants are more (or less) productive than the population as a whole then this could increase (or reduce) the impact of a given reduction in net migration on GDP growth and GDP per capita growth.

Below we present HM Treasury's estimated one year impacts of a reduction in annual net migration of 50,000 on **GDP growth** and on **GDP per capita growth**. In each case, we present:

- first, the estimated **population** effect;
- second, the effect if we take into account the difference in the **employment** rates between Tier 1 and 2 migrants and the UK population as a whole; and
- third, the effect if we take into account the difference in **productivity** between Tier 1 and 2 migrants and the UK population as a whole.

#### Impact on GDP growth

HM Treasury estimated that a reduction in annual net migration of 50,000 could reduce one year GDP growth by 0.1 percentage points purely through its effect on the rate of **population** growth alone.

To develop this estimate, HM Treasury calculated that the average **employment** rate of Tier 1 and 2 migrants and their dependants would be 79 per cent, based on the assumption that all main applicants and no dependants would be employed, compared to 58 per cent for the UK as a whole. Under this assumption, the estimated impact on GDP growth could be around one-third larger than the estimates based on the population growth effect alone.

To further develop this estimate, HM Treasury examined the possible **productivity** differential between Tier 1 and 2 migrants and the population as a whole. Recent analysis by the Migration Advisory Committee (MAC, 2009c) suggests that the median annual earnings of Tier 2 migrants were around £35,000 between November 2008 and May 2009 while data produced in the Annual Survey of Hours and Earnings indicated median earnings of £21,320 for the UK population as a whole. It is not possible to estimate the earnings of Tier 1 migrants from the available data, and so it is assumed that the earnings of Tier 2 migrants are representative of Tier 1 migrants. Under the assumption that earnings are a reasonable proxy for productivity, the estimated impact on GDP growth could be around two-thirds higher than the estimates of the population growth effect alone.

**Box 7.3: HM Treasury estimates of the one year impacts of a reduction in annual net Tier 1 and 2 migration of 50,000 on one year GDP growth and GDP per capita growth** *continued*

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### Impact on GDP per capita growth

Using the same approach as above, HM Treasury estimated that a reduction in annual net migration of 50,000 could result in a negligible one year reduction in GDP per capita growth purely through its effect on the rate of **population** growth, assuming that all such migrants were at least age 16. If net migration of those under the age of 16 were to move proportionately with net migration of those aged 16 and over, the implied one year impact on GDP per capita growth per annum would be zero.

In the same way as for the estimates for GDP growth, based on the **employment** rate differential between Tier 1 and 2 migrants and the UK population as a whole, the impact on GDP per capita growth could be larger than the population effect alone, with an estimated reduction of approximately 0.06 percentage points.

Again, as above, based on the earnings differential between Tier 2 and UK median earnings and under the assumption that earnings are a reasonable proxy for **productivity**, the estimated impact on GDP per capita growth could be larger, with an estimated reduction of approximately 0.09 percentage points.

The estimates presented here are for one year effects only. They do not account for differences between Tier 1 and Tier 2 earnings, or the possibility that those who are prevented from entering the UK may be among those who observe productivity levels significantly differently from the Tier 2 average. They also do not account for any dynamic or wider spillover effects from migration.

Source: HM Treasury

- 7.53 For the purposes of comparison with the HM Treasury estimates, below we provide our own simple estimates of the one year impact of a reduction in annual net Tier 1 and 2 migration (henceforth 'net migration') of 10,000 on GDP growth and GDP per capita growth. We use a similar approach to HM Treasury, but different assumptions. We have based our calculations on a reduction in annual net migration of 10,000, rather than the 50,000 used in Box 7.3, because 10,000 is closer in magnitude to the required reductions in net work-related migration we set out in this report. Our calculations are summarised in Table 7.1. We need to make assumptions about the working age population, employment rates, and productivity, summarised in turn below.
- 7.54 We assume that a reduction in net migration of 10,000 implies a reduction in the **working age population** aged 16 and over of 7,300 (based on the relative volumes of Tier 1 and 2 main applicants, dependant partners and dependant spouses), relative to the baseline scenario of no change in net migration, and a UK working age population of 49 million (Office for National Statistics, 2010g). This assumption is based on the relative volumes of Tier 1 and 2 main applicants, dependant partners and dependant children, assuming that all dependant children are under the age of 16: only a very small proportion of dependant children are above that age. Dividing 7,300 by 49 million yields the 'population effect' set out in Table 7.1 of 0.015 per cent. That is, a reduction in the population of 10,000 results, all other things equal, in GDP being 0.015 per cent lower in the following year. This equates to a -0.015 percentage point change in GDP growth compared to the baseline scenario of no change to net migration.
- 7.55 In terms of **employment**, from data presented in Chapter 3 we estimate that 90 per cent of Tier 1 migrants are employed. We also assume that approximately 100 per cent of Tier 2 migrants will be in employment. In addition, Labour Force Survey (LFS) estimates, based on the main reason for coming to the UK, suggest that 60 per cent of working age dependants are likely to be employed. Therefore, our weighted estimate of the overall Tier 1 and 2 employment rate, including only adult dependants, is 81 per cent. The employment rate of the UK population aged 16 and over in September 2010 was 59 per cent (ONS, 2010h). In terms of employment rates, the ratio between of Tier 1 and 2 migrants and their dependants aged 16 and over compared to the UK population aged 16 and over, yields an 'employment effect' of 1.37.
- 7.56 We assume that earnings are a reasonable proxy for **productivity**. The mean Tier 2 earnings in the year to June 2010 were £56,830, excluding elite sportspeople and ministers of religion (derived from the same data as presented in Chapter 3). There are no data available to allow reliable estimation of the average earnings of Tier 1 migrants. Given that the salary thresholds for Tier 1 are higher, it is plausible that

the average earnings of Tier 1 migrants will be greater than those of Tier 2 migrants. Tier 1 and 2 dependants aged 16 and over are likely to earn less than the Tier 2 average. For simplicity, we assume these two effects balance each other out. This could be either an under-estimate or, perhaps more likely, an over-estimate of the actual average earnings of this group. But it provides a broad order of magnitude to inform our calculations. In comparison, gross annual mean earnings for all UK employees aged 16 and over from the 2009 Annual Survey of Hours and Earnings was £26,470 (Office for National Statistics, 2009b). The difference between our figure for earnings and that used by HM Treasury in Box 7.3 arises because we are using the mean rather than the median. The ratio of £56,830 to £26,470 yields a 'productivity effect' of 2.15 in Table 7.1.

**7.57** **Bringing together the population, employment and productivity effects, we estimate that the one year impact of a reduction in net migration of 10,000 results in total GDP being 0.043 per cent lower in the following year.** The one year impact of a reduction in net migration of 10,000 on GDP growth between years 0 and 1 would also be -0.043 percentage points. These two results are equivalent due to assumptions made in Table 7.1 (notably that in the base case GDP and population remain constant between years 0 and 1). In reality, the percentage difference in the level of GDP between years 0 and 1, and the percentage point reduction in the GDP growth rate,

can be expected to be of a similar magnitude, but not identical.

**7.58** Second, we calculate the impact of a reduction in annual net migration of 10,000 on **GDP per capita growth**, by calculating GDP per head both before and after the reduction in annual net migration, and examining the change. **We estimate that the one year impact of a reduction in net migration of 10,000 on GDP per capita growth would be -0.027 percentage points.** That is, a reduction in net migration of 10,000 results in GDP per capita being 0.027 per cent lower in the following year.

**7.59** Table 7.1 also presents the above estimates in monetary terms. According to our estimates, compared to the base year of 2009, after one year total GDP would be £559 million lower and GDP per capita would be £6 lower (both in constant 2006 prices) as a result of a reduction in net migration of 10,000, compared to the baseline scenario of no change in net migration.

**7.60** HM Treasury told us in its response to our consultation that their estimated one year impacts are broadly linear with respect to the magnitude of the reduction in net migration. That is, the impacts on GDP growth and GDP per capita growth resulting from a reduction in annual net migration of 20,000 are approximately double that of a reduction in annual net migration of 10,000. If we assume that this result also holds for our estimates then the figures presented in Table 7.1 are broadly in line with those provided by HM Treasury presented in

**Table 7.1: Illustrative estimates of the one-year impact of a reduction in net migration of 10,000 on GDP and GDP per capita**

	Variable	Calculation	Notes and assumptions
A	Level of GDP, year 0	£1,295,159m	Gross Domestic Product: chained volume measures, constant 2006 prices (Office for National Statistics, 2010i)
B	Population effect	0.015%	% impact of 10,000 migrants on working age population (7,258 / 49,468,000)
C	Employment effect	137%	% employment rates of Tier 1 and 2 migrants compared to UK born (81% / 59%)
D	Productivity effect	215%	% mean earnings of Tier 1 and 2 migrants compared to UK born (£56,830 / £26,470)
E	Level of GDP, year 1	£1,294,600m	$A - [A \times (B \times C \times D)]$
	<b>Change GDP year 0 to year 1</b>	<b>-0.043%</b> <b>-£559m</b>	$(E - A) / A$ $E - A$
F	Population level, year 0	60.932m	Estimate of the total UK population from the 2009 APS (ONS, 2010d)
G	GDP per head, year 0	£21,256	$A / F$
H	Population level, year 1	60.922m	$F - 10,000$
I	GDP per head, year 1	£21,250	$E / H$
	<b>Change GDP per head, years 0 to 1</b>	<b>-0.027%</b> <b>-£6</b>	$(I - G) / G$ <b>I - G</b>

Notes: The basis for the above calculations is described in the text of the report. They are illustrative calculations only. For the purposes of simplicity, except for the effects of lower net migration, population and GDP are held constant at their year 0 levels. Therefore, the 10,000 reduction in net migration between years 0 and 1 means that the UK population is shown as 10,000 lower in year 1 than year 0. The year 0 baselines for GDP and population use 2009 figures.

Source: MAC calculations

Box 7.3. The differences between our estimates and those provided by HM Treasury arise for a number of reasons. First, our estimates are based on the assumption that the reduction in net migration comprises of both adults and children, while those presented in Box 7.3 are based on the assumption that all migrants are at least 16 years of age. Second, we make different

assumptions regarding the employment rate and productivity (proxied by earnings) of Tier 1 and 2 migrants and their dependants, and the UK population as a whole.

**7.61** To estimate the longer-term impact, we assume that the reduction in net migration is permanent. Under this assumption, the level of net migration is assumed to be 10,000

lower in each year than it would have been otherwise. Therefore, compared to the baseline scenario of no change to net migration, the UK population would be 10,000 lower in the first year and 20,000 in the second year, and so on into future years. We assume that the estimated one year impacts presented above accumulate in an approximately linear way over time, at least over the medium term. This means that after two years the impacts are twice as large, after three years the impacts are three times as large, and so on. Therefore, according to our one year estimates, compared to the base year of 2009, after five years total GDP would be 0.22 per cent (or £2.8bn in 2006 prices) lower than in the baseline scenario. GDP per capita would be 0.13 per cent (or £28 in 2006 prices) lower.

**7.62** The estimates presented above are subject to a number of caveats. First, we have made a number of assumptions regarding the employment rate and productivity of Tier 1 and 2 migrants and their dependants. Altering these assumptions will necessarily alter the final estimates. Second, such migration may have an impact on the earnings and employment of the rest of the population (discussed in more detail in section 7.4), which we have assumed to remain the same. Third, such migration may generate positive spillover effects; for example, by promoting innovation or stimulating competition. Fourth, such migration may conversely generate negative spillover effects; for example, by reducing the incentives for employers to

invest in training. Some of these issues are discussed below.

### Implications for Tier 1 and Tier 2

**7.63** All things being equal, Tier 1 and 2 migration clearly has a positive impact on GDP through its affect on the size of the UK workforce. In a straightforward static analysis Tier 1 and 2 migration makes a small but positive contribution to GDP per head, based on the earnings and employment probabilities of such migrants. If such migration is permanently reduced to a lower annual level, the small static effects will accumulate over time and become more significant.

**7.64** This simple accumulation of static effects may underestimate the true impacts on GDP per head of a reduction in Tier 1 and 2 migration. The impact on GDP per head will also be influenced by dynamic factors such as the impact of migration on productivity, trade, investment and skill development of resident workers.

**7.65** The above effects will not be evenly distributed. A reduction in migration through Tiers 1 and 2 will have significant effects on the micro-economy, in terms of the impacts on individual sectors and occupations. For instance, as shown in Chapter 3, the occupation 'IT, software professionals' accounts for 27 per cent of total Tier 2 Certificates of Sponsorship issued, and 48 per cent of those issued under the intra-company transfer route. The implications for such an occupation, and related sectors, will be more substantial than for those occupations that make less use of Tier 1 and 2 migrants.

7.66 The economy will adjust to some extent in response to a reduced supply of migrants. Employers will have stronger incentives to train UK workers or there may be capital deepening. There may also be expansion in sectors and occupations that are less reliant on migrant workers. Furthermore, there are actions that the Government can take, in order to mitigate any adverse economic consequences. It can work in partnership with employers to ensure that skill acquisition and training provision is targeted in the right manner, and it can ensure that the policy underpinning limits on migration is designed in order to select those workers that the economy needs the most. We return to these themes in Chapter 9.

### 7.3 Inflation

#### Theory

7.67 Like any increase in population, positive net migration affects both the aggregate demand for, and aggregate supply of, UK goods and services because migrants are both consumers and producers of these goods and services during their time in the UK.

7.68 The overall impact of migration on UK inflation is ambiguous. As additional consumers in the UK economy, migrants increase the demand for goods and services. However, as additional labour is added to the UK workforce, migrants also increase the supply potential. It is the balance between demand and supply that determines the impact on the rate of inflation. Migration could

also change demand patterns even if demand remains constant (e.g. through different tastes of migrants compared to the rest of the population) and this will also have potential price effects.

7.69 Migrants' effects on aggregate supply and aggregate demand will depend on the characteristics and behaviour of the migrant cohort. For example, if migrants are, on average, more productive and earn more than the UK-born population, then they may have a larger impact on both UK aggregate demand and aggregate supply. Similarly, if migrants tend not to spend as large a proportion of their income as the average UK-born individual, perhaps because of a relative preference for saving or because they send some of their income to their home country as remittances, then migration will have a smaller impact on aggregate demand than otherwise.

7.70 The NAIRU (Non-Accelerating Inflation Rate of Unemployment) is some level of unemployment at which inflation will remain stable. A reduction in the NAIRU means that stable inflation can be achieved at a lower rate of unemployment in the long run. If migration makes the labour market more flexible, this can lower the NAIRU which means that the economy can experience lower unemployment with the same rate of inflation.

7.71 Migration may also have a distributional effect on prices. For example, in an economy consisting of two goods, migration may reduce the cost of producing one good without affecting the

cost of production of the other. In this case, the overall price level may be reduced, but the effect may not be uniform across all goods.

## Evidence

7.72 Frattini (2008) notes that the literature studying the impacts of migration on prices in the UK is very limited. He finds that migration reduced the average price growth of non-traded goods and services in the UK between 1995 and 2006, but the effect was not large. He estimates that the price of the average service was reduced by 0.07 per cent per year. Frattini (2008) suggests that the negative effect on the price of the average service is from the increased supply of migrants in low-paid jobs, such as in restaurants, bars, takeaway food, washing and dry-cleaning and hairdressing.

7.73 Blanchflower and Shadforth (2009) cite evidence that migration may lower the NAIRU either through filling skill shortages or by tempering wage demands, as employers and workers become aware that there is more competition for jobs and that existing workers can be replaced more easily than before. In addition, the Organisation for Economic Co-operation and Development (2006) states that *“international as well as UK evidence suggests that immigration can serve to make the labour market as a whole more fluid and wages less sensitive to demand fluctuations”*. This allows lower unemployment to be achieved without increased inflation.

7.74 In addition, Blanchflower *et al.* (2007) find that it is likely that recent migration to the UK has increased aggregate supply by more than it has increased aggregate demand and overall recent migration, mainly driven by migration from the eight central and eastern European countries that acceded to the European Union in 2004 (the “A8”), to the UK has reduced inflationary pressures in the UK. The authors also note that the extent to which migration increases aggregate supply depends on the economic characteristics of the migrant cohort relative to the non-migrant workforce: the more the migrants’ productivity increases relative to the non-migrant workforce, the more the migrant cohort raises the supply potential of the UK economy.

## Implications for Tier 1 and Tier 2

7.75 The effects of Tier 1 and 2 migration on inflation are probably small due to their relatively small share of the UK economy and labour market. Whether the effects of reduced Tier 1 and 2 migration on inflation will be positive, neutral or negative will depend on the relative balance between aggregate demand and aggregate supply. The balance between such effects may be specific to time and place and, given their likely small magnitude, they should not be a major consideration in setting limits for Tiers 1 and 2 of the PBS.

## 7.4 Labour market

### Theory

7.76 Migration, particularly economic migration such as that through Tiers 1 and 2, will increase the supply of labour in the economy. This in turn can impact on three factors, discussed in turn below:

- prevailing average wages and the wage distribution;
- employment of already-resident migrants and non-migrant workers; and
- the industrial and occupational structure of the labour market.

7.77 As discussed above with regards to economic growth, there are a number of theories and models which can be used to analyse the labour market impacts of migration. In the simple unrealistic textbook model migrants are assumed to possess the same skills and attributes as non-migrants and are therefore **perfect substitutes** for non-migrants in the labour market. On the other hand, migrants and non-migrants can be assumed to be adept at different tasks or specialise in different sectors and occupations, with each specialising in the tasks they perform best. In this case, migrants are **complements** with non-migrants and capital in the labour market.

7.78 In the first case, under the assumptions that migrants and non-migrants are perfect substitutes and migration does not affect demand for labour, migration increases competition in the labour market and causes

**wages** to adjust downwards to reach a new equilibrium. The downward adjustment in wages offered means that **total employment** of migrants and non-migrant workers would increase, as long as both accept the lower wages. The employment of non-migrant workers may decrease depending on the degree to which non-migrant workers will accept new wages or become unemployed or inactive.

7.79 The simple model set out above does not account for the fact that demand in the product market (at a given set of prices) will also be affected by migration, which partly arises because migrants themselves will consume goods and services. This is an incarnation of the classic 'lump of labour' fallacy, where consumer demand, and thus the number of jobs, in the economy is regarded as fixed and so independent of the size of the population.

7.80 In the second case, under the assumption that migrants are complements with non-migrants and capital, migration does not affect competition in the labour market. Instead, all workers will experience increased productivity, which we would expect to be reflected in increased **wages** and **total employment** for both migrants and non-migrants.

7.81 In general, we would expect more skilled occupations to be more differentiated, requiring a wider range of skills and characteristics, so skilled migrant workers employed in these jobs are more likely to be complements to non-migrant workers and the capital stock. For lower-skilled jobs,

which require more basic tasks, we would expect a greater level of substitution between migrant and non-migrant workers.

**7.82** The **occupational or industrial structure** of the labour market may be affected if capital is reorganised in the economy, or if the pattern of investment and production utilised by firms changes, in response to migration. These changes will be driven by the labour market effects of migration if they make certain products or services more or less profitable. For example, Borjas (2010) suggests that low skilled migration may expand the production of certain low-skill products or services, but also free-up existing workers to produce higher-skill products. These dynamic changes are likely to take place in the longer term as the economy adjusts.

**7.83** Last, migration may generate what is known as the 'migration surplus'. In the simple model described earlier in this section, if migration drives down the prevailing wage this will increase the profits of capital owners as the wage bill decreases. This will affect the distribution of the economic benefits of migration. In this basic model, the surplus will accrue to capital owners.

**7.84** While the concept of an immigration surplus can assist in understanding the distributional effects of migration, it is a static concept. In the long run, the amount of capital in the economy or in particular sectors may adjust to the presence of migration. Migration policy can help maximise the immigration

surplus by selecting migrants whose skills create the greatest complementarities to the skills and capital of existing residents.

**7.85** Impacts may also vary in the short and long term. In the short run, there may be downward pressure on wages in sectors where migrants are substitutes for non-migrants. In the long run, the benefits from skill complementarities, the 'immigration surplus' and the potential increase in demand from migrants are likely to increase employment and, at least on average, wages.

**7.86** The time it takes for capital to respond to changes in migration may conceivably be longer during a recession, when there are greater constraints on capital. This would potentially make the lump of labour fallacy less of a fallacy during a recession. In addition, migrant and non-migrant employment rates may be affected to different extents by recession.

### Evidence

**7.87** To estimate the impact of migration on the labour market it is important to identify and compare the impacts from migration with what would have happened without migration (the counterfactual). There are a number of difficulties in trying to do this, such as disentangling the directions of causality and taking into account the movements of non-migrant workers in response to migration. This has led to a number of different approaches and techniques being used in the academic literature.

- 7.88 The available empirical evidence finds, on average, little impact of migration on overall **wages**, but variation in the effects of migration across the wage distribution. Where migration is found to reduce wages, this impact may be partially offset by an increase in in-work benefits, such that the reduction in income is not as large as the reduction in wages.
- 7.89 Dustmann *et al.* (2005) use UK LFS data, exploiting the geographical correlation between migrant labour inflows and changes in labour market outcomes to test the impact of migration on average wages. When controlling for the potential self-selection of migrants into areas experiencing more economic success, they find no statistically significant effect of migration on non-migrant wages.
- 7.90 In a later study, Dustmann *et al.* (2008) found that, between 1997 and 2005, an inflow of immigrants of the size of 1 per cent of the resident population corresponded to an increase in average wages of 0.2 to 0.3 per cent. The study estimated that migration contributed about 3.5 to 4.5 per cent of the observed average real wage growth of 3 per cent per annum over the period; that is, migration corresponded to real wage growth of approximately 0.1 per cent per annum.
- 7.91 In contrast, Reed and Latorre (2009) find a negative effect of migration on average wages between 2000 and 2007. Using a similar approach to Dustmann *et al.* (2008), they find that a 1 percentage point increase in the share of migrants in the UK working age population reduces the average wage by around 0.3 per cent, although this estimate is only weakly significant. According to this estimate, with a full time median wage of £12 per hour and an increase in the migrant share of 1 percentage point, the average wage would reduce by 3.6 pence per hour: approximately £1.40 over a forty hour working week.
- 7.92 These studies do not allow for the possibility that migrants and native-born workers may be imperfect substitutes. Manacorda *et al.* (2006) explicitly allow for this possibility and find that the main impact of increased migration in the UK is on outcomes for migrants who are already in the UK. This is because new migrants are closer substitutes for existing migrants, on average, than for native-born workers. A 10 percentage point rise in the migrant share (if the new migrants had the same age and skill profile as those migrants already here) is predicted to reduce the average wages of the UK's stock of migrants by 1.9 per cent. Dustmann *et al.* (2008) find that recent migrants may compete lower down the distribution of occupations than their skills would suggest, termed "*occupational downgrading*".
- 7.93 A number of papers examine the impact of migration on the wage distribution. Lemos and Portes (2008) study the impact of migration from the new EU member states on the labour market outcomes of non-migrant workers and overseas-born nationals who are UK residents. They do not find any statistically significant impact on wages,

“either on average or at any point on the wage distribution”.

7.94 Dustmann *et al.* (2008), however, do find significant and varying effects across the wage distribution; in particular, a negative impact of migration on low-paid non-migrant workers. An inflow of immigrants of the size of 1 per cent of the native population led to a decrease of 0.6 per cent in wages for those at the 5th percentile and smaller decreases at the 10th and 15th percentiles. However, there is a positive effect on wages further up the wage distribution, with similar immigration causing a 0.7 per cent increase in the median wage and a 0.5 per cent increase at the 90th percentile.

7.95 The negative impact on wages for the lowest 15 per cent of earners will have a particular effect on migrants already in the UK, as this is where many are concentrated. This corresponds with the finding of Manacorda *et al.* (2006) discussed above. As an illustration, consider someone at the 5th percentile earning roughly £6 per hour. An increase in migration of 1 percentage point would reduce wages by around 3.6 pence per hour: approximately £1.40 over a forty hour working week.

7.96 One possible reason for this effect across the wage distribution is less substitution between non-migrant and migrant labour in higher-skilled jobs nearer the top of the wage distribution. This implies that high-skilled migration is likely to increase wages of UK-born workers at the top of the distribution. Greater substitutability

towards the lower end of the wage distribution could partially explain reduced wages for those in less well-paid jobs.

7.97 Nickell and Salaheen (2008) find that a 10 percentage point increase in the migrant share of the workforce in an occupation reduces average wages by 0.4 per cent. However, the effect is larger for particular occupational groups, especially the unskilled and semi-skilled service sector. In this sector, a 1 percentage point increase in the migrant share is predicted to reduce average wages by 0.5 per cent.

7.98 To interpret the scale of these results, we can consider a sector such as care homes. With average earnings for care assistants of roughly £8 per hour (Office for National Statistics, 2009b), if the migrant share of the care home workforce increased by 5 percentage points, the evidence discussed above would suggest that wages would fall, to the nearest penny, by 21p per hour: approximately £8.30 over a forty hour week. These estimates are therefore very similar in magnitude to those by Dustmann *et al.* (2008).

7.99 Substitutability of migrant and non-migrant labour can be most visible at local level and can be felt by individuals who experience greater competition for jobs. However, the complementarities between migrant and non-migrant labour across different factors of production, with the higher wages and employment that this can bring, are more subtle. Because they involve changes that occur *between* industries, occupations

and even geographical areas, rather than within them, these positive effects are very difficult to measure empirically.

- 7.100 In summary, the literature suggests small impacts of migration on average wages but notable effects across the wage distribution. The studies discussed above do not agree on the direction of the impact of migration on average wages, although this may be explained by the different time periods that were analysed in each. In contrast, the studies do broadly agree that migration is more likely to increase wages at the top of the distribution, and reduce wages at the bottom of the distribution. Consequently, migration may have caused the pay distribution to become more unequal than it otherwise would have been. However, the studies outlined above deal with all migration, and not just Tier 1 and 2 migration.
- 7.101 Regarding the impact of migration on **employment**, the empirical literature is more limited. Dustmann *et al.* (2005) find that an increase in migration amounting to 1 per cent of the non-migrant population has no statistically significant impact on the employment rate of the UK-born population. Similarly, Lemos and Portes (2008) find no statistically significant impact of A8 migration on the employment of non-migrant workers.
- 7.102 Jean and Jimenez (2007) examined the impact of migration on the unemployment of domestic workers across OECD countries and found no significant long-term impact. An increase in the share of immigrants in the labour force is estimated to have raised unemployment of domestic workers temporarily over a period of approximately five to ten years. The extent and duration of this impact was found to depend on a country's policies, in particular anti-competitive product market legislation, employment protection legislation, and the generosity of unemployment benefits, all of which increased the negative impact.
- 7.103 Academic studies which inevitably average out the effects of immigration cannot provide the whole story of the effect of migration on employment. As discussed in Migration Advisory Committee (2009c), there is anecdotal evidence that migration may displace non-migrant workers in some circumstances. For example, there is some evidence that IT workers may be displaced by those entering through the intra-company transfer route. However, such effects are of a partial equilibrium nature. It is possible, but not proven, that if UK companies improve their efficiency by out-sourcing their IT work to foreign companies using migrant workers, this may allow those companies to be more competitive in foreign markets. It may also mean that some UK companies keep jobs within the UK that they would otherwise move offshore. As such, some displacement of UK IT workers is not inconsistent with positive net job creation in the UK as a whole.
- 7.104 As noted above, capital may take longer to adjust to changes in migration during a recession. This question has not been directly

addressed empirically using UK data. Using US data, Peri (2010) finds that migration may have a small negative impact on non-migrant employment and income per worker, lasting for one to two years. In addition, Peri (2010) finds that during a recession, investment does not respond as quickly to migration as during an expansion. This may be because firms have unused capital during a downturn and may hence be unwilling to expand their productive capacity, or to adopt the technologies which would best take advantage of an increase in migrant workers.

**7.105** Migrant employment rates may be affected by recession disproportionately to those of non-migrants. Dustmann *et al.* (2006) provided some empirical support for this hypothesis, finding that the migrant employment rates in the UK and Germany vary more than those of non-migrants through the economic cycle. There is some evidence that this may not be the case for the latest recession. Wadsworth (2010) records that unemployment rates for migrants and the UK-born have risen together and by similar amounts, and suggests that this might be in part because migrants are now, on average, more skilled than in the past and hence may be less vulnerable to a downturn.

**7.106** Evidence on **industrial and occupational structure** is fairly limited. The mix of industries in an economy can be affected by migration. For example, casual observation suggests that there are more ethnic restaurants than there would be with lower non-EU migration. However, evidence

on this is limited. Lewis (2004) explores whether a large and unexpected inflow of less-skilled migrant labour to Miami increased the production of goods made using unskilled labour, and finds that the relative output of different manufacturing industries was not significantly affected by the increase in unskilled labour.

**7.107** The adaptation of technology within industries may also be affected by migration. The interaction between capital and labour will vary across sectors, implying that migration may affect technological adaptation to different extents across industries. Lewis (2004) examined whether the influx of unskilled labour to Miami caused slower adaptation of technology which is complementary with skilled labour. The author finds that computer usage at work was lower following the unexpected increase in migration, implying that abundance of unskilled labour may be accommodated by using less skill-intensive production. In his evidence to the House of Lords Select Committee on Economic Affairs (House of Lords, 2008), Professor Christian Dustmann pointed out that “*there is evidence that technology adjusts to the availability of labour in particular parts of the skill distribution*”. He gave the example of the wine industry in Australia and California, “*which is highly labour intensive in California and highly mechanised in Australia, the reason being that it is very easy to get unskilled workers in California but not in Australia*”.

## Implications for Tier 1 and Tier 2

- 7.108 While empirical evidence has found limited impacts of migration on average wages, there appear to be significant effects across the wage distribution. Tier 1 and 2 migrants are likely to work in skilled and highly-skilled employment. Accordingly, any additional labour supply will be at the higher end of the skills distribution.
- 7.109 Skilled workers are more likely to be complements to capital. If firms have difficulty filling vacancies then a rise in Tier 1 and 2 migrants is likely to have little effect on wages and employment of UK-born workers. The closer substitutes Tier 1 and 2 migrants are to skilled native-born workers the more downward pressure on wages and employment there will be. Since the degree of imperfect substitution appears to rise with skill, Tier 1 and 2 migrants are less likely to place downward pressure on wages than other migrants who are competing with low-skilled workers for whom they are closer substitutes.
- 7.110 Tier 1 and 2 migrants are unlikely to reduce the employment of resident workers in the aggregate. In the long-term, empirical evidence suggests that they are likely to increase total employment levels as capital adapts. However, there is a tension between these long-term benefits to the economy, and the short-term negative effects which may create individual losers as the economy adapts.

7.111 Any negative impacts are likely to be felt by individuals at the local level in certain parts of the labour market. The positive impacts on wages and employment in the macroeconomy will be at the national level and in aggregate terms, which are more subtle and difficult to identify.

## 7.5 Net fiscal impacts

7.112 Migrants, to varying degrees, pay taxes, claim benefits and consume government-provided services, such as health and education, for the entire time they are resident in the UK. Through participation in these activities they have a direct impact on the expenditure and revenue of the UK Government.

### Theory

7.113 The net fiscal impacts of migrants will depend on their characteristics, including age, employment and earnings, and eligibility for and take-up of public services and transfer payments. They will also depend on the nature of the welfare state and tax and transfer system.

7.114 If migrants pay more in taxes than they consume in benefits and state services then they are net fiscal contributors. If migrants consume more in benefits and state services than they contribute through taxes, then they impose a net fiscal cost on the state.

7.115 Migrants are typically relatively young, hence increasing the working-age population and widening the potential tax-base. Additional tax revenue from employment and consumption can be used to finance government

- spending. In addition, the proportion of older people in the UK population is rising, and additional tax revenue from migrants can be used to finance pensions and welfare services for the elderly. Rowthorn (2008) says that *“Provided the immigrants and their descendants can obtain employment without displacing local workers, their impact on the age structure is likely to benefit government finances.”*
- 7.116 Gott and Johnston (2002) state that *“Economic activity – primarily employment and earnings – is a key driver of an individual’s direct fiscal impact, determining the amount they pay in taxes and receive in benefits. Not surprisingly, those who are economically active, and especially those who are high earners, are likely to be making a net fiscal contribution, by paying more in taxes and national insurance contributions than they consume in publicly provided services and benefits.”*
- 7.117 In the long run, this positive impact from a given cohort of migrants will fade as they age, and some leave. Those who remain may require state education for their dependants, eventually draw a state pension, and become more likely to use the National Health Service. Their dependants will reach working age and will then contribute tax revenue. According to Rowthorn (2008), *“To sustain a permanent rejuvenation through immigration requires a continuing flow of new arrivals, and if they and their children remain in the country the cumulative impact on population will become very large.”*
- 7.118 Analyses of the net fiscal contribution of migrant groups can be classified either as static or dynamic. Static analyses estimate the net fiscal contribution of a migrant group for a given year, while dynamic analyses estimate the lifetime net present value of the fiscal contribution of a migrant group.
- 7.119 Static analyses are backward-looking and as such require no assumptions to be made regarding the future behaviour of the migrant group. They do not take into account the impact that the migrant group may have in future years. For example, if the migrant group is young and in employment, their current net fiscal contribution is likely to be positive, while in future years they may have children that require publicly-funded education and they may retire and draw a state pension, hence their future net fiscal contribution may be negative. However, given the strong assumptions that must be made to conduct a dynamic analysis, most of the available evidence comprises static analysis.
- 7.120 In a static analysis the net fiscal contribution of a given group will be partly dependent on the budgetary position of the Government. Where a surplus is being run, a positive net fiscal contribution is more likely, while a negative net contribution is more likely while a deficit is being run. Therefore, it is also worth considering the relative ratio of revenues to expenditure between the groups being compared.

## Evidence

- 7.121** Various studies have been undertaken to assess the net fiscal contributions of economic migrants. These studies have generally examined contributions over a single year and have concluded that working migrants either make a positive net fiscal impact or at least a more positive impact than non-migrants.
- 7.122** Most recently, Dustmann *et al.* (2009) adopts a static analysis approach to estimate the net fiscal contribution of the A8 migrants to the UK for each fiscal year from 2005/06 to 2008/09. The estimated net fiscal contribution is positive for the A8 migrant group, in comparison to a negative net contribution for the non-migrant group, for each fiscal year. These results are robust to the choice from a range of assumptions regarding the allocation of revenues and expenditures between the migrant and non-migrant groups. The results under the central assumptions are given in Table 7.2.
- 7.123** The above analysis implies that A8 migrants have been positive net contributors to the public finances. Dustmann *et al.* (2009) finds that although A8 migrants earn relatively low wages, their higher participation and employment rates more than offset this. In addition, their low receipts of government expenditures are particularly important in making them net fiscal contributors.
- 7.124** Gott and Johnston (2002) estimate the net fiscal contribution of the foreign-born population of the UK in 1999/2000. They find that migrants in the UK contributed £31.2bn in taxes and consumed £28.8bn in benefits and state services: a ratio of 1.08. Due to a surplus in the public accounts in 1999/2000, the UK-born population was also estimated to pay more in taxes than received in benefits and state services, but their net contribution was lower than that of migrants.

**Table 7.2: Ratio of revenue to expenditure for A8 migrants and non-migrants**

Fiscal Year	Ratio of revenues to expenditures	
	A8	Non-migrants
2005-2006	1.39	0.88
2006-2007	1.60	0.89
2007-2008	1.35	0.88
2008-2009	1.37	0.80

Note: Dustmann *et al.* (2009) estimated the total government receipts and expenditures attributed to A8 migrants and to non-migrants in each year. The table above shows the estimated revenues divided by total expenditures for each group. A ratio of 1 would imply that estimated revenues were equal to total expenditures. Total allocation of receipts and expenditures were calculated based on a range of assumptions listed in Dustmann *et al.* (2009).  
Source: Dustmann *et al.* (2009)

**7.125** Sriskandarajah *et al.* (2005) adopts a similar approach to estimate the net fiscal contribution of all migrants in the UK for each fiscal year from 1999/00 to 2003/04. The estimated net fiscal contribution of the migrant group is positive for the first three years, before becoming negative in 2002/03 and 2003/04. However, the ratio of revenue to expenditure of the migrant group exceeds that of the UK-born group in each year.

### Implications for Tier 1 and Tier 2

**7.126** There are no studies that assess the fiscal contribution of Tier 1 and 2 migrants specifically. Therefore, inferences must be drawn from the available evidence and the data available on the relevant characteristics of Tier 1 and 2 migrants presented in Chapter 3.

**7.127** Dustmann *et al.* (2009) and Sriskandarajah *et al.* (2005) show that, on average, migration is likely to make a positive net fiscal contribution. Tier 1 and 2 migrants, due to their high employment rate and earnings, are even more likely to be net fiscal contributors. Within this group, those who earn more and those who bring no dependants, or dependants who are employed and high-earning, are likely to be the highest net fiscal contributors, at least in the short run.

**7.128** Tier 1 and 2 migrants enter the UK as adults, allowing the UK to save on the cost of educating them to a high standard. From their age profile, discussed in Chapter 3, we can infer that their take-up of health services is likely to be low in the short term.

**7.129** The above analysis is mainly static, and does not include the effect of any children born in the future on the Government's expenditure and revenue. Children of compulsory schooling age may require state education, but will also generate future earnings, and hence a future stream of tax revenue. They will also consume additional services as adults. Accordingly, any analysis of the net fiscal impact of migration will necessarily be partial.

**7.130** In response to our consultation HM Treasury estimated that a reduction in annual net Tier 1 and 2 migration of 10,000 could increase net borrowing by around £150 million in the first year if spending is assumed to remain unchanged. This illustrative estimate is based on assuming that 10,000 lower annual net Tier 1 and 2 migration reduces economic growth by around 0.02 percentage points, as discussed in Box 7.3. The estimated impact is calculated using the cyclical adjustment coefficients<sup>17</sup> and is expected to rise over time. This estimate is based on changes to the tax revenue generated from lower growth and does not include any changes in government spending that may occur in response to the change in the size of the population, which may reduce the size of this impact on net borrowing.

**7.131** As the median earnings of Tier 1 and 2 migrants are likely to be higher than the UK median, the above calculation could potentially underestimate the impact of

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<sup>17</sup> Cyclical adjustment coefficients are published in 'Public finances and the cycle', Treasury Economic Working Paper No.5, Nov 2008.

reducing Tier 1 and 2 migration on tax receipts. Furthermore, if Tier 1 and 2 migrants are likely to have a relatively high employment rate, HM Treasury notes that their claims on the benefit system are likely to be smaller than the UK average.

- 7.132 Overall, based on the evidence above, Tier 1 and 2 migrants are highly likely on average to make a positive net fiscal contribution. However, Tier 1 and 2 migrants will age and, if they remain in the UK permanently, will make a greater call on state services that are increasingly consumed with age, such as pensions and healthcare. Temporary migration is more likely to have a positive effect on government finances than migration leading to settlement.

## 7.6 Conclusions

- 7.133 All things being equal, Tier 1 and 2 migration clearly has a positive impact on **GDP** through its effect on the size of the UK workforce. In a straightforward static analysis, Tier 1 and 2 migration makes a small but positive contribution to **GDP per head**. Such effects will accumulate over time and become more significant. Furthermore, the impact on GDP per head will also be influenced by dynamic factors such as the impact of migration on productivity, trade, investment and skill development of resident workers.
- 7.134 The above effects will not be evenly distributed. A reduction in migration through Tiers 1 and 2 will have significant effects on the micro-economy, in terms of the impacts on individual sectors and

occupations, particularly those that make heavy use of skilled migrant workers, or which rely on them to attract and support trade and investment. However, the economy will adjust to some extent. Employers will have stronger incentives to train UK workers or there may be capital deepening. There may also be expansion in sectors and occupations that are less reliant on migrant workers. Skills policy can also play a critical role in mitigating any adverse effects of reduced Tier 1 and 2 migration.

- 7.135 Any impact of Tier 1 and 2 migration on **inflation** is likely to be very modest. This factor should not be a major consideration in setting limits for Tiers 1 and 2.
- 7.136 Migration has significant impacts across the wage distribution in the **labour market**. Given that Tier 1 and 2 migrants are likely to work in skilled and highly-skilled employment, any additional labour supply will be at the higher end of the skills distribution. Evidence suggests that Tier 1 and 2 migrants are more likely to be complements to resident workers and capital, and are hence less likely to place downward pressure on wages than those competing with less skilled workers.
- 7.137 Tier 1 and 2 migration is unlikely to reduce the employment of resident workers in the aggregate, with any negative effects being felt by individuals at the local level in certain parts of the labour market. Consequently, we would expect that if limits on Tiers 1 and 2 generated any positive effects on employment, these would be felt by individuals rather than the

economy as a whole, particularly in the short term.

- 7.138 Based on the available, indirect, evidence Tier 1 and 2 migrants are highly likely on average to make a positive **net fiscal contribution**. If these migrants remain in the UK, they will age and make a greater call on state services such as pensions and healthcare over time. Migration which does not lead to settlement is more likely to have a positive effect on government finances.
- 7.139 Analysis of economic, labour market and net fiscal impacts does not capture all of the possible costs and benefits of migration. Public service and social impacts are discussed in the following chapter.

## 8.1 Introduction

8.1 This chapter looks at the public service and social impacts of Tier 1 and Tier 2 migration, as defined within the context of this report. We focus in turn on the theory around the public service and social impacts, the available data on these, and the evidence we received in response to our consultation.

8.2 First, we look at the **public service impacts**, which we define as the effects on both delivery and consumption of public services, with migrants identified as both consumers and providers of such services. We consider the delivery and consumption aspects in turn. We look in detail at health and social care services, social work services and education services.

8.3 Second, we consider the **social impacts** of Tier 1 and 2 migration with a detailed look at the impact on housing, crime and justice, congestion, and social cohesion and integration.

8.4 It is not possible to construct a consistent and comprehensive approach to assessing the public service and social impacts of Tier 1 and 2 migration. Therefore, we have estimated the likely impacts of migration through Tiers 1 and 2

by drawing on as wide a range of evidence about such migrants as we can.

8.5 As set out earlier in this report, we commissioned Professor Christian Dustmann and Dr. Tommaso Frattini of E Policy Limited to investigate the economic cost-benefit analysis of immigration (Dustmann and Frattini, 2010). We draw on the findings of that study in this chapter. We also consider a range of other relevant literature, as well as the evidence we received from our corporate partners and the contributions made to our consultation by the Cross-Whitehall Migration Analysts Group.

## 8.2 Provision of health services

### Theory

8.6 As employees in the health sector, migrants have the potential to bring scarce skills to the UK that improve the quality and scope of health care and help alleviate national and regional skills shortages in the UK labour market. The extent to which new migrants are required to provide these services depends partly on the availability of appropriate skills within the domestic labour force.

**8.7** The employment of migrants may also affect the wages of health workers and, consequently, the cost at which health services can be provided. A reduction in the supply of labour (due to limits on migrant workers, for instance) may result in an increase in the overall cost of the provision of these services. This is because employers might be forced to offer higher wages to try to fill shortages from within the domestic labour force. Therefore, migrant workers effectively subsidise public services, although the resultant wages, lower than they might otherwise be, might deter some in the existing UK labour force from working in health sector occupations.

**8.8** Domestic workers may fill at least some of the shortages in nursing if pay was increased: *“Research shows that the wages of nurses have been too low to attract sufficient numbers of locally trained applicants to the profession.”* (Ruhs and Anderson, 2010).

## Data

**8.9** The number of non-European Economic Area (EEA) migrants working in the health sector can be estimated using National Health Service (NHS) Electronic Staff Record (ESR) data, which can be disaggregated to allow analysis at the occupational level. The Centre for Workforce Intelligence (CfWI) told us that ESR data are currently not robust enough to investigate proportional reliance on non-EEA staff at a regional level, although such analysis may be possible following further validation checks on these data.

**8.10** Points Based System (PBS) management information data provide the number of Tier 2 migrants coming to the UK to work in health sector occupations. The share of migrants in the health sector can also be estimated using data from the Labour Force Survey (LFS). These data can also be disaggregated by occupation.

## Evidence

**8.11** As discussed by Bach in Ruhs and Anderson (2010), LFS analysis suggests that almost one third of medical practitioners and approximately one fifth of nurses, dental practitioners and pharmacists working in the UK were born outside the EEA. Using UK General Medical Council (GMC) registration data, Bach found that 11 per cent of all medical practitioners working in the UK qualified in India, alongside a significant proportion of workers from South Africa (three per cent) and Nigeria (1.4 per cent).

**8.12** Evidence provided by the Department of Health (DH) indicated that, as of September 2009, 24 per cent of medical professionals working full-time at consultant level and 33 per cent of medical professionals working full-time in the registrar group (doctors that are below consultant grade) graduated from medical schools outside the EEA. Although some of these graduates may be UK and EEA citizens who studied abroad, it is likely that a large proportion of these medical professionals are non-EEA migrants.

8.13 DH and the CfWI told us that the dependence on non-EEA migrant workers varies across different health sector occupations: a large proportion of staff employed in paediatric neurology (25 per cent), paediatric cardiology (18 per cent) and chemical pathology (13 per cent) required a work permit, for instance. The proportion is much lower in some other occupations, such as diagnostic radiography therapy (three per cent) and orthoptic therapy (one per cent).

*“The shortage of higher skilled medical and care staff are of particular concern for the North East. The fear is that the proposal for Tier 2 migrants on a ‘first come, first served basis’ with limited visas available would make it difficult to respond to demand to those positions at times of greatest need.”*

North East Strategic Migration Partnership response to MAC consultation

8.14 We were told by DH that NHS ESR data suggested that there was also significant regional variation in the dependence on non-EEA migrants, particularly in smaller occupations. DH said that these data provided indicative information only and would need to undergo further robustness checks before this regional variation could be fully analysed. The CfWI told us that this regional variation is also supported by anecdotal evidence.

labour, plays an important role in filling shortages within the health sector. However, efforts within the health sector to improve the training of medical professionals are gradually increasing the domestic supply of skilled labour, and decreasing the dependency of the NHS on recruiting skilled workers from outside the EEA.

8.15 According to DH, the NHS has historically relied on the recruitment of migrant workers to fill vacancies in specific regions and specialisms, and also to rapidly expand the workforce in areas that would normally depend on long lead times to train sufficient numbers of the existing UK workforce. DH told us that the UK is moving towards greater self-sufficiency in terms of NHS workforce supply, although this will not be achievable in the short term or in all occupations and regions.

8.17 We have recommended progressively fewer health related occupation lists with each review of the health sector. Nevertheless, there remain areas where shortages persist: for example, in theatre nursing. Shortages also persist in occupations where demand is rising, such as radiography and certain consultant specialities, as well as in occupations where it is difficult to adjust training requirements in order to increase worker numbers quickly. We have also noted particular issues of shortage in areas where round-the-clock cover is required for non-consultant (non-training) staff: for example, in the area of emergency care.

8.16 Our reviews of the shortage occupation lists for the UK and Scotland showed that migrant labour, and particularly non-EEA

*“There remain significant parts of the country and significant services e.g. mental health services, specialist nursing skills and social care services in London where an inability to recruit the right skills will lead to gaps and pressures on local services.”*

Department of Health response to MAC consultation

- 8.18 During our consultation, Skills for Health facilitated an event attended by corporate partners from the health sector. At this event a number of partners made the point that training and up-skilling of staff in this sector was a lengthy process and, therefore, migrant labour would be needed for some time to come.

*“It is possible for the health sector to reduce its overall dependence on level 1 and 2 migrants. However, to train and develop a health care professional can take years – and for those in consultant roles, sometimes decades.”*

Skills for Health response to MAC consultation

- 8.19 Other barriers to filling shortages in the health sector may exist. Attendees at the Skills for Health event cited high attrition rates during training. We were also told that a number of health workers were leaving the UK to work overseas.

- 8.20 We were told that non-EEA immigrants also play an important part in the provision of services within the independent healthcare sector. The Scottish Government Health Workforce Directorate told us that international recruitment has been essential in ensuring NHS Scotland meets its delivery targets and provides high quality services. DH told us that the UK was unlikely to be able to achieve total self-sufficiency in skilled clinical staff.

*“Immigration has played an important role in staffing the NHS; however, workforce planning and DH investment in education and training have been aimed at achieving greater self-sufficiency. This investment has resulted in greater self-sufficiency but the very size of the NHS, the global mobility of healthcare professionals and the need for highly trained professional and skilled clinical staff means that it is unlikely to be able to achieve total self-sufficiency.”*

Department of Health response to MAC consultation

- 8.21 We were told during the Skills for Health event that, without the ability to fill shortages using non-EEA labour, waiting times to see consultants and for operations might lengthen. The General Healthcare Group told us that non-availability of non-EEA labour might affect their ability to operate at full capacity.

8.22 The social care sector is also reliant on non-EEA labour to fill senior care worker shortages. We received evidence from Skills for Care & Development that a number of employers would not be able to continue to provide care services safely and legally without the continued recruitment of migrant workers. Furthermore, according to Skills for Care & Development, employers said that such pressure on the social care sector may place further demands on NHS hospitals, as the closure of care homes may mean that vulnerable patients need to stay in hospital for longer.

*“Social care continues also to be reliant on migration and this is particularly the case in senior skilled care workers and children’s social workers who are recognised as shortage occupations. Restricted migration in these areas will make the current situation worse, with commensurate risks to the quality and safety of service provision.”*

Department of Health response to MAC consultation

*“The local hospital would be at breaking point with all of the wards filled with elderly patients with non-acute needs.”*

Brooklands Nursing Home response to MAC consultation

8.23 A recent report by Skills for Care used the LFS to examine the proportion of the workforce in selected social care-related occupations that were non-UK

born (Skills for Care, 2010). This analysis did not cover all social care occupations because *“the LFS does not lend itself to defining social care very well.”* Furthermore, the report did not distinguish between the relative number of non-UK born workers who were EEA and non-EEA migrants. The report found that, in 2008, 19 per cent of workers in the occupations considered were born outside the UK. This was an increase on the corresponding proportion in previous years (16 per cent in 2007 and 17 per cent in 2006).

8.24 In Ruhs and Anderson (2010) Moriarty finds that there has been a considerable increase in the proportion of the social care workforce that are migrants, and that most of these migrant workers come from outside the EEA. Moriarty argues that this growing share of migrants in the workforce should be viewed in the context of increasing demand for social care workers. In turn, this increasing demand, the author argues, is a result of demographic change, a tightening of regulation in the sector, and policies aimed at changing public expectations of the scope of social care.

8.25 The Scottish Social Services Council (SSSC) told us that an independent study of Scottish care homes in 2007 found that seven per cent of the workforce was employed on work permits. We were told that most non-EEA employees are employed under Tier 2 of the PBS. The SSSC said that a reduction in the number of migrant workers available through Tier 2 would limit the ability of

many employers to recruit staff and, ultimately, to deliver services. Skills for Care & Development said that such a detrimental result would most likely fall on the most vulnerable members of society.

**8.26** Skills for Care & Development told us that, beyond merely allowing employers to fill labour shortages, migrant workers are valued in their own right by employers. We were told that many non-EEA care workers are better qualified than their UK counterparts. Skills for Care & Development argued that it would be important to continue to have access to international labour markets to maintain the flow of new ideas that are introduced by international workers, regardless of whether there are skill shortages. They said that EEA workers are not always a perfect substitute for non-EEA workers because their English language skills are often poorer, which may result in a lower quality of service experienced by users of social care.

**8.27** We were also told by Skills for Care & Development that initiatives are currently being implemented within the social care sector that should reduce that sector's dependence on migrant workers in the long term. However, because of the time required for these initiatives to have a significant impact, as well as the rapid growth in demand for care services, access to migrant workers will continue to be necessary to fill labour shortages in this sector in the short to medium term, particularly in certain geographical locations.

## Implications for Tier 1 and Tier 2

**8.28** According to the available evidence, Tier 1 and, in particular, Tier 2 migrants make a significant contribution to the provision of health services in the UK, both in NHS hospitals and residential care homes. They help to improve the speed, quality and scope of healthcare treatment available to all UK residents. Furthermore, we were told that Tier 1 and 2 migrants help to improve the quality of life of some of the most vulnerable members of society. Their employment also lowers the cost at which these services can be provided.

**8.29** The benefits derived from Tier 1 and Tier 2 migrants employed in the UK health sector will not be distributed evenly across the UK. Anecdotal evidence and indicative data provided by DH and CfWI suggest that migrant workers fill skills shortages in those areas of the UK that experience particular difficulties in recruiting skilled workers from the UK and EEA labour markets, such as London.

**8.30** Evidence suggests that ongoing training initiatives to upskill the resident workforce are helping to reduce the health sector's dependence on non-EEA migrants in future. Despite these initiatives, some health sector occupations, and some areas of the UK, will remain dependent on non-EEA migrants, at least in the short to medium term.

*“The IHAS considers that any limits on the non-EEA migration to the healthcare sector will in the short to medium term have a catastrophic effect on the provision of healthcare in the UK and suggests that restriction to migration must not be implemented until the UK has appropriate places to train UK staff in the skills that are needed for them to fill the vacancies.”*

Independent Healthcare  
Advisory Services response to  
MAC consultation

### 8.3 Consumption of health services

#### Theory

- 8.31 In common with the resident population, migrants will use health services at various points during their lives. We would expect that, as with existing UK residents, migrants’ demand for healthcare will be associated with factors such as age, income, earnings and educational attainment.
- 8.32 As discussed in Chapter 3, migrants are, on average, relatively young when they first arrive in the UK. We would expect many migrants to be relatively light users of healthcare services, compared to the overall UK-born population, in the short run. However, we would expect their demand for health services to increase over time due to the increased use of health services that comes with ageing. Consequently, migrants’ overall

impact on the demand for health services will depend very much on the duration of their stay in the UK.

- 8.33 Their demand for health services will also vary by country, region and locality within the UK, depending on the characteristics of the migrants in those areas. Furthermore, the concentration of migrants in certain regions of the UK means that the resources of some NHS Trusts may be put under considerably greater strain than others. As it is difficult to forecast migrants’ movements within the UK, or the number of children they will have, it is not possible to allocate resources centrally across local areas in a way that accurately accounts for migrant movements and concentrations.
- 8.34 While many of the principal determinants of healthcare demand are independent of an individual’s status as a migrant, it is possible that migrants might have specific impacts on the demand for health services that are not observed in the treatment of the UK-born population. For example, translation and interpreting services may be required for patients who cannot communicate effectively in English, and such services will be disproportionately used by migrants.
- 8.35 Possessing good English language skills may increase migrants’ use of health services as it increases their knowledge of, and confidence in using, such services. The consequent

improved levels in migrants' general health may improve their ability to work and their productivity.

## Data

- 8.36 There is limited potential to measure directly and accurately migrants' use of health services because migration status is neither routinely nor consistently recorded when such services are provided.
- 8.37 UK Border Agency management information data provide evidence on the number of economic migrants entering the UK each year, as well as information on the characteristics of these migrants that may provide an indication of their likely demand for health services, at least in the short to medium term.
- 8.38 The duration of migrants' stay in the UK will be one determinant of their impact on health services. UK Border Agency management information data do not record individual migrants' durations of stay in the UK, so it is not possible to use these data to anticipate their impact on the demand for health services in the longer term. However, as discussed in Chapter 3, UK Border Agency (2010b) estimated the proportion of Tier 1 and Tier 2 migrants that still have valid leave to remain in the UK five years after entry.

## Evidence

- 8.39 A key determinant of migrants' use of health services is their legal right to access them. According to current regulations, any employed or self-employed person living in the UK, and whose principal place of business is in the UK, is fully exempt from NHS charges. This exemption also applies to the individual's spouse, civil partner and children (aged under 16, or aged under 19 if in further education) if they are also living in the UK permanently. This exemption is conditional upon the individual being in employment at the time of treatment: if a migrant is in the UK on a work visa but unemployed at the time of treatment, he or she will be charged, provided he or she does not qualify for any other form of exemption<sup>18</sup>.
- 8.40 There is relatively little research that focuses specifically on the health impact of work-related migrants. Consequently, it is necessary for us to examine the broader literature on the use of health services by migrants as a whole, and subsequently make informed inferences using the known characteristics of Tier 1 and Tier 2 migrants.
- 8.41 At a meeting of the Migration Impacts Forum (MIF) in June 2009 Dr Hussey, Regional Director of Public Health at NHS North West, said that having good quality housing, a reasonable income and good English language skills, and being integrated into

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<sup>18</sup> Full details of NHS entitlement for migrants can be found on the Department of Health website at: [http://www.dh.gov.uk/en/Healthcare/Entitlementsandcharges/OverseasVisitors/Browsable/DH\\_074373](http://www.dh.gov.uk/en/Healthcare/Entitlementsandcharges/OverseasVisitors/Browsable/DH_074373)

society, were significant factors in determining a migrant's continued well-being during their time in the UK. Furthermore, Dr Hussey said that economic migrants have a different age profile to the UK population as a whole, tending to be younger.

- 8.42 In their evidence to the House of Lords Select Committee on Economic Affairs (House of Lords, 2008) Liam Byrne MP and the Local Government Association (LGA) argued that, because new migrants tend to be relatively young and healthy, they have a limited impact on health service costs in the UK. This point was also put to us during the course of many of our consultation meetings, and particularly those we held with the various Regional Migration Partnerships.

*“Research shows that, in majority migrants arriving and settling in the region are young, fit, and less dependent on local services than the host population, more likely to be working and contributing to the local, regional and national economy through national insurance contributions.”*

North East Strategic Migration Partnership response to MAC consultation

- 8.43 A House of Commons report on *Community Cohesion and Migration* (House of Commons, 2008) discussed evidence from the Audit Commission and the Institute for Public Policy Research (IPPR) arguing that, on average, migrants make

less use of health services than UK-born individuals. However, migration could have a significant impact on the demand for some specific health services: *“the Audit Commission suggests that demand for health services is lower among migrants than local communities, because they are generally young and healthy. The IPPR stated that the majority of A8 migrants tended to place less of a burden on healthcare and adult social care than the local population, though it acknowledged that these younger groups of migrants tended to be relatively greater users of specific services, such as sexual health and maternity services.”* (House of Commons, 2008).

- 8.44 Furthermore, evidence presented in House of Commons (2008) suggests that migration may place specific pressures on the demand for health services in specific areas of the UK. The West Norfolk Partnership stated that *“maternity services were under pressure from the increase in the young migrant population.”* The West Norfolk Partnership also reported that *“Accident and Emergency services were seeing an increased demand from migrants without documentation, who are able to access treatment that they would be unable to obtain through GP services.”* (House of Commons, 2008)

- 8.45 Older people are disproportionately greater users of health services: according to Robinson (2002), 16 per cent of the general UK population was found to be aged 65 or over, yet these individuals occupied

approximately two-thirds of all hospital beds. Furthermore, this older subset of the UK population accounted for more than a quarter of all NHS expenditure on drugs and 45 per cent of all prescriptions. As we discussed in Chapter 3, Tier 1 and 2 migrants are relatively young compared to the UK-born population as a whole. UK Border Agency management information data show that, in the 12 months to the end of March 2010, all Tier 1 and Tier 2 migrants and their dependants who entered the UK were aged under 65.

8.46 In its pre-Budget forecast (Office for Budget Responsibility, 2010) the Office for Budget Responsibility considered the impact of an ageing demographic on fiscal sustainability. Assuming current policies remain unchanged, this report found that, as a proportion of Gross Domestic Product (GDP), health spending will increase from eight per cent in 2009/2010 to 9.3 per cent in 2029/2030 (an increase of 1.3 percentage points). Over the same 20-year period, spending on long-term care is set to increase by 0.5 percentage points of GDP. *“Stylised age profiles illustrate how separate items of revenue and spending are distributed over a representative individual’s lifetime. If all such items are summed over a lifetime, it is apparent that large spending items (such as health and pensions) occur outside working years. An increasingly old demographic structure therefore can have implications for fiscal sustainability.”* (Office for Budget Responsibility, 2010).

8.47 Rolfe and Metcalf (2009) suggest that, at least in the short term, migrants in Scotland tend to make relatively little use of health services. The authors argue that, particularly in the early years of their stay in the UK, at least some migrants living in Scotland may prefer to use health services on return visits to their home country rather than accessing services in Scotland. To the extent that this is true, this would imply that temporary migrants have relatively little impact on the demand for UK health services. However, whilst it is plausible that this may be true for EEA immigrants, it is likely that, if only for geographical reasons, non-EEA immigrants will make relatively larger use of UK health services during their initial years in the UK. Moreover, if migrants decide to settle permanently and raise a family in the UK, the authors acknowledge that it is likely that migrants will cease to use health services in their home country and instead exhibit increased demand for health services in Scotland.

8.48 During our consultation some, typically larger, employers, such as Deutsche Bank and Morgan Stanley, told us that they provide private health insurance for their migrant employees. Consequently, we would expect migrant workers employed by these firms to make less use of publicly-funded health services in the UK than other migrants.

*“Morgan Stanley provides private healthcare insurance to all of its employees and assignees, and the firm pays for private schooling for the children of senior international assignees, therefore having limited impact on public services.”*

Morgan Stanley response to MAC consultation

- 8.49 One of the most significant differences between the cost of providing healthcare for migrants and the UK-born population identified in the available evidence is the cost of providing English language services to patients who do not speak English as their first language. This is also something we were told during the course of our consultation.
- 8.50 Of course, not all migrant patients require English language support services, and not all patients who do require these services are migrants. We would expect that migrant demand forms a disproportionate share of the total cost of providing these services. However, because Tier 1 and 2 migrants must satisfy an English language requirement we would expect them to make relatively little use of these services compared to the average migrant in the UK.
- 8.51 Gill *et al.* (2009) found that a migrant’s demand for English language services is higher if the patient is a woman, and increases with the age of the migrant. As women and older people report higher consultation rates with medical professionals, these

groups will place an increased burden on translation services in the health sector. The authors report that, in some cases, patients’ family members may be able to provide an adequate translation service. Alternatively, patients may be able to speak to a medical professional who speaks their mother tongue.

- 8.52 Gill *et al.* (2007) estimated the average hourly cost of providing trained interpreters for patients who do not speak English at £26 to £30. Gill *et al.* (2009) argue that this may be an underestimate as it fails to take account of the distribution of the migrant population across the UK: many migrants are concentrated in areas of the UK with the highest labour costs, such as London and the South East. The evidence suggests that the cost of translation services varies considerably across UK regions, not least because of regional variation in migrant populations. For example, data collected from regional health authorities in 1997/1998 suggests that the annual total cost of translation services was less than £21,000 in North West Anglia, but more than £350,000 in Birmingham (Gill *et al.*, 2007). It is likely that at least some of this variation can be explained by differences in the quality of data in different parts of the UK.

### **Implications for Tier 1 and Tier 2**

- 8.53 Tier 1 and Tier 2 migrants are relatively young, educated and highly paid compared to the population as a whole. As such,

given the evidence discussed above, on arrival in the UK they are likely to be relatively healthy compared to the UK population as a whole. Evidence suggests that some Tier 1 and 2 migrants, particularly those who work for large, multinational firms, receive private health insurance for themselves and their dependants as part of their overall benefits package.

concentration. Because Tier 1 and 2 migrants and their dependants are relatively young when they arrive in the UK we would expect them to make relatively little use of health services compared to the overall UK-born population, at least in the short term. This was something on which we found general agreement amongst those respondents who expressed an opinion on this.

*“In members’ experience many Tier 1 and Tier 2 migrants have private healthcare for themselves and their dependants, often as part of a benefits package offered to the migrant along with their job”*

Immigration Law Practitioners’ Association response to MAC consultation

*“[...] the dependants of Tier 1 and 2 migrants tend to be skilled, of working age and have little impact on NHS services”.*

North West Regional Strategic Migration Partnership response to MAC consultation

**8.54** The dependants of Tier 1 and Tier 2 migrants can enter the UK without having to meet education and earnings criteria, so we do not know how their education and earnings compare to the resident population. However, we do know that the spouses of Tier 1 and Tier 2 migrants are also relatively young compared to the resident population as a whole.

**8.55** As with any population group, Tier 1 and Tier 2 migrants and their dependants will inevitably make some use of publicly-funded health services in the UK. Any pressure they place on health services will vary geographically, reflecting the sub-national variation in their

**8.56** In the longer term, in the same way as the UK-born population, Tier 1 and Tier 2 migrants who make their stay in the UK permanent impose an increasing burden on UK health services as they grow older in the UK. Therefore, their lifetime impact on the demand for health services will depend on their length of stay in the UK. As discussed in Chapter 3, the available evidence suggests that around 40 per cent of Tier 1 and 2 migrants stay in the UK for at least five years (UK Border Agency, 2010b).

## 8.4 Provision of social services

### Theory

8.57 Migrant workers employed as social workers improve the quality and scope of social work services available in the UK. They fill both short-term and persistent labour market shortages that are evident in some regions of the UK. On the other hand, as in other public service occupations, access to migrant labour may reduce incentives to train and recruit from the local workforce.

### Data

8.58 The General Social Care Council (GSCC) holds data on the number of registered children and families' social care workers in England that come from outside the EEA. UK Border Agency management information data provide information on the annual inflow of Tier 2 migrants working as children and families' social workers, disaggregated by region.

### Evidence

8.59 There are a number of social services that are provided by local authorities. However, the vast majority of the evidence we received discussed the employment of migrants as children and families' social workers. We concluded in a previous review of the shortage occupation list that there was a shortage of these social workers in the UK (Migration Advisory Committee, 2009b).

8.60 The Department for Education (DfE) told us that there has been a growing demand for children and families' social workers, with 40 per cent more social workers employed in September 2009 compared to 10 years previously. We were told that much of this increase in demand is attributed, at least in part, to the increased complexity of child protection cases as well as the effect of several high-profile cases in the media. Furthermore, the DfE told us that the rise in unemployment since the onset of the recent recession has led to further increases in the need for social services. The Association of Directors of Children's Services (ADCS) told us that a survey of local authorities in England in April 2010 showed a significant increase in demand for a range of safeguarding services.

8.61 In its evidence to us the DfE told us that employers often find it very hard to recruit and retain social workers. Local Authorities (LAs) cited a lack of suitably qualified and suitably experienced applicants as the main reason for recruitment difficulties. The DfE told us that vacancy rates varied considerably by region: in 2008 the vacancy rate was five per cent in the East Midlands and the North East, compared to 14 per cent in London and 22 per cent in the East of England. The ADCS told us that a survey in April 2010 showed a high level of vacancy rates amongst the children's social care workforce (11 per cent). They said they would expect this to increase should immigration limits be introduced. However, we are not sure whether some of these vacancies are being filled by agency workers.

- 8.62 The high dependence on agency staff in the children and families' social work occupation was highlighted in our discussions with corporate partners and in the written evidence we received. Agency workers were often perceived as a short-term solution to managing vacancies. We were told that agency staff were expensive to employ and the quality of their work was variable.
- 8.63 In a previous review of shortages in social work occupations (Migration Advisory Committee, 2009b) we highlighted the need for social work employers to persuade agency workers to take up permanent positions in order to reduce vacancy rates. We concluded that, for a period of time, it was sensible to continue to allow employers to recruit social workers in children and family services from outside the EEA. We noted the encouraging efforts being made to improve recruitment and retention and expected that the need to recruit from outside the EEA would not continue beyond the time it took for those being recruited to gain knowledge and experience of the job.
- 8.64 The DfE told us that, of approximately 80,000 social workers registered in England, around six per cent (5,180) are non-EEA migrants. These individuals are often concentrated in certain regions of the UK: UK Border Agency data show that 260 Certificates of Sponsorship (CoSs) were issued for social workers in London and the South East in the year to December 2009, compared to only four CoSs in Scotland and three in Wales and the South West. This evidence suggests that some LAs with large shortages of social workers are more dependent on the ability to recruit workers from outside the EEA than others.
- 8.65 At a meeting of representatives of the social work occupation we were told that there is a general unwillingness among the domestic supply of social workers to relocate to London. Potential reasons for this include the higher cost of living in London, which is not fully compensated by higher earnings there, as well as the fact that social work in London is often perceived to be more demanding than in other areas of the UK.
- 8.66 At the same meeting we were told that non-EEA workers were mostly recruited from Australia, India, New Zealand, South Africa and the United States. We were told that these non-EEA workers were preferred to EEA migrants because they had better English language skills and had qualifications and training that were more easily recognisable and more suited to social work in the UK. Language skills were considered to be of particular importance, with the ability to communicate effectively with children and families fundamental to the delivery of high-quality social work.
- 8.67 The DfE told us that non-EEA workers tend to be more highly qualified (often to masters' degree level) than their British counterparts. They are also more likely to work full-time and tend to be younger than the domestic workforce.

8.68 Indeed, the age of the domestic workforce was cited as a problem for employers in social work occupations. According to Hussein *et al.* (2010) the average age of a UK-qualified social worker is 47. Furthermore, Social Work Task Force (2010) found that over a third of social workers were aged 50 or over, and hence the need to replace the existing labour force is a growing concern for employers.

8.69 We were told that there is only limited potential to increase the domestic supply of social workers in the short term due to the time needed to educate and train them. Furthermore, the current requirement to undertake extensive practical training in order to qualify as a social worker, and the limited number of providers of this on-the-job training, mean that increasing the number of university places will not eradicate the shortage of social workers in the short term. We were told that it would take several years for the impact of the training and recruitment initiatives recommended in Social Work Task Force (2009) to be felt.

8.70 The DfE told us that, although they are working to tackle the domestic shortage as quickly as possible, the time it takes to train new social workers means that it will be necessary, at least in the short term, to use non-EEA workers to maintain levels of social work provision.

*“If the social worker workforce, which is already under considerable pressure from vacancy rates and substantial workloads, loses its supply of overseas trained social workers, it could put at risk the reforms to social work practice and child safeguarding that the Government is looking to the Social Work Reform Board and Munro Review to help achieve.”*

Department for Education response to MAC consultation

### Implications for Tier 1 and Tier 2

8.71 We do not have any data on the number of Tier 1 migrants employed as social workers in the UK. When we met with representatives of the social work occupation we were told that, due to the high earnings requirement for Tier 1, the number of such migrants employed as social workers is likely to be very small.

8.72 Evidence suggests that, in the face of increasing demand, Tier 2 migrants make a contribution to the provision of social work in the UK. Despite efforts to increase the supply of domestic labour, many areas of the UK apparently still exhibit a dependency on Tier 2 migrants. Evidence suggests that some areas of London and the East of England are most dependent on social workers from outside the EEA to fill labour shortages. The DfE told us that shortages of children and families’ social workers can be a contributing factor in child deaths.

*“High national vacancy and turnover rates contribute to poor delivery of services and therefore increase the risk of poor outcomes for vulnerable children and their families. In the most serious cases, the absence of workers has been cited as a contributing factor in the serious injury or death of children and young people known to social services.”*

Department for Education response to MAC consultation

- 8.73 As an alternative to expensive agency staff, at least in the short term, Tier 2 workers help to reduce pressures on the cost of social service provision. The extent to which migrant workers from outside the EEA are required in the longer term will depend on whether existing shortages can be filled from the resident or wider EEA workforce.

## 8.5 Consumption of social services

### Theory

- 8.74 The demand for social services should, all other things being equal, increase broadly in line with increases in population size. Increases in population size caused by positive net migration should, therefore, result in increased need for social services.
- 8.75 There are a number of social services that are provided by local authorities. The rise in demand arising from positive net migration will depend on the characteristics of migrants that are associated with each particular social service. For example, the increase in the demand for children and families’

social services will depend on the number of migrants that bring young families with them to the UK, or that are likely to start young families in the future.

- 8.76 Due to regional disparity in the distribution of migrants, it is likely that the pressure placed on local authorities as a result of positive net migration will vary across the UK. It follows that areas with a larger concentration of net migrant inflows will experience much greater pressures on the demand for social services.

### Data

- 8.77 UK Border Agency management information provides data on the age profile of Tier 1 and Tier 2 migrants and their dependants.

### Evidence

- 8.78 During a meeting between the House of Commons Communities Local Government Committee and local stakeholders in Peterborough in 2008 one stated impact of migration was the perceived increase in the number of children in care: *“Over one third of care proceedings dealt with migrant children. Often these cases have a high level of complexity necessitating additional resource, for example, travelling to other countries to complete a child’s assessment.”* (House of Commons, 2008).
- 8.79 According to evidence from the DfE, factors related to unemployment, such as low income, increased stress, family friction and hardship, can lead to more families demanding support from social services.

8.80 The DfE was unable to provide any evidence on whether the cost of providing social work services to migrants differs from the cost of providing equivalent social services to UK-born individuals.

8.81 At a meeting we held with representatives from the social work sector we were told that some migrants, both recent arrivals to the UK and those who have been in the UK for a considerable period of time, may require language support or translation services when receiving social work services if their first language is not English. While this may require the relevant LA to incur greater costs to provide such additional support, we were told that in some cases such language services can be provided by migrant social workers who speak the same foreign language as the person receiving social work services.

### **Implications for Tier 1 and Tier 2**

8.82 We did not receive any evidence specifically on the demand by Tier 1 and Tier 2 migrants for social work services. A number of social services relate to health and well-being and so the implications for Tiers 1 and 2 overlap with the discussion presented in section 8.3.

8.83 The demand for children and families' social work services from Tier 1 and 2 migrants is potentially significant, given that these migrants tend to bring young children with them, as discussed in Chapter 3. This potential demand will vary across the different areas of the UK according to the geographical

distribution of Tier 1 and Tier 2 migrants. In the longer term, it will depend on Tier 1 and 2 migrants' duration of stay in the UK.

8.84 The available evidence suggests that individuals who are employed on high incomes are less likely to require support from social services, including those relating to children and families' social work. As discussed in Chapter 3, relative to the UK-born population, Tier 1 and 2 migrants are more likely to be employed and to receive higher earnings, which would suggest that these migrants are comparatively low users of all social services.

## **8.6 Provision of education services**

### **Theory**

8.85 Migrants can be employed in the education sector as teachers, teaching assistants, university lecturers and university researchers. Their scarce skills may improve the education of students in UK education institutions, increasing the attractiveness of UK higher education to domestic and international students and improving the quality of academic research. Furthermore, migrants may play a role in alleviating national and local shortages of particular types of teachers, enhancing the quality of educational provision.

8.86 As with health services, the employment of migrants also helps to reduce the cost of providing some education services, which benefits taxpayers and the consumers of these

services. Migrant workers help to relieve any pressure to boost pay in the education sector, which may deter some UK-born individuals from working in education occupations. This, in turn, may inadvertently encourage an increasing dependence on migrant labour to fill shortages within the education sector.

- 8.87 Due to regional differences in the demand for particular education services, as well as regional variation in labour market characteristics, it is likely that migrants' contribution to the provision of education services will not be evenly distributed throughout the UK.

## Data

- 8.88 Registration data on the inflow of non-EEA migrants working in UK schools, disaggregated by UK region and subject specialism, are available from the General Teaching Council (GTC). UK Border Agency management information data can provide evidence of the number of visa approvals for migrants working in the education sector, disaggregated by region. The School Workforce Census provides data on regional vacancy rates in LA maintained schools in England.

## Evidence

- 8.89 Evidence provided by the DfE shows that approximately 2,200 Tier 2 CoSs were issued to non-EEA migrants working as school and college teachers in 2009. Of these, approximately 64 per cent were for posts in London and

the South East, while a further 19 per cent were for posts in the Midlands and the East of England. Considering secondary school teaching posts specifically, almost 70 per cent of CoSs were issued to teachers working in London and the South East. This regional disparity is also observed in the employment of non-EEA migrants as special educational needs (SEN) teachers, with approximately 76 per cent of all CoSs issued to teachers in London and the South East in 2009.

- 8.90 The DfE provided us with full-time vacancy rate data for LA maintained schools in England that showed that London, the East of England and the West Midlands had the highest vacancy rates in 2009. Therefore, the available evidence suggests that many non-EEA migrants are helping to fill teaching shortages in those regions with the highest vacancy rates.

- 8.91 In their evidence to us the DfE told us that the ability to recruit non-EEA-domiciled teachers provides important flexibility to mitigate the effects of the economic cycle on teacher supply: as the UK economy recovers it is likely to become harder to attract people into the teaching profession. We were told that overseas trained teachers (OTTs), defined as teachers who qualified outside the EU, also make a small but vital contribution to filling vacancies in secondary maths and science subjects, which are on the current UK shortage occupation list. Evidence we received from the NASUWT teachers' union

concluded with this, arguing that OTTs are essential to the continued effective functioning of the education system, both for some geographical locations and some specific aspects of the curriculum.

8.92 Recruiting OTTs reduces the overall cost of providing education services in the UK because, as we were told by the DfE, it costs less to recruit an OTT than train a UK resident worker. OTTs are employed as unqualified teachers and are paid, on average, less than qualified classroom teachers until they are awarded qualified teacher status (QTS). Consequently, whilst the total cost of recruiting a teacher from the domestic workforce in England ranges from £21,500 to £45,900, depending on the type of training they have undertaken, the average total cost of a new OTT is just over £21,000. The DfE said that OTTs remain a cost-effective way to fill the vacancies that remain despite large efforts to train, recruit and retain teachers from the domestic workforce.

8.93 In their joint response to our consultation Universities UK, GuildHE and the Universities and Colleges Employers Association (UCEA) told us that there were over 19,000 non-EU migrants working as academic staff at UK higher education institutions (HEIs) in the academic year 2008/09, comprising 11 per cent of the total workforce. In absolute terms, the subjects that employed the largest number of non EU-domiciled academic staff were clinical medicine, social studies and business

and management studies. As a proportion of all academic staff, the subject areas most dependent on non-EU migrant workers were mathematics, chemistry, physics, and various types of engineering. When we met with representatives from Universities UK and GuildHE we were told that the Higher Education Funding Council for England (HEFCE) recognises science, technology, engineering and mathematics as strategically important and vulnerable subjects. We were told that non-EEA staff, like non-EEA students, are vitally important to the viability of continuing to provide courses in these subjects at UK HEIs.

8.94 Universities UK, GuildHE and the UCEA told us that international academic and research staff increase the attractiveness of the UK higher education sector to international students, who provide an important stream of revenue for UK HEIs. In a meeting with Universities UK and GuildHE we were also told that non-EEA migrants employed in UK universities tend to be younger and better qualified than their UK-born counterparts, with a relatively large proportion holding a PhD qualification.

8.95 Regional variation in the contribution that migrants make to the provision of education services was also evidenced in the material submitted to us by Universities UK. We were told that the regions with the largest proportion of total academic staff that are non-EU nationals are the East (15 per cent), Greater London (14 per cent) and the South East (13 per

cent). HEIs in Wales have, on average, the lowest proportion of academic staff that are non-EU nationals (eight per cent).

8.96 During our consultation we were told that, if universities were unable to fill shortages through bringing in non-EEA labour, there would be a reduction in the number of university places available for certain subjects, such as engineering. This would lead to fewer graduates in these subjects and fewer available skilled workers for those sectors which rely on them. In certain sectors, for example engineering, where some shortages already exist in the workforce (see Migration Advisory Committee, 2009d), this would exacerbate the problem. Although outside of the scope of this review, we note that non-EEA nationals also consume Higher Education services as students.

8.97 We were also told that non-EEA researchers played an important role in attracting high quality research programmes, and the funding that goes with them, to the UK. Without the necessary researchers UK universities would lose out on some research funding, potentially to foreign universities.

*“The ability to access a global workforce is of paramount importance from a Higher Education perspective. Universities compete to attract the brightest and best staff from a truly international pool of candidates. It is vital that universities are able to compete internationally and to ensure that researchers are attracted to bring their grants/funding and research teams to the UK. Limiting the ability for this to happen will inevitably make the UK a far less attractive option for staff who are being solicited by other employing institutions.”*

Royal Holloway, University of London  
response to MAC consultation

*“As a world-class university with a strong international reputation it is essential that we sustain the high quality of our research and teaching. Academic and research staff from overseas play a vital role in this, both those who come to Oxford as employees and those who visit to pursue collaborative research projects or to attend conferences or give occasional lectures or short courses for our students. Without such international academic mobility our ability to offer world-class teaching and to engage in cutting-edge research would be seriously compromised.”*

University of Oxford response  
to MAC consultation

## Implications for Tier 1 and Tier 2

- 8.98 Tier 1 and 2 migrants perform important roles in UK schools, filling skilled vacancies that cannot be filled from within the domestic and wider EEA labour market: the current UK shortage occupation list includes secondary education teachers of maths and science and all special needs education teaching professionals in special schools (Migration Advisory Committee, 2010a). Tier 1 and 2 migrants are particularly important in those areas of the UK with the highest vacancy rates, such as the West Midlands, the East of England and London. The extent to which Tier 1 and 2 migrants will be needed to fill teaching shortages in the longer term will depend on the capacity to upskill the resident workforce.
- 8.99 Tier 1 and 2 migrants employed as lecturers and researchers contribute to the attractiveness of the UK's higher education institutions to both domestic and international students. They also strengthen the position of some universities as world-leading research institutions. In this respect, migration through Tiers 1 and 2 may have a positive impact on the skills acquisition of the future UK workforce.
- 8.100 The presence of Tier 1 and Tier 2 migrants in the education workforce may help to relieve any pressure to increase pay in education occupations. This may decrease the attractiveness of jobs within the education sector to workers already resident in the UK, thus potentially encouraging continued dependency on workers

from outside the EEA in the longer term.

## 8.7 Consumption of education services

### Theory

- 8.101 Like any increase in the UK school-age population, a net inflow of migrant children increases the demand for education services in the UK. It is not possible to accurately determine the magnitude of this impact from the number of migrants who arrive in the UK: it is likely that many migrants will start new families, or add to existing ones, during their stay.
- 8.102 Migrants' demand for publicly-funded education services may be negatively correlated to their incomes: migrants with higher earnings may choose to educate their children privately. This would reduce their impact on publicly-funded education services and generate revenue for the UK private education sector. However, it may also increase the cost of private education in the UK, depending on how the supply of private schooling responds to changes in demand.
- 8.103 As with the impact on education provision, any observed increase in education costs may not be distributed evenly throughout the UK. Migrant flows and concentrations will differ by LA, as may migrant fertility rates and the ratio of adult migrants to child dependants.
- 8.104 The annual cost of educating the child of a migrant may be no

different to the annual cost of educating the child of a UK-born individual, particularly if the child has good English language skills, no special educational needs and enrolls at the beginning of the school year. On the other hand, if the migrant child experiences linguistic or cultural difficulties that require specialist services, such as one-to-one tuition or English as an Additional Language (EAL) support, he or she may be relatively more expensive to educate than the average non-migrant child. The same would be true were the school to incur additional administrative costs because migrant students were more likely to enrol at times other than the beginning of the school year.

- 8.105** Potential benefits of funding the education of migrants' child dependants may include the cultural and linguistic knowledge that they bring to the UK, which can be used to increase levels of cultural tolerance and appreciation among future generations.

### Data

- 8.106** It is not possible to calculate the migrant population in UK schools because enrolment data do not record nationality or country of birth. The LFS could be used to estimate the number of migrant children, and the number in schools, although accurate measurement would depend on migrant children still living in their parental home, which may not always be the case. Furthermore, LFS data give no indication of the number of these migrants who

require EAL support. Therefore, these data cannot be used to estimate accurately the cost of educating migrant children in UK schools.

- 8.107** Data on the number of children receiving EAL support provide the best proxy for the additional cost of educating migrant children in UK schools. The DfE collects these data for schools in England only. EAL status is self-reported and is identified when English is not the main language spoken at home. Unfortunately, as Rolfe and Metcalf (2009) explain, such data fail to identify migrants whose main language is English. They also include children who were born in the UK but who do not speak English as their first language. For such children, speaking English as a second language may not be a reliable indication of their level of English proficiency: many may be bilingual in English and the language they speak at home.

### Evidence

- 8.108** According to the latest enrolment statistics released by the Department for Education (Department for Education, 2010), approximately 16 per cent of pupils (518,000 pupils) in maintained primary schools in England in 2010 were known or believed to have a first language other than English. In state funded secondary schools, this figure was 12 per cent (378,000 pupils). In both primary and secondary schools the proportion of all pupils who were known or believed to have a first language other than English had increased by at least

0.5 percentage points compared to 12 months previously. This represents an annual increase of more than 40,000 pupils. However, these data give no precise indication of the number of pupils that are migrants or the number of pupils that require EAL support.

8.109 The DfE told us that a report by the Department for Communities and Local Government (CLG) due to be published shortly identifies pupils within the National Pupil Database (NPD) that it considers 'most likely to be immigrants'. These are defined as pupils who entered school after the age of five and who do not speak English as their first language. The research finds that there are 186,000 pupils in England who are 'most likely to be immigrants'.

8.110 This CLG research also finds that the geographical distribution of pupils who are 'most likely to be immigrants' is uneven across the UK. Compared to the national average there tend to be relatively more immigrants in London and relatively fewer in rural areas, although the geographical distribution of immigrants to the UK since 2000, particularly Eastern European immigrants, is less concentrated in specific areas of the UK.

8.111 Rolfe and Metcalf (2009) found that the proportion of pupils in publicly-funded schools in Scotland who are migrants has been rising in recent years. In spite of these higher numbers they find little evidence of increased overall demand for education services in Scotland, which could

be explained, at least in part, by the population decline that Scotland experienced until the mid-2000s, particularly among younger age groups.

8.112 In its evidence the DfE told us that it produces national pupil projections for state schools in England, which include local authority maintained nursery, primary, secondary, special schools, pupil referral units, city technology colleges and academies, based on various assumed levels of net migration. These are based on ONS population projections for England and relate to the impact of long-term migration only. The projections reflect those children who have changed, or intend to change, their country of usual residence for one year or more and are attending a school in England.

8.113 The ONS' principal projection assumes annual levels of net migration to England will gradually decline from 179,000 in 2010 to 162,000 in 2014. This implies total positive all-age net migration of approximately 850,000 over this five year period. On the basis of the ONS' principal projection, the DfE projects that the number of pupils aged 5 to 15 in state schools in England will increase by approximately 113,000 between 2010 and 2014.

8.114 Alternatively, if annual net migration were zero between 2010 and 2014, the DfE projects that the state school population would still rise by approximately 100,000. Therefore, according to these projections, DfE told us that, at a

national level, large differences in net migration have only a small impact on pupil numbers, at least in the medium term. We are surprised by how small (13,000 pupils) the difference between the principal projection scenario and the zero net migration scenario is according to the DfE calculations, particularly considering the PBS management information data we presented in Chapter 3 on the number of child dependants that migrants bring with them to the UK.

*“At a national level, large differences in net migration have only small-scale impacts on the numbers of children and young people, at least in the medium term. [...]. However, there could be much more marked impacts at a more localised level, particularly in areas which currently have relatively high net migrant inflows.”*

Department for Education response to MAC consultation

**8.115** Turning to the potential additional cost of educating migrant pupils, Edinburgh City Council estimated the annual cost of providing EAL support to 50 pupils to be approximately £33,000 (Rolfe and Metcalf, 2009). This estimate is based on the cost of employing an EAL teacher and may vary considerably depending on the regional and localised distribution of EAL students. Consequently, EAL support costs may represent a significant strain to some LAs’ budgets, whilst having a relatively small impact on others.

**8.116** A study by the Association of London Government estimated that a migrant child arriving in the middle of the school year costs an extra £400 at primary level and £800 at secondary level compared to children starting school at the beginning of the school year (House of Lords, 2008). In her evidence to the House of Lords Select Committee on Economic Affairs Dr Dobson of University College London said that enrolling pupils at non-standard times was time consuming, required the involvement of several members of staff and had a negative impact in terms of diverting resources. Of course, there would be similar disruption if the children of UK-born parents were to enrol in schools at non-standard times.

**8.117** In their evidence to the same Select Committee both Dr Dobson and the Local Government Association (LGA) said that the impact of migration on schools will vary according to the size of the school and the region in which it is located. They noted the problems that schools encounter in assessing the needs of migrant students, often due to a lack of records on their educational history or the poor English ability of migrant children and their families. Dr Dobson also said that small schools find it more difficult to provide the necessary support for migrant pupils as their smaller budgets are less flexible than those of larger schools.

**8.118** At a meeting of the MIF in January 2009 Janet Tomlinson, Director of Children, Young People and Families at Oxfordshire County Council, said that a

sudden and significant increase in new pupils could force a school to employ additional teaching staff if these additional pupils lead to maximum class size limits being exceeded. Tomlinson also noted the problems arising when assessing the educational needs of migrant pupils due to the absence of their educational records from their country of origin. Furthermore, she argued that dedicated local assessment centres could help to counter these problems if sufficient resources were available.

8.119 Recalling a meeting with local stakeholders in Peterborough in 2008, House of Commons (2008) reported that *“one participant stated that a difficult consequence of unplanned inward migration is that it makes it difficult to plan for school numbers. The area had seen a number of planned school closures owing to the projected decline in the number of children, and yet had in actuality experienced an increase in migrant children. The increase in the number of children whose first language was not English was naturally a problem, although the Committee was assured that a great deal of work had been done to ensure that the resource devoted to helping such children was not being diverted from the children of the indigenous community.”*

8.120 Slough Borough Council told the House of Lords Select Committee that it had set up a dedicated centre at one of its secondary schools to provide support to, and assess the needs of, recently-arrived migrant children before

they enter mainstream education. The centre costs £92,000 a year to run but, according to Slough Borough Council, due to the need for additional staffing to cope with demand during peak periods it is currently insufficient to meet the needs of the migrant child population in the area (House of Lords, 2008).

8.121 Dr Dobson also told the Select Committee that the high levels of mobility of migrant families in the early part of their stay in the UK caused specific problems for schools in areas with a high concentration of migrants. Continuous inflows and outflows of pupils throughout the school year come at significant time, resource and financial cost to these schools.

8.122 As well as outlining the costs schools face in providing education to migrant pupils, House of Lords (2008) also discussed the benefits that these pupils can bring to schools in the UK. In her evidence, Dr Dobson noted the positive work ethic of many migrant pupils and said that the extra investment schools receive for their migrant pupils can raise the standard of education received by all pupils in the school. Demand for school places by migrant dependants can also help schools in rural areas: in its evidence the National Farmers Union (NFU) suggested that this boost to schools' enrolment figures had contributed to the maintenance of some local village schools, therefore benefiting the local community as well as the staff employed in these schools.

**8.123** In our own consultation, we received a variety of qualitative evidence from corporate partners around the impact of migrant children on education services. In areas where immigration has become common, schools seem to have adapted well. There was a suggestion that although schools' test results seem to fall when the proportion of migrant children suddenly rises in a school, after a period of adaptation, results begin to rise again. We were also told that in some inner-city areas the number of migrant children attending schools was keeping these schools open, which was of benefit to the UK-born population.

*"Our members also note that some of the region's schools are dependent on migrant children to remain open. We are concerned that plans for a reduction in Tier 1 and 2 migration may put some schools' futures in doubt, and thereby undermine advances in community cohesion."*

North West Regional Strategic Migration Partnership response to MAC consultation

**8.124** Written responses to our consultation, as well as meetings we held with corporate partners, such as Embassy of Japan, suggest that some employers fund the private education of the children of Tier 1 and Tier 2 migrants. This reduces the impact that these migrants and their dependants have on publicly-funded education services in the UK.

**8.125** A forthcoming report from the UK Border Agency (2010e) finds that, in a survey of Tier 2 sponsors and Tier 5 applicants, four per cent of the 961 respondents pay the school fees of migrants' children. Although we do not know which firms responded to this survey, based on evidence we received during our consultation we consider it likely that larger employers are more likely to offer such benefits to their employees. If this is true, and if large firms employ more migrants on average, the proportion of migrant children educated privately may exceed four per cent.

**8.126** Finally, during our consultation many of our corporate partners made the point that migrant children bring increased cultural diversity to schools. An Australian study (Carrington *et al.*, 2007) also argued that having migrant pupils in schools teaches Australian children to appreciate cultural differences, which lays the foundations for wider inter-cultural understanding and tolerance in future generations of Australians.

### **Implications for Tier 1 and Tier 2**

**8.127** Like any increase in population, the effect of inflows of Tier 1 and Tier 2 migrants on the demand for UK education services depends on the resulting number of additional children, both now and in the future. UK Border Agency management information data presented in Chapter 3 show that in 2009 around 15,000 visas were granted to child dependants of migrants applying, both in-country and out-of-country, for Tier 1 General and its predecessor scheme, the Highly Skilled Migrant Programme. The

equivalent number of visas issued to child dependants of migrants applying for all Tier 2 routes<sup>19</sup> and their predecessor schemes was approximately 24,000 in 2009. These figures refer to the number of visas granted, which, as we discussed earlier in this report, does not necessarily correspond to actual migrant flows.

**8.128** Considering the age profiles of Tier 1 and Tier 2 child dependants presented in Chapter 3, it seems likely that around half of these dependent children were aged 5 to 16 and, therefore, of compulsory school age. This suggests that around half of the children of Tier 1 and 2 migrants may be immediate consumers of education services in the UK.

**8.129** In addition to these existing children, it is plausible that Tier 1 and Tier 2 migrants, who are typically young, might add to their existing families, or start new ones, after arriving in the UK.

**8.130** The longer-term impact of migration through Tiers 1 and 2 on the demand for education will depend on their children's duration of stay in the UK. Some migrants, particularly those who have entered the UK through the intra-company transfer route of Tier 2, are likely to remain in the UK only temporarily, thus it is unlikely their children will remain in publicly-funded UK schools in the long term. As discussed in Chapter 3, UK Border Agency (2010b) suggests that around half of Tier 1 and 2 migrants stay in the UK for at least 5 years.

**8.131** Although it is likely that many children of Tier 1 and 2 migrants will attend publicly-funded UK schools, the relatively high incomes of Tier 1 and Tier 2 migrants suggest that, compared to UK-born parents, a disproportionately large number of Tier 1 and Tier 2 migrants might pay to educate their children privately. Additionally, we received evidence that some, particularly large, employers pay for the children of migrant workers to be educated privately as part of the worker's overall benefits package.

*"In members' experience significant numbers of Tier 1 and Tier 2 migrants opt for private schools in the UK for their children."*

Immigration Law Practitioners' Association response to MAC consultation

**8.132** The average annual cost of educating a child dependant of a Tier 1 or Tier 2 migrant is likely to be at least as high as the average annual cost of educating a child of UK-born parents. If the migrant pupil requires additional support or EAL tuition, or if the migrant pupil enrolls at a non-standard time and changes schools frequently during their time in the UK education system, this annual cost could be higher.

**8.133** On the other hand, the children of Tier 1 and Tier 2 migrants will generally have at least one parent who is in skilled, often well-paid

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<sup>19</sup> UK Border Agency management information data do not allow us to disaggregate the number of visas granted to child dependants of Tier 2 migrants by individual routes within Tier 2.

employment, and who has a good level of educational attainment and strong English language skills. To the extent that it is possible to make any inferences from the parent's characteristics, we might expect the child's own English language skills and educational ability to be better, on average, than the average migrant child. If such assumptions were to hold true, this would imply that the children of Tier 1 and Tier 2 migrants, when compared to other migrant children, demand below-average levels of specialist migrant support services and EAL tuition.

**8.134** Overall, as with any increase in population, inflows of Tier 1 and 2 migrants increase the demand for publicly-funded education services in the UK. Local authorities in those areas of the UK with the largest concentrations of Tier 1 and Tier 2 migrants will experience the largest increases in demand. Compared to other migrant children we would expect the children of Tier 1 and 2 migrants to require relatively few educational support services. Furthermore, there is evidence that some children of Tier 1 and 2 migrants are educated privately.

## **8.8 Housing**

### **Theory**

**8.135** The relationship between a given level of net immigration and a change in the overall demand for housing depends on the household formation rates of the inflow and outflow migrant groups that comprise net immigration. For example, if the household

formation rate of the inflow and outflow groups is the same, then positive net immigration will lead to an increase in the overall demand for housing in the same way as an equivalent increase in the population as a whole.

**8.136** In addition, the household formation rate of a particular migrant cohort is likely to vary over time. Large households may fragment and form a greater number of smaller households. For a given cohort of migrants, in the long run this will increase overall demand, potentially comprised of a fall in demand for larger accommodation and a larger increase in demand for smaller accommodation.

**8.137** The housing market is broadly comprised of three sectors: private rental, owner occupier and social housing. The sector a migrant household chooses to accommodate themselves in will depend on factors such as income, access to credit markets, expected duration of stay in the UK, house prices, rents and legal access to social housing. The sector in which migrants are accommodated may also vary with their length of stay in the UK.

**8.138** Migration leading to an increase in the overall demand for housing affects the owner occupier sector through higher house prices and the private rented sector through higher rents. The magnitude of the impact on house prices and rents will depend on the responsiveness of supply to changes in demand.

**8.139** In addition, migration affects the social housing sector in a number of ways. In the short term, the demand for social housing may increase as members of the resident population that are eligible for social housing are displaced from the private sector due to higher rents and house prices, as discussed above. In the longer term, if certain conditions are met, migrants could become eligible for social housing and so may directly contribute to an increase in demand themselves. On the cost side, the unit cost of social housing provision may rise as the social housing sector faces increased competition for properties from the private rented sector.

**8.140** In this context, increases in the quantity and unit cost of social housing provision resulting from migration can unambiguously be considered an economic cost, although such migration will also contribute to public finances, so increasing the available resources for funding social housing provision. It may not be appropriate to define an increase in house prices or rents resulting from migration as a cost in the same way. Instead, changes in house prices and rents may instead be seen as a transfer between individuals (in that the loss to one individual from an increase in prices will be offset by a gain to another). Therefore, current home owners and landlords benefit from a rise in house prices and rents.

**8.141** The geographic variation in the impact of migration on the housing market will primarily be driven by the geographic variation in migration flows. However, a further effect may exist if a given change in housing demand has a different effect on house prices and/or rents between geographic areas.

**8.142** Estimating the impact of migration on the housing market faces two major complications. First, factors which cannot be accurately measured, such as improved amenities or expectations of future economic growth, may influence both migration flows and changes in housing and rental prices. Second, observed and expected changes in house prices and rents may influence migration flows, while at the same time migration flows may influence house prices and rents. One solution to these problems is to look for sources of variation in migration inflows which are known to be independent of house prices and rents, and to estimate the impact on changes in the housing market.

### **Data**

**8.143** The LFS can be used to estimate the household formation rate of existing migrant groups in the UK. It can also be used to estimate the proportion of these migrant households that are accommodated in each of the three broad housing sectors outlined above. These estimates can then be applied to future migration scenarios to generate projections of changes in demand by housing sector. UK Border

Agency management information data can be used to estimate the duration of stay in the UK of specific migrant groups.

**8.144** CLG generate projections of the number of households in England and its regions looking forward 25 years. These projections are compiled by making assumptions regarding five key components: population (national and sub-national), marital status composition, institutional population and household formation rates. Of these, net migration directly affects only the population component, while the assumptions relating to the remaining four components are based on historic trends. The most recent projections are based on the 2006-based population projections (ONS, 2008).

### Evidence

**8.145** The most recent CLG household projections show an increase of 252,000 households per annum in England between 2006 and 2031. The main driver of the growth in households is population growth, part of which is attributable to migration. The projection is based on long term net migration of 171,500 per annum which directly contributes 99,000 households or 39 per cent of household growth. However, CLG told us that after adjusting for the effect of differing household formation rates and housing tenure patterns that tend to be shown by arriving migrant

population, the projected increase in the number of households as a direct result of migration would be 41,000 per annum<sup>20</sup> and hence contribute much less to the total growth in households over the period.

**8.146** The LFS shows that, apart from very high-income earners, the household formation rate of migrants upon arrival in the UK tends to be lower (i.e. they tend to form larger households) than that of the UK-born population. However, their household formation rate converges towards that of the resident population as their duration of stay in the UK lengthens, to the point at which after 20 years the two rates are equivalent (Holmans and Whitehead, 2006). Therefore, duration of stay in the UK is a significant factor in determining the impact of migration on housing demand in the medium to long term.

**8.147** Migrants' eligibility for social housing varies according to their nationality. EEA nationals are eligible to apply for social housing depending on their employment status and employment history in the UK, and whether they are responsible for children under the age of 18 in education. Additional restrictions apply to nationals of A8 and A2 countries. Non-EEA nationals are generally not eligible to apply for social housing until they are granted indefinite leave

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<sup>20</sup> CLG told us that this estimate is based on the tenureship patterns and headship rates of recently arrived migrants from the A8 countries, and is therefore likely to represent an underestimation of migrants' contribution to household formation given this group's high propensity to live in large household units and in shared accommodation in the private rented sector.

to remain, which normally requires at least five years of residency in the UK.

**8.148** Analysis of the LFS shows that migrants (both EEA and non-EEA), and particularly recent migrants, are more likely than the UK-born population to be accommodated in the private rented sector, as shown in Table 8.1. This result is preserved after controlling for age, qualifications, labour force status, marital status, number of children and region of residence (Centre for Economic Performance, 2010). Recent migrants are also less likely than the UK-born population to be accommodated in the social housing sector, but the propensities between the two groups converge over time. However, after again controlling for those characteristics listed above, the rate of convergence is much slower (Centre for Economic Performance, 2010).

**8.149** The figures presented in Table 8.1 are supported by the evidence we received during our consultation. We were told that migrants tended to live in private rented accommodation and that in some local areas this affected the availability of some high value private rented accommodation, but more commonly low value, high density housing.

**8.150** We were also told that some of the low value, high density private rented accommodation that migrants occupy had associated high levels of health and safety risks, and there were reports of higher incidences of fire service call-outs.

**8.151** Turning to the impact on prices, in evidence to the House of Lords Select Committee on Economic Affairs (House of Lords, 2008), Professor Whitehead (London School of Economics) said that it had been a “*great surprise*”

**Table 8.1: Tenure by country of birth and number of years since last arrival in UK**

Tenure	Per cent				
	UK born	EEA born		non-EEA born	
		less than 5 years	at least 5 years	less than 5 years	at least 5 years
Owner occupier	71	11	60	21	59
Private rent	12	79	24	66	19
Social housing	17	10	16	13	22
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Note: The Labour Force Survey records the year that the respondent last, rather than first, entered the UK. Source: Labour Force Survey 2009Q3 to 2010Q2

*[to find that] private rents have not been rising to anything like the extent that we would have expected”, given the propensity for migrants to be accommodated in the private rented sector. Instead, “private rents have fundamentally stabilised in real terms” during a period of relatively high net immigration “whilst of course house prices have been going through the roof.” As the report concludes, there are broadly two reasons for this: migrants have “crowded into existing properties and rented poor quality housing shunned by the local population.” This explanation is supported by Communities and Local Government (2008), which found that migrants “often live in overcrowded and poor-quality accommodation”.*

8.152 Between 2000 and 2006 house prices rose from four times average earnings to seven times average earnings: an increase of 75 per cent. In his evidence to the House of Lords Select Committee, Professor Nickell (Nuffield College) said that, on the basis of ‘back of an envelope’ calculations, had net migration been zero over the period, house prices would instead have risen to 6.5 times average earnings: an increase of 63 per cent. Therefore, the positive net migration experienced over the period is estimated to have led to house prices being around eight per cent higher than they would have been with zero net migration, accounting for around a tenth of the observed increase.

8.153 Looking forward, Professor Nickell suggested that if net migration were zero from 2006 to

2026, house prices would rise to approximately 9.1 times average earnings (an increase of 30 per cent over the period), rather than to approximately 10.5 times average earnings (an increase of 50 per cent over the period) under the current rate of house building, assuming net migration of 190,000 per year. Therefore, compared to zero net migration, in 2026 house prices would be approximately 15 per cent higher than otherwise due to the assumed level of net immigration.

8.154 Saiz (2003) analysed the short-run response of the housing market to a large immigration stock, comparing the change in rental prices in Miami to three metropolitan areas. The study found that rents in Miami increased by 8 to 11 per cent more than those in the comparison groups between 1979 and 1981 and that these impacts were disproportionately felt by the lower-quality end of the distribution.

8.155 Saiz (2007) investigated the short and long-term impact of immigration on rents and house prices. The author shows that an immigration inflow equivalent to one per cent of the initial population of US cities is associated with a one per cent increase in rents and housing values, where rents increase in the short run and house prices catch up over the longer term. These findings are supported by a study carried out by Ottaviano and Peri (2007) who also find a strong positive association between immigration and house prices of native individuals across the U.S.

8.156 It was suggested to us during our consultation that, in some inner-city areas where the resident population had moved out towards the suburbs and left large areas of empty housing, migrants were moving in and rejuvenating these areas. This was allowing local shops and schools to stay open which was to the benefit of the resident population. Some city councils also reported this provided them with much needed funds via the council tax system.

8.157 Although not related to immigration specifically, the 2009-10 Citizenship Survey (Communities and Local Government, 2010) found that 18 per cent of respondents felt that they would be treated worse by council housing departments or housing associations than people of other races, down from 23 per cent in the previous year. These figures were higher than those for any of the other public service organisations that were considered, comprising the police, crown prosecution service, courts, local schools, probation services, prison services and local GPs.

8.158 During a meeting between the House of Commons Communities and Local Government Committee and representatives of residents' associations in Barking and Dagenham in 2008 *"a number of participants voiced their concerns about the shortage of affordable housing in the borough and the pressures of migration on housing. One attendee ... suggested that black and minority ethnic communities families tended to be larger than white families and therefore needed larger properties. White*

*people felt resentful that they were being penalised for not having enough children to get allocated a council house. There were very long waiting lists for social housing, which increased tensions. Referring to the issue of the perception of migrants being allocated council housing which in fact was privately rented, he argued that this sort of explanation or 'myth-busting' as no use when waiting lists were rising so steeply."* (House of Commons, 2008)

### Implications for Tier 1 and Tier 2

8.159 Analysis of the LFS presented above suggests that, upon arrival in the UK, migrants tend to form relatively large households compared to the UK-born population. It is plausible that, because of their relatively high earnings, Tier 1 and 2 migrants may be more likely to form smaller households compared to migrants as a whole. In absence of data on Tier 1 and 2 migrants in particular, the best estimate is that they may form smaller households than the average migrant. This is because, on average, Tier 1 and 2 migrants have higher earnings than the average migrant. Furthermore, as we outlined in Chapter 3, each Tier 1 or Tier 2 migrants brings, on average, less than one dependant to the UK.

8.160 Further analysis of the LFS suggests that migrants tend to be accommodated disproportionately in the private rented sector compared to the UK-born population, at least upon arrival in the UK. Tier 1 and 2 migrants, and in particular intra-company transferees, may intend to stay

in the UK for a short period of time and so may be more likely to rent compared to other migrant groups. Again, in absence of data on these migrants in particular, the best estimate is that they will tend to be accommodated across housing sectors broadly in the same way as other migrant groups.

8.161 The evidence discussed above suggests that recent migration has not had the impact on private rents that would have been expected, given the tendency of such migrants to be accommodated in the private rented sector, although this observation applies to overall migration, rather than Tiers 1 and 2 in particular. As discussed above, Tier 1 and 2 migrants may form smaller households than the average migrant. They may also compete more for higher quality housing stock with UK residents than, for instance, migrants from eastern European accession countries. In this case they may have a larger impact on private rents than the average migrant, although the difference is likely to be small.

8.162 Tier 1 and 2 migrants do not have access to social housing until they acquire indefinite leave to remain, which requires at least five years of residency in the UK. It also seems likely that most of these migrants would not require, or qualify for, social housing once it became available to them, due to the selection mechanism of the PBS, in terms of favouring highly paid individuals. Such migrants may, nonetheless, have an indirect impact on demand for social housing if the resident population is displaced from the private

sector as a result of increases in rents and house prices.

8.163 The level of flows through Tiers 1 and 2 will not be the only factor that determines the impact of those migrants on the UK housing market. Given the evidence presented above, their duration of stay in the UK is likely to determine their impact in two ways. First, Tier 1 and 2 migrants that stay longer are likely to form smaller households, so generating a larger impact on the housing market overall. Second, they are increasingly likely with duration of stay to move from the private rented sector to the owner occupier sector, so shifting their impact from rents to house prices. The available evidence, discussed in Chapter 3, suggests that around 40 per cent of these migrants stay for at least 5 years.

8.164 Overall, Tier 1 and 2 migrants are likely to have a small impact on the housing market. All other things equal, in the short term they are likely to contribute to higher rents because of their tendency to be accommodated in the private rented sector. This will also contribute to higher house prices through the buy to let market. In the longer-term the impact is likely to shift from the private rented sector to the owner occupier sector. These effects will differ substantially across different geographical areas, in correspondence with the fact the Tier 1 and 2 migrants do not distribute themselves evenly across the UK: in particular, London is likely to be disproportionately affected. In the very long term, the dependants of these migrants may form separate households and so

may further increase the overall demand for housing. The impact of Tier 1 and 2 on the social housing sector is likely to be negligible in both the short and long term.

## 8.9 Crime and justice

### Theory

- 8.165 There are a number of theories that attempt to explain criminal behaviour. The economic model of crime participation was first introduced by Becker (1968) which defines crime as a rational economic activity, committed if the expected net benefit from illegal activity exceeds that of legal activity. Therefore, all else being equal, an increase in the probability of being caught or an increase in the punishment if caught will decrease the probability of an individual committing a crime. Being employed or more highly paid will have the opposite effect.
- 8.166 According to the Becker theory, educational attainment is likely to reduce crime since education increases the returns to legitimate activities. However, as noted in Papadopoulos (2010), *“in the opposite direction, since education may also increase criminal skills (and thus returns to illegitimate acts of mostly property crime) and improve self-protection against detention, the relationship is not as clear as expected.”*
- 8.167 The Becker model is usually associated with property crime rather than violent crime because of the tangible benefits associated with property crime participation, although Grogger (2000) extended the model to violent crime.
- 8.168 The Routine Activity Theory suggests that if a motivated offender, a suitable target and an absence of capable guardians converge through routine activities then crime will occur. Therefore, according to this theory, in contrast to the economic model discussed above, crime depends on the opportunity available, rather than social causes.
- 8.169 Positive net migration, leading to an increase in population and an increase in the potential number of offenders, does not necessarily translate into an increase in the number of crimes committed. If the offending rate of the outflow group is sufficiently high relative to the inflow group, then positive net immigration could lead to lower offending compared to a situation where there is no migration in either direction. According to the economic model discussed above, this could occur, for example, if the employment rate of the outflow group is high relative to the inflow group.
- 8.170 In addition, as positive net immigration, all other things equal, increases the size of the population, it does not automatically follow that a higher level of crime in the population as a result of positive net immigration equates to higher crime per head of the population. It is therefore plausible that an increased level of crime could exist alongside a reduced level of crime per head, or vice versa.
- 8.171 Further, the impact of crime on society is dependent not only on the volume but also on the economic and social costs associated with the types of crime

committed. Crime imposes costs on society in three ways: first, in anticipation of crime occurring (for example, expenditure on insurance); second, as an immediate consequence of crime occurring (for example, the emotional cost incurred by the victim); and, third, in response to crime (for example, the cost of police investigation and subsequent incarceration of the offender).

## Data

- 8.172 For our purposes, two approaches to examining the relationship between migration and crime that are relevant. In the first, the impact of migration on the amount of crime committed is directly estimated. This estimation can be conducted at the aggregate level, where stocks and flows of migrant groups are correlated with aggregate crime rates, and at the individual level, where the offending behaviour of specific migrant groups is directly observed. Studies conducted at the individual level are more informative because they allow direct estimation of the impact of migration on crime. However, such studies require fine-grained micro-level data which record the offending behaviour and immigration status of individuals, the availability of which is limited.
- 8.173 A second approach examines the relationship between personal characteristics in the overall (migrant and non-migrant) population and the propensity

to offend. Studies that show a significant relationship between particular characteristics and the propensity to offend may help us to infer whether Tier 1 and 2 migrants are likely to exhibit different propensities to offend compared to migrants or the UK population overall.

- 8.174 The most comprehensive data source of crime in England and Wales is police recorded crime.<sup>21</sup> However, the data suffer from both under-reporting (where individuals do not report crimes to the police) and under-recording (where the police do not record crimes that are reported to them). These effects may be especially large for specific types of crime, in particular anti-social behaviour. In addition, the data contain little information on the offenders themselves: for example, immigration status, education and income are not recorded and the data on the offender's nationality/country of birth are unreliable.
- 8.175 The Criminality Surveys, comprised of the Prisoner Criminality Survey and Community Penalties Criminality Survey, are self-reported surveys that collect detailed information about the offending careers of sentenced offenders in 2000 and 2002 respectively. These surveys also individual characteristics such as age, gender, education, income, employment and ethnicity of the respondent, but do not record country of birth, nationality or immigration status.

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<sup>21</sup> The other UK countries record crime according to different definitions and so such data are not comparable for those relating to England and Wales.

8.176 Generally, the availability of directly relevant data for estimating the relationship between migration and crime is poor. It was suggested at the workshop we held with leading academics that efforts may usefully be made to improve the quality of data in this area, given public concerns about the relationship between migration and crime.

8.177 To calculate the impact of the crime committed as a result of migration, estimates of the economic and social cost, disaggregated by type of crime, are required. Home Office (2000 and 2005b) described one potential approach to estimating these costs using a range of techniques, such as revealed and stated preference, and drawing on a range of data sources, such as the British Crime Survey. Under this approach, the average cost of crime (in 2003 prices) per offence varies from £1.5m for homicide to £510 for attempted vehicle theft. Sexual offences are estimated to cost £31,400, serious wounding £21,400, robbery £7,300, burglary £3,300 and theft of a vehicle £4,100. Overall, violent crime is more costly than property crime. These estimates must be treated with caution but highlight the fact that different types of crime have very different impacts on society.

## Evidence

8.178 A number of studies have attempted to estimate the relationship between migration and crime (the first approach discussed above). Bell *et al.* (2010) examined this relationship for two different waves of migrants

in the UK: the wave of asylum seekers of the late 1990s and early 2000s, and the post-2004 wave of workers from new EU member states, the so-called A8 migrants.

8.179 Consistent with the economic model discussed above, the authors show that property crime rates are significantly higher in areas where asylum seekers are located, while no effect is detected for A8 immigration. The authors argued that this finding can be explained by the low labour market participation rate of the asylum seekers wave while, in contrast, the A8 migrants exhibit very high labour market participation rates.

8.180 Butcher and Piehl (1998) correlated US crime and migration data in 43 Metropolitan Statistical Areas. Their results show a positive cross-sectional correlation of crime rate with the stock of migrants in a city, but there is no relationship between crime rates and the stock of migrants in a city, or the flows of migrants into a city, once the characteristics of the city had been accounted for. The authors also used the 1980 wave of the National Longitudinal Survey of Youth, which contains direct questions about the engagement in criminal activity. The results show that migrant youths aged 15 to 23 were significantly less likely to commit crime than their non-migrant peers.

8.181 Other papers have focussed on European countries. Bianchi *et al.* (2008) assessed the causal effect of migration on crime in the 95 Italian provinces between 1990

and 2003. The authors' results show that migration increases only the incidence of robberies, and that, since robberies represent a small proportion of all criminal offences, the effect on the overall crime rate is insignificant.

**8.182** Alonso *et al.* (2008) found that both migrants and natives contributed to the increase in the rate of crime in Spain between 1999 and 2006, but that the contribution of migrants was higher. However, after controlling for demographic and socioeconomic factors, the contribution of the migrant group to the increase in the crime rate was much lower. In addition, the results show that more recent migrants exhibit a lower propensity to offend compared to the less-recently arrived group.

**8.183** Papadopoulos (2010) used the 2003 Offending, Crime, and Justice Survey (OCJS) (known as the Crime and Justice Survey in that year) to study the relationship between crime and migration in England and Wales. Migrants are not directly identifiable in these data and therefore, in the paper, they are defined as individuals who declare they have not lived all their life in the UK. The author's results show that, after controlling for demographic characteristics, the probability of a migrant committing either a property crime or violent crime is not significantly different from that of a native.

**8.184** The June 2010 Foreign National Prisoners statistics (Ministry of Justice, 2010) show that nine per cent (7,800) of the prisoner population (for which nationality is recorded) were non-EEA

nationals while a further five per cent (3,300) were EEA (excluding UK) nationals. The most recent data available shows that the average cost per prison place in 2008/09 was £45,000, including prison related costs met by the National Offender Management Service (Hansard, 3.03.2010: C. 1251W). Therefore, according to these estimates, foreign national prisoners cost a total of £500m per year to imprison, £350m of which relates to non-EEA nationals.

**8.185** Further studies have attempted to estimate the relationship between crime and factors such as gender, age, income and education (the second approach discussed above). Because of the problems associated with police recorded data discussed above, such data can only provide evidence at an aggregated level. Machin and Meghir (2004) matched police recorded data with aggregate wage data to show that there was a negative relationship between wages and crime in England and Wales between 1975 and 1996. A number of similar approaches have tended to show a positive relationship between unemployment and crime, summarised in Freeman (1999). Therefore, the unemployment rate and wages of the immigrant group under consideration is likely to affect their impact on crime.

**8.186** Studies that investigate the relationship between personal characteristics and crime at the individual level are generally conducted using self-reported survey data. Budd *et al.* (2005) analysed the Criminology Surveys to examine the extent to which socioeconomic characteristics

are associated with offending. The authors found that those respondents that left full-time education before the age of 15 were most likely to report committing an offence. Although no linear relationship between the highest level of education achieved and offending was found, those respondents that held A-levels (or equivalent) and above were least likely to report committing an offence. The authors also found that those that were unemployed or unable to work due to sickness or disability were more likely to report committing an offence compared to those that were employed prior to being sentenced. However, as discussed above, these surveys are not representative of the population as a whole as they sample only those that have been convicted of an offence.

8.187 The 2003 OCJS found that, across most offence categories, males were more likely to offend than females. Overall, 13 per cent of males had committed a core offence (defined as burglary, vehicle related theft, other theft (including shoplifting), criminal damage, robbery, assault and selling drugs) in the last year compared with seven per cent of females. It also found that the peak rate of offending was among 14 to 17 year-olds, followed by 12 to 13 year-olds and 18 to 19 year-olds. Those aged between 10 and 17 and between 18 and 25 each accounted for about a third of offences (Home Office, 2005a). The OCJS also records the qualifications and household income of respondents; however, results describing how offending behaviour varies according to

these characteristics are not published.

8.188 Lochner (1999) examined, at the individual level, the relationship between education and self-reported criminal behaviour in the USA in the 1980s and 90s. The author's results show that high school graduation reduced the probability of men aged 18 and over committing a range of crimes, including property damage, shoplifting and selling drugs, compared to those that did not graduate. This finding is backed up by Lochner and Moretti (2004) which found that each additional year of schooling significantly reduces the probability of arrest and incarceration.

8.189 During our consultation a familiar theme emerged from anecdotal evidence heard that immigrants tended to be more the victims of crime rather than the perpetrators. It was also reported that immigrants were more unwilling to report crime.

8.190 During a meeting between the House of Commons Communities and Local Government Committee and local stakeholders in Peterborough in 2008 *"the police representative stated that increased inward migration had resulted in diversity in the types of crimes committed, although these crimes were by a small minority of the migrant community, in the same way that every community has a small criminal element. The types of crimes that had increased were the growing of cannabis, the trafficking of Eastern European women and girls, drink-driving and knife crime."* (House of Commons, 2008)

## Implications for Tier 1 and Tier 2

**8.191** The available evidence suggests that men are more likely to offend than women and, as discussed in Chapter 3, the majority of Tier 1 and 2 migrants are male. On the other hand, less than 10 per cent of Tier 1 General migrants and around 15 per cent of Tier 2 migrants are between 18 to 25 years old, the peak offending ages for adults according to the 2003 OCJS. In addition, the theory and evidence discussed above suggests that education, employment and income are also significant determinants of offending as they alter the relative payoff of partaking in legal behaviour. The selection mechanism of the PBS implies that, at least in most cases, Tier 1 and Tier 2 migrants exhibit high levels of education, employment rates and income relative to the UK-born population, and so we might expect their offending rates to be substantially lower than the UK-born population.

**8.192** Little is known about the characteristics of PBS dependants, although it is likely that Tier 1 and 2 partners are less educated, less employed and lower paid than principal migrants, as discussed in Chapter 3 and Migration Advisory Committee (2009c). Around 18 per cent of Tier 1 partners and 11 per cent of Tier 2 partners fall into the 18 to 25 age band, but the majority of these partners are female. Therefore, compared to principal migrants, the propensity of Tier 1 and 2 partners to offend is ambiguous, although it seems likely that their offending rate

will also be lower than the UK-born population. As discussed in Chapter 3, less than 10 per cent of Tier 1 and 2 dependant children are at the peak offending ages for children of 14 to 17. Therefore, we would not expect Tier 1 and 2 dependant children to commit a significant number of crimes in the short term.

**8.193** As shown in Home Office (2005b), the economic and social cost of crime varies significantly by crime type. Therefore, the overall impact of crime committed by Tier 1 and 2 migrants and their dependants will be highly sensitive to the type of crime committed, as well as the total number of crimes committed, although there is no evidence that suggests that Tier 1 and 2 migrants are more likely to commit more or less 'costly' crimes than the UK-born population.

**8.194** Inevitably, as with any population group, Tier 1 and 2 migrants and their dependants are likely to commit some crime. Overall, although the data in this area are limited, it seems likely that the offending rate of these migrants is likely to be lower than the UK-born population because of their age profile and the selection mechanism of the PBS which implies that, at least in most cases, principal migrants are relatively highly educated and relatively highly paid.

## 8.10 Congestion

### Theory

**8.195** Borjas (1995) argued that positive net migration, like any increase in population size, could lead

to increased congestion when other factors of production remain fixed. While this may be true in the short term, in the longer term we might expect the capacity of the transport network to adjust upwards, therefore at least partially offsetting the impact on congestion.

- 8.196 Brueckner (2000) argued that the external cost of congestion represents a market failure. While vehicle commuters, for instance, take into account the private cost of commuting, namely the cost of vehicle usage and the time cost, they fail to take account the increased time cost that their use of the transport network imposes on other commuters through the overall reduction in traffic speed. As these congestion costs are borne by others, there is no incentive for the individual to respond to this negative impact by reducing his or her use of the transport network. Consequently, individuals underestimate the total cost of their use of transport networks and thus overuse these networks from the point of view of society as a whole.
- 8.197 The extent to which migration has an impact on congestion will vary considerably depending on where in the UK the migrant is located. For example, the impact of an extra thousand migrants moving to a particular area of London, where transport networks are already congested, may be considerably larger than the impact of the same migrants making use of the transport network in more sparsely populated regions of the UK.

## Data

- 8.198 The Department for Transport (DfT) estimate the impact of a number of factors, such as population, employment and location, on changes in use of transport systems and associated changes in congestion. Therefore, to estimate the impact of migration on congestion, data on migrants that relate to these factors are required. The employment rate of Tier 1 migrants can be estimated from survey data, as presented in Chapter 3, while the employment rate of Tier 2 migrants is, in the short term, expected to be close to 100 per cent, due to the design of Tier 2, although the same will not be true for dependants. Data on the location of the workplace of Tier 2 migrants is also available, as discussed in Chapter 3.

## Evidence

- 8.199 There is very limited evidence directly linking migration to congestion. Coleman and Rowthorn (2004) argued that *“immigration is contributing to a rapid growth of population in southern England, and the resulting congestion hampers production and is costly to manage.”* Therefore, the increased congestion affects those using the transport networks directly and the wider economy indirectly.
- 8.200 Other relevant academic literature views the effect of migration on congestion as directly resulting from increases in population and economic activity. Migration will therefore affect congestion to the extent that it affects the rate of population growth and the rate

of economic activity. Specifically considering the impact on the transport networks in large cities, Brueckner (2000) wrote that excessive urban expansion could generate traffic congestion, leading to overly long commuting times.

**8.201** All else being equal, an increase in population due to migration will lead to an increase in the demand for transport. This relationship varies according to the characteristics of the additional population that influence transport demand. In particular, the more the increase in population leads to an increase in the level of employment, the greater the increase in transport demand will be, as those that are employed tend to use transport networks more than those that are not (Department for Transport, 2010; Association of Train Operating Companies, 2009). The relationship between population growth and transport demand growth also varies across transport modes and across regions.

**8.202** In turn, a given increase in the demand for transport leads to an increase in the congestion of transport networks. This relationship is estimated to be non-linear, in that a given increase in demand will lead to a larger increase in congestion if the initial level of congestion is already relatively high (Department for Transport, 2007). The relationship between increases in demand and increases in congestion also varies across transport modes and across regions. The transport

networks of certain urban areas are initially more congested than those in the rest of the country (Department for Transport, 2007), in particular in London where 55 per cent of rail and underground travel in the morning peak hours is in crowded conditions (Transport for London, 2009). Therefore, the impact of a given increase in demand on congestion is much greater in such areas than elsewhere (Department for Transport, 2007).

### **Implications for Tier 1 and Tier 2**

**8.203** Tier 1 and Tier 2 migrants, as additional UK residents, have an adverse impact on levels of congestion in the UK. Compared to the UK-born population they tend to be young and employed and, as such, given the available evidence, are more likely to use transport networks than the average UK resident.

**8.204** In addition, in the case of Tier 2 at least, compared to the UK population these migrants are disproportionately concentrated in London. As discussed above, the higher level of congestion in London means that any given user of its transport network will generate more congestion than the same user would have in most other parts of the country. Therefore, the impact of Tier 1 and 2 migrants on congestion is likely to be higher than that of the average UK population.

## 8.11 Social cohesion and integration

### Theory

- 8.205 The Commission on Integration and Cohesion (CIC) defined an integrated and cohesive community as one where *“there is a clearly defined and widely shared sense of the contribution of different individuals and different communities to a future vision for a neighbourhood, city, region or country”* (Commission on Integration and Cohesion, 2007). CIC developed this definition by saying that, in a cohesive community, individuals from different backgrounds should have similar life opportunities and access to services and treatment, and should trust local institutions to act fairly in the treatment of all individuals in the community. Furthermore, all individuals should have a strong sense of their rights and responsibilities in the community and recognise the contribution of both well-established and newly-arrived members of the community. Finally, Commission on Integration and Cohesion (2007) said that an integrated and cohesive community is one where there are strong and positive relationships between people from different backgrounds.
- 8.206 Communities and Local Government’s Citizenship Survey 2009/10 (Communities and Local Government, 2010) argues that the key indicator of social cohesion is the proportion of people who agree that their local area is a place where people from different backgrounds get on well together. It also notes two further potential indicators of social cohesion as the percentage of people who have meaningful interactions with people from different backgrounds and the percentage of people who feel that they belong to their neighbourhood.
- 8.207 According to Letki (2008) the *“key dimension”* of social cohesion is social capital. Like social cohesion, social capital is difficult to define and therefore to measure. However, Putnam (2007) defines it as *“features of social life – networks, norms and trust – that enable participants to act together more effectively to pursue shared objectives”*.
- 8.208 It is clear from these definitions that social cohesion and social capital are complex concepts that can only be measured indirectly, using a variety of indicators. Forrest and Kearns (2001) said that the simplest observable measure of a socially cohesive neighbourhood would be groups of people living in a local area to promote or defend a common local interest, such as volunteering for a local project or petitioning for an improvement in local services. The authors also argue that an ethnic majority in the community working together to impose their rules and values on a minority would also be an example of social cohesion. Therefore, at the neighbourhood level, social cohesion is by no means an unambiguously good thing (Forrest and Kearns, 2001).

8.209 We would expect that individuals' responses to survey questions, and hence measures of social cohesion, will depend on the characteristics of both the respondents themselves and the area in which they live: an individual's ability to integrate with people from other backgrounds, as well as their own perceptions of the extent to which they integrate, may depend on factors such as their education, their employment and their past experience of living with people from different cultural and ethnic backgrounds.

8.210 The potential importance of this past experience also suggests that the perceived level of social cohesion in a particular area may naturally adjust over time. While in the short run the arrival of culturally and ethnically different individuals may cause tensions in areas with little or no past experience of immigration, as residents become more accustomed to living in a diverse community they may become more resilient to further immigration 'shocks'.

8.211 The impact of immigration on levels of social cohesion will also depend on the characteristics of the immigrant cohort. We would expect immigrants' ability to speak English to be positively correlated with their integration into local communities in the UK. As Stevens (1999) states, immigrants' ability to speak the English language "*is both the means and measure of their social and economic integration*".

## Data

8.212 Surveys and questionnaires can be used to gather public opinions on migration and social cohesion. The Citizenship Survey provides data at a national level on the proportion of the public who agree that their local area is a place where people from different backgrounds get on well together. The Best Value Performance Indicators (BVPI) survey gathers the same data for a different sample of people in England and disaggregates these perceptions of social cohesion for the various local authority areas of England. These could then be compared to the existing stock, or level of inflow, of migrants in a particular area using data sources such as the LFS and PBS management information. However, due to the complex nature of perceptions of social cohesion and their likely dependency on factors such as the characteristics of the respondents and their specific local area, direct comparisons of these survey results across regions and localities may not be particularly robust.

## Evidence

8.213 Communities and Local Government (2010) found that 85 per cent of people thought that their community was cohesive, agreeing that people from different backgrounds got on well together in their local area. This represents an increase in perceived levels of community cohesion compared to previous surveys conducted in 2009 (84 per cent), 2008 (82 per cent) and 2003 and 2005 (both 80 per cent). Communities and

Local Government (2010) found that perceptions of cohesion were generally higher among older age groups and among ethnic minority groups: Bangladeshi, Pakistani, Chinese, Black Caribbean and Indian people were more likely than white people to think that their local area was cohesive.

*“Society as a whole benefits from the integration of individuals from diverse communities, as these migrants tend to come to the UK as individuals to work basing themselves in major commercial centres, and do integrate into the wider community, as opposed to creating their own micro communities.”*

FactSet Europe Limited response to MAC consultation

8.214 The results of the BVPI survey presented in Commission on Integration and Cohesion (2007) support these findings: 79 per cent of people agreed or strongly agreed that people of different backgrounds got on well together in their local area. Disaggregating these data by local authority areas, the BVPI survey found that perceived rates of cohesion across the UK (as measured above) varied from 38 per cent to 90 per cent, although it should be noted that cohesion rates were at least 60 per cent in all but 10 of the 387 English local authority areas. Many of the areas with the lowest perceived rates of cohesion were in the North West and the East of England. In the case of the East of England this may be at least partly explained by the recent large inflow of migrants from A8

countries into communities that previously had a relatively low migrant stock.

8.215 Migrants’ integration into the UK is also tested by Manning and Roy (2010), who used data from the LFS to investigate the extent and determinants of British identity among those living in the UK. The paper found that immigrants tend not to think of themselves as British initially, but they are generally more likely to do so the longer they remain in the UK. This sense of British identity is much stronger among migrants’ children who are born in the UK. *“Second generation immigrants are only slightly less likely to think of themselves as British than the white UK-born population and it seems that the gap narrows further with each generation.”* (Manning and Roy, 2010).

8.216 Analysis undertaken by CLG on the 2005 Citizenship Survey (Laurence and Heath, 2008) found that, as well as their own characteristics, the type of community an individual lives in influences their perceptions of cohesion. Living in an area with a diverse mix of residents was consistently shown to be a positive predictor of cohesion, although having an increasing percentage of in-migrants to the community who were born outside the UK is a negative predictor of cohesion. In-migration to the community was also

found to have a negative effect on cohesion if large proportions of the in-migrants are non-white.

8.217 Evidence suggests that perceived levels of social cohesion are affected by many factors that are largely or wholly independent of migration. Laurence and Heath (2008) found that perceptions of social cohesion were negatively affected by the level of deprivation in a community, irrespective of the diversity of the community. Increasing levels of crime or fear of crime were also found to be strong negative predictors of cohesion. Furthermore, individuals in society considered to be more vulnerable, such as women or individuals with disabilities or long-term illnesses were found to have, on average, more negative perceptions of cohesion.

8.218 Commission on Integration and Cohesion (2007) argued that there is no single factor that determines the perceived level of cohesion, as a community has a wide variety of factors impacting upon it simultaneously. Consequently, the report argued that low levels of social cohesion were found in those areas that experienced several factors simultaneously, such as a combination of poverty, low employment opportunities, an influx of migrant workers from abroad and high rates of crime. Therefore, the report concluded that *“diversity can have a negative impact on cohesion, but only in particular local circumstances”*.

8.219 MORI opinion polls from 2005 and 2007 found that the majority of people thought that multiculturalism had made the UK a better place to live and

that immigrants had made the UK more open to new ideas and cultures (Commission on Integration and Cohesion, 2007). Despite these findings, a MORI opinion poll commissioned by CIC in 2007 found that 18 per cent of people surveyed considered immigration to be the largest issue facing the UK. The management of immigration was also found to be a concern, with 68 per cent of people agreeing with the statement that there were too many migrants in the UK.

8.220 The most recent public attitudes survey commissioned by the UK Border Agency in September 2009 found that people generally consider immigration to be a problem at a national level, but not in their local area (UK Border Agency, 2009a): 69 per cent of respondents thought that immigration was a very big or fairly big problem in Britain, whereas only 19 per cent of respondents considered it to be a very big or fairly big problem in their local area.

8.221 The 2007 MORI opinion poll also found that 56 per cent of UK adults believed that some groups were given unfair priority access to public services such as housing, schools and health services: the groups most often named spontaneously were asylum seekers, refugees and immigrants (Commission on Integration and Cohesion, 2007). A House of Commons report on *Community Cohesion and Migration* (House of Commons, 2008) argued that recent rapid immigration has placed pressures on public services that had not been addressed because

resource allocations were based on flawed population data. House of Commons (2008) argued that the increased competition for access to limited public resources as a result of immigration can have a negative effect on community cohesion.

8.222 As reported in the Financial Times on 7 September 2010<sup>22</sup>, a recent poll conducted by Harris and the Financial Times found that the majority of respondents thought that immigration to the UK had an adverse effect on public services: 63 per cent of respondents said that immigration levels had a detrimental impact on the NHS, while 66 per cent said it made the state education system worse.

8.223 As well as the pressures on public services, House of Commons (2008) found that there were many concerns about the changing nature of communities and the pace of this change. Commission on Integration and Cohesion (2007) said that areas with little or no previous experience of ethnic diversity had experienced particular problems with social cohesion as a result of recent immigration. These problems were found in rural areas that are just starting to experience immigration, mainly from Eastern Europe. They were also found in areas that are already ethnically diverse which are experiencing further immigration, such as inner cities. House of Commons (2008) said that the rapid pace of change experienced by communities in these areas has led to increased

public concern about migration, which can negatively affect social cohesion. This was also a point regularly made during our consultation in meetings facilitated by the various Regional Migration Partnerships.

8.224 Although immigration may lead to tensions in the short run, Commission on Integration and Cohesion (2007) said that many communities have been able to adapt to immigration over time. Initial tensions are followed by a period of increasing acceptance and, particularly in the very diverse areas, positive support for increased diversity in the community. Nevertheless, Commission on Integration and Cohesion (2007) acknowledged that some communities may experience persistent tensions as a result of immigration in the longer term. The report also acknowledged that these tensions may be exacerbated during times of economic downturn.

8.225 Furthermore, House of Commons (2008) found that one of the main barriers to the integration of immigrants into their local community in the UK, as well as one of the main concerns with immigration expressed by existing UK residents, was their limited ability to speak English.

8.226 During a meeting between the House of Commons Communities and Local Government Committee and local stakeholders in Burnley in 2008 *“a discussion took place on the importance of the*

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<sup>22</sup> Full article available at <http://www.ft.com/cms/s/0/231ffb5e-b9fa-11df-8804-00144feabdc0.html>

*English language in promoting understanding and community cohesion. Participants stated that speaking English was important. One participant explained that not understanding English was a particular issue for women who have come to Burnley from Asia through arranged marriages ... There were many ESOL classes available in Burnley, but there had been occasional instances of low take-up; availability was not the only issue to be tackled.” (House of Commons, 2008)*

8.227 As discussed above, social capital is seen by some experts as a key component of social cohesion. Letki (2008) examines the effects of a number of individual and neighbourhood level factors, including racial diversity, on social capital in Great Britain. The author uses a complex and multi-faceted measure of social capital derived from the 2001 Citizenship Survey. The indicators of social capital in the data are used to generate four broad dimensions of social capital: attitudes and opinions about neighbours and neighbourhood; informal sociability; formal volunteering; and informal help.

8.228 The author’s results show that the individual and neighbourhood level determinants of the four dimensions of social capital vary. Of the individual level determinants, age has a strong effect on all four dimensions, but the direction of the effects differs: it has a positive impact on perceived image of local community and enjoyment of living there, but has a negative impact on sociability. Education and social class have positive effects

on all four dimensions. Of the neighbourhood level determinants, neighbourhood status (comprising measures of income, health, employment, education, skills and training, housing and access to services) has a negative effect on all four dimensions. Racial diversity has a negative effect on only one dimension of social capital, neighbourhood attitudes, although this effect is strong. The paper finds an apparent paradox in that more diverse neighbourhoods declare less trust in their neighbours and less satisfaction from living in their neighbourhood whilst not interacting less with their neighbours. The author proposes that a potential explanation for this paradox is the effect of the media, potentially through *“framing or priming of racial attitudes and inter-racial relations.”* (Letki, 2008).

8.229 Some literature has distinguished between the short and long-term impacts of ethnic diversity on social capital. Putnam (2007) argued that, in the short run, *“immigration and ethnic diversity challenge social solidarity and inhibit social capital”, while in the long run, “successful immigrant societies create new forms of social solidarity and dampen the negative effects of diversity by constructing new, more encompassing identities”*. Not all of the literature agrees with this distinction between the short and long-term impacts. On balance, Putnam (2007) argued that ethnic diversity is an important social asset.

## Implications for Tier 1 and Tier 2

- 8.230 Because perceptions of social cohesion are, by definition, subjective, it is not possible to assess the impact that Tier 1 and Tier 2 migrants have on levels of social cohesion in the various regions and localities of the UK. Nevertheless, it may be possible to make some inferences on the likely impact based on their known characteristics.
- 8.231 Evidence suggests that perceived levels of social cohesion vary considerably across the different regions and localities of the UK. This is influenced by, among other things, the characteristics of the existing residents, past experiences of immigration and the rate of change to the community that occurs as a result of immigration. Whilst the location of Tier 1 immigrants is unknown, UK Border Agency management information data show that a disproportionately large number of Tier 2 migrants work in or around London. It is likely, therefore, that many of these migrants will also live in London. However, BVPI survey data show that perceived levels of social cohesion also vary considerably across London boroughs. Consequently, we cannot draw any firm conclusions for the relationship between the location of Tier 1 and Tier 2 migrants and their impact on social cohesion.
- 8.232 Evidence suggests that poor English language skills are a considerable barrier to migrants' integration into local communities. Compared to migrants as a whole, Tier 1 and Tier 2 migrants should have relatively good English language skills and therefore be relatively well equipped to integrate into their local community upon arrival in the UK. We also know that migrants' use of public services, or at least their perceived use of these services, has a negative impact on community cohesion. We expect Tier 1 and Tier 2 migrants to be relatively low users of these services compared to migrants as a whole. Furthermore, we received a lot of evidence that highlighted their important contribution to the provision of health care, social care, social worker and education services in the UK.
- 8.233 For example, evidence that the Department for Communities and Local Government presented to the Cross-Whitehall Migration Analysts Group argued that *"limiting immigration under Tiers 1 and 2 would mainly put a cap on relatively skilled migrants, who tend to: have a high level of English proficiency; be in work; and who are therefore likely to place limited – if any – pressure on public services. These migrants also tend to integrate easily and are therefore unlikely to generate tensions to communities or undermine social cohesion."*
- 8.234 The ethnicity of migrants might also influence their impact on social cohesion. As discussed above, Laurence and Heath (2008) found that large numbers of non-white immigrants may sometimes have a negative impact on perceptions of social cohesion. To the extent that this is true, the immigration of Tier 1 and 2 migrants might have a more

negative impact on perceptions of social cohesion than some other migrant groups, such as work-related migrants from A8 countries.

**8.235** Overall, analysis of the impact of a particular migrant group on levels of social cohesion is a complex matter. It will be influenced by the characteristics of the migrant group itself, but also by issues by time and place, rates of change and migrant concentrations. These effects will operate primarily at the local level. Conclusions will also depend on the measure of social cohesion that is being used. The impact on social cohesion of Tier 1 and Tier 2 migrants cannot be satisfactorily analysed at the aggregate level. Particular surges and concentrations would need to be analysed on a case-by-case basis.

## **8.12 Conclusions**

**8.236** Overall, it is not possible to fully and accurately estimate the public service and social impacts of Tier 1 and 2 migration, either on an impact-by-impact basis or collectively. Instead, we have relied on evidence which relates migration more generally to the impacts that we have considered and what we know about the characteristics of Tier 1 and 2 migrants.

**8.237** Nonetheless, it is possible to draw tentative conclusions about the impacts of Tiers 1 and 2 migration. The absolute magnitude of each impact is likely to be small, reflecting the fact that these migrants make up a small proportion of the UK population.

This is not the same as saying that these impacts will not be significant: in the case of the provision of children and families' social work, for example, we were told that there could be severe impacts on the safety and well-being of some vulnerable children.

**8.238** In each case, at least part of the impact of Tier 1 and 2 migration can be attributed to the 'population effect'; that is, as members of the UK population, they will inevitably contribute to the demand for public services, generate congestion, commit crime and so on. In addition to the population effect, the impact of Tier 1 and 2 migrants will be driven by the fact that they are not representative of the UK population as a whole in terms of their personal characteristics. In the longer term, the impact will depend primarily on the migrant's duration of stay in the UK.

**8.239** Below we summarise the likely public service and social impacts of Tier 1 and 2 migration:

- **Public service provision:** In the short term, Tier 1 and 2 migrants help alleviate skill shortages in key public service occupations. For example, many of these migrants are employed as secondary school teachers in maths and science, theatre nurses and children's social workers. Further, these migrants help to relieve the pressure on wages in certain public sector services such as social care and so help restrain the cost of providing these services. These effects will vary between public services in correspondence

with the variation in the concentration of employment of Tier 1 and 2 migrants across occupations, as well as across areas of the UK. In the longer term, the extent to which Tier 1 and 2 migration alleviates shortages and relieves pressure on wages will depend on training and up-skilling of the resident population.

- **Public service consumption:** Each of the impacts of Tier 1 and 2 migration on public service consumption will be at least partially, and possibly more than completely, offset by their net fiscal contribution, as discussed in Chapter 7:
  - a. They are likely to consume relatively low levels of **health services** in the short term, corresponding to the fact that these migrants tend to be young and healthy on arrival in the country. In addition, the available evidence suggests that some Tier 1 and 2 migrants, particularly those who work for large, multinational firms, receive private health insurance for themselves and their dependants as part of their overall benefits package. In the longer term consumption will increase as the migrants age, in the same way as for the population as a whole. Some Tier 1 and 2 migrants receive private health insurance as part of their benefits package from their employer, thus reducing their demand for publicly-funded health services.
  - b. They are likely to consume relatively low levels of **social services** in the short and long term, corresponding to the fact that these migrants exhibit high rates of employment and tend to be highly paid.
  - c. They are likely to consume **education services** corresponding to the number and age of the children they have. Upon arrival, around half of their existing dependent children are of compulsory school age. The longer-term impact will depend on whether these migrants have additional children during their residency in UK. Their demand for publicly-funded education will be partially offset by the fact that some children of Tier 1 and 2 migrants are educated privately.
- **Housing:** In the short term Tier 1 and 2 migrants are likely to directly contribute to higher rents and indirectly to higher house prices through the buy to let market. In the longer term their impact is likely to shift from rents to house prices as they tend to move from the private rented sector to the owner occupier sector. They may also, mostly indirectly, contribute to higher unit costs of, and demand for, social housing, although this effect is likely to be very small.

- **Crime:** The total amount of crime committed by Tier 1 and 2 migrants is likely to be small due to the selection mechanism of the PBS which implies that, at least in most cases, such migrants exhibit a high employment rate, are well paid and are highly educated.
- **Congestion:** Tier 1 and 2 migrants, as members of the UK population, will contribute to total congestion. They are likely to generate more congestion than the average UK-born individual, reflecting the fact that they are more likely to be employed and more likely to work in London.
- **Social cohesion:** It is not possible to estimate with any degree of confidence the likely impact of Tier 1 and 2 migrants on social cohesion. On the one hand, such migrants may have a positive impact as they are often employed in the provision of public services and are likely to have good English language skills. On the other hand, locally concentrated surges in migration may have a negative impact on social cohesion, although the absence of comprehensive data on the location of Tier 1 and 2 migrants makes this difficult to estimate.

8.240 These impacts are likely to vary across regions, mostly as a result of the geographical variation in Tier 1 and 2 flows. In addition, a certain area may experience a greater or lesser impact than another area from the same flow of Tier 1 or 2 migrants. For example, a given flow of such migrants to London is likely to have a greater impact on congestion than the same flow would have on a less congested area.

8.241 There are also likely to be distributional effects relating to each of these impacts. For example, Tier 1 and 2 migration that contributes to higher rents will benefit landlords but harm tenants. Some local areas will gain from having migrants provide local services, while others will lose out when large surges or concentrations of migrants moving into areas where they have not previously lived, potentially creating social tensions.

## 9.1 Introduction

9.1 In order to avoid, or in order to mitigate, potentially significant adverse economic consequences, it is essential that the UK has in place policies to attract the migrants who are most beneficial to the economy and wider society alongside limits on work-related migration.

9.2 We previously reviewed the design of Tier 1 and Tier 2 of the Points Based System (PBS) in 2009 (MAC, 2009e and 2009c), at the request of the former Government, and made recommendations designed to help the system to:

- better identify and attract migrants who have the most to contribute to the UK;
- deliver a more efficient, transparent and objective application process; and
- improve compliance and reduce the scope for abuse.

9.3 We have previously argued that it is appropriate for Tiers 1 and 2 of the PBS to target skilled migrants, and have explained why earnings and qualifications are valid measures of skill. Further details

9.4 are provided in Box 9.1. Most of our recommendations were subsequently accepted by the former Government, and are reflected in the design of the system today. Our advice now is aimed at achieving the same ends as set out above. However, if there is a binding limit (i.e. one which cannot be exceeded) on work-related migration from outside the European Economic Area (EEA), any migrant to the UK will displace another who would otherwise have been able to come. This means that identifying and attracting the migrants who have the most to contribute to the UK is even more critical in the context of limits on work-related migration.

9.5 The suggestions and options set out in this chapter focus on improving the selectivity of the present system. Additionally, we factor in consideration of the public service and social impacts of migration to our thinking, alongside our continued consideration of the economic impacts.

## Box 9.1: Identifying migrants who have the most to contribute to the UK

### Should the PBS target skilled migrants?

Ruhs (2008) argues that there is a general economic case for selecting predominantly skilled immigrants and admitting the low skilled only in exceptional cases for selected occupations or industries. The general preference for skilled immigrants is mainly due to three factors, each discussed in Chapter 7 of this report:

- Skilled migrants are more likely to complement the skills and capital of existing residents;
- The net fiscal impact is more likely to be positive in the case of skilled migrants; and
- Potential long-term growth effects and spillover benefits are more likely to arise from skilled migration.

### How do we identify skilled migrants?

As set out in MAC (2008a), **earnings** is generally likely to be a good indicator of skill because, theoretically, a rational employer would not pay an employee more than the value of what they produce. This will, in turn, be linked to skill. An employee would not accept less than they are worth, because they would be able to secure a higher wage with a different employer. Another reason for expecting earnings to be positively associated with skill is that the labour market should provide, on average, a compensating wage differential as a return to the investment in education and training.

**Qualifications** are likely to be a good indicator of skill because they represent both an effective signalling device and an investment in human capital. Individuals are prepared to forego current earnings in order to gain higher level qualifications due to the prospect of those qualifications leading to higher earnings (which, as explained above, are also associated with skill) later on.

In MAC (2008a) we explained that other possible indicators of a skilled occupation are **on-the-job training or experience**, which may result in the job or occupation being skilled, even in cases where many job holders do not have formal qualifications; and **innate ability**, which refers to those skills that cannot readily be taught or learnt. However, these factors are harder to measure than earnings and qualifications.

9.6 These considerations are complicated by the fact that it is impossible to know now how employers' decisions will change once limits are in place. For example, some might simply seek to employ EEA workers in place of non-EEA workers. In addition, there are other ways in which new limits might lead to changes in behaviour. One is more emphasis on training of domestically available workers, which would be desirable, but others include switching into different kinds of

economic activity which do not require skilled labour, or investing in overseas facilities ('off-shoring') and importing more goods and services. There are additional uncertainties arising from the absence of definitive evidence about many of the impacts of net migration, discussed in Chapters 7 and 8. The contents of this chapter, therefore, needs to be considered with these significant caveats about the uncertain impacts of limits on work-related migration borne in mind.

9.7 Sections 9.2 to 9.6 of this chapter establish ranges for the required levels of limits on Tiers 1 and 2 of the PBS as follows:

- First, the optimal coverage of the limits on Tiers 1 and 2 is considered in section 9.2.
- Next, in section 9.3, the issue of the desired trajectory for migration through Tiers 1 and 2 is discussed.
- The above factors, in combination with the findings of Chapter 6, then allow us to set out in section 9.4 what total limit on Tier 1 and 2 visas is required in 2011/12 in order to make reasonable progress towards the Government's objective for net migration.
- We then discuss, in 9.5, the optimal split of that limit between Tiers 1 and 2. On the basis of that, we are then able to set out in 9.6 required limits for Tier 1 and Tier 2.

9.8 Sections 9.7 to 9.13 consider how the design of Tiers 1 and 2 may be best amended to select those migrants likely to be of greatest benefit to the UK economy and labour market. The implications of the evidence in relation to the economy, public services and wider society, discussed in Chapters 7 and 8, and the potential impacts on different groups are also considered.

## 9.2 Coverage of limits on Tiers 1 and 2

9.9 In order to set out required limits on Tiers 1 and 2, we need to be explicit about the categories of migration to be included within the limits. That is the focus of this section.

9.10 In commissioning this work, the Government was partly, but not wholly, prescriptive about what should be included with the limit and what should be excluded. The Post-Study Work Route, and Entrepreneur and Investor routes under Tier 1 were excluded, as were the ministers of religion and sportspeople routes of Tier 2. Therefore our suggested limits do not apply to these routes.

9.11 We expect that the limits on Tiers 1 and 2 will cover the Tier 1 General, Tier 2 Resident Labour Market Test (RLMT) and Tier 2 shortage occupation routes. The Government consultation asked whether the latter two routes should be combined, and that matter is discussed later in this chapter. Our discussion of the limits does cover all three of these routes.

9.12 The above leaves three main issues requiring resolution in order for us to define the coverage of the proposed limits:

- Should the Tier 1 and 2 limits apply to out-of-country migration only, or also cover in-country migrants switching from other routes or extending within a particular route?

- Should dependants of main migrants also be included within the Tier 1 and 2 limits? The Government consultation also raised this question.
- Should intra-company transfers be included in the limit? The Government consultation also asked this question, and additionally raised the possibility of exempting any intra-company transfer for a period of less than 12 months.

9.13 The Government will make final decisions on the three issues above in due course. Nonetheless, in order to address the question of a numerical limit, it was necessary for us to form our own view, which we did based on evidence from corporate partners as well as our own thinking and analysis. The three issues are discussed in turn below.

### **In-country and out-of-country migration**

9.14 Net non-EEA work-related migration can be reduced either by reducing inflows over time or increasing outflows. Given the aim to limit net migration to a particular level, it follows that if outflows were boosted, the required reduction to the inflow would not need to be as large as in a situation where outflows remained constant:

- Inflows can be reduced by limiting the number of visas issued to potential migrants outside the UK. Our suggested limit covers such out-of-country visas.

- Outflows can be boosted by reducing average durations of stay in the UK, by permitting fewer extensions of stay within routes, or less switching in-country between routes.

9.15 We explained the potential trade-off between in-country and out-of-country migration in our consultation document, and in consultation meetings and events. Some of our corporate partners did not, however, think it appropriate to express a preference in terms of in-country or out-of-country migrants. For example, the Royal College of Nursing told us that it is unable to endorse or 'favour' a reduction in migration via either of the stated options.

9.16 Some employers felt that the impacts on their business of reducing in-country and out-of-country migrants would be similarly damaging, and there was no reason to prefer one over the other. KBR, a leading global engineering, construction and services company serving the energy, petrochemicals, government services and civil infrastructure industries, told us that if migration is to be reduced, cuts to skilled Tier 1 and 2 migrants, either from outside of the UK or from within the UK, will not be of any benefit. It said that both these migrants bring enormous talent and skills to the UK, in turn benefiting businesses and the economy as a whole as well as passing valuable skills and knowledge to resident workers. In addition, Ernst & Young told us that they did not accept the premise that a reduction in either new migration or extensions is a

desirable outcome. We also heard from the Newcastle-upon-Tyne Hospitals NHS Foundation Trust that both the options would cause problems for NHS organisations and neither proposal would be preferable.

*“Skillset would favour neither measure as the potential damage to the sector caused by either could be equally great. Companies would need to be able both to extend existing contracts and take on new migrant workers at different times in order to remain competitive.”*

Skillset (Sector Skill Council for the creative industries) response to MAC consultation

*“Extensions are mostly approved and switching category is very easy, thus, most migrants will make it to 5 years and be able to apply for ILR, at which point they are likely to move away from their current job and possibly out of the sector – thus, we have added one more person who has a permanent right to stay in the UK AND created demand for one more migrant chef to replace them. It should be made much harder to extend and switch, which would mean a lot more migrants going home after their 3 years and would affect the appeal of working in the UK as an eventual place to settle.”*

e2e Linkers response to MAC consultation

9.17 In terms of **extensions of Tier 1 and Tier 2 visas**, some partner organisations expressed a preference for access to short-term, temporary migrants, and therefore favoured limits to extensions. For example, the Greater London Authority argued that restricting new migrants to allow for more leeway in the extension routes could put businesses that currently have Tier 1 and 2 migrants within its workforce at an unfair advantage to those who do not.

*“There are already strict and stringent controls under the PBS for applications outside of the UK for Tiers 1 and 2 therefore I believe that the reductions should be targeted on extensions and switching between routes.”*

Fluor Limited response to MAC consultation

9.18 However, other employers argued that allowing migrants to extend beyond the current two year (Tier 1 General) or three year (Tier 2) period of initial leave was essential to their economic success. For example, when we met major Japanese companies at the Embassy of Japan, we were told that many of their intra-company transferees come for up to five years. The companies argued that cutting off this supply of labour at the three-year extension stage would require them to fundamentally change their business models and could, in some cases, jeopardise future investment in the UK. Other employers expressed similar concerns.

*“Companies generally request extensions for two reasons. Normally it is because the non-EU migrant is doing exceptional work and the company wishes him to continue this position. This is good for the company and the economy. Sometimes a company requests an extension because it has not been possible to replace that migrant with a resident worker. The removal of the ability to request extensions will leave skill gaps within a firm that were previously covered by invaluable migrant workers.”*

PriceWaterhouseCoopers response to MAC consultation

9.19 The arguments for and against limiting extensions are finely balanced. However, by definition, successful extenders under Tiers 1 and 2 have UK labour market experience in a skilled or well-paid job. Furthermore, limiting extensions adds complexity to the system. Finally, we are reluctant to suggest retrospective changes for migrants already in the UK and, if extensions are limited to new migrants only, this will reduce the ability, in the short term, of limits on Tiers 1 and 2 to reduce net migration. This is because changing the eligibility of new migrants to extend or switch will only have an impact on outflows when their leave to remain expires in 2 to 3 years' time. We therefore exclude extensions from the required limits we set out for 2011/12.

9.20 Fewer partners were concerned by the prospect of limiting switching between routes. On the face of it, there is less of a

clear-cut case for treating a migrant switching between routes (and, often, between employers) differently to out-of-country migrants.

9.21 However, in some cases migrant switchers remain with the same employer. Therefore, limiting switching would be problematic for employers in some cases. For example, we were told during our consultation that medical training requires doctors to move between routes and tiers within the PBS.

9.22 Special arrangements could be put in place for particular sectors or major employers, such as the NHS, but that would add complexity to the system. Therefore, we generally exclude migrant switchers from our suggested limits. However, we return later on to the issue of migrants on Tier 2 visas of fewer than 12 months switching between routes.

9.23 The exclusion of extenders and switchers from our limits does not mean that, in some circumstances, taking action to reduce the frequency of extending and switching cannot make a sensible contribution to reducing net migration in the longer run. We make some suggestions as to how this could be done later in this chapter.

9.24 In any case, to stay on course to achieve its objective the Government will have to take progressively tough action on in-country migration over time. This is because lower inflows will lead to a reduction in outflows in future years, compared to a situation where annual inflows remain

constant over time. Box 9.2 explains this issue in more detail.

9.25 Actions on switching and extending are not the only mechanisms through which

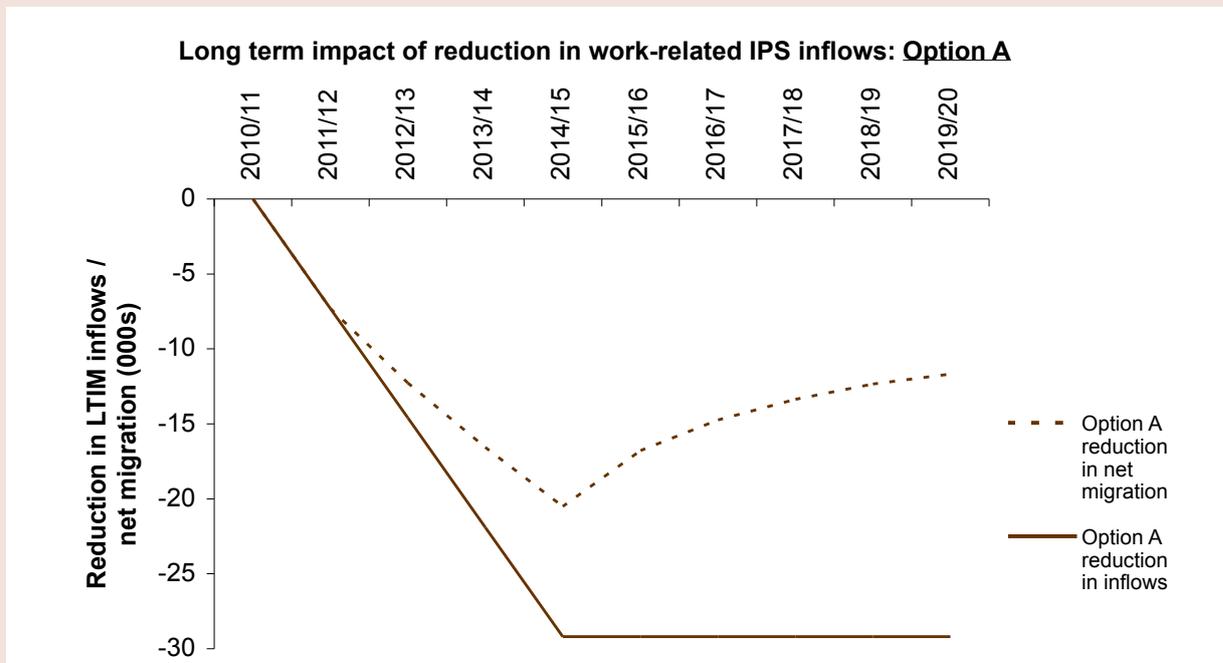
average non-EEA migrant durations in the UK could be reduced: policy on settlement is an additional possibility. We also return to this issue later in this chapter.

### Box 9.2: Longer-term impact on net migration of a reduction in inflows

A reduction in net migration can be achieved either by reducing inflows or by increasing outflows. If inflows are reduced, other things equal, we expect net migration to fall by the same amount in the first year. This is because the number coming to the UK is reduced, while the number leaving the UK is the same. However, some inflows lead to outflows in the future. Reducing inflows will therefore lead to a reduction in outflows in future years.

The magnitude and timing of this effect is crucially determined by migrants' lengths of stay in the UK, and whether they eventually leave. UK Border Agency (2010b) data presented in Chapter 3 showed that, for work-related routes leading to citizenship, 40 per cent of those that entered in 2004 had valid leave to remain after 5 years. By implication, if no work-related migrants overstayed their visas, 60 per cent must have left.

We used such a calculation as the basis for a simple model to estimate migrant outflows, and hence net migration, based on inflows of migrants within particular immigration categories. Annex B provides more details. The chart below shows how reducing the work-related inflows by the amount set out under Option A in Chapter 6, each year for 4 years, will affect net migration: the longer-term impact of a year-on-year reduction in work-related inflows on net migration may be as little as 40 per cent of the impact in the first year.



Note: We consider reductions of work related inflows of 7,300 for option A in each year from 2011/12 to 2014/15. The net migration reduction is generated by comparing the magnitude of these reductions with the option of keeping work related migration constant from 2009/10.

Source: MAC analysis

## Dependants

9.26 Dependants who report that they are coming to the UK for more than 12 months count towards net migration in the International Passenger Survey (IPS). If dependants were included in the limit, an additional dependant coming to the UK would effectively directly displace a main migrant. Chapter 3 showed that dependants account for a significant proportion of total migration under Tiers 1 and 2. It is valid, therefore, to consider whether dependants should be included in the limits for those tiers.

9.27 We gathered a wide range of evidence on dependants. Some corporate partners felt that it was important that employers have access to the best possible people, and that concerns over whether that person was bringing in dependants, and how many, should not enter into the equation. Deutsche Bank told us that, when deciding which employees are eligible to transfer between countries, it does so purely on the basis of that individual's skills and qualifications, not on the number of dependants that would accompany that person to the UK. They told us that the immigration system should respect this business imperative and should not place restrictions on the number of dependants that Tiers 1 and 2 migrants may bring to the UK. According to Permit Foundation, dependants should be excluded from any limit in order to ensure that employers can choose the best person for the job, irrespective of his or her family size or composition.

9.28 We mentioned in Chapter 2 the need to take account of Article 8 of the European Convention on Human Rights. Some partners questioned whether limiting dependants would be legal, or moral. For example, the Royal College of Nursing, the British Chambers of Commerce, the Joint Council for the Welfare of Immigrants, the Permits Foundation and MigrationWatch UK each suggested that action to reduce migration of dependants is potentially vulnerable to challenge under Article 8.

*"It is hard to see how measures of this kind could be compatible with the right to family life under Article 8 of the ECHR."*

MigrationWatch UK response to MAC consultation

*"We also believe that there is a fundamental right to respect for family and private life and to marry and found a family without discrimination. These rights are embodied in the European Convention of Human Rights and transposed into UK law through the Human Rights Act 1998. We believe that any system or cap that restricts or discourages migrants' access on the basis of family status or encourages access to a migrant with no dependants would be challenged legally."*

Permit Foundation response to MAC consultation

9.29 At a meeting facilitated by Skills for Care we were told that dependants often work within the care sector and therefore any reduction in dependants has the potential to exacerbate shortages in that sector.

9.30 In contrast, some partners believed that, because dependants will potentially displace work-related migrants under a limits regime, there was a case for limiting their numbers. For example, it is Doosan Babcock's view that whilst the main migrants make an economic contribution to the UK, the dependants often do not and could be a burden on the UK economy or take low skilled jobs from the general UK population.

9.31 We do not have the expertise to provide a view on the legality of limiting dependants. Nonetheless, we have decided to exclude dependants from our suggested limits for 2011/12, for two economic reasons and a practical one:

- The number of dependants should fall broadly in line with the number of main migrants anyway, so the only effect of including them would be to alter the required numerical limit by a fixed proportion.
- A higher than expected inflow of dependants would reduce employer access to main migrants if the two groups were covered by the same limits: this would provide additional uncertainty for employers at a time when they are already adapting to substantial changes in migration policy.

- The Government's objective for net migration relates to the end of this Parliament. This means there is time before then to monitor any changes in the ratio of main migrants to dependants.

9.32 However, we are mindful that the Government is consulting on whether dependants should be included in the limit. We therefore indicate in this report what we believe the numerical limits including dependants would need to be in the event that the Government decides to include them.

### **Intra-company transfers**

9.33 As shown in Chapter 3, the intra-company transfer route is by far the largest, in terms of out-of-country visas issued in 2009, of the Tier 1 and Tier 2 routes we are considering. We also received a particularly large volume of evidence in relation to this route. Here we consider the specific issue of whether intra-company transfers should be included in the limit.

9.34 Many of our partners argued that, even if there were to be limits on certain types of work-related migration, intra-company transfers should not be limited. It was put to us that intra-company transferees should not be regarded as migrants at all.

9.35 The argument for excluding intra-company transfers had three parts. The first was that intra-company transfers should not be limited because of the crucial contribution they make to UK businesses and the economy. This argument is discussed in more detail below.

9.36 The second part was that intra-company transfers are overwhelmingly temporary in their nature. Assuming that both inflows and average durations are stable over time, it follows that intra-company transfers should contribute in roughly equal measure to both immigration to, and emigration from, the UK. In other words, the route should not significantly contribute to positive net migration. This point was made, for example, by BAE Systems. They told us that intra-company transfers are not a route to permanent residency and citizenship, as they are for temporary migration only. BAE Systems said that, therefore, over the longer term the net impact of intra-company transferees on net migration is, by definition, zero.

9.37 The third part was closely related to the second. Some companies and sectors, we were told, send as many, or more, UK people abroad as they bring into the UK as intra-company transferees. Therefore, those sectors and companies do not see themselves as contributing to positive net migration, and argued that they should be exempt. Morgan Stanley told us that in the last 12 months it has transferred 104 people into the UK and 294 UK employees were transferred to its offices overseas, representing a net outflow of 190. It believes that it does not contribute to positive net migration into the UK and, as such, it should not be subject to restrictions on the number of skilled migrants it brings in.

9.38 PricewaterhouseCoopers UK (PwC) said that intra-company transfers should not be included in any limit as they cannot be described as a burden on public services. They told us that the argument that intra-company transfers “draw on the UK’s public services” is hard to support because intra-company transferees are generally highly paid and therefore contribute significantly to tax revenues. In addition, PwC informed us that what they consider intra-company transfers in the corresponding category in the US (the L-1 visa) is not subject to a quota because the US Government recognises the importance of their skills and the expertise they transfer to the expansion of their economy.

*“ ... Semta urges the MAC and the UKBA to recognize that short-term contract labour, where migrant workers return to their countries of origin after completion of a project (as used in the Aerospace MRO sector) should be treated differently from ‘standard’ recruitment of overseas workers for permanent positions.”*

Semta response to MAC consultation

9.39 Sony Europe Limited argued that including the intra-company transfer route in the limit will have a huge negative impact on both their business and the UK economy. The National Association of Software and Services Companies (NASSCOM), a trade body for the Indian IT sector and the Chamber of Commerce of the IT-BPO (Business Outsourcing Process) industries in India told

us that implementing a migration limit on intra-company transfers would have a direct and indirect damaging economic impact on the UK economy. They said that, in addition to the practical economic costs of using intra-company transfers, it would send a powerful signal that the UK was shifting its long-established policy on trade firmly in the direction of protectionism.

9.40 In contrast, the Association of Professional Staffing Companies (APSCo) told us they believe that intra-company transfers should be included in the limit. They believe that the use of the intra-company transfer route has restricted opportunities for UK-based IT contractors. APSCo said that a reduction in the number of intra-company transferees would be compensated by increased levels of employment within the existing pool of resident IT professionals. Professional Contractors Group (PCG) told us that for resident freelance workers in the IT sector, limits on the use of intra-company transfers would have a positive and significant impact on the labour market. We were also told that the majority of intra-company transferees in the IT sector are undertaking work which requires skill sets that can be readily found in the UK from unemployed IT professionals.

9.41 We have listened to all the concerns expressed by our partners and some of our suggestions to amend the intra-company transfer route presented later on in this chapter were based on consideration of them. We have also considered the issue of trade agreements,

and their link to intra-company transfers, as discussed in Chapter 2. Having given the matter careful consideration, we have nevertheless decided to include intra-company transfers in our calculation of the required limit for Tier 2. Although we have sympathy for the counter-arguments, our reasons for including intra-company transfers in the limit are as follows:

- It is an inescapable fact that the intra-company transfer route is by far the largest component of Tier 2. It accounted for 60 per cent of the total Tier 2 inflow in 2009. It is difficult to see how a limit on Tier 2 can make a substantial contribution towards reducing net migration unless intra-company transfers are included, especially given the possibly limited scope to boost outflows from other Tier 2 routes over the short term.
- Even if certain companies and sectors are neutral or negative net contributors to work-related migration, emigration of workers from those companies and sectors will anyway be counted in the overall net migration figure. Substantial additional reductions in net migration are required in order to achieve the Government's aim of overall net migration in the 'tens of thousands'.

9.42 If intra-company transfers were to be included in the limit, some partners supported the suggestion in the Government's consultation document that those of under 12 months' duration should not be limited. We discuss visas issued for less than 12 months under Tier 2 routes later in this chapter.

### 9.3 Trajectory

9.43 This section discusses what trajectory reduced migration through Tiers 1 and 2 should follow, in line with the reductions in work-related net migration set out in Chapter 6. As discussed earlier, we assume that the objective will be achieved over four years, with the final one being April 2014 to March 2015.

9.44 We set out three potential options for the trajectory for Tiers 1 and 2 in our consultation document in June this year:

- make smaller reductions to begin with, and larger ones later on; or
- make similar reductions each year; or
- make larger reductions to begin with, and smaller ones later on.

9.45 In Chapter 6, we considered what precise objective for net migration is consistent with the Government's objective of reducing net migration to the tens of thousands, and what contribution Tiers 1 and 2 can make over the four years. We concluded by presenting two options for Tiers 1 and 2 total contribution to the net migration reduction, as measured in the IPS:

- Option A: a net migration reduction of 7,300 main applicants per year;
- Option B: a net migration reduction of 3,650 main applicants per year.

9.46 These options were expressed in net migration reductions per year, and would be consistent with a linear trajectory: in other words reducing net migration by the same amount each year.

9.47 A number of considerations were raised in the evidence we received from partners, which we have considered. Some themes were particularly prominent in terms of trajectory.

### Skills

9.48 The time required for up-skilling was frequently raised as a rationale for making smaller reductions in earlier years. We were told that there are often considerable lead-in times to up-skilling UK workers in order to fill jobs that would otherwise have been filled by migrants.

*“Alternatives to employing Tier 1 and 2 migrants, including training and up-skilling of the resident workforce in Scotland will take time to achieve.”*

Scottish Government response to MAC consultation

9.49 For example, the Society of Radiographers said there is a considerable lead-in period before any impact of extended training will have an impact on the availability of sonographers, which is an occupation currently on the shortage occupation list. The UK Screen Association told us that there was a global skills shortage of experienced visual effects workers and there is no alternative in the short to medium term to

hiring migrant workers in addition to employing those from the UK and EEA.

- 9.50 The UK Commission for Employment and Skills (UKCES) stated that the UK is already experiencing serious skills deficiencies in a number of key occupational groups which are currently being mitigated by employing non-EEA migrants. It said that up-skilling for highly skilled occupations could take between 1 and 3 years even without taking account of the need for appropriate work experience. According to the UKCES, one way to offset the negative effects of a limit would be to up-skill the UK population to help alleviate shortages.

*“Policy-makers should turn this potential threat to UK competitiveness into an opportunity to raise employer ambition and to encourage employers to invest into the training and skills development of the UK resident workforce.”*

UKCES response to MAC consultation

- 9.51 The Skills Funding Agency told us that there are a number of ways the Government and other bodies can facilitate a shift in employer behaviour to reduce reliance on migrant labour. These include increasing employers’ engagement with the employment and skills systems and gathering information to find out which qualifications employers want job applicants to have to fill skills shortages. The Skills Funding

Agency told us that the monetary and time costs of up-skilling need to be taken into consideration.

*“It is important for employers to take responsibility for identifying skills requirements as well as investing training in their staff rather than relying on government funding for training.”*

Skills Funding Agency response to MAC consultation

- 9.52 The Department for Work and Pensions (DWP) told us that it is committed to support the limits on net migration by increasing the supply of domestic workers to take up vacancies that might otherwise be taken by non-EU migrants or remain unfilled. However, up-skilling domestic workers will take time, especially as this will be during a period of expected economic growth.

*“There is a range of activity already underway to ensure more UK residents are seeking work and have the necessary skills. However, this work will necessarily take time to develop and put in place. For example, the Work Programme which will provide an integrated package of support to help unemployed people back into sustained work will be introduced from summer 2011”.*

Department of Work and Pensions response to MAC consultation

9.53 Some corporate partners suggested that progress could be made over a four-year time horizon. At one of our partner events we were told that an engineering firm would use the time offered by a more gradual trajectory to bring in experts from abroad to work alongside, and train, their UK counterparts.

9.54 On the other hand, we were told that up-skilling for many jobs could take in excess of four years, or was not a viable alternative, so it might not be a relevant consideration for the trajectory. For example, some employers told us that there were jobs where up-skilling was not viable because a job was so specialised or because talent was being sought in a global market.

*“Compared to most other professions, the training period for scientists is extremely long. In the life sciences, becoming a specialist researcher of the type employed by the Wellcome Trust Sanger Institute would be likely to involve three years of undergraduate study, four years of postgraduate training and three or more years of postdoctoral work. Training a person to this level is also very expensive.”*

*“The UK’s world-class research institutions need to be able to hire the best individuals in their fields, not simply a UK or EEA individual who is ‘good enough’”.*

Wellcome Trust Sanger Institute  
response to MAC consultation

*“Given that so many of our posts are highly specialised, and funded by limited-term grants from external funding bodies and other organisations, it is frequently not practicable for us to train resident workers, both because of the specialised background required and because of time constraints.”*

University of Oxford response to  
MAC consultation

9.55 At one of our consultation events, some employers expressed the view that, if there are going to be negative impacts, it may be best for reduced access to migrants to come into force sooner rather than later, in order that companies can plan for the future with greater certainty.

9.56 Whatever the precise trajectory for migration through Tiers 1 and 2, it is clear that an acceleration in activity to train and upskill UK workers to fill some of the jobs currently done by migrant workers is imperative in terms of mitigating significant adverse economic consequences that could otherwise result from limits on migration through Tiers 1 and 2. Box 9.3 presents the evidence we received from the UKCES on this point.

### Box 9.3: Evidence from UK Commission for Employment and Skills

“...If any reduction in work related migration is implemented, it will be essential to mitigate its negative effects through action to ‘fill the gap’ created, with indigenous workers through:

- Up-skilling the UK working age population.
- Improved Information, Advice and Guidance.
- Making the occupation/jobs more attractive by improved pay and conditions and other means.
- Increasing innovation in the ways of working by improving technologies to reduce dependence on labour.

“We recommend an enabling framework of policy responses aimed at:

1. **encouraging skills development of the UK working age population** by encouraging employers to invest in skills development and training;
2. **improving the skills and employment system through improving the provision of high quality information, advice and guidance (IAG)** (both of these are aimed at up-skilling the UK working age population);
3. **improving the attractiveness and perception of certain sectors and occupations** to encourage the domestic workforce to (re) train and seek work in those occupations; and finally,
4. **improving innovation and technological advances in some occupations to make them less reliant on labour** and increase their knowledge and skills intensity.

“These actions will require time to impact, most notably, action on up-skilling for highly skilled occupations which can take between 1 and 3 years even without building the appropriate work experience. **Consequently, we recommend a trajectory for any T1/T2 reductions which starts very low and increase gradually in line with improvements in the skills available in the indigenous workforce.**”

Source: UK Commission for Employment and Skills response to MAC consultation

- 9.57 We agree with the UKCES that action on skills is critical and **we suggest taking action to ensure that the skills and training system plays a key role in systematically identifying** **and addressing shortages, of economically or otherwise important workers, that might otherwise occur as a result of, or be exacerbated by, limits on work-related migration.**

### The economic cycle

9.58 The economic cycle was raised by a number of partners as a consideration. It was argued that the level of the limit should reflect the relative state of the UK labour market at a particular point in time. The UK economy is currently emerging from recession. Some corporate partners expressed the view that reducing the pool of skilled workers that employers could recruit from had the potential to limit the ability of companies to grow, thus hindering the economic recovery.

*“Every effort must be made to ensure the economic routes remain flexible enough to meet demand, which we would expect to increase as the economic situation in the UK improves.”*

Confederation of British Industry response to MAC consultation

*“Without these migrants, economic recovery is put at risk as companies fail to fill job vacancies with potentially damaging effects on output and growth. Companies may fail to expand or expand less than they would do otherwise.”*

UKCES response to MAC consultation

9.59 The argument above could be used to support a smaller reduction in net migration in early years. On the other hand, the analysis of the UK labour market presented in Chapter 3 demonstrated that it has not yet fully recovered from the

consequences of recession. This could provide a rationale for making larger reductions to begin with, and smaller ones as the labour market becomes tighter in future years.

### Implications for trajectory

9.60 On balance, we think there is merit in the argument that employers should be given time to adjust to limits on migration, and this implies that limits on Tiers 1 and 2 should become increasingly restrictive over time.

9.61 A linear trajectory can be considered consistent with the above. The reductions of 7,300 or 3,650 per year in net work-related non-EEA migration as discussed above are additive on a year-on-year basis: compared to the baseline year of 2009, the higher of these two figures implies a reduction of 7,300 in year one, and 14,600 in year two, and so on.

9.62 A trajectory that delayed the largest cuts until the later years of this Parliament would also be consistent with limits becoming more restrictive over time, but this risks employers limiting or delaying action required to accelerate the training and up-skilling of UK workers.

9.63 Taking the above into account, and also bearing in mind that the uncertainties involved mean that it is unlikely we can plan for a very precise trajectory anyway, **the required limits we set out for Tiers 1 and 2 in 2011/12 are based on the assumption that inflows through those routes will fall by the end of this Parliament according to a linear trajectory.**

## 9.4 Numerical levels of limits on Tiers 1 and 2

- 9.64 In summary, our suggested limits include:
- out-of-country immigration through the Tier 1 General route; and
  - out-of-country immigration via Tier 2 Resident Labour Market Test (RLMT), shortage occupation, and intra-company transfer routes.
- 9.65 Our suggested limits exclude:
- dependants (although we also examine an additional scenario including dependants);
  - in-country switchers and extenders (with the possible exception of those switching from Tier 2, whose previous visa was for under 12 months, discussed later).
- 9.66 Later on in this chapter we discuss whether Tier 2 migrants with visas of under one year should be excluded from the limit for that Tier, but the calculations immediately below assume that all migrants through relevant Tier 2 routes are included.
- 9.67 Chapter 6 identified two potential options for reductions in IPS net migration via Tiers 1 and 2 that would be consistent with the Government's objective of reducing net migration to the tens of thousands by the end of this Parliament. However, these do not translate into reductions in numbers of visas on a one-to-one basis. Therefore, in this section we consider the implications for actual visa numbers in 2011/12.

9.68 Volumes of visas issued for work-related migration are considerably higher than the inflows of work-related migrants in the International Passenger Service (IPS). The most important reason for the difference between IPS and visa inflows is likely to be the fact that some visas are issued for people who do not intend to come to the UK for a year or more. Unfortunately, it is difficult to accurately disaggregate those coming for short periods from visa figures. These short-term visa holders are not counted by the IPS, because they do not meet the definition of long-term migrants. Also, some individuals who are issued visas do not come at all. For example, a major IT company that uses the intra-company transfer route told us that it invariably allocates more Certificates of Sponsorship than the number of transferees who actually come to the UK.

9.69 We therefore compared visa flows with migration inflows recorded in the IPS and derived scaling factors to allow us to convert changes in IPS flows to changes in visas. In order to calculate the reduction in visas required to achieve a given reduction in IPS inflows, we need to divide the IPS figure by the scaling factor. A detailed discussion on how we estimated the scaling factor is presented in Annex B. Table 9.1 presents the total visa reduction and the resulting out-of-country limit for Tier 1 and Tier 2 for the two options A and B identified in Chapter 6.

**Table 9.1: Converting options for lower International Passenger Survey work-related migration inflows into reductions in visas for Tiers 1 and 2 in 2011/12**

		IPS reduction (1)	Scaling factor (2)	Corresponding visa reduction (3)	Total Tier 1 and Tier 2 2009 visas granted	Resulting out-of-country limit for Tier 1 and Tier 2
<b>Option A</b>	Main applicants	7,300	0.58	12,600	50,010	37,400
<b>Option B</b>	Main applicants	3,650	0.58	6,300	50,010	43,700

Note: (1) The IPS reduction required is the 2011/12 contribution of Tiers 1 and 2 to the overall reduction in non-EU IPS migration that is required to meet the Government's objective. These figures were calculated in Chapter 6. (2) The scaling factors represent the average ratio between visas and corresponding IPS inflows between 2006 and 2009. (3) The visa reduction applies to the routes within Tiers 1 and 2 that are in scope for limits: Tier 1 General and the intra-company transfer, Resident Labour Market Test and shortage occupation routes. The resulting out-of-country limits for 2011/12 are rounded to the nearest 100.

Source: MAC analysis

**9.70** Option A assumes that Tier 1 and 2 main applicants make a combined contribution on behalf of all work-related migration. This implies a contribution that amounts to 20 per cent of the required reduction in non-EU migration. Option B assumes that Tier 1 and 2 main applicants make a combined contribution in proportion to their actual share of IPS inflows. This implies a contribution of 10 per cent, but would additionally require that Tier 5 and permit-free employment also make a 10 per cent contribution to reducing net migration in proportion to their share of inflows. The 10 per cent represents the share that Tiers 1 and 2 inflows account for in IPS inflows.

**9.71** Therefore, **our best estimate is that the Government objective to reduce net migration to the tens of thousands by the end of this Parliament implies a reduction, compared to 2009, of 6,300 or 12,600 visas to be issued in 2011/12. The total required limit for Tier 1 General and Tier 2 combined in 2011/12 is, therefore, between 37,400 and 43,700.**

**9.72** In order to calculate these limits we use the latest annual published full-year visa data, for 2009, as our baseline. The Government may choose to apply the reductions to a more recent baseline before the actual limits are put in place in April 2011. However, if more recent data indicate significant changes to migration flows via Tiers 1 and 2 or other routes, the assumptions made in Chapter 6 to calculate the required reductions may change.

9.73 We have had to make numerous assumptions, based on our analysis of the available data, in order to calculate the above visa reductions. Some of the calculations we made, and associated assumptions, are set out in Annex B of this report.

## 9.5 Balance between Tiers 1 and 2

9.74 The next step in our analysis is to translate the total reduction in Tier 1 and 2 visas set out in Table 9.1 into separate reductions for Tier 1 General on the one hand, and Tier 2 on the other.

9.75 As shown in Chapter 3, 14,300 visas for main applicants from outside the UK were granted under Tier 1 General (and its predecessor, the Highly Skilled Migrant Programme (HSMP)) in 2009. In the same period, 35,700 out-of-country visas for main applicants were granted for routes that are within the scope of the limit for Tier 2 (intra-company transfers, RLMT and shortage occupation routes, and predecessor work permits). Tier 1 therefore accounts for approximately one third of current flows within the scope of a limit.

9.76 One option would be to allocate the visa reductions in Table 9.1 proportionately across the two tiers, so that the absolute reduction to Tier 2 is twice as large as that to Tier 1. However, it is appropriate to consider whether either tier should be cut by a disproportionately large amount, in order that the other tier takes a proportionately smaller cut. The evidence received from our partners on this issue is set out below.

## Evidence

9.77 One of our key criteria for policy suggestions is better identification and attraction of migrants who have the most to contribute to the UK. We therefore consider the evidence in relation to the relative importance of Tiers 1 and 2 on this basis.

9.78 We received a much larger volume of evidence relating to Tier 2 than Tier 1. Submissions arguing in favour of Tier 2 heavily outnumbered those arguing for Tier 1 to be protected.

*“As a University we value being able to use both routes and whilst we do not extensively use Tier 1 we would not wish to see a reduction of numbers in this Tier, however the impact on the University would be less significant, than a reduction in Tier 2.”*

Cranfield University response to MAC consultation

9.79 The Chartered Institute of Personnel and Development told us that its members primarily use Tier 2 to recruit non-EEA workers. They said the impact of reducing the number of migrants through Tier 1 would be minimal in comparison to any reduction in the number of migrants through Tier 2.

9.80 We also heard from Balfour Beatty Utility Solutions (BBUS) that it would not notice a significant impact of reducing the number of migrants through Tier 1. They said that reducing Tier 2 migration would put at risk the completion of key infrastructure projects which

would jeopardise the security of supply of electricity and put the health of the UK economy at risk.

*“BBUS, and the wider utilities sector within which it operates, would be hugely impacted through reducing tier 2 migrant’s entry into the UK.”*

Balfour Beatty Utility Solutions  
response to MAC consultation

*“Provided the Tier 2 route remains as currently defined the impact of Tier 1 reductions would be negligible.”*

Doosan Babcock response to MAC  
consultation

9.81 Oil and Gas UK told us that although Tier 1 is an important way of increasing the available pool of skilled workers, and is used frequently by the sector, if a choice between the two routes had to be made, a sensible limit should be imposed on Tier 1 migration rather than on Tier 2.

*“Every effort must be made to ensure the economic routes remain flexible enough to meet demand, which we would expect to increase as the economic situation in the UK improves. As we have made clear in previous submissions to the MAC, **retaining flexibility in Tier 2 is the primary focus for CBI members.**”*

Confederation of British Industry  
response to MAC consultation

9.82 Some said that the impacts on both tiers were inter-related as employers would look to switch between routes for some employees depending on the nature of restrictions put in place.

*“Tier 1 is a common route of entry for scientists and researchers... The Wellcome Trust Institute advises prospective non-EU recruits who meet the criteria for Tier 1 to apply under this category as we consider it offers greater flexibility to employers and applicants than Tier 2.”*

*“If the criteria for Tier 1 are changed in a way that makes it more difficult for high-skilled scientists to qualify, it is likely that science employers will increasingly rely on Tier 2.”*

Wellcome Trust Sanger Institute  
response to MAC consultation

*“The impact from Tier 1 would become fundamentally greater if Tier 2 is restricted as most bank sector employees are, by nature of their earnings, defined as highly skilled and would seek to use this route if the other is not accessible.”*

Joint response from the Association of Foreign Banks and the British Bankers’ Association to MAC  
consultation

9.83 On balance, the evidence supports a greater proportionate reduction to Tier 1 than to Tier 2 in 2011/12. We apportion the reduction in net migration between the two routes on that basis. The Government may choose, however, to apportion visas between Tiers 1 and 2 on a different basis to that which we use below.

**9.6 Levels of limits on Tiers 1 and 2 in 2011/12**

**Calculations**

9.84 A simple way of apportioning reductions so that the burden falls more heavily on Tier 1 is simply to split the required reduction, in absolute terms, between Tiers 1 and 2 equally. To put it differently, because Tier 1 is half the size of Tier 2, in proportionate terms the burden falls twice as much on Tier 1 as Tier 2. Using 2009 as the baseline year, Table 9.2 sets out the required reduction and the resulting out-of-country limits for Tiers 1 and 2.

9.85 The figures in the right-hand column of Table 9.2 provide the basis for our suggested limits for Tiers 1 and 2. It would be reasonable to view these two options as the boundaries of a range of possible options.

9.86 For Tier 1, the required overall reduction translates into:

- a reduction in the number of entry clearance visas issued, compared to 2009, in the range of 3,150 to 6,300; and therefore
- a limit on the number of Tier 1 entry clearance visas in the range of 8,000 to 11,100 in 2011/12.

9.87 Correspondingly, for Tier 2 the required overall reduction should translate into:

- a reduction in the number of entry clearance visas issued, compared to 2009, in the range of 3,150 to 6,300; and therefore
- a limit on the number of Tier 2 entry clearance visas in the range of 29,400 to 32,600 in 2011/12.

**Table 9.2: Apportioning visa reductions for main applicants between Tiers 1 and 2 for a 2011/12 annual limit**

		2009 visas granted	Required reduction in visas for 2011/12	Resulting out-of-country limit for 2011/12
Option A	Tier 1 General (and HSMP)	14,265	6,300	8,000
	Tier 2 main routes (and work permits)	35,745	6,300	29,400
Option B	Tier 1 General (and HSMP)	14,265	3,150	11,100
	Tier 2 main routes (and work permits)	35,745	3,150	32,600

Note: The required reduction in visas is derived from calculations in Table 9.1. The resulting out-of-country limit is calculated by subtracting the reductions from the 2009 baseline. Options A and B are based on the assumption that all visas, regardless of their durations, are included in the annual limits. The resulting out-of country limits for 2011/12 are rounded to the nearest 100. Source: Control of Immigration Statistics, 2009; MAC analysis

9.88 2009 is the most recent year for which published visa data are available. The Government could apply the required reductions to more recent data, if these data show flows of similar orders of magnitude, to the extent that our assumptions about IPS flows discussed in Chapter 6 remain broadly valid. It may also, on that basis or some other, decide to apportion visas between Tiers 1 and 2 on a different basis to that used above.

9.89 The above figures do not include dependants. If dependants were to be included in the limits, the limits would need to be higher to reflect that. We may calculate how much higher using visa data on the ratio of dependants to main migrants under Tier 1 General and Tier 2 (and the previous work permit route) as set out in Table 3.3 of this report. The ratios are 0.8 and 0.7 respectively. The implications of including dependants in the limits on Tiers 1 and 2 are as follows:

- **a limit on the number of Tier 1 entry clearance visas for dependants in the range of 6,400 to 8,900 in 2011/12.**
- **a limit on the number of Tier 2 entry clearance visas for dependants in the range of 20,600 to 22,800 in 2011/12.**

9.90 Implementing a limit on dependants may be complicated by the fact that some dependants arrive after main applicants have entered the UK. The ratios therefore incorporate some of this lag and there may be issues of legitimate expectation for dependants of migrants already

in the UK. The limits for Tier 2 main migrants and dependants do not include the sportspeople or ministers of religion routes.

### Caveats

9.91 The above limits, for main migrants and dependants, are calculated on the assumption that all visas, including those of less than 12 months, are covered by the limit. If visas lasting for less than 12 months were to be excluded, the levels of the limits would need to be adjusted to account for this. This could be done by subtracting the number of visas expected to be issued for under 12 months from the baseline (2009 visas granted in Table 9.2) and applying the required reductions to the revised baseline.

9.92 Excluding visas of less than 12 months from the limit could also have an impact on the scaling factor we have used to translate IPS inflows into the number of visas issued. It is not possible from the information available to us to estimate this impact but it is possible that, in time, a better estimate of the scaling factor could be produced.

9.93 Under certain circumstances, both Options A and B are consistent with Tiers 1 and 2 making a contribution to net migration in the tens of thousands by the end of this Parliament, following a linear trajectory towards that objective. However, they are based on numerous assumptions and judgements, which are set out in this report and discussed in the following section.

## Determining the final limits on Tiers 1 and 2

9.94 Some of the assumptions are required due to the inherent uncertainty involved in trying to influence overall net migration using Tier 1 and 2 migration as a lever, when those tiers only account for a small proportion of total net migration. The assumptions we have had to make about British and EU migration fall into that category. The Government has little control over these factors. Taken literally, the Government's objective would imply stricter limits on non-EEA migration if, for instance, Bulgarians and Romanians gaining free access to the UK labour market leads to an increase in net EU migration from those countries. The reverse logic would also apply if net EU migration fell due to other countries, such as Germany, fully opening their borders to workers from the A8 countries that acceded to the EU in 2004.

9.95 Some of the required assumptions, however, are with regard to migration policy and its objectives. The Government does have some control over these factors. The final decision whether to choose limits towards the top or bottom of our suggested ranges, or even outside them, needs to be influenced by consideration of various factors, listed below.

9.96 The Government may need to aim towards the lower end of our range, or potentially even below it (i.e. may need to make the deepest cuts to visas in 2011/12) under the following circumstances:

- Tiers 1 and 2 bear the total proportion of the total cut in migration relative to inflows through all economic routes, including Tier 5 (i.e. 20 per cent), rather than simply in proportion to the shares of Tiers 1 and 2 alone (i.e. 10 per cent).
- The Government decides to aim for overall net migration of below 50,000, in order to be more confident of achieving net migration of under 100,000.
- The Government decides to aim to reduce net migration to the tens of thousands by 2013, the last complete year for which Long Term International Migration (LTIM) data will be available, according to current reporting schedules, by the time of the presumed General Election in May 2015.
- Family migration takes less than its proportionate share of the required reduction in net migration, meaning that larger cuts have to be found elsewhere.
- Non-EEA students take a disproportionately low share of the reduction in overall net migration, or continue to rise rapidly as in recent years.
- Flows through the Post-Study Work Route (PSWR) remain at their current levels, or increase.
- The ratio of dependants to main migrants increases from 2009 levels.

9.97 Alternatively, the Government would be able to aim towards the higher end of our range, or potentially even above it (i.e. may need to make the least severe cuts to visas in 2011/12) under the following circumstances:

- The Government decides to aim for overall net migration of higher than 50,000, targeting, for instance, a figure of 80,000 or 90,000 instead. Annex C provides an illustrative example of what an objective of net migration of 80,000 would imply for Tier 1 and 2 reductions.
- Policy is put in place so that out-of-country reductions to Tiers 1 and 2 can be traded-off against increased outflows achieved through reductions to in-country extensions and switching (although it is important to note that the required limits currently hold outflows constant, during a period when inflows will fall, meaning that some such policy to boost the ratio of outflows to inflows will be required anyway to keep in line with the required trajectory for net migration). The full impacts of action to boost outflows, however, may not be experienced by the end of this Parliament.
- Family or student migration takes more than its proportionate share of the required reduction in net migration.
- Flows through the PSWR fall, or the route is closed down altogether.

- The ratio of dependants to main migrants decreases, possibly as a result of policies with this aim in mind.

9.98 In addition, the Government could aim to achieve less than 10 and 20 per cent of its objective for net migration through reductions to Tiers 1 and 2, possibly on the basis that those tiers are judged to be more economically beneficial, and that work-related migration accounted for a higher share of non-EU migration in the early to mid-1990s, when net migration was last in the tens of thousands. It could also choose to apportion visas between Tiers 1 and 2 on a different basis to that which we have used above. For example, the Government could decide that Tiers 1 and 2 should bear only 5 per cent of the total required reduction in migration.

9.99 Another policy option is to consider whether the link between work-related migration and settlement should be weakened. Such a policy could have significant effects on net migration in the long term, although less so before the end of the current Parliament. This is discussed further below.

9.100 The next sections in this chapter set out options, within the context of the above limits, to avoid or mitigate potentially significant adverse economic consequences.

## 9.7 Policy options for Tier 1

9.101 This section summarises the evidence received in relation to Tier 1, and considers some policy options for reducing flows through Tier 1 General. The PSWR under Tier 1 is also briefly discussed: the PSWR is outside the scope of our suggested limit, but it is a work-related route, and subsequent action in relation to the PSWR may affect the scale of visa reductions under Tier 1 General and Tier 2 to meet the Government's target of net migration in the tens of thousands.

9.102 When we last reviewed Tier 1 General in MAC (2009e) we concluded that *“there remains a strong rationale for attracting highly skilled immigrants to the UK and that the Tier 1 General route plays an important role in attracting highly skilled immigrants”*. Our recommendations included a recalibration of the points awarded for age, prior earnings, qualifications and UK experience in order to better select the brightest and the best. The recommendations regarding the points table were accepted by the former Government, and provided the basis for the Tier 1 points table set out in Chapter 2 of this report, although the pass mark was raised from 95 points to 100 points by the Government alongside the introduction of interim limits.

## Evidence

9.103 As stated previously, the majority of the evidence we received was in favour of protecting Tier 2. However, we also received evidence which made the case for Tier 1. Some businesses argued that it was important that they were able to recruit the brightest and best candidates and this was essential to the UK's economic success.

9.104 Bechtel told us that they employ a number of Tier 1 immigrants and if restrictions are enforced some may not be able to secure leave to remain in the UK. They also said that, as the economy rejuvenates, Tier 1 migrants will be in high demand. BT also expressed concerns regarding restrictions on Tier 1.

*“Highly skilled migrants are globally mobile and provide a positive contribution to any economy.”*

BT response to MAC consultation

*“...if severe restrictions are put on the Tier 1 (General) route it would make the UK a less attractive place for individuals to come to the UK to work and would severely hamper our members' ability to recruit the “brightest and best” to work in the UK, thereby hindering our members' local and global competitiveness.”*

Joint response from the Association of Foreign Banks and the British Bankers' Association to MAC consultation

*“It’s important for the UK economy that it is open and attractive to the best talent in the world, and those global high flyers considering coming to the UK face a visa process that is quick and that has a predictable outcome.”*

Sybersolve Solutions Ltd response to MAC consultation

9.105 Fluor Limited told us that due to the economic downturn any reduction in numbers for Tier 1 would not have a big effect on their company. However, they did argue that employers may favour Tier 1 over Tier 2 because the absence of a sponsorship requirement reduces administrative costs and may speed recruitment.

9.106 Some corporate partners told us that highly skilled non-EEA migrants prefer the flexibility of using Tier 1, while other employers made the case that both Tiers 1 and 2 should be protected equally.

*“...highly skilled non-EU nationals prefer to apply to come to the UK under Tier 1 (General) as it is the immigration category which gives them the most flexibility in relation to the type of work they are able to do in the UK.”*

Joint response from the Association of Foreign Banks and the British Bankers’ Association to MAC consultation

*“Both Tier 1 and Tier 2 migrants bring enormous talent and skills to the UK, in turn benefiting businesses and the economy as a whole as well as passing valuable skills and knowledge to resident workers.”*

KBR response to MAC consultation

9.107 Some responses to our consultation said that, given a choice of where reductions should fall, they favoured Tier 1 being reduced more than Tier 2. For example, FactSet Europe told us that although they saw value in both Tier 1 and Tier 2, if forced to state a preference, they would favour a moderate reduction in the number of Tier 1 (General) migrants.

9.108 If there was more flexibility in Tier 2 routes some employers said they would prioritise the usage of that route over Tier 1. So Tier 1 reductions might be acceptable if Tier 2 could be used as an alternative.

9.109 We received some evidence from partners who did not favour immigration via Tier 1 at all. We were told by some corporate partners that Tier 1 workers came to the UK without a job offer whereas those using the Tier 2 route were coming to fill an identified shortage in a skilled occupation.

*“Migration should be reduced exclusively through the Tier 1 route. Tier 1 individuals are coming to the UK on a speculative basis, and are by definition the lower priority than the Tier 2 route which is for individuals required specifically for employment by employers.”*

Masala World response to MAC consultation

*“Although Tier 1 is for highly skilled the jobs the migrants undertake overseas may have little or NO relevance to UK employers. Often jobs that migrants under Tier 1 undertake are low paid and unskilled and irrelevant to the jobs they did overseas.”*

Las Iguanas response to MAC consultation

9.110 We could have suggested that Tier 1 General was closed down (i.e. a limit of zero for that tier), either immediately or over time, in recognition of the fact that the employer evidence received was heavily in favour of Tier 2. However, Tier 1 may favour new companies that have not previously used migrant labour, and thus boost entrepreneurship. Furthermore, on the basis of the arguments presented above, we favour a more moderate option where Tier 1 remains open but measures are taken to improve the ability of the route to select only the brightest and the best. This requires action over and above our previous recommendations on Tier 1 because, in the context of limits on migration, each additional Tier 1 migrant is effectively displacing a Tier 2 migrant.

9.111 The Government is considering introducing a cap and pool mechanism for Tier 1, where the candidates with the highest points within the pool would periodically be invited to apply for entry to the UK. This potential mechanism was not within the scope of our consultation, and so we did not give it close consideration, although we see the benefits of a system that selects the migrants that are most skilled, according to their characteristics. We note, however, that some employers expressed dissatisfaction at the uncertainty a cap and pool mechanism would create as migrants wait to find out if they have sufficient points to enter the UK.

9.112 Below we look at three further aspects of Tier 1 that could be amended to improve its selectivity. They could be implemented alongside either a cap and pool or queue mechanism. They are calibration of points, checks made at the extension stage, and use of salary multipliers.

### **Pass mark and points thresholds**

9.113 The most straightforward method of improving the selectivity of Tier 1 is through amending the pass mark, as the Government did alongside the introduction of interim limits. Advantages of simply amending the pass mark are that such an approach is clear, transparent and simple.

9.114 An alternative is to recalibrate the actual points awarded for different criteria, such as prior earnings and qualifications, or the thresholds associated with certain points. For example, 25 points are

currently awarded for earnings between £40,000 and £49,999. The points awarded for that level of earnings could be reduced to 20, or the minimum threshold for 25 points could be raised to £45,000 or £50,000. An advantage of recalibrating the points in this manner is that it allows more precise consideration of the balance between different criteria than simply raising the passmark. We took this approach in MAC (2009e).

- 9.115 In response to our consultation we received some evidence for changing the points criteria for Tier 1. Sybersolve Solutions Ltd told us that if cuts to Tiers 1 and 2 have to be made, it could make sense to raise the pass mark further so that Tier 1 was a route for top-level professional staff.

*“Having set a desired level of Tier 1 visa issuance, we strongly support using the pass mark as the primary and overwhelmingly dominant tool to bring the number of applications into balance with the quota.”*

Sybersolve Solutions Ltd response to MAC consultation

- 9.116 As demonstrated in Chapter 7, the mostly highly paid migrants are likely to contribute the most to Gross Domestic Product (GDP), and make the most positive net fiscal contribution. In a situation where overall numbers of work-related migrants are limited, given that past earnings are a good indicator of likely future earnings, the analysis in Chapter 7 provides further support for raising the earnings thresholds under Tier 1 General.

- 9.117 Under the limits set out above, inflows through Tier 1 General will have to fall. As a general rule, we favour recalibration of the points, rather than simple changes to the pass mark, as the best method of doing this. Therefore, **we suggest that the Tier 1 points table is periodically recalibrated in order to ensure that it appropriately selects the most skilled migrants, in the context of an overall limit on that tier.**

- 9.118 Progressively more restrictive limits on Tier 1 General over time suggest progressive raising of the points criteria. Our view is that, in the first year, the points should be raised to such an extent that they effectively take up most or all of the slack in terms of likely over-subscription of Tier 1 after the reduction in flows that any other policy changes in the first year of annual limits would bring about. Raising the points thresholds in this way would provide employers and potential migrants with greater certainty, and reduce the number of unsuccessful applicants to the Tier 1 General pool under a pool and cap system. We would be happy to work with the UK Border Agency on any required recalibration if the Government wished us to do so.

### Checks at the extension stage

- 9.119 In our previous report on Tier 1 we recommended that the initial leave to remain entitlement be reduced from three to two years, with a three-year extension subject to evidence that the individual is in highly-skilled employment. The limited evidence we had at that time suggested that most Tier 1 migrants find skilled employment

relatively quickly. Therefore, we concluded that two years would be a sufficient amount of time to find appropriate employment within the UK instead of the previous three.

- 9.120 As presented in Chapter 2, in order to extend their leave after the initial two year period, migrants need to meet points' requirements that are currently awarded on the basis of the applicant's age, qualifications and earnings. Migrants also need to meet the maintenance and the English language requirements.
- 9.121 In addition, migrants can score an additional 5 points for UK experience, as shown in table 2.5. However, none of these criteria take account of the occupation in which the migrant is employed. It is conceivable that migrants could be earning enough to meet the required threshold by holding down more than one job in a low-skilled field. The extension criteria do not require the migrant to be in a skilled or highly-skilled occupation. Particularly in the context of a limit, we believe that only those migrants in highly skilled occupations should be allowed to extend under Tier 1. Therefore, **we suggest that the additional requirement to be employed in a skilled graduate-level occupation should be introduced at Tier 1 extension stage.**
- 9.122 There already exists a potential list of highly skilled occupations that could be used by the UK Border Agency to apply this requirement. Elias and Purcell (2004) analysed the 353 4-digit occupations in the Standard Occupational Classification (SOC) 2000 to identify 'graduate'

occupations. Their analysis looked at changing qualifications in the workforce, together with survey evidence. It also incorporated more fine-grained information acquired using the development of SOC 2000 on behalf of the Office for National Statistics. In MAC (2008a) we used this list of 148 graduate occupations in order to calibrate our analysis of occupations skilled to NQF level 3 or above – the current skill level at which Tier 2 aims. However, two 'graduate' occupations failed our top-down skilled test in that report: occupations 1224 (Publicans and managers of licensed premises) and 4137 (Market research interviewers) were not included. Subtracting these two occupations from the Elias and Purcell's list might provide a ready-made list of graduate jobs that the UK Border Agency could use to apply the requirement we suggest above. Once the new SOC 2010 occupational classification becomes fully operational in relevant labour market datasets, this list may need to be updated.

### Salary multipliers

- 9.123 As explained in Chapter 2, to reflect differences in income levels across the world, and in the pay of equally skilled workers, the earnings level required to score points varies depending on where the applicant was working at the time they earned the money. The UK Border Agency uses a series of calculations (known as salary multipliers) to bring salaries previously earned overseas in line with UK equivalents. The level of uplift depends on the average income in the country in which the earnings were made.

9.124 We received no written evidence on salary multipliers, and they were not a major theme raised with us at our consultation events, potentially suggesting that their key role within Tier 1 is not widely known, and that, as currently designed, they are not providing a barrier to employers bringing people in through Tier 1 General.

9.125 Nonetheless, the salary multipliers are a key component of Tier 1. In MAC (2009e), we identified four possible important issues with the methodology used:

- The multipliers have not been updated since 2002 and so it is very likely that the rankings of countries will have changed to some extent.
- The use of broad bandings for the multipliers means that the appropriate salary multiplier for countries at the top and bottom of each band can be a long way from the salary multipliers used for that band. As a result, migrants from some countries may be potentially benefiting from salary multipliers that are too high, and conversely those from other countries may be hindered by multipliers that are too low.
- The assumptions used to identify-highly-skilled individuals in the income distribution are based on out-of-date evidence.
- The observational breakpoints used to devise the original multiplier bands appear arbitrary.

9.126 As a result, we recommended the former Government carried out a full review of the salary conversion model prior to introducing the recommendations we made in relation to Tier 1. Specifically, we suggested that the review should consider whether, if the current approach is to be retained, it should be refined and/or updated or whether the entire approach should be fundamentally amended.

9.127 The former Government accepted our recommendations in this regard and commissioned the Home Office to review the model but, in the meantime, our other recommendations on Tier 1 were also accepted and implemented while keeping the same multipliers in use. We understand that the UK Border Agency plans to implement a revised salary conversion model in April 2011.

9.128 The revised multipliers have not yet been implemented because a full review requires updating the data previously used such as GDP per capita (Purchasing Power Parity) and income distribution for all the countries. Data on the latter are scarce and difficult to collate.

9.129 In Table 9.3, we list the top 10 nationalities for out-of-country Tier 1 General approvals between the first quarter of 2009 and first quarter of 2010. India was the top source country, accounting for 41 per cent of total main migrants, followed by Australia with 12 per cent, Pakistan with 10 per cent, and the United States with 9 per cent. Of the top 10 countries, three were in Band A, one in Band B, two in Band C, three in Band D, and one in Band E. Looking

**Table 9.3: Top 10 migrant nationalities of approved main applications through Tier 1 General, 2009 Q1 to 2010 Q1**

Nationality	Percentage of Tier 1 General	Salary multiplier band
India	41	D
Australia	12	A
Pakistan	10	D
United States	9	A
Nigeria	6	E
New Zealand	3	B
Sri Lanka	2	D
China	2	C
Russia	2	C
Canada	1	A

Notes: The figures for Tier 1 General include granted main applicants only.  
Source: UK Border Agency management information, 2009 Q1 to 2010 Q1

at all countries, Bands D and E accounted for 63 per cent of approved main applicants through Tier 1 General.

9.130 It is notable that a high proportion of ‘highly-skilled’ migrants are coming from less developed economies. This could indicate that the current salary multipliers are making it relatively easy for migrants from those countries to come to the UK, compared to those from countries with lower salary multipliers.

9.131 In MAC (2009e) we also compared the ratio of Tier 1 out-of-country applicants to those under Tier 2. This showed that migrants from particular countries tend to display a relative preference for Tier 1 over Tier 2, and that this effect is more pronounced in the bands that display highest multipliers. We suggested that salary multipliers may favour

applications from lower income countries overall and within each band. The top five countries with the highest ratios of Tier 1 to Tier 2 applications were, in order, beginning with the highest: Nigeria (Band E); Armenia, Pakistan and Azerbaijan (all Band D); and New Zealand (Band B).

9.132 Appropriate multipliers are necessary to ensure the system gives fair access to suitably skilled migrants from any country. However, if the multipliers are incorrectly calibrated, this matters more in the context of limits on Tier 1 General and Tier 2 than previously, because it is possible that less skilled individuals will displace genuinely highly-skilled migrants, or skilled migrants with a job offer coming to fill a gap in the labour market.

9.133 Although we appreciate the difficulties involved in reviewing and updating the salary

multipliers, we are concerned about the fact that our suggested points table and revised criteria thresholds for Tier 1 General have been put in place alongside the current salary multipliers. Therefore, **it is important that a methodology for updating the multipliers is finalised and new salary multipliers are put in place as quickly as possible.**

### Further options

**9.134** The changes set out above are our preferred options for reducing flows through Tier 1 General in 2011/12, in the context of limits on migration. However, additional or alternative options the Government could consider are discussed briefly below.

**9.135** If there is a target for net migration supported by limits on non-EEA migration, an additional dependant coming to the UK effectively displaces a main migrant. One option is to **award extra points for bringing highly-skilled dependants**, as suggested in the Government consultation on migration limits. This could be supplemented by **points for bringing no dependants at all**. As discussed above, there may be legal barriers to awarding points for bringing no dependants. It is not self-evident that a migrant who brings a skilled dependant (who will, to an extent, consume public services and use an additional visa) should be given greater recognition in terms of points than a migrant who brings no dependants. Therefore, unless a legally sound basis can be found for awarding points for bringing no dependants, extra points for skilled dependants should probably not be awarded.

*“Given the potential for dependants to take up unskilled jobs that could otherwise be occupied by UK-non born workers, we believe that dependant numbers should be reduced by a greater proportion than migrant numbers. To address this, CIPD believes that immigrants with unskilled dependants should have their points reduced accordingly”.*

Chartered Institute of Personnel and Development (CIPD) response to MAC consultation

**9.136** Another option would be to **award extra points to migrants who can produce evidence that they have a firm offer of highly-skilled employment**. However, such a policy is potentially open to abuse, if migrants produce false job offers, and risks conflating Tiers 1 and 2.

**9.137** Currently, except for those earning under £150,000 per annum, the minimum qualification requirement for Tier 1 is a bachelor’s degree. Another way of limiting flows through Tier 1 General would be to **raise the minimum requirement to a master’s degree, or a bachelor’s degree plus a professional qualification**. However, as reported in MAC (2009e) we believe that many very highly-skilled people possess only a bachelor’s degree as their highest academic qualification. Although some such individuals will also have professional qualifications, not all will. Therefore, this is not one of our most preferred options for increasing selectivity through Tier 1 General.

## Post-Study Work Route

- 9.138 When we reviewed the PSWR in MAC (2009e), we considered the options of recommending closure of the PSWR and reducing the length of leave to remain that was granted. We also considered both the effects on university funding and graduate unemployment through labour market displacement. We saw no evidence of displacement and found that the effect of PSWR closure on current levels of university funding was likely to be comparatively small in relation to overall university budgets, but nevertheless significant, and likely to affect some courses and institutions more than others. We recommended that the PSWR be retained and its leave entitlement of two years be maintained.
- 9.139 We also noted in MAC (2009e) that the PSWR is probably one of the most generous schemes of its type in the world: *“[W]e believe the arrangements should be subject to regular review. It is also important that, if the route and its current leave entitlement are to be retained, flows into the PSWR represent the most highly skilled and highly qualified.”* We therefore recommended that the Government commission detailed analysis of economic returns to studying at particular institutions and for particular degree subjects. We also said the Government should then review whether the policy at the time with regard to equal PSWR allowance for graduates of all qualifying institutions and degree subjects should be amended.
- 9.140 In its response to our recommendations, the previous Government told us that the Department for Business, Innovation and Skills (BIS) had already commissioned research which would shed more light on international students’ experience of the PSWR, the jobs they take on and whether or not the availability of Post-Study leave to remain was decisive in them choosing to study in the UK. It was therefore decided that any further consideration of our recommendation should await the outcome of that research. We asked BIS about the outcome of this research and we were told that the first part of it has been completed but not published. The second and final part will be completed at the end of 2011.
- 9.141 Although the PSWR is not within the scope of our suggested limit, in the context of limiting work-related migration from outside the EEA, it is more essential than before that the design and coverage of this route is very closely examined. It is crucial that the economic returns to degree courses held by individuals coming through this route is fully reviewed, and the design of the policy is reviewed in line with those findings at the earliest possible opportunity.
- 9.142 If the route is maintained, in the context of the Government’s objective to reduce net migration, there may well be a case for: shortening the duration of stay allowed under this route; restricting it to master’s degree graduates only; restricting it to those institutions and courses which can be shown to generate

the greatest future economic returns for their students; or some combination of the above.

## 9.8 Policy options for Tier 2: options for all routes

9.143 Before considering individually the intra-company transfer, RLMT and shortage occupation routes, first we consider some policy options that relate to more than one route.

### Points thresholds

9.144 As with Tier 1 General, either the pass mark or points thresholds could be amended in relation to Tier 2. For the purposes of this discussion we regard the pass mark as fixed and focus on the points thresholds.

9.145 In MAC (2009c) we reviewed the design and operation of Tier 2 and made various recommendations. In relation to the points table, our recommendations included:

- raising the minimum requirement for prospective earnings to £20,000 (from the previous £17,000) under the RLMT and intra-company transfer routes;
- raising the minimum salary for an individual with low-level or no qualifications from £28,000 to £32,000 under the same routes as above;
- certain occupations involved in the delivery of key public services (to be identified by the Government) to be awarded an extra 5 points under the RLMT route only.

9.146 Table 9.4 below summarises our recommendations for the recalibration of points awarded under Tier 2.

9.147 The previous Government accepted most of our recommendations in relation to the calibration of the points but, because of the difficulties in identifying occupations involved in the delivery of key public services, it amended the points table to accommodate these occupations within the RLMT by awarding the five extra points to the RLMT route across the board, as shown in Table 2.8. This represented a slight dilution of our proposals to ensure that the RLMT route was focused on the most skilled workers or those in key public service occupations.

9.148 Some partners told us that recalibrating the points would be a good way of improving the selection process of the PBS while limiting the numbers of non-EEA migrants. Sybersolve Solution Ltd told us they believe the PBS offers great flexibility to raise or lower the bar by altering the required points scores, and that restrictions arising from higher 'pass marks' are much easier to live with than 'arbitrary limits'. Therefore, to the extent that numbers need to be cut, their view is that the least adverse way to do this would be to increase the points requirements (for both Tier 1 and Tier 2), and to fine tune pass marks if the number of successful applicants at a given level of pass mark is too high or too low.

**Table 9.4: MAC recommendations on points, salary and qualifications for Tier 2 of Points Based System**

Section	Routes:		Requirements: Qualifications (or equivalents)		Requirements: Prospective Earnings (£)	
<b>A</b> <b>(50 points needed)</b>	Offer of job in shortage occupation	50	No qualifications	0	20,000-23,999	5
	Offer of job that passes RLMT (in key occupation)	30 (+5)	GCE A-level	5	24,000-27,999	10
	Intra-company transfer	30	Bachelor's	10	28,000-31,999	15
	Switching from a Post-Study category (in key occupation)	30 (+5)	Master's or PhD	15	32,000+	20
<b>B</b>	Maintenance requirement (mandatory)					10
<b>C</b>	Competence in English (mandatory)					10

Sources: Migration Advisory Committee (2009c)

*“If the UK Government wishes to strengthen the new system in limiting the number of non-EU migrants, we would like to suggest that raising the points system on higher income levels rather than raising the requirements for English language ability.”*

Mitsubishi Corporation International (Europe) Plc response to MAC consultation

9.149 The current points table is similar, but slightly less stringent, than the one we recommended in 2009. As a minimum, in the context of limits, our previous recommendations should be implemented in full, with the salary thresholds adjusted for

inflation, and with the exception of special allowance being given to key public service occupations. However, in the context of limits, there is a case for raising the points thresholds further, in order to provide employers with greater certainty that they will be able to bring in those employees they need the most.

9.150 As demonstrated in Chapter 7, the mostly highly paid migrants are likely to contribute the most to GDP, and make the most positive net fiscal contribution. In a situation where overall numbers of work-related migrants are limited, the analysis in Chapter 7 provides further support for raising the earnings thresholds under Tier 2.

9.151 Having considered the evidence, **we suggest that the Government puts in place the points table we recommended in 2009, having made appropriate adjustments for pay inflation.** There may, furthermore, be scope to raise the points thresholds further than we recommended in 2009, in the context of limits on Tiers 1 and 2. However, we do not suggest, as we did previously, that additional points be awarded for working in a key public sector occupation. We believe that, in the context of limits on Tiers 1 and 2, such occupations are better accounted for via the shortage occupation route, as discussed later on in this chapter.

### Tier 2 visas of under 12 months

9.152 As some of our partners have highlighted, visas of under 12 months should make no contribution to migration inflows, as measured by the International Passenger Survey (IPS), if migrants coming via this route intend to come to the UK for less than 12 months. This is because, in the IPS, only those individuals who report they are coming to the UK for at least 12 months are counted as immigrants. However, if some migrants are coming with a visa of less than 12 months with the intention of switching to another route, they may well report to the IPS that they expect their visit to the UK to last for over a year, and will be counted as inflows.

*“Notwithstanding our view that there should be no cap on ICTs, Morgan Stanley believes that ICTs and Tier 2 (Generals) on assignments lasting less than 12 months should be exempt from any limit. This is because they do not contribute to the annual net migration figures and therefore capping them will not assist the Government’s aim of reducing net migration to the tens of thousands.”*

Morgan Stanley response to MAC consultation

9.153 Similar logic applies to other routes under Tier 2. **We suggest that visas of under 12 months duration under the intra-company transfer route and the RLMT and shortage occupation routes could be excluded from our suggested limit if either:**

- such short-term visa holders will not be permitted to switch in-country to other work-related routes; or
- they are permitted to switch in-country to other routes, but the in-country visas issued in these cases count towards the (otherwise out-of-country) limits on Tiers 1 and 2.

9.154 If neither of the two conditions stated above can be satisfied, all visas under Tier 2 for less than 12 months should be regarded as being included within our suggested limit.

9.155 As noted in section 9.6, the numerical limits for Tiers 1 and 2 were calculated on the assumption that all visas, including those of less than 12 months, are covered by the limits on those tiers. If visas lasting for less than 12 months were to be excluded, the levels of the limits would need to be adjusted to account for this.

*“We believe, therefore, that it is critical to the UK’s attractiveness as a place in and from which to invest and do business that the ICT route is excluded from the limits in Tier 1 and 2.”*

Confederation of British Industry response to MAC consultation

## 9.9 Policy options for Tier 2: Intra-company transfer route

9.156 This section summarises the evidence received in relation to the intra-company transfer route and considers some policy options for improving its selectivity. We also reviewed this route in MAC (2009c). In that report we acknowledged that intra-company transfers are important to many multinational companies operating in the UK, and therefore contribute to the UK’s economic prosperity.

*“We strongly support the continued exemption of [the intra-company transfer] route from annual limits.”*

UK Trade & Investment response to MAC consultation

9.157 The British Chambers of Commerce (BCC) told us that they strongly opposed the inclusion of intra-company transfers within the limit, regardless of whether there is an exemption for individuals entering the UK for less than 12 months. They argued that it gives a bad impression to companies considering setting up an office, or establishing their EU Headquarters, in the UK. The BCC also said that fewer intra-company transfers would not mean more jobs for UK workers.

*“Whilst we appreciate that the Government has a commitment to reducing the net migration flow into the UK, removing the flexibility from global businesses that have chosen to invest in UK jobs is not the way to do this, and could have severe long term consequences for the economy.”*

British Chambers of Commerce response to MAC consultation

9.158 We also heard from Fluor Limited that in the face of stiff competition from the US and the rest of the Europe, sensible use of the intra-company transfer route is a key element in attracting work to the UK and the effective execution of this route maximises the potential for repeat business. The Law Society told us that the intra-company transfer route is an essential feature of global mobility and facilitates the operation and growth of multinational organisations, which in turn leads to the creation of UK jobs.

*“ICT is essential to the continued strength and competitiveness of the sector. Given the predominance of multinationals and the global nature of the industry, the ability to move personnel between regions is critical to companies’ business models. It enables the transfer of key knowledge and skills, ensures the safe delivery of projects important to the UK’s energy security and economy by competent and experienced personnel and allows UK resident workers to develop and share their own expertise across the globe. The ICT is a two way process which brings great benefit to UK workers, thousands of whom are currently working overseas in other oil and gas provinces. If the ICT route were stifled in the UK, these UK expats could in some cases have to be brought back to the UK to redress the balance across the organisation as non-EEA migrants were denied entry to the UK.”*

Oil & Gas UK response to MAC consultation

9.159 Not all partner organisations were in favour of the intra-company transfer route. The London School of Economics told us that it would prefer closing the intra-company transfer route because felt it unfair that companies benefit from securing a visa without conducting the RLMT simply because they have an office based in a non-EEA country. We also discussed earlier in this chapter the evidence we received about this from APSCo, who told us that they believe intra-company transfers have led to a restriction in opportunities for IT contractors in the UK. Some partner organisations went further and stated that the intra-company transfer route was being abused.

*“The TUC and affiliates have for years expressed their concerns about the over lax rules governing the use of Intra Company Transfer (ICTs). The continuing growth of ICTs as a percentage of all those migrant workers entering via Tier 2 merely adds to this concern. Whereas the TUC and affiliates have always accepted that there is a legitimate role for ICTs we do not believe it legitimate that ICTs are being used to fill jobs which could be done by people in the resident labour market. This is an issue which needs to be addressed irrespective of the discussion around the cap.”*

TUC response to MAC consultation

*“We recognise, however, that concerns have been raised about potential abuse of the ICT route. CBI members believe there is little foundation for these concerns and the CBI has not seen any evidence of abuse of the system.”*

Confederation of British Industry response to MAC consultation

*“The basic fact is that it’s cheaper to operate this way. The idea that the vast majority of these 30,000 employees have unique skills is simply not true. The majority are undertaking Business and System Analysis work and technical development work which require skill sets which can be readily found here in the UK from unemployed IT professionals.”*

Member of the public’s response to MAC consultation

9.160 We discussed this issue when we last reviewed this route in MAC (2009c). We said *“We did not receive firm evidence of outright abuse of this route. However, strong enforcement activity will allow better information to be collected and better detection of any abuse that is occurring. We strongly recommend that the Government give consideration to whether the level of resource currently being devoted to enforcement of intra-company transfers is sufficient and whether the degree of transparency around enforcement of the system could be increased”*.

9.161 As with Tier 1 General, we believe the intra-company transfer route should remain open. However, we do think that there is scope to make further amendments to this route, in the context of immigration limits, to ensure that it selects those migrants who are likely to make the most substantial contribution to the UK economy.

9.162 Below we look at some aspects of the route that could be examined in order to improve its selectivity. These are the use of allowances, and the rules in relation to extensions under this route.

### **Allowances**

9.163 We discuss allowances in Chapter 2 of this report, where we explain that, under the intra-company transfer route, allowances for accommodation and travel can count towards up to 30 per cent of the salary total for PBS points purposes, or 40 per cent if the Certificate of Sponsorship is for a period of 12 months or less. Other allowances can be paid in

addition to this and allowances are not taxed if the migrant claims to be coming for under two years. We understand that this is not exclusively an intra-company transfer issue, but we think allowances are most widely used for points purposes under this route.

9.164 Because of the potential incentives to undercut domestic labour, we recommended in MAC (2009c) that allowances used for PBS points purposes should be scaled down, by an appropriate factor to be agreed between the UK Border Agency and HM Revenue and Customs (HMRC), when calculating points for earnings under the PBS. We also recommended that the UK Border Agency and HMRC consider the scope for sharing information on what they are being told in relation to the intentions of particular immigrants, and investigate, on the basis of risk, potential abuse of the system where there is an indication that it may be occurring.

9.165 It was put to us, when we reviewed the intra-company transfer route in 2009, that it would be difficult and inconvenient for firms to pay their foreign contractors in terms of salary rather than allowances. However, during our current review one major user of the route told us that they were increasingly paying their intra-company transferees in terms of salary anyway. Therefore, we believe it is possible to do this. Any inconvenience to employers, albeit regretful, is more than counterbalanced by the benefit of ensuring that domestic workers have fair access to available jobs.

9.166 On the basis of the above, we still believe our previous suggestion was valid. Furthermore, as our remit for this work covers the impact of migrants on the public finances, as discussed in Chapter 7, and because, in the context of limits, intra-company transferees on allowances are effectively displacing other migrants, we believe it is more important now than it was previously. Therefore, again, **we suggest that allowances used for PBS points purposes are scaled down when calculating points for earnings under the PBS.** In the context of limits on work-related migration, consideration should also be given to awarding zero points for allowances under the PBS.

9.167 Our suggestion to alter the recognition given under the PBS to often tax-free allowances used by intra-company transferees will help to ensure that such migrants make a full contribution to the UK Exchequer, which will help to ensure that the net fiscal impact of Tier 1 and 2 migrants is as positive as possible.

## Extensions

9.168 We discuss the current policy on intra-company transfer extensions in Chapter 2 of this report. Migrants making successful applications to live and work in the UK under Tier 2 are initially given permission to stay for three years. They can then apply for a two year extension at the end of that period.

9.169 Many partner organisations told us that the average length of intra-company transfer assignment

is two years. Tata told us that most of their intra-company transferees stay in the UK for an 18-24 month period. Shell said it finds that 2 to 3 years is the normal length required for most of its assignments. As discussed earlier in this chapter, we also received evidence from a number of Japanese companies emphasising that extensions are a vital component of their use of the intra-company transfer route because their intra-company transferees usually stay in the UK for five years or more as it takes time to transfer skills, make useful business connections and provide product support.

*“The main reason for the length of stay is it takes time to transfer skills, depending on the nature of transfer, build good relationships for business and to provide continuous support now and when they return to Japan for our products etc. If the necessary length of stay for the Japanese transferees is not permitted, the business operations in the UK will be seriously restricted /damaged.”*

Hochiki Europe (UK) Limited  
response to MAC consultation

9.170 We believe that there are at least two distinct types of use of the intra-company transfer route: one is for senior managers or specialists coming to the UK to share best practice and expertise. Many of these individuals make a key economic contribution, including promoting investment in the UK, and need to remain for a period of several years in order to have maximum economic value. The second use is for individuals

coming in to carry out a specific task, often not directly for the company that employs them, who typically need to remain for less time. If average durations of the latter group in the UK were to be reduced this could, in the short term, help to contribute towards lower net migration. Currently, the criteria for the intra-company transfer route do not distinguish between these two different types of roles.

9.171 On the basis of the above, **we suggest that more stringent criteria are applied at the extension stage for intra-company transfers than are currently applied at the point of initial entry.** Criteria could include:

- the employee being a senior manager or having specialist company knowledge significantly over and above the entry requirement of 12 months' prior experience with the company;
- the individual being employed primarily at the premises of the company that employs them;
- evidence that the individual concerned is helping to promote investment in the UK or UK exports;
- the migrant being employed in an identified sector or occupation where there is a specific and identified need to retain intra-company transferees for longer than 3 years; and
- more stringent salary criteria being applied than at the point of entry.

9.172 We recognise the need for any such criteria to be operationally effective, and would be happy to liaise with the UK Border Agency in order to develop these criteria.

### Further options

9.173 The changes set out above are our preferred options for reducing flows through Tier 2 in 2011/12 in the context of limits on economic migration. However, additional or alternative options the Government could consider in the longer term are discussed briefly below.

9.174 As discussed elsewhere in this report, both during our current review and in our review of Tier 2 in MAC (2009c), concerns were repeatedly expressed to us that intra-company transferees, largely from India, were carrying out work for large UK companies on a contracting basis that could otherwise be done by UK IT workers. As discussed in Chapter 7, although this activity has adverse impacts for the domestic IT workers concerned, it is less straightforward to analyse whether there is a net economic benefit or disbenefit to the UK.

9.175 One option open to the Government would be **to limit the number of visas issued to migrants working for individual employers in correspondence with the number of UK employees** employed by the company. But there is a practical problem in terms of defining what constitutes 'the employer', and therefore the relevant UK workforce, in the case of large industrial conglomerates.

9.176 The rules for intra-company transfers already rule out direct displacement of UK workers. They could go further and **rule out indirect displacement of UK workers** too. This would mean, for instance, that if a UK company changed its business model in order to outsource some of its IT work and laid off its UK workers, it would be restricted in terms of bringing in contractors from abroad in order to replace them. However, again, there are practical difficulties, including defining and identifying indirect displacement in specific cases. Under certain definitions of indirect displacement, such an arrangement would immediately bring to an end a large proportion of migration of workers within the IT sector, which may have adverse economic consequences.

9.177 Another option would be to **favour employers whose net migration is equal to zero or negative** (i.e. the number of UK-based employees sent abroad equals or exceeds the number of transferees brought here) in the allocation of permits, as some partners suggested to us.

*“Our members do not generally contribute to net migration and through their international assignment programmes, the number of individuals they transfer into the UK is balanced by the number they transfer overseas.”*

Joint response from the Association of Foreign Banks and the British Bankers’ Association to the MAC consultation

9.178 However, monitoring this and quality-assuring the information received is complex and resource-intensive. Furthermore, given emigrants already count towards net migration, this may not do enough to help meet the net migration target.

9.179 Another option which was put to us was that a proportion of **visas could be auctioned**, within the limits on Tiers 1 and 2. This would mean that, if a worker was so economically critical that a sponsored employer was prepared to pay whatever amount was required to bring that person into the UK, there would be allowance in the system for such cases. In its submission to the UK Border Agency limits consultation, the Migration Policy Institute (MPI) suggested that the Government should introduce a limited auction of additional visas after the limit has been exhausted so that employers willing to bid for the privilege could still access visas.

*“Market-based’ mechanisms such as these are not perfect, but they do provide a clear indicator that the employer faces a genuine need and that the prospective immigrant has scarce and valuable skills. They would also raise needed funds to support workforce development and/or the cost of processing visas.”*

Migration Policy Institute (MPI) response to UK Border Agency consultation shared with the MAC

9.180 Although we have not examined the practical aspects of this proposal in detail we do, in principle, see appeal to it. **We suggest that consideration be given to whether, in future years, a proportion of visas should be auctioned.**

## 9.10 Policy options for Tier 2: Combining the Resident Labour Market Test and shortage occupation routes

9.181 The Government consultation document on migration limits asked whether the RLMT route and shortage occupation route should be combined. The majority of partner organisations that expressed a preference told us that they were opposed to combining the routes. For example, the British Chambers of Commerce told us that merging the two routes would make it more difficult for businesses where there is a local shortage, rather than a national shortage, in the skills and experience they require. They said merging the RLMT and the shortage routes risks undermining businesses' ability to hire the best and most productive candidate for the job and also may compound the skills shortages that some regions currently face.

9.182 In addition, the evidence received from many Japanese companies suggested that to combine the routes would make it impossible for the relatively small number of Japanese doctors working in the UK to gain entry. A local authority also told us that it would not be helpful to them if the RLMT and the shortage occupation routes were merged. Faced with a shortage of secondary school

teachers in some specialist subjects, the local authority argued that schools would not be able to find suitable candidates, and waiting for up to a month before appointing a skilled migrant worker so that a RLMT can be completed would be counter-productive.

*"It is important to ensure that the labour market remains flexible. We cannot support the merging of the shortage occupation list (SOL) and the resident labour market test."*

Confederation of British Industry response to MAC consultation

9.183 We do not favour combining the two routes, as they are distinct routes meeting different needs. The shortage occupation route provides special dispensation for occupations in national shortage. The RLMT route provides a useful release valve in the case of occupations where there may be a local shortage and where efforts to recruit from the local labour market have failed, and bringing in labour in sufficient quantity from further afield within the UK may be impractical.

9.184 Nonetheless, we do see scope for amendment to both routes. This is discussed further in the following two sections.

## 9.11 Policy options for Tier 2: Resident Labour Market Test route

9.185 Here we summarise the evidence received in relation to the RLMT route and look at aspects of the route that could be examined to improve its selectivity.

9.186 Many partners argued on behalf of the RLMT route. Chapter 8 set out in detail the key contribution that Tier 2 makes towards supporting certain public services. Many of those migrants come to the UK via the RLMT route. Lantra, the Sector Skills Council for the environment and land-based sector, told us that there is a significant undersupply of people through the skills and training system to meet industry needs within parts of the sector. As such, in the short term, the RLMT provides an employer with a route to recruit skilled workers if all else fails.

9.187 As shown in Chapter 3, scientific research occupations had the highest proportion of Tier 2 jobs as a proportion of UK full-time employment, which suggests that these occupations are most dependent on Tier 2 migrants. Partners in the Higher Education sector explained that the RLMT route is important to them because it allows the sector to recruit the most appropriate candidates for each role into often extremely specialist posts that would not be suitable for the shortage occupation list. They said any restriction to the route may impact on their ability to continue to employ current workers when their existing permission to live and work in the UK expires, which could negatively impact on the sector's international reputation in the long term.

9.188 We recognise the value of the RLMT route in supporting certain sectors and occupations. Nonetheless, none of the arguments presented above lead to the conclusion that the

resident labour market should not be rigorously tested before a migrant comes to the UK. In the context of limits, it is more important than ever that migrants only come to the UK through this route when there is no suitable UK worker available. Furthermore, as discussed in Chapter 8, the perception that migrants are taking jobs that could be filled by UK workers could have a negative impact on social cohesion.

9.189 In MAC (2009c) we considered whether there is scope for a certification regime, as exists in some other countries. Certification is where an employer needs to obtain confirmation from a particular body that the requirements of the labour market test have been met before the application is submitted. The success of certification depends on the design and enforcement of pre-admission checks.

9.190 In MAC (2009c) we expressed our view that there needed to be a review of the operation of the RLMT to ensure that it is rigorously enforced. We said we thought that there was scope and a need for the Government to consider introducing a certification regime, and we recommended that the UK Border Agency, DWP and Jobcentre Plus study the matter in more detail. The previous Government accepted this recommendation. **We suggest that the Government continues to give consideration to introducing a certification regime with a view to implementation if practicable.**

## 9.12 Policy options for Tier 2: Shortage occupation route

9.191 The shortage occupation route was not included in our overall review of Tier 2 in MAC (2009c) but we gave close consideration to its design and use in our reviews of the shortage occupation list (MAC 2008a, 2009b, 2009d and 2010a). We also comprehensively reviewed our shortage occupation methodology in MAC (2010d). However, in none of the above reports did we consider the shortage occupation list in the context of limits on Tiers 1 and 2.

9.192 We know from our previous reviews of the shortage occupation list that certain occupations rely on this route in particular, and we received evidence to this effect in response to our consultation. Many argued that a reduction in numbers coming through this route would be harmful to certain businesses and public services. We discuss here a number of examples, but this is by no means an exhaustive list of the occupations that we received evidence in relation to.

9.193 Much of the evidence discussed in Chapter 8 in terms of the public sector workforce related to the shortage occupation route, as well as the RLMT route. There are a number of health-related occupations on the UK shortage occupation list. In terms of medical posts we were told the training time is lengthy and therefore up-skilling would take time. We are also aware, from previous reviews of the health sector and from evidence received for this report, that there are some roles which have high attrition rates in training

and where it is difficult to attract UK resident workers.

9.194 The care sector also relies, to an extent, on non-EEA workers to fill senior care worker shortages. The argument made is that UK workers are often less willing to undertake these roles, and that the demand for these jobs is increasing with an ageing population.

*“In the case of care workers, a number of employers have told us that they will not be able to continue to provide services safely and legally without the recruitment of migrant workers.”*

Skills for Care & Development response to MAC consultation

9.195 We had a number of responses that noted skilled chefs as an occupation that would be affected by introducing a limit. We were told that up-skilling initiatives had begun, but would take some time to make an impact. Furthermore, there may be some specialist chefs that it may not be possible to replace from within the resident labour market.

*“The impact on our company of reducing the number of migrants through the Tier 2 shortage route would be crippling. Skilled specialist chefs are fundamental to our business and without them we would not be able to survive. We would at best need to curtail our operations very significantly, and at worse even liquidate the business. In the interim we have had to put all expansion plans on hold.”*

Masala World response to MAC consultation

- 9.196 There are other occupations which use the shortage route to access what they refer to as staff from an international talent pool, for example ballet dancers and sheep shearers.

*“The Royal Ballet recruits dancers from an international talent pool and to maintain its standing as a world class company needs to ensure that it can recruit the very best candidates.”*

The Royal Opera House response to MAC consultation

- 9.197 We received evidence from a number of engineering companies who argued that they use the shortage route to bring in engineers with specialist skills.

*“The impact of limiting Tier 2 migrants would be huge to the oil and gas industry.”*

Oil & Gas UK response to MAC consultation

- 9.198 Finally, there are shortages of teachers within specific subject areas (e.g. mathematics and science).

*“Without the flexibility of recruiting non-EEA migrant teachers, one likely consequence of teacher shortages is greater use of temporary supply teachers. Covering vacancies with supply teachers is much more expensive for schools than employing full-time non-EEA migrant teachers.”*

Department for Education response to MAC consultation

- 9.199 We received very little evidence against retaining the shortage occupation list route. MigrationWatch UK told us they thought the route should be abolished. Some other corporate partners suggested the route was not flexible enough for their needs.

*“As a company we have always felt that the shortage occupation route does not adequately reflect or address the challenges the engineering contracting industry faces when trying to fill certain positions.”*

Fluor Limited response to MAC consultation

- 9.200 In the context of limits on migration, it is appropriate to review the role and design of the shortage occupation route, for two reasons:
- Prior to migration limits, there was no direct trade-off between, for instance, a skilled chef coming to work in the UK and a skilled engineer. Where overall visas are limited, such trade-offs may have to be made.
  - To the extent that the objective to limit migration leads to increased pressure on other routes, such as the RLMT route, it may be appropriate for some pressure to be transferred to the shortage occupation route, where arguments for special dispensation on the grounds of labour shortage can be closely scrutinised.

9.201 It is for the second of the above reasons that we do not repeat our suggestion, made in MAC (2009c), that key public service occupations be given additional points under the RLMT route. Chapter 8 showed that Tier 1 and 2 migrants play a key role in the provision of some public services. To the extent that limits on migration will reduce the availability of such workers, and this will lead to negative outcomes, it should be possible for the relevant Government departments and other sector bodies to produce robust evidence that demonstrates the risk that such outcomes will occur. It would make sense to review the need to provide specific occupations with special dispensation in a case-by-case evidence-based manner.

9.202 As with the rest of Tier 2, the shortage occupation route is currently reserved for occupations skilled to National Qualification Framework (NQF) level 3 or above only. In line with our general objective of improved selectivity, it may be that the shortage occupation list should be confined to occupations that are skilled to NQF level 6 or above (i.e. NVQ level 4, or graduate level).

9.203 The same point could be made for Tier 2 as a whole. We have not given it detailed consideration in this review, but in the case of the RLMT and intra-company transfer routes it could be considered alongside recalibration of the points for those routes.

9.204 **In terms of the shortage occupation list, we propose that the MAC is asked to reconsider the criteria used to identify skilled occupations, and to rigorously review the occupations currently on the shortage occupation list in the context of the limits.** The revised shortage occupation list would ideally be in place by the time permanent limits on migration come into effect in April 2011.

## 9.13 Policy on settlement

9.205 As described earlier in this chapter, the average length of time spent by migrants in the UK (and, in particular, whether migrants eventually leave) is as important, in the long term, as the level of annual inflow in determining net migration. The extent to which average durations can be influenced will affect the level of action required, in the longer term, to moderate inflows through the PBS.

9.206 It was shown in Chapter 3 that different levels of net migration, accumulated over a time horizon of 25 years, can have a significant impact on the size of the UK population. Much of the evidence discussed in Chapter 8 demonstrated that many of the negative public service and social impacts of Tier 1 and 2 migration, to the extent that they are significant, occur primarily due to the contribution of migrants to the size of the population, rather than due to the characteristics of those migrants in particular. Therefore, to the extent that policy on settlement can reduce net migration over the longer term, it will reduce the rate of population growth, and any negative impacts associated with such growth, albeit some of the positive impacts too.

9.207 The annual limit on Tiers 1 and 2 does not apply directly to settlement, and so we have not considered policy on settlement in detail for this report. Nevertheless, as that policy stands, migrants coming to the UK under Tier 1 and the RLMT and shortage occupation routes are currently on a route to potential permanent settlement in the UK. Furthermore, although time spent in the UK under the intra-company transfer route does not count towards the qualifying period for settlement, migrants who switch from that route to other Tier 2 or Tier 1 routes can still eventually settle in the UK.

9.208 MigrationWatch UK argued that the best way to achieve the benefits of economic migration without the disbenefits of rapid population growth would be to

separate economic migration from migration leading to settlement. In addition they suggested that, as an alternative, the UK could introduce a tough regime for the renewal of any work permit and, perhaps, stipulate that time spent on the first work permit would no longer count towards the qualifying period for settlement. MigrationWatch UK believes that these changes would also increase the pressure on employers to train British replacements.

*“We believe that Tier 1 and 2 workers’ automatic eligibility to apply for permanent residency ...should be reviewed. We believe that entitlements to permanent residency and citizenship should be amended under Tier 2 to ensure that more people leave at the end of their stay, one of the original aims of the Points Based System.”*

Chartered Institute of Personnel and Development (CIPD) response to MAC consultation

9.209 On the basis of the above, we **suggest that the Government reviews its policy in relation to settlement, and considers whether explicit economic criteria should be applied to decisions regarding whether or not migrants are allowed to settle permanently in the UK.**

## 9.14 Impact analysis

9.210 As is noted throughout the report, the required limits on Tiers 1 and 2, and the policy options to support them, will have potential impacts on the economy, public

services and society. They will also have impacts on migrants and the people who employ them. These impacts will not always be evenly distributed across different groups. This section considers impacts of the required limits in three different ways:

- It considers impacts in terms of **sectors and occupations**, and notes one potential policy implication.
- It summarises the evidence on the **economic, public service and social impacts** of Tier 1 and 2 migration, and of a reduction in 2011/12 of such migration.
- It considers equality impacts, in terms of **age, gender and nationality**.

### Sectors and occupations

9.211 It is not possible for us to consider the full sectoral and occupational impacts of the limits and supporting policies set out in this report, because, in addition to having access to only limited data and information, we do not know what the final design of the underpinning policy mechanism will be. However, as a rule of thumb, those sectors and occupations that currently make the heaviest use of migrant labour can expect to be most affected. Therefore, we briefly consider sectoral and occupational use of migrant labour below, based on data presented in Chapter 3.

9.212 Data on the number of Certificates of Sponsorship used show that some sectors and occupations are particularly high users of Tier 2 migrants. In the year to

June 2010, data by 4-digit SOC occupation on Certificates of Sponsorship issued show that the largest volume of intra-company transferees were **IT and software professionals**, which made up 48 per cent of this route. **Nurses and medical practitioners**, including doctors and surgeons, were the largest volume users of the RLMT route. **Chefs, cooks, care assistants and home carers** accounted for the largest volume of the shortage route.

9.213 The proportion of Tier 2 jobs (in terms of the number of Certificates of Sponsorship used at 4-digit SOC level) relative to UK full-time occupation specific employment in the year to June 2010, is highest for scientific research occupations. Higher Education Statistics Agency (HESA) data show that the majority of non-EU nationals employed in UK Higher Education Institutions are **academic staff** (67 per cent).

9.214 Department for Business Innovation and Skills (BIS) estimates show that five sectors accounted for almost 50 per cent of total UK Gross Value Added (GVA) in 2008: **financial intermediation; real estate, renting and business activities; hotels and restaurants; health and social work; and transport storage and communication**. Furthermore, these five sectors accounted for a disproportionately high share of total non-EU employment: 60 per cent of all non-EU workers were employed in these sectors, compared to 39 per cent of all employed UK nationals.

9.215 It is important to recognise that patterns of occupational and sectoral use of Tier 2 are a

response to market signals. It may be that approximately half of the intra-company transfer route being dedicated to one specific occupation (IT and software professionals) represents an optimal allocation of migrant labour. However, on the face of it, it seems unlikely that the marginal migrant in that occupation will be making the same level of contribution as a migrant in another occupation, such as civil engineer, which is a less voluminous user of Tier 2. Thus, it may be sub-optimal if the allocation within a limit is disproportionately used by those sectors or occupations that are currently the largest users of Tier 2.

- 9.216 Therefore, pending analysis of the initial impacts of the first annual limits and the underpinning policy, in future years, **the Government should give consideration to limiting the number of visas issued to particular sectors or occupations that are heavy users of Tier 2**, in order to ensure that a small number of sectors and occupations do not overwhelmingly dominate Tier 2.

### **Economic, public service and social impacts**

- 9.217 This section summarises and draws together to conclusions drawn on economic, public service and social impacts of Tier 1 and 2 migrants, as set out in Chapters 7 and 8 of this report. Most of the evidence relates to the average impacts of Tier 1 and 2 migrants. Improved selectivity may help to mitigate any negative impacts of reduced Tier 1 and 2 migration, and boost any positive impacts.
- 9.218 All things being equal, migration

clearly has a positive impact on **GDP**, through its effect on the size of the UK workforce. The impact of migration overall on **GDP per head**, which is the more relevant metric in many cases, is less clear cut. This impact will be influenced by the impact of migrants on productivity, trade, investment and skill development of resident workers. It is likely that Tier 1 and 2 migrants, on average, have a positive impact on GDP per head.

- 9.219 A reduction in migration through Tiers 1 and 2 will have significant effects on the micro-economy, in terms of impacts on individual sectors and occupations. For instance, the occupation 'IT, software professionals' accounts for 27 per cent of total Tier 2 Certificates of Sponsorship issued, and 48 per cent of those issued under the intra-company transfer route.
- 9.220 Nonetheless, in the short term, the overall impacts on GDP and GDP per head will be relatively small. In the longer term, the effects may be more significant, due to a continued accumulation over time of the relatively small static effects. The economy will adjust to some extent in response to a reduced supply of migrants. Employers will have stronger incentives to train UK workers, and there may be expansion in sectors and occupations that are less reliant on migrant workers. Skills policy can play a critical role in mitigating any adverse impacts that would otherwise occur, particularly in relation to those sectors and occupations most affected.

- 9.221 Any impact of Tier 1 and Tier 2

migration on **inflation** is likely to be very modest. It should not be a major consideration in setting limits for Tiers 1 and 2.

9.222 Migration has impacts across the wage distribution in the labour market. Evidence suggests that Tier 1 and 2 migrants are more likely to be complements to resident workers and capital, and hence are less likely to place downwards pressure on **pay** than those competing with less skilled workers. Reduced Tier 1 and Tier 2 migration is unlikely to increase the **employment** of resident workers in the aggregate, but positive effects may be felt by individuals at the local level in certain sectors and occupations.

9.223 Based on the available evidence it can be inferred that Tier 1 and Tier 2 migrants are highly likely, on average, to make a positive **net fiscal contribution**, especially in the short term. If these migrants remain in the UK, they will age and make a greater call over time on state services such as pensions and healthcare. Reduced Tier 1 and 2 migration may reduce the overall net fiscal contribution of such migrants, but this is contingent on the selection mechanisms put in place, as discussed in this chapter.

9.224 Regarding **provision of public services**, migrants, including Tier 1 and 2 migrants, help alleviate skill shortages in key public service occupations in areas such as health and education. In the longer term, the extent to which reduced Tier 1 and 2 migration leads to shortages, and pressure on wages in the fiscally constrained public sector, will

depend on training and up-skilling of the resident population.

9.225 Reduced Tier 1 and 2 migration will, naturally, also contribute to reduced **consumption of public services**. Tier 1 and 2 migrants are likely to be relatively light consumers of health services in the short term, as they tend to be young and healthy on arrival in the country. The longer-term impacts of reduced consumption of health services are likely to be more significant. There will also be reduced consumption of education services corresponding to the number and age of the children Tier 1 and 2 migrants have, both upon and after arrival in the UK. As well as consuming public services, migrants also fund them, through their contribution to tax receipts.

9.226 Migrants also interact with the **housing market**. There is some evidence that migrants, through adding to the population, exert upward pressure on house prices. However, in the short term, Tier 1 and 2 migrants are more likely to directly contribute to higher rents, albeit also indirectly to higher house prices through the buy to let market. In the longer term, their impact is likely to shift from rents to house prices, as they move from the private rented sector to the owner occupier sector. Any such impacts will be reduced by smaller flows of Tier 1 and 2 migrants.

9.227 The impact on **crime** is likely to differ between migrant groups. The total amount of crime committed by Tier 1 and 2 migrants is likely to be small due to the selection mechanism of

the PBS which ensures that they are highly employed, well paid and highly educated, meaning a reduction in Tiers 1 and 2 will only have a small effect on crime.

9.228 Reduced Tier 1 and 2 migration will contribute to lower total **congestion**. Such migrants are likely to generate more congestion than the average UK resident, reflecting the fact that they are more likely to work, and therefore live, in London.

9.229 Locally concentrated surges in migration may have a negative impact on **social cohesion**, although the difficulties in defining social cohesion, and the absence of comprehensive data, make the relationship difficult to estimate. It is not possible to estimate with any degree of confidence the likely impact of reduced flows of Tier 1 and 2 migrants on social cohesion: they are often employed in the provision of public services and are likely to have good English language skills, and these factors may counterbalance any potential positive impacts.

### Equality impacts

9.230 In providing our advice we have also kept in mind whether any specific type of migrant may be disproportionately affected: for example, according to their age, gender or nationality. As with sectors and occupations, as a rule of thumb, those types of individuals who make the heaviest use of Tiers 1 and 2 can expect to be most affected by the contents of this report. We briefly consider some of the equality and distributional issues. This is based on data from Chapter 3, where

we examine the available data on the nationality, gender, age of Tier 1 and Tier 2 migrants and the regions of the UK they are likely to work in.

9.231 Indian nationals make up by far the largest proportion of total granted applications for Tiers 1 and 2. In the 15-month period to 2010 Q1, 41 per cent of Tier 1 General, 68 per cent of Tier 2 intra-company transfer and 24 per cent of Tier 2 General granted applications were for Indian nationals. Migrants from China, Pakistan and the United States are also strongly represented across Tiers 1 and 2. Nigerian nationals make up a significant proportion of approved applications for Tier 1 General and the PSWR.

9.232 On average, Tier 1 and Tier 2 main migrants are younger than the average person in the UK population. In the period to 2010 Q1, the median age for a Tier 1 main migrant was 28 (including those on the PSWR) compared to 30 for a Tier 2 migrant. The median age for adult dependants was 29 for Tier 1 (again including those on the PSWR) and 31 for Tier 2. 62 per cent of child dependants of Tier 1 and 2 migrants were aged 5 or under. In terms of gender, for both Tiers 1 and 2, around 70 per cent of main applicants and 10 per cent of adult dependants were male.

9.233 London has a higher share of the population of individuals born outside the UK than any other country or region of the UK, reflecting an historic bias in patterns of migration towards London. London has also

exhibited the fastest rate of change in terms of increases in the proportion of the population that are EEA and non-EEA born. The latest data available from the Annual Population Survey for 2009, show that 34 per cent of London's population was born outside the UK and 25 per cent was born outside the EEA. These proportions have increased from 30 per cent and 23 per cent respectively in 2004. Similarly, the magnitudes of inflows and outflows of long-term migrants (defined as those entering or leaving the UK for a year or more) to and from London are greater than for any other country or region of the UK. Approximately 28 per cent of LTIM inflows in 2008 were destined for London.

will be taken into account by the Government when considering our advice. Implications of the required limits and policy suggestions set out in this chapter are discussed further in Chapter 10.

9.234 It is not possible to accurately determine where Tier 1 or Tier 2 migrants live in the UK. However, Tier 2 immigrants are tied to a sponsoring employer and the location of this employer is known. Between November 2008 and March 2010 45 per cent of Tier 2 visas were issued for London employers. More specifically, 50 per cent of intra-company transferees worked for London employers, as well as 42 per cent of migrants coming to the UK via the RLMT route and 32 per cent of migrants entering the UK via the shortage occupation route. We have not been able to examine disaggregated Tier 2 data for other regions of the UK. Tier 1 immigrants do not need to be sponsored by an employer and there are currently no data that reliably record their place of work.

9.235 We expect that the above impacts

## Chapter 10 Conclusion

### 10.1 Context

10.1 In this chapter we make some concluding remarks and discuss next steps. The Government aims to reduce overall annual net migration to the 'tens of thousands' by the end of this Parliament. In this report, we have focussed on the contribution to achieving this aim to be made by Tiers 1 and 2 of the Points Based System (PBS), taking into account the implications for public services and wider society as well as those for the UK economy and labour market. We have assumed that the work-related routes for migrants from outside the European Economic Area (EEA) need to contribute towards the achievement of the objective for overall net migration.

10.2 In Migration Advisory Committee (2009c and 2009d) we reviewed Tiers 1 and 2 of the PBS and provided advice to the former Government on the design of those tiers. Much, if not all, of that advice was accepted and is reflected in the present design of those tiers. Nonetheless, the principle of selecting the best migrants is now even more critical in the context of limits on work-related migration. Therefore, alongside our suggested limits on Tier 1 and Tier 2 for 2011/12 this

report presents suggestions to amend the current design of these two tiers to ensure they operate to select those migrants likely to be of most benefit to the UK economy and labour market.

### 10.2 Summary of economic, public service and social impacts

10.3 The Government asked that we consider the economic, public service and social impacts of migration. This report does so, in detail. Our findings in relation to Tier 1 and Tier 2 migrants can be summarised as follows:

- All things being equal, Tier 1 and 2 migration clearly has a positive impact on Gross Domestic Product (GDP). In a straightforward static analysis, Tier 1 and 2 migration makes a small but positive contribution to GDP per head. Such effects will accumulate over time and become more significant. Furthermore, the impact on GDP per head will also be influenced by dynamic factors such as the impact of migration on productivity, trade, investment and skill development of resident workers.

- There is no evidence, at the aggregate level, of adverse labour market impacts. Tier 1 and 2 migrants, in the short term at least, and on average, almost certainly make a positive net fiscal contribution.
- The economy will adjust to some extent in response to a reduced supply of Tier 1 and 2 migrants. Employers will have stronger incentives to train UK workers, and there may be expansion in sectors and occupations that are less reliant on migrant workers. Skills policy can also play a critical role in mitigating any adverse effects of reduced migration through Tiers 1 and 2.
- Tier 1 and 2 migrants, and their dependants, do consume public services, such as health and education services. They also contribute to the provision of key services as members of the workforce. In the longer term, the extent to which Tier 1 and 2 migration alleviates shortages, and relieves pressure on wages, will depend on training and up-skilling of the resident population.
- The impact of Tier 1 and Tier 2 migrants on broader outcomes affecting the whole of society, such as crime, congestion and housing, is difficult to estimate. Through their effect in adding to the UK population they will inevitably have an effect on such outcomes. The impact per head is likely to be smaller than that of the migrant population as a whole in relation to some impacts, such as crime. In relation to others, such as congestion, it may be larger.

- We have not found clear evidence that Tier 1 and Tier 2 migrants have either a strong or negative net effect on social cohesion in the UK as a whole.

#### 10.4

The above summary is provided in terms of aggregates and averages. This is representative of the majority of evidence available. Nonetheless, analysis of impacts purely at the aggregate level will paint an incomplete picture. Some examples are as follows:

- The economic and labour market impacts will not be evenly distributed. A reduction in migration through Tiers 1 and 2 will have significant effects on the micro-economy, in terms of impacts on individual sectors and occupations, particularly those that make heavy use of skilled migrant workers, or which rely on them to attract and support trade and investment.
- It is unlikely that all Tier 1 and Tier 2 migrants make a positive net fiscal contribution. Some Tier 1 and 2 migrants will bring several dependants and, as such, consume more in public services than they fund in taxes. Some Tier 1 migrants will not be in work, at least when they first arrive in the UK.
- The evidence also suggests that some Tier 1 and Tier 2 migrants have displaced some UK workers in the IT industry, even though the quantitative evidence for the labour market as a whole does not generally show that migrants displace resident workers.

- When Tier 1 and Tier 2 migrants affect migrant concentrations in local areas, it does not follow that no social tensions at all have resulted, or could yet result.

### 10.3 Summary of required limits and policy options

#### Overall limits on Tiers 1 and 2

- 10.5 Our best estimate is that the Government objective to reduce net migration to the tens of thousands by the end of this Parliament implies **a reduction of between 6,300 and 12,600 visas split across Tiers 1 and 2 to be issued in 2011/12.**
- 10.6 In order to calculate limits from these reductions, we use the latest annual published full-year visa data, from 2009, as our baseline. The baseline figure is 50,000. **The total required limit for Tier 1 General and Tier 2 combined in 2011/12 is therefore between 37,400 and 43,700.** The Government may choose to apply our reductions to a more recent baseline before the actual annual limits are put in place in April 2011.
- 10.7 Our suggested limits relate to out-of-country migration through the Tier 1 General, Resident Labour Market Test (RLMT), shortage occupation and intra-company transfer routes. They exclude dependants, although we also model an additional scenario including dependants: higher limits would be required if dependants were included. Our limits also exclude in-country switchers and extenders, with the possible

exception of those switching from Tier 2 routes whose previous visa duration was below 12 months.

- 10.8 The numerical limit for Tiers 1 and 2 presented above was calculated on the assumption that all visas, including those of less than 12 months are covered by the limit. If visas lasting for less than 12 months were to be excluded, the levels of the limits would need to be adjusted to account for this.
- 10.9 The range of the limits set out above is consistent with Tiers 1 and 2 making a contribution to achieving the Government's aim following a linear trajectory. They are based on numerous assumptions and judgements as set out in this report.
- 10.10 The final decision to choose limits towards the top or bottom of our suggested ranges, or even outside them, needs to be influenced by consideration of various factors, including: the proportion of the total reduction in net migration borne by Tier 1 General and Tier 2, relative to other routes for non-EEA migrants, including those under the Tier 5 and permit free routes and the Post-Study Work Route (PSWR), and those for students and family; the precise objective for net migration; and whether action is taken to reduce or limit the numbers of dependants.
- 10.11 In the medium to long term, the extent to which Tier 1 and Tier 2 migrant durations in the UK are influenced through policy on extensions, switching and settlement may also have a significant impact on net migration.

10.12 In support of the above, it is critically important that action is taken to ensure that the skills and training system plays a key role in systematically identifying and addressing shortages, of economically or otherwise important workers, that might otherwise occur as a result of, or be exacerbated by, limits on work-related migration;

### Tier 1

10.13 For the Tier 1 General route, in order to achieve the Government's policy objective, we suggest the following:

- a **reduction** in the number of entry clearance visas issued, compared to 2009, in the range of **3,150 to 6,300**; and
- a **limit** on the number of Tier 1 entry clearance visas in the range of **8,000 to 11,100** in 2011/12.

10.14 Alongside the above, the Government should consider:

- periodically recalibrating the Tier 1 General points table in order to ensure that it appropriately selects the most skilled migrants; and
- introducing the requirement of being employed in skilled graduate-level occupations at the extension stage.
- revising the methodology for updating the multipliers and putting in place new salary multipliers as quickly as possible.

### Tier 2

10.15 For the Tier 2 shortage occupation, RLMT and intra-company transfer routes, the following is consistent with the Government's objective for net migration:

- a **reduction** the number of entry clearance visas issued, compared to 2009, in the range of **3,150 to 6,300**; and
- a **limit** on the number of Tier 2 entry clearance visas in the range of **29,400 to 32,600** in 2011/12. This limit excludes extensions, switchers and dependants, with one possible exception, discussed below.

10.16 In addition, the Government should consider:

- excluding Tier 2 visas issued for less than 12 months duration from the limits on the assumption that:
- such short-term migrants will not be permitted to switch in-country to other work-related routes; or
- if Tier 2 migrants are permitted to switch in-country to other routes, the in-country visas issued in these cases count towards the (otherwise out-of-country) limits on Tiers 1 and 2;
- amending the points calibration for Tier 2 in order to ensure that only skilled migrants can come to the UK under this tier;
- scaling down the allowances used for points purposes in relation to the required points for earnings for intra-company transfers;

- applying criteria at the extension stage for intra-company transfers that are more stringent than those applied at the point of initial entry; and
- giving consideration to strengthening the RLMT route through the introduction of a certification regime; and
- asking MAC to reconsider the criteria used to identify skilled occupations under the shortage occupation route, and to rigorously review the occupations currently on the shortage occupation list in the context of the limits.

### Other options

- 10.17 In this report we set out other options for reducing net migration, which either need examining further in terms of their implications or practicality, or which would probably not have major impacts on Tier 1 and 2 migration in 2011/12, but which the Government should consider for the longer term. These other options include:
- putting in place arrangements to auction a portion of those visas included within future annual limits; and
  - reviewing policy in relation to settlement, and considering whether explicit economic criteria should be applied to decisions regarding whether or not migrants are allowed to settle permanently in the UK.

## 10.4 Next steps and future work

### Policy

10.18 There are some issues in relation to the suggestions in this report for limits in 2011/12 that require further detailed consideration. We will be happy to work further with the Government on the detail of some issues:

- Recalibration of points for Tiers 1 and 2.
- The precise details of any revised extension criteria to be put in place in relation to the intra-company transfer route.

10.19 The MAC will be happy to advise the Government on limits on Tiers 1 and 2 in future years, and other issues as appropriate. We emphasise that our report sets out required limits for 2011/12 only. Limits for future years on work-related migration will need to be based on consideration of factors that are not yet fully known, including:

- the mechanisms that will ultimately be put in place for Tiers 1 and 2 alongside the introduction of annual limits;
- evidence on the economic, public service and social impacts of the limits and mechanisms;
- future policy on other economic routes for non-EEA migrants outside the scope of limits set out in this report, including Tier 5 and the PSWR;
- future policy on the student and family routes;

- future policy on switching, extensions and permanent settlement in the UK; and
- future net flows of UK and EEA migrants to and from the UK.

## Data

- 10.20 Data on PBS migrants, in terms of their characteristics and labour market outcomes, are still limited. For example, the UK Border Agency does not currently publish the points scored by successful Tier 1 and Tier 2 applicants. Although we welcome the recent improvements to its management information system, we urge the Agency to consider further steps to facilitate the collection and the accessibility of relevant data on migrants applying through these tiers.
- 10.21 We also welcome the data made available from the experimental variable recently introduced in the Labour Force Survey, which asks migrants their main reason for coming to the UK, and we hope that it will be included soon in the mainstream survey. This will provide valuable information about the characteristics of migrants over the medium and long term.
- 10.22 We recognise that the International Passenger Survey (IPS) was not developed to estimate migrant flows, but it is nonetheless unarguable that this survey has become one of the principal sources for measuring net migration. Based on the current confidence intervals, it would be welcome if consideration was given by the Office for National Statistics to increasing the sample size of the IPS.

To address the inconsistency between the number of visas issued by the UK Border Agency and the volume of flows measured by the IPS in current available data sources, it would be extremely helpful if the survey could ask respondents what type of visa they hold. This would allow the Government to better monitor the impact on net migration of the limits on Tiers 1 and 2 and any impact of policy changes on the other immigration categories.

## Research and analysis

- 10.23 In terms of future analysis, we found good evidence on the economic impacts of migration, although there is still considerable scope for further research in this area. Our consideration has highlighted gaps in the existing evidence base, particularly around the social and public service impacts of migration. In particular, the existing literature on the fiscal costs and benefits of migration would benefit from being extended to enable a comparison of the specific impacts of various cohorts of migrants to the UK. The MAC has its own research budget and we may consider commissioning research on how to best address the lack of data currently available in these areas.

### A.1 List of organisations that submitted evidence and did not request anonymity

Aberystwyth University	Biotechnology and Biological Sciences Research Council
Accenture	Boeing
ACS International Schools	BP
Advancing UK Aerospace Defence and Security	British Association of Social Workers
Airbus Operations Limited	British Chambers of Commerce
Apex Care Homes	British Embassy Tokyo
Association for Consultancy and Engineering	British Hospitality Association
Association of British Orchestras	British Medical Association
Association of Directors of Children's Services	Brooklands Nursing Home
Association of Foreign Banks and British Bankers Association (joint submission)	Brother International Europe Limited
Association of Medical Research Charities	BT
Association of Professional Staffing Companies	Buckinghamshire New University
Association of School and College Leaders	Building Design Partnership Limited
Association of Thai Businesses in the UK	Buro Happold
Association of the British Pharmaceutical Industry	Business & Decision
Aston University	Campaign for Science and Engineering
AstraZeneca plc	Cancer Research UK
Atkins Global	Canon Europe Limited
Australian High Commission	Central Japan Railway Company
Babcock International Group	Centre for Workforce Intelligence
BAE Systems plc	Chartered Institute of Personnel & Development
Baker & McKenzie LLP	Christine Lee & Co (Solicitors) Limited
Balfour Beatty Utility Solutions	Citi
Banff & Buchan College	Clifford Chance
Bangor University	Clyde and Co LLP
Barclays Bank plc	CMS Cameron McKenna LLP
Barclays Capital Services Limited	Cognizant
Beatson Institute	Company Chemists' Association
Bechtel Business Services	Confederation of British Industry
BEMIS	ConstructionSkills
	Convention of Scottish Local Authorities
	Cosmo Restaurant Group
	Coventry City Council
	Cranfield University

Credit Suisse  
 Cundall  
 Cwm Taf Local Health Board  
 Davis Polk  
 Definitive Immigration Services Limited  
 Deloitte LLP  
 Denso Manufacturing UK Limited & Ricoh  
 UK Products Limited (submission from  
 Marketing Standard Limit)  
 Denso Sales UK  
 Department for Business, Innovation and Skills  
 Department for Communities and Local  
 Government  
 Department for Education  
 Department of Culture, Media and Sport  
 Department of Health  
 Deutsche Bank  
 Diageo  
 Doosan Babcock Energy  
 Duff & Phelps Limited  
 Durham University  
 Dynamic Futures  
 e2e linkers  
 East Midlands Healthcare Workforce  
 Deanery  
 East of England Faiths Council  
 East of England Strategic Migration  
 Partnership  
 Embassy of Japan  
 Embassy of the United States of America  
 Employment Lawyers Association  
 Energy & Utility Skills and the National  
 Skills Academy for Power (endorsed by  
 Energy Networks Association)  
 Engineering Council  
 Engineering Professors' Council  
 Ernst & Young  
 ExCeL London  
 Exlayer Limited  
 FactSet Europe Limited  
 FarSite Communications Limited  
 Federation of Small Businesses  
 Flour Limited  
 Foreign & Commonwealth Office  
 Forum for Expatriate Management  
 Fragomen LLP  
 Framestore  
 Freshfields  
 Fujitsu Laboratories of Europe  
 G O Few & Sons  
 GE UK  
 General Healthcare Group  
 Goldman Sachs International  
 Goldstar Chefs  
 GoSkills  
 Greater London Authority  
 Ground Forum  
 GSK  
 Günay UK Limited  
 HCA International Limited  
 Heriot-Watt University  
 Hitachi Zosen Europe Limited  
 HM Revenue & Customs  
 HM Treasury  
 Hochiki Europe (UK) Limited  
 HSBC  
 HSMP Forum  
 IBM  
 IChemE  
 IEP Management Limited  
 iicorr Limited  
 Immigration Law Practitioners' Association  
 Imperial College  
 Improve Limited  
 Incorporated Society of Musicians  
 Independent Healthcare Advisory Services  
 Independent Schools Council  
 Institution of Civil Engineers  
 Intellect  
 International Transport Workers' Federation  
 Inverhome Limited  
 Japan Automobile Manufactures Associations  
 Japan External Trade Organisation London  
 Japan Green Medical Centre  
 Japan Petroleum Exploration Company  
 Limited  
 Japanese Chamber of Commerce and  
 Industry in the United Kingdom  
 JEOL (UK) Limited  
 JK Techosoft (UK) Limited  
 Joint Council for the Welfare of Immigrants  
 JP Morgan Chase  
 K Line (Europe) Limited  
 Kawasaki Heavy Industries (UK) Limited  
 KBR  
 Kent and Medway Strategic Partnership on  
 Migration  
 King's College London  
 KPMG LLP  
 Lantra

Las Iguanas  
Law Centre (NI)  
Leeds Metropolitan University  
Leung & Co Solicitors  
Liverpool John Moores University  
London Borough of Camden  
London Borough of Hounslow  
London Borough of Redbridge  
London Business School  
London Chamber of Commerce  
London First  
London Nippon Club  
London School of Business & Finance  
London School of Economics  
Loughborough University  
Magrath LLP  
Management Consultancies Association  
Manchester City Council  
Marshall Aerospace  
Masala World  
Medacs Healthcare plc  
Medical Research Council  
Micron Eagle Hydraulics Limited  
Microsoft  
Migrants' Rights Network  
Migrationwatch UK  
Ministry of Defence  
Mitsubishi Corporation International  
(Europe) plc  
Mitsubishi Electric Europe B.V  
Mitsubishi UFJ Securities International plc  
Mitsubishi UFJ Trust & Banking Corporation  
Mitsui Zosen Europe Limited  
Mizuho Corporate Bank Limited  
Morgan Stanley  
Morgan Walker Solicitors  
MW Kellog Limited  
NASSCOM  
NASUWT  
NATECLA National Centre  
National Association of Agricultural  
Contractors  
National Campaign for the Arts  
National Farmers Union  
National Farmers Union Scotland  
National Grid  
National Institute of Adult Continuing  
Education  
National Skills Academy for Power  
National Trainers Federation  
Newcastle University  
NFU Scotland  
NGK Spark Plugs (UK) Limited  
NHS North West  
Nigeria High Commission  
Nikkei Europe Limited  
Nissan Motor Manufacturing  
Nissan Technical Centre Europe  
Nissin Travel Service (UK) Limited  
North East Strategic Migration Partnership  
North Somerset Council  
North Tees & Hartlepool NHS Foundation Trust  
North West Regional Strategic Migration  
Partnership  
North Yorkshire County Council  
Northern Ireland Civil Service  
Northern Ireland Council for Ethnic  
Minorities  
Northumbria University  
Nottingham Trent University  
Nova IT Consulting UK LIMITED  
Oil & Gas UK and Scottish Council for  
Development & Industry  
Orion Consultancy Services Limited  
Pakistan Embassy in London  
Penningtons Solicitors LLP  
People 1st  
Pepsico  
Permits Foundation  
Plymouth City Council  
PricewaterhouseCoopers  
Producers Alliance for Cinema and  
Television Limited  
Production Services Network (UK) Limited  
Professional Contractors Group  
Queen's University Belfast  
Ramsay Health Care UK  
Recruitment & Employment Confederation  
Regents College  
Registered Nursing Home Association  
Ricardo UK  
RICS  
RLG International Limited  
Roehampton University  
Rolls-Royce plc  
Romax Technology Limited  
Royal Bank of Canada  
Royal Bank of Scotland  
Royal College of Nursing  
Royal College of Veterinary Surgeons

Royal Holloway, University of London  
 Royal Opera House  
 Sarah Buttler Associates Limited  
 Scottish Government  
 Scottish Government Health Directorates  
     on behalf of NHS Scotland  
 Scottish Social Services Council  
 Semta  
 Shaw Energy & Chemicals Group  
 Shell  
 Siemens  
 Skills for Care and Development  
 Skills for Health  
 Skills Funding Agency  
 Skillset  
 SKM EMEA  
 SNC Lavalin UK Limited  
 Society of London Theatre and Theatrical  
     Management Association  
 Socres  
 Sompo Japan Insurance Company of  
     Europe Limited  
 Sony Europe Limited  
 South East Strategic Partnership for  
     Migration  
 South West Forum for Migrant Workers and  
     the South West Regional  
     Employment and Skills Board  
 Southampton City Council  
 Spinal Injuries Association  
 Spire Healthcare  
 Stanley Electric Motor Company  
 Steria  
 Sumitomo Mitsui Banking Corporation  
 Surrey County Council (maintained  
     schools)  
 Sybersolve Solutions Limited  
 Tata Consultancy Services  
 Taylor Wessing LLP  
 Thai Garden Restaurant  
 The Bank of Tokyo-Mitsubishi UFJ Limited  
 The Evangelical Lutheran Church of  
     England  
 The Institution of Structural Engineers  
 The Law Society of England and Wales  
 The London Clinic  
 The Newcastle upon Tyne Hospitals NHS  
     Foundation Trust  
 The Royal Bank of Scotland  
 The Sainsbury Laboratory

The Society of Radiographers  
 The Sumitomo Trust & Banking Co Limited  
 The University of Nottingham  
 The Welding Institute  
 TIGA  
 Tokyo Electric Power Company  
 Toyota Motor Manufacturing UK, Toyota  
     GB, Toyota Financial Services and  
     Toyota Motor Europe (London Office)  
     (combined submission)  
 Trades Union Congress  
 Trafigura  
 Trans4m  
 Ubisoft Entertainment Limited  
 UCEA (awaiting permission to list)  
 UK Commission for Employment and Skills  
 UK Screen Association  
 UK Trade & Investment  
 Unison  
 Unite  
 Universal Shipbuilding Europe Limited  
 Universities UK, GuildHE and UCEA  
     (combined submission)  
 University of Bedfordshire  
 University of Central Lancashire  
 University of Edinburgh  
 University of Essex  
 University of Glasgow  
 University of Leicester  
 University of Nottingham  
 University of Oxford  
 University of Plymouth  
 University of Portsmouth  
 University of Sheffield  
 University of Surrey  
 University of Ulster  
 University of Warwick  
 V.Ships UK Limited  
 Visallogic Limited  
 Wellcome Trust  
 Welsh Assembly Government  
 Westinghouse Electric Company UK  
     Limited  
 Wood Mackenzie  
 WorleyParsons Europe Limited  
 YKK Europe Limited  
 Yorkshire & Humber Regional Migration  
     Partnership  
 \* 28 members of public also submitted  
 responses

## A.2 Indicative list of organisations / individuals met with

It has not been possible to identify all of the attendees at some of the larger meetings.

786 Law Associates	British Hospitality Association
ABS-CBNEU	British Medical Association
Accenture (UK) Ltd	British Pharmacological Society
ACS International Schools	British Psychological Society
Adelphi Care Services	Brooklands Nursing Home
ADS Group	Bryan Cave LLP
Aeropeople	Building Design Partnership Limited
Allen & Overy LLP	BUPA
Alliance of Sector Skills Council	Buro Happold
Allstate Northern Ireland	Cabinet Office
Ashurst	Café Oto
ASIC	Calderdale Borough Council
Asset Skills	Cambridge Institute of Medical Research
Association of Medical Research Charities	Cambridgeshire Police
Association of the British Pharmaceutical Industry	Canada-UK Chamber of Commerce
Association of School and College Leaders	Canadian High Commission
Association of Technology Staffing Companies	Capgemini UK Plc
Association of Thai Businesses in the UK	Caprice Holdings
Atkins plc	Cargill
Australian High Commission	Carillion Plc
BAC	CaSE Executive
Baker & McKenzie	Central Beds Council
Bangladesh Caterer's Association	Centre for Workforce Intelligence
Bank of England	Centrica plc
BBSRC Babraham Institute	CHC CED
Belfast City Council Multi-Cultural Resource Centre	Chemistry Communications Group plc
Belfast Health and Social Care Trust	Children's Social Care, London Borough of Hounslow
Berwin Leighton Paisner	Chartered Institute of Personnel and Development
BEST HR	City of London Law Society
BioIndustry Association	City of London (Economic Development Office)
Bird & Bird	Clifford Chance
Birmingham Royal Ballet	CMS Cameron McKenna
Black & Ethnic Communities Organisation Network	Cognizant
Black Health Agency	Confederation of British Industry
Blake, Cassels & Graydon LLP	Corus
Blankkettown	Convention of Scottish Local Authorities
Bradford Metropolitan District Council	Cosmo Restaurant Group
Breakfast Group	Council of British Pakistanis
British Association of Social Workers	CRUK Cambridge Research Institute
British Chambers of Commerce	CSC
British Computer Society	Czajka Care Group
	Debevoise & Plimpton LLP

Dechert LLP  
 Deloitte  
 Denso Sales UK Limited  
 DentonWildeSapte  
 Department for Business, Innovation and Skills  
 Department for Communities and Local Government  
 Department for Culture, Media and Sport  
 Department for Education  
 Department for Employment & Learning (NI)  
 Department for Social Development (NI)  
 Department for Transport  
 Department for Work and Pensions  
 Department of Health  
 Department of Immigration and Citizenship, Australian Government  
 Derby Bosnia-Herzegovina Community Association  
 Derbyshire Dales District Council  
 DHSSPS Law Centre  
 Dim t  
 Disney  
 Double Negative  
 Dover District Council  
 e2e Linkers  
 East Midlands Councils  
 East Midlands Regional Migration Partnership  
 East of England Business Group  
 East of England Faiths Council  
 East Riding of Yorkshire Council  
 East Sussex County Council  
 Education International  
 Elite International Caterers Ltd  
 Embassy of Japan in London  
 EMBRACE NI  
 Endava  
 Endemol  
 Engineering Council  
 Engineering Professors' Council  
 Engineering UK  
 Equality South West  
 Ernst & Young  
 e-Skills UK  
 Everest Inn Restaurant Group  
 Eversheds  
 ExCel  
 Exlayer Limited  
 ExxonMobil  
 FD  
 Federation of Bangladeshi Caterers  
 Federation of Small Businesses  
 Ferguson Snell and Associates  
 First Permit  
 Foreign and Commonwealth Office  
 Forum for Expatriat Management  
 Framestore  
 Frank Field MP  
 Freshfields Bruckhaus Deringer  
 Fujitsu Services  
 Gangmasters Licensing Authority  
 Gaucho  
 General Social Care Council  
 GKN  
 GlaxoSmithKline  
 Goldstar Chefs  
 GoSkills  
 Government Office North East  
 Grange Hotel  
 Greater London Authority  
 Greater Manchester Pay and Employment Rights Advice Service  
 Greater Manchester Police  
 Greater Peterborough Partnership  
 GuildHE  
 Hakkasan  
 Herbert Smith LLP  
 HM Revenue and Customs  
 HM Treasury  
 Homeplus NI  
 Honda Motor Europe Limited  
 HPA  
 Hull City Council  
 IBM  
 IChemE  
 IFRH  
 IMI  
 Immigration Advisory Service  
 Imperial College  
 Imperial College Healthcare NHS Trust  
 India KA Group  
 Institute of Cancer Research  
 Intellect  
 Intertain UK Limited  
 IPPR  
 ITC Arts  
 Japanese Chamber of Commerce & Industry in the UK

JGR  
Jobcentre Plus  
John Innes Centre  
Joint Council for the Welfare of Immigrants  
Kaplan Financial  
Kemp Little  
Kent Care Training Associates  
Kent County Council  
King's College London  
Kingsley Napley  
Kings UK Limited  
Kirkland & Ellis International LLP  
Kirklees Migration Impact Fund  
Kout Food Group  
KPMG LLP  
Lantra  
Latham & Watkins  
Laura Devine Solicitors  
Leeds City Council  
Leeds Initiative  
Leicester City Council  
Leicestershire Education Business Centre  
Lewis Silkin  
Lin Group Investments t/a Noddle Nation  
Linklaters LLP  
Live Language  
Liverpool City Council  
Local Government Association  
Local Government Employers  
Local Government Yorkshire and Humber  
London Borough of Camden  
London Borough of Redbridge  
London Borough of Richmond upon Thames  
London Chamber of Commerce and Industry  
London Councils  
London Development Agency  
London First  
London Mathematical Society  
Loughborough University  
Lovells  
Macquarie Funds Direct  
Magpie t/a Indian Room  
Magrath LLP  
Man Group plc  
Manchester City Council  
Manchester NHS Trust  
Manifesto Club  
Marshall Aerospace  
Masala World  
McGuireWoods London  
Medical Research Council  
Medical Research Council Cambridge  
Medway Council  
Metropolitan Police (Human Exploitation and Organised Crime Unit)  
Migrant Workers' Employment Rights Advice Service for Greater Manchester  
Migrants' Rights Network  
Migrationwatch UK  
Millfield School  
Milner LLP  
Mitsubishi Corporation International (Europe) Plc  
Moy Park Limited  
Namh  
NARIC  
NASSCOM  
NASUWT  
National Association of Medical Personnel Specialists  
National Audit Office  
National Campaign for the Arts  
National Care Association  
National Farmers Union  
National Grid plc  
National Institute of Adult Continuing Education  
Nestor Services  
New Zealand High Commission  
NGK Spark Plugs  
NHS Employers  
NHS Greater Glasgow & Clyde  
NHS Lothian  
NHS Tayside  
NI Medical and Dental Training Agency  
Nissan Motor Manufacturing (UK) Limited  
Nomura International plc  
Norfolk & Norwich Race Equality  
Norfolk County Council  
North East Strategic Migration Partnership  
North Lincolnshire Council  
North Tees & Hartlepool NHS Trust  
North West Development Agency  
North Yorkshire County Council  
Northern Ireland Council for Ethnic Minorities  
Northern Ireland Fish Producer's Organisation Limited  
Northern Ireland Food & Drink Association

Northern Ireland Local Government Association  
 Northern Ireland Social Care Council  
 Northern Refugee Centre  
 Norton Rose  
 Nottingham City Council  
 NW Consortium  
 NW Universities Association  
 Office for National Statistics  
 Office of the First Minister and Deputy First Minister  
 Oil & Gas Academy  
 Oil & Gas UK  
 O'Melveny & Myers LLP  
 Oracle Corporation UK Ltd  
 Oxfordshire County Council  
 Ozer  
 Patara Fine Thai Cuisine  
 People 1st  
 Phoenix Leisure  
 Praxis Community Project  
 PricewaterhouseCoopers LLP  
 Producers Alliance for Cinema and Television Limited  
 Professional Contractors Group  
 Public and Commercial Services Union  
 Queens University Belfast  
 RAISE  
 RCUK  
 Recruitment and Employment Confederation  
 Reed Smith  
 Registered Nursing Home Association  
 Regulation and Improvement Authority  
 Regulation and Quality Improvement Authority  
 ReneCassin  
 Research in Motion UK Ltd  
 Researcher at London School of Economics  
 Rolls Royce  
 Romax Technology Limited  
 Rotherham Metropolitan Borough Council  
 Royal Holloway University of London  
 Royal Society  
 Royal Society of Engineering  
 Ryedale District Council  
 Sainsbury Laboratory  
 Sake No Hana  
 SCDEA  
 Scotland Office  
 Scottish Chambers of Commerce  
 Scottish Council for Development and Industry  
 Scottish Government  
 Scottish Social Services Council  
 Scottish Southern Energy  
 Scottish Trades Union Congress  
 Senta  
 Shearman & Sterling London  
 Sheffield City Council  
 Shell International  
 Shine  
 Simmons & Simmons  
 Singapore Ministry of Manpower  
 SJ Berwin  
 Skills for Care  
 Skills for Care & Development  
 Skills for Health  
 Skillset  
 Slaughter and May  
 Slough Borough Council  
 SMBC  
 Smith Stone Walters  
 Society of Biology  
 Society of London Theatre and Theatrical Management Association  
 Soho House Group  
 South East Strategic Partnership for Migration  
 Southampton City Council  
 South Tyneside MBC  
 South West Regional Development Agency  
 Southern Health and Social Care Trust  
 Speechly Bircham LLP  
 Spire Healthcare  
 Steria Limited  
 Suffolk County Council  
 Sumitomo Mitsu Banking Corporation  
 SummitSkills  
 Sybersolve  
 Talent Scotland  
 Tata Consultancy Services  
 Taylor Wessing  
 Teradata UK Ltd  
 Thai Embassy  
 Thai Trade Centre  
 The Children's Society  
 The Law Society  
 The Sage Home

## Limits on Migration

The Welding Institute  
Tiger Aspect  
Toray Industries Inc  
Tower Hamlets New Resident and Refugee  
Forum  
Toyota Motor Manufacturing (UK) Limited  
Trades Union Congress  
UK Border Agency  
UK Commission for Employment and Skills  
UK Film Council  
UK NARIC  
UK Screen  
UK Trade & Investment  
Unipart  
Unison  
Unite  
United Response  
Universities and Colleges Employers  
Association  
Universities UK  
University and College Union  
University College London  
University of East London  
University of London Union  
Visallogic  
Voluntary Action Wakefield District  
VT Group (Surrey Schools)  
Wakefield Metropolitan District Council  
Warner Bros  
Watson, Farley and Williams LLP  
Welcome Skills  
Wellcome Trust  
Wellcome Trust Sanger Institute  
Welsh Local Government Association  
West Midlands Regional Migration  
Partnership  
White & Case LLP  
Work Permit Services  
Wright Hassall LLP  
Y Ming Restaurant/London Chinese  
Community Centre  
Yorkshire and Humber Regional Migration  
Partnership  
Yorkshire Futures  
Your Homes Newcastle  
Zuma Restaurant

## Estimating policy impacts on net migration

### B.1 Introduction

B.1 This annex describes the analysis conducted in order to assess the potential impact on net migration, as measured by Long Term International Migration (LTIM) estimates produced by the Office for National Statistics (ONS), of a limit on Tiers 1 and 2 of the Points Based System (PBS).

B.2 The Home Secretary's question to the MAC, as set out in Chapter 1, referred to the Government's aim of *"reducing net migration to an annual level of tens of thousands by the end of this Parliament"*. We understand that the annual level of tens of thousands refers to LTIM estimates of net migration. LTIM figures are based on the results from the International Passenger Survey (IPS) with certain adjustments made to account for flows to and from the Irish Republic, asylum seekers, and migrant and visitor switchers.

B.3 The objective is expressed in terms of net migration, which is measured by LTIM, but the direct impact of policy will be on visas issued (out-of-country) and for extensions of leave to remain (in-country). This annex presents the analysis that we conducted in order to reconcile the two sets of data, estimate the impacts on total net migration of limits on Tiers 1

and 2, and account for uncertainty around future migration flows outside direct Government control. The annex is divided into four sections:

- estimating the impact of visa reductions on IPS inflows;
- estimating the impact of visa reductions on outflows and LTIM net migration;
- estimating impacts of in-country policies on net migration; and
- accounting for uncertainty and volatility in British, EU and non-IPS net migration.

### B.2 Estimating the impact of visa reductions (out-of-country) on non-EU inflows

B.4 In order to estimate the impact of limits on the number of out-of-country visas issued under Tiers 1 and 2 on inflows, as measured by LTIM, it is essential to understand how the data on the number of visas issued relate to LTIM inflows.

B.5 For reasons other than short visits, visas are required by most non-EEA nationals. When individuals cross the UK border, they may be sampled as part of the International Passenger Survey (IPS). If they report that

they intend to change their usual place of residence for more than a year, they are counted as migrants; otherwise they are counted as visitors. The same process occurs when individuals leave the UK.

**B.6** The first important difference between the number of visas and LTIM inflows is that visas can also be issued to visitors and tourists for short periods of time, whereas the IPS definition of migrants (those changing their usual place of residence for a year or more) excludes such people. We therefore exclude from our analysis categories of visa that clearly relate to visitors.

**B.7** Second, some individuals with non-visitor visas may also fall outside the definition of migrant employed by the IPS because they intend to come to the UK for less than a year. These cases are much more difficult to identify, as the individual may possess a visa lasting for more than a year. Visas may be granted for a set period, but the migrant may actually plan to come for a shorter or longer period.

**B.8** Third, not all those who are granted a valid visa will actually use it to come to the UK.

**B.9** For these reasons, the number of visas granted to non-EEA nationals exceeds the volume of the inflow of non-EU nationals recorded in the IPS. Our approach to dealing with this issue is divided into two steps:

- allocate visa categories to corresponding components of IPS inflows; and then

- calculate a ratio between visas and IPS inflows for each IPS category.

### Allocating visa categories to IPS flows

**B.10** The IPS, which makes up the core component of LTIM estimates, does not record the type of visa held by the migrants that are surveyed. Instead, the IPS asks individuals their main 'reason for migration' and allocates migrants into five categories: 'work-related' (split by 'definite job' and 'looking for work'), 'formal study', 'accompany / join', 'other' and 'no reason.'

**B.11** Table B.1 sets out our allocation of visa categories to the three IPS categories we believe to be relevant. We do not have enough information to estimate which proportion of any visa categories should go into the last two IPS categories presented in Table B.1, 'other' and 'no reason'.

**B.12** We assume that Tier 1 and 2 migrants will be picked up by the IPS work-related inflow. As discussed in Chapter 3, visas issued under Tier 1 and Tier 2 only make up around half of total work-related visas. We therefore assume that Tier 5 and permit-free employment are included in the IPS work-related inflow data. Although these are temporary routes, evidence suggests that the majority of these visas last for over a year. UK Border Agency (2010b) find that, for the 2004 cohort, only 12 per cent of visas issued under equivalent predecessor routes expired within 2004, and 25 per cent in 2005. We also assume that dependants of main applicants will be captured in the 'accompany / join' IPS category.

**Table B.1: Allocation of visa categories to IPS categories based on ‘reason for migration’**

IPS reason for migration	Visa Category
Work-related	Tier 1, Tier 2, Tier 5, Permit-Free Employment, PBS predecessor routes (including HSMP, Work Permits, other Employment)
Formal Study	Tier 4 and students
Accompany / Join	Family visas (including spouse, civil partners, fiancés, other family) and dependants (including dependants of Tier 1, Tier 2, Tier 4, Tier 5, permit-free employment, family visas and all their predecessor routes)
Other	-
No Reason	-

Note: Visa categories correspond to those reported in the Home Office Control of Immigration Statistics. We exclude visitor visa categories as these will not be included in the International Passenger Survey (IPS) definition of a migrant: someone moving country for a year or more. ‘Work-related’ includes both subcategories ‘looking for work’ and ‘definite job’.  
Source: MAC analysis

**B.13** As for the ‘other’ and ‘no reason’ IPS categories, these represent relatively small flows, and we do not have relevant information to form a sensible allocation. Therefore, at this stage we have excluded them from this analysis. However, it may well be plausible to split them proportionately between the work-related, formal study and accompany / join inflows, given that some of these people are also likely to fall into these categories. We consider this alternative option at the end of this section.

### **Calculating the ratio between visas and IPS inflows**

**B.14** Once we have allocated visa categories to IPS ‘reason for migration’ categories, we can compare the volumes coming through each paired category. Table B.2 shows the annual figures for the work-related, student and family IPS categories alongside the corresponding volume of visa groups.

**B.15** For all categories, we observe that the volume of visas issued is considerably larger than inflows measured in the IPS by reason for migration. For example, in 2009, 108,000 work-related visas were issued but only 55,000 migrants were recorded by the IPS as coming to the UK for work-related reasons (either looking for work or with a definite job).

**Table B.2: Comparing non-EU inflows to visas issued, 2006 to 2009**

	Inflows (000s)			
	2006	2007	2008	2009
Work-related IPS inflows	101	74	69	55
Work-related visas	146	130	119	108
Work-related scaling factor	0.69	0.57	0.58	0.51
Formal study IPS inflows	114	104	124	163
Formal study visas	218	224	209	273
Formal study scaling factor	0.52	0.47	0.59	0.60
Accompany / join IPS inflows	74	65	59	54
Accompany / join visas	184	167	153	145
Accompany / join scaling factor	0.40	0.39	0.39	0.37

Notes: Scaling factors are calculated by dividing IPS inflows by the number of visas issued in each category. Ideally, a longer time-series would be used, but detailed visa data are only available for 2006 onwards. The visa categories are based on the assumptions outlined in Table B.1.

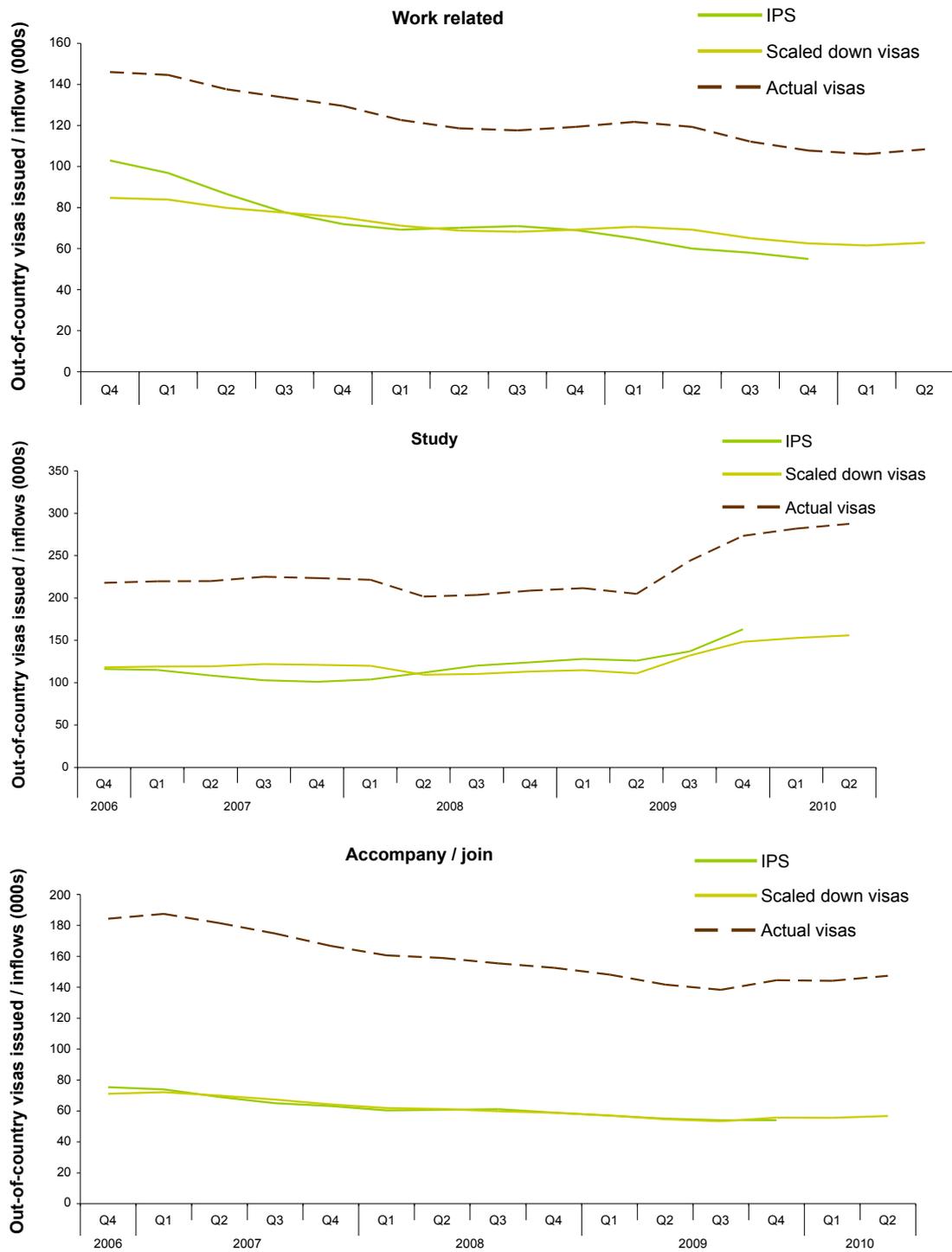
Source: MAC analysis of the International Passenger Survey, 2006-2009, published in Office for National Statistics (2010c); Home Office Control of Immigration statistics (2010)

**B.16** To estimate the proportion of visas likely to be captured in the IPS inflows by reason for migration, we calculated the ratio of IPS inflows to the total number of visas issued. We refer to these ratios as 'scaling factors'.

**B.17** Figure B.1 shows how the scaling factors for each category have varied over time when we examine rolling quarterly data. Rolling quarterly data are available for non-EU inflows by reason for migration from the last quarter of 2008. We estimate these data for the period between the last quarter of 2006 to the third quarter of 2008 using quarterly data on total non-EU inflows and apportion them by reason for migration based on annual IPS data on non-EU inflows. The scaling factors used in Figure B.1 are calculated using

the same method demonstrated in Table B.2: we divide the number of visas issued by the volume of inflows estimated from the IPS for each category. As shown, there is some variation in the ratios over time, which implies an imperfect correlation between visas and IPS inflows, and as such a degree of error around using any point estimates. In addition, there may also be considerable variation within each of the broad IPS categories. For example, it is plausible that intra-company transferees coming for short assignments may be less likely to be counted in the IPS than Tier 1 General migrants who intend to settle. However, there is little information available to allow us to take into account how likely different routes are to be counted in the IPS measure of work-related inflows.

**Figure B.1: Scaling visa flows to IPS flows for non-EU reason for migration categories, rolling quarterly data 2006 Q4 to 2009 Q4**



Notes: Rolling International Passenger Survey (IPS) quarterly data are available for non-EU inflows by reason for migration from 2008 Q4. For the period between the 2006 Q4 and 2008 Q3, the quarterly IPS figures are calculated using rolling quarterly IPS data on non-EU inflows split by reason for migration using assumptions based on annual IPS data on non-EU inflows. The visa categories are based on the assumptions outlined in Table B.1.

Source: MAC analysis of the International Passenger Survey, 2006-2009, published in Office for National Statistics (2010c); Home Office Control of Immigration statistics (2010)

**Table B.3: Average scaling factors based on rolling quarterly data, 2006 to 2009**

	Scaling factor
Work-related	0.58
Formal study	0.54
Accompany / join	0.39

Notes: The scaling factors presented are the average of those calculated in Figure B.1 which used rolling quarterly data between 2006 and 2009.

Source: MAC analysis of the International Passenger Survey, 2006-2009, published in Office for National Statistics (2010c); Home Office Control of Immigration statistics (2010)

**B.18** We use these scaling factors to translate a given reduction in IPS inflows into a reduction in the number of visas in a single year. The scaling factors we use in Chapter 9 are the average over rolling quarterly data between 2006 and 2009. These are outlined in Table B.3 below. Therefore, we might expect that a decrease in 10,000 Tier 1 and Tier 2 out-of-country visas would decrease estimated non-EU work-related inflows in the IPS by 5,800.

### Sensitivity analysis

**B.19** As outlined in the previous sections, a number of core assumptions need to be made to generate the scaling factors (listed in Table B.3) which convert the number of visas issued into an IPS inflow. Here we consider the implications of two alternative sets of assumptions:

- exclude the work-related visa temporary routes that do not lead to citizenship (Tier 5 and permit-free employment) to calculate the work-related scaling factor; and

- assume that the migrants recorded under the 'other' and 'no reason' categories should be spread proportionately across the other reasons for migration.

**B.20** Regarding the first alternative, if the temporary work-related routes are excluded from the calculation, then the scaling factor for work-related visas becomes 0.98, compared to 0.58 with these routes included. However, we do not think there is a valid case for excluding the temporary work-related routes from the calculation of the scaling factors. Evidence from UK Border Agency (2010b) suggests that 75 per cent of those coming to the UK through temporary employment routes do stay longer than a year.

**B.21** Regarding the second alternative, if we believe that individuals in the 'other' and 'no reason' categories are actually a combination of individuals coming to the UK for work, study or family reasons, it may be sensible to divide these flows amongst the other three IPS categories. Without any further evidence to inform this decision it is difficult to know how best to allocate these flows. However, to illustrate the effect of

this assumption, we allocate the migrants under the ‘other’ and ‘no reason’ categories proportionately to the size of the other IPS categories. This increases the scaling factors for each of the three categories. The work-related scaling factor becomes 0.64, the study scaling factor becomes 0.58 and accompany / join becomes 0.43. The implication is that a reduction in Tier 1 and 2 visas will lead to a reduction in ‘other’ and ‘no reason’ inflows alongside work-related inflows, which is very difficult to test empirically.

### **B.3 Estimating the impact of visa reductions on outflows and net migration**

**B.22** Estimating the impact of visa reductions on inflows only provides an indication of what might happen to net migration in the very short term. As highlighted in Chapter 9 of this report, any policy that seeks to change the level of inflows through Tiers 1 and 2 in one period will affect the outflows from these routes in the longer term. This in turn will affect net migration in the long term.

**B.23** To understand the extent of this longer-term impact, we first consider evidence on the average durations of stay of migrants in the UK, then we analyse how these can be used to estimate the volume of outflows as measured by the IPS.

### **Migrant lengths of stay in the UK**

**B.24** UK Border Agency (2010b) provides estimates of the proportion of the entry cohort of migrants who entered the UK in 2004 who still have valid leave to remain five years later. These estimates can be used as a proxy for the lengths of stay of migrants. However, not all migrants will exit the UK when their leave expires and many may exit before their leave expires.

**B.25** The study finds that 40 per cent of those who entered through work-related routes leading to citizenship (described in UK Border Agency (2010b) as work (citz)) still had leave to remain in the UK after five years, compared with 11 per cent of work-related routes not leading to citizenship (described in UK Border Agency (2010b) as work (non-citz)). Work (citz) corresponds to Tiers 1 and 2 of the Points Based System (PBS) and their predecessor routes, and work (non-citz) corresponds to Tier 5 and permit-free employment routes and their predecessor routes. The study also finds that 21 per cent of those who entered through a study route and 63 per cent of those coming through the family reunion routes still had valid leave to remain in the UK after five years.

**B.26** The IPS also records ‘intended lengths of stay’ for migrants entering and leaving the UK<sup>1</sup>. This provides an alternative estimate, with the caveat that

---

<sup>1</sup> The IPS also record ‘actual lengths of stay’ prior to migration. As discussed later in this section, it is not possible to analyse outflows by their reason for first coming to the UK. Therefore it is not possible to use data on ‘actual lengths of stay’ to estimate how long inflows measured by the IPS will stay in the UK.

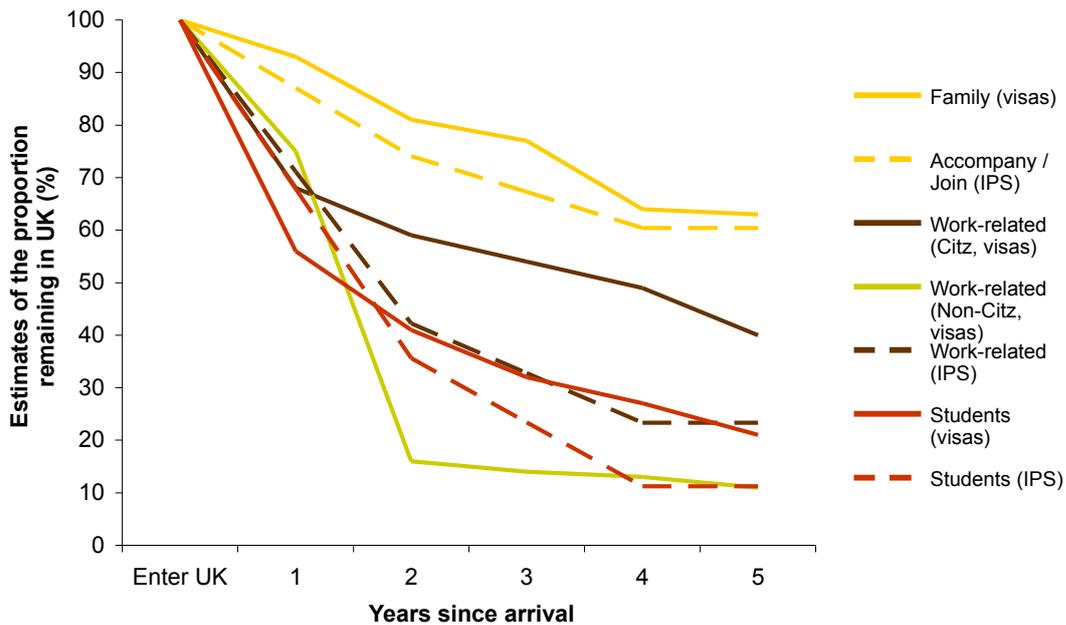
migrants are very likely to change their mind during the course of their stay in the UK. This is acknowledged by the ONS who take these issues into consideration when making adjustments in their final estimates of LTIM from the IPS survey results.

**B.27** Figure B.2 compares the intended lengths of stay recorded in the IPS in 2004 and 2005 with the implied lengths of stay of the 2004 migrant cohort presented in UK Border Agency (2010b). As shown, for

family and study routes the IPS estimates of the proportion of migrants still in the UK are lower than that for UK Border Agency (2010b). The IPS estimate for the work-related category broadly sits in between the estimates for work (citz) and work (non-citz) categories of the UK Border Agency (2010b) study.

**B.28** Research conducted by Dustmann and Weiss (2007) has also examined the lengths of stay of migrants in the UK using the

**Figure B.2: Comparison of intended lengths of stay reported in the International Passenger Survey in 2004 to 2005 and implied lengths of stay from expired visa data for migrants entering the UK in 2004**



Notes: International Passenger Survey (IPS) estimates are based on respondents' answers to intended lengths of stay in the IPS conducted in 2004 and 2005. It is assumed that those who answered "uncertain" or "more than 4 years" will settle in the UK. Visa estimates are from UK Border Agency (2010b). This study tracks migrants that initially entered in 2004 through UK Border Agency administrative data and records the status of their leave to remain in the UK each year. We use the proportion of leave to remain expiries each year to calculate the implied lengths of stay. For example, if 90 per cent of migrants included in the study still had valid leave to remain in 2005, we assume that on average 90 per cent were still in the UK one year after arrival. A migrant is assumed to leave the UK once their Leave to Remain has expired.  
 Source: International Passenger Survey, 2004-5, published in Office for National Statistics (2010c); UK Border Agency (2010b)

Labour Force Survey (LFS). However, the LFS cannot be used to identify migrants by type of visa category.

- B.29** Having considered these estimates of migrants' lengths of stay, we consider how these estimates can be used to generate estimates of outflows from past inflow data.

### **Estimating the impact of reductions in inflows on outflows**

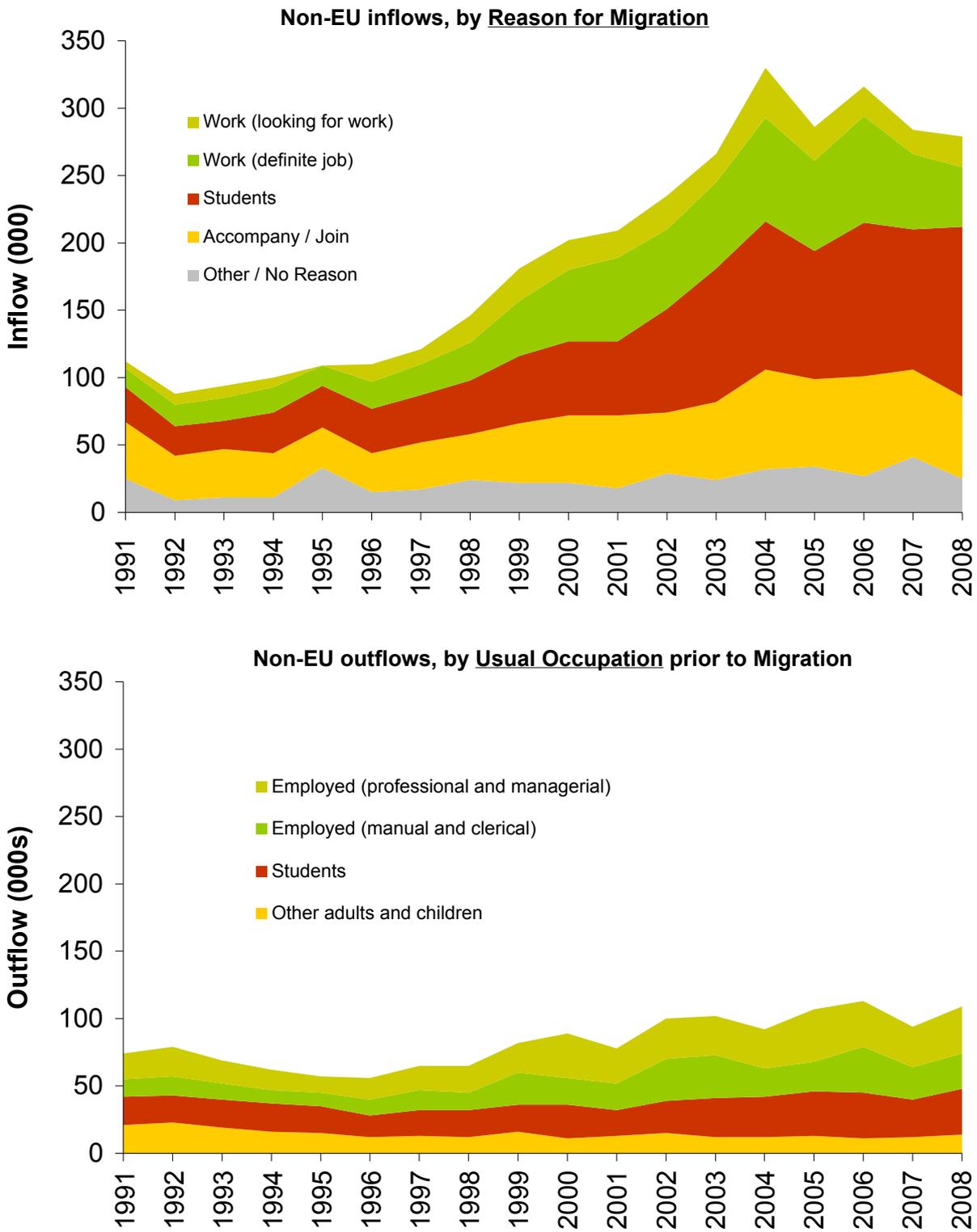
- B.30** To look at how inflows might lead to future outflows in a simple model, one can apply assumptions of the average lengths of stay of different migrant categories to each inflow cohort to generate an estimated outflow for the following years. For example, if 100 migrants entered the UK in 2004 and 10 per cent left after one year then the outflow in 2005 from this cohort will have been 10. This estimated outflow can then be compared to actual outflow data, measured by the IPS.

- B.31** One difficulty in comparing the estimated outflow generated with actual outflow data is that the IPS does not record the initial reason for coming to the UK in the outflow data. Therefore it is not possible to determine, for example, the proportion of those leaving the UK for work-related reasons that initially entered for work-related reasons. It is possible for people to come to the UK to study or to join their family and then leave for work-related reasons. We are primarily interested in work-related migration, so it is important to be able to examine each category separately.

- B.32** To overcome this problem, we compare the estimated outflow generated with IPS outflow data on 'usual occupation prior to migration'. These data are broken down using different categories such as: professional / managerial, manual / clerical, students, other adults, and children, which are presented in Chapter 3. These data give a better indication of the likely reason why migrants first came to the UK.

- B.33** The above approach nonetheless requires us to make some assumptions as to which inflows, by reason for migration, are likely to lead to outflows by usual occupation prior to migration. Figure B.3 compares the volume over time of IPS non-EU inflows, by reason for migration, with non-EU outflows by usual occupation prior to migration. This provides an initial visual comparison between the two measures of IPS non-EU inflows and outflows. As shown, the volume of total non-EU inflows is much larger than the volume of total non-EU outflows. Furthermore, the volume of inflows is larger than the volume of outflows when comparing broadly similar categories. For example, inflows of students are much larger than outflows whose usual occupation prior to migration was 'study'.

**Figure B.3: Comparison of IPS non-EU inflows by reason for migration with non-EU outflows by usual occupation prior to migration, 1991 to 2008**



Notes: International Passenger Survey (IPS) data on usual occupation prior to migration for non-EU outflows is only available up until 2008.  
 Source: International Passenger Survey, 2008, published in Office for National Statistics (2010c)

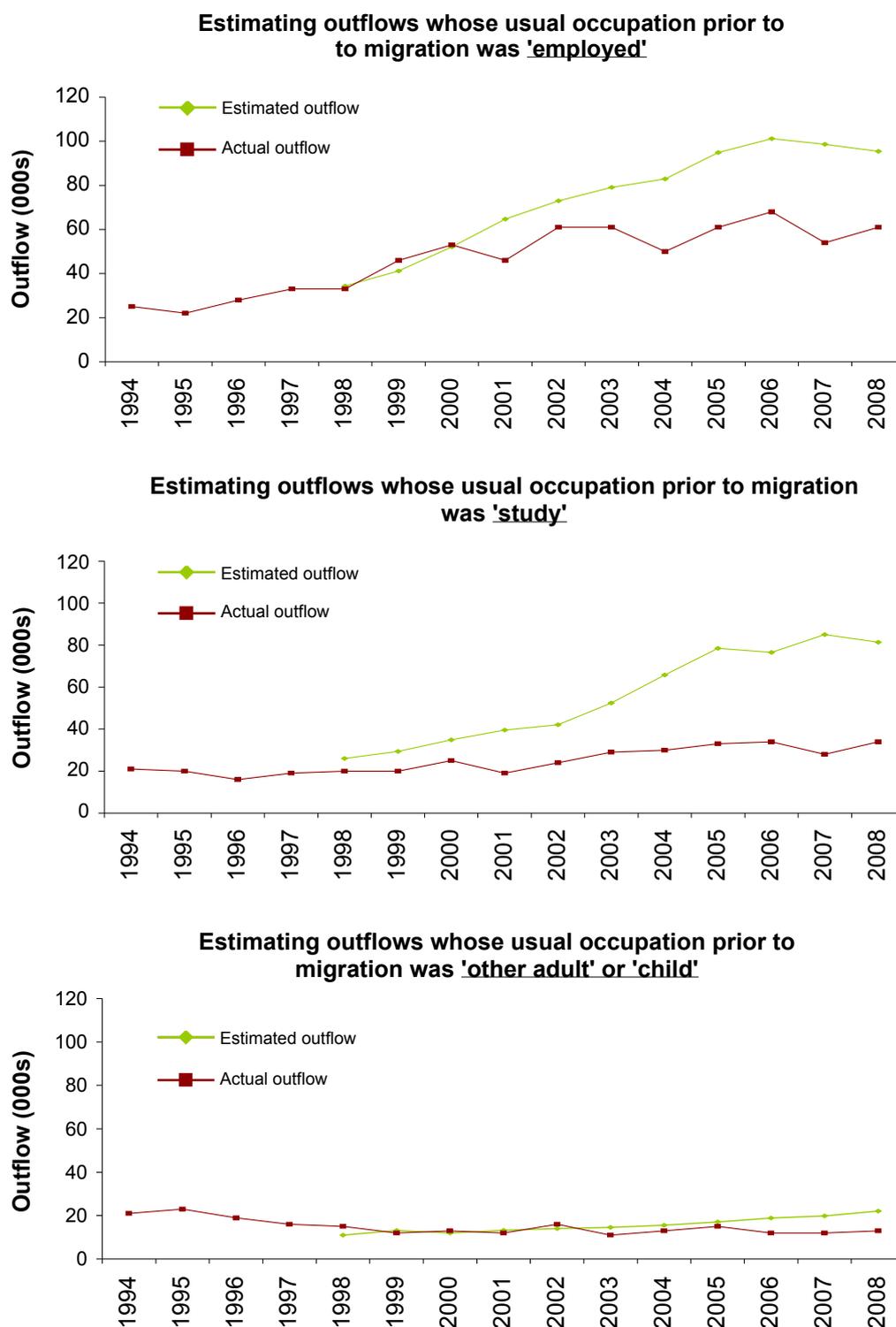
- B.34** In our analysis of the ‘actual’ outflow, we assume:
- ‘Work-related’ inflows will generally lead to outflows of ‘employed’;
  - ‘Formal study’ inflows will generally lead to outflows of ‘study’; and
  - ‘Accompany / Join’, ‘Other’ and ‘No Reason’ will generally lead to outflows of ‘Other adults / children’.
- B.35** The above assumptions do not account for migrants that switch categories whilst in the UK. For example, students may start working after they graduate but before they leave the UK. Similarly, dependants may also work while in the UK before they leave. Therefore, some basic assumptions need to be made to account for this switching.
- B.36** For our analysis of the ‘estimated’ inflow we assume the following:
- 10 per cent of students switch from studying to working while in the UK. This is based on calculations in MAC (2009e) which show that approximately 10 per cent of Tier 4 migrants switch to the Tier 1 Post-Study Work Route. Estimates in UK Border Agency (2010b) also show that roughly 10 per cent of students switch to work-related routes. We assume that on average this switching occurs after three years (however, it may well occur sooner if there are, for example, a large proportion of masters students).
  - In terms of lengths of stay for work-related migrants, we assume that approximately half of work-related inflows will behave as work (citz) migrants, and half as work (non-citz), as defined in UK Border Agency (2010b). This is based on out-of-country visa data, presented in Chapter 3, which show that approximately half of work-related visas are issued to Tiers 1 and 2 and around half to Tier 5 and permit-free employment.
  - Around half of dependants are children. This is based on UK Border Agency management information data on dependants presented in Chapter 3.
  - Around 30 per cent of family reunion inflows are children. This is based on the average proportion of children in the IPS ‘accompany / join’ category for all nationalities between 2000 and 2008<sup>2</sup>.
  - 60 per cent of working age dependants and those coming through family reunion routes will be employed whilst in the UK. This is based on estimates from the Labour Force Survey looking at employment rates of non-EEA migrants by main reason for coming to the UK, presented in Chapter 3.

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<sup>2</sup> Data from the International Passenger Survey for Usual Occupation (prior to migration) by Reason for Migration for all nationalities show that the proportion of children in the ‘accompany / join’ category was 33 per cent on average between 2000 and 2008.

- B.37** The above assumptions can be combined with assumptions on the lengths of stay from UK Border Agency (2010b), presented in Figure B.2, to generate a basic model to estimate IPS outflows from inflow data. The results from this approach are shown in Figure B.4.
- B.38** Regarding non-EU 'employed' outflows, the estimated volume is larger than the actual volume recorded by the IPS. This gap widens between 2001 and 2006, and has recently started to close in 2008. There are several reasons for this, which are discussed when we consider the caveats to this approach. The volume of 'other adults and children' outflows estimated by the model are broadly in line with those in the actual data.
- B.39** The estimated outflows for non-EU 'study' are much larger than recorded in the actual data. Even assuming that some students switch and become employed, the model estimates that outflows of 'study' should be much larger. The discrepancy between the estimated volume and actual data was around 47,000 flows in 2008. The size of this discrepancy cannot be explained by increasing the assumption regarding the proportion of students that switch to work-related routes (the current assumptions already overestimate 'employed' outflows). Figure B.3 further illustrates this point by showing the scale of the difference between inflows of students and total outflows by usual occupational categories.
- B.40** There are two potential reasons why the estimated outflow of students is much larger than the flows recorded in the IPS. First, a proportion of students may be overstaying their legal right to stay in the UK, or second, the IPS may potentially undercount outflows of students.

**Figure B.4: Estimating non-EU IPS outflows by usual occupation prior to migration, 1994 to 2008**



Notes: Actual outflows are non-EU outflows by usual occupation prior to migration measured by the International Passenger Survey (IPS). Estimated outflows are generated from the assumptions described in this annex.

Source: MAC analysis; International Passenger Survey, 1994-2008, published in Office for National Statistics (2010c)

**B.41** There are a number of further caveats to this approach for estimating outflows. These are set out below:

- The assumptions made to match inflows by reason for migration to outflows by usual occupation prior to migration are very crude and can easily be varied.
- The approach does not consider any economic or other factors that are likely to be significant drivers affecting an individual's decision to migrate over time for all three outflow categories. The recent downturn may have caused particular distortions in the pattern of migrant lengths of stay in the UK.
- The length of stay assumptions, taken from UK Border Agency (2010b), examine leave to remain expiries and may not accurately capture the actual lengths of stay. People may stay after their visa has expired or leave much earlier. To be recorded as part of a long-term migrant outflow in the IPS, a respondent must be intending to leave the UK for a year or more. It may well be the case that non-EU nationals leave the UK expecting to return, but then change their mind once they are home. As such they would not be recorded as outflows in the IPS survey. This may be a particular issue for students. The IPS has been known to significantly undercount outflows in the past, as discussed in Chapter 3.

- The model assumes that the length of time migrants remain in the UK is, on average, constant over time. It is possible that more recent migrants may stay for longer or shorter periods of time than previous migrant cohorts.

**B.42** These estimates may be used to produce crude estimates of net migration, by migrants' main reason for coming to the UK. If we take the estimated outflows generated above (given the caveats outlined), we can estimate the contribution of each reason for migration category to non-EU net migration. Broadly speaking, the proportions generated are similar to the proportion based on each category's contribution to total non-EU inflows, with the caveat that the approach overestimates outflows of the employed and significantly overestimates outflows of students. It may therefore be reasonable to assume that the proportion that each category contributes to total non-EU inflows will be similar to the proportion that each category contributes to total non-EU net migration.

### **Implications for estimating the impact of inflow reductions on net migration**

**B.43** As discussed above, there are a number of issues when comparing outflows generated from inflow data using the set of assumptions described above, and actual outflows measured by the IPS. However, we can apply the above methodology to provide a broad idea of the likely scale of the longer-term impact on net migration of reducing the number of out-of-country visas issued to Tier 1 and Tier 2 applicants.

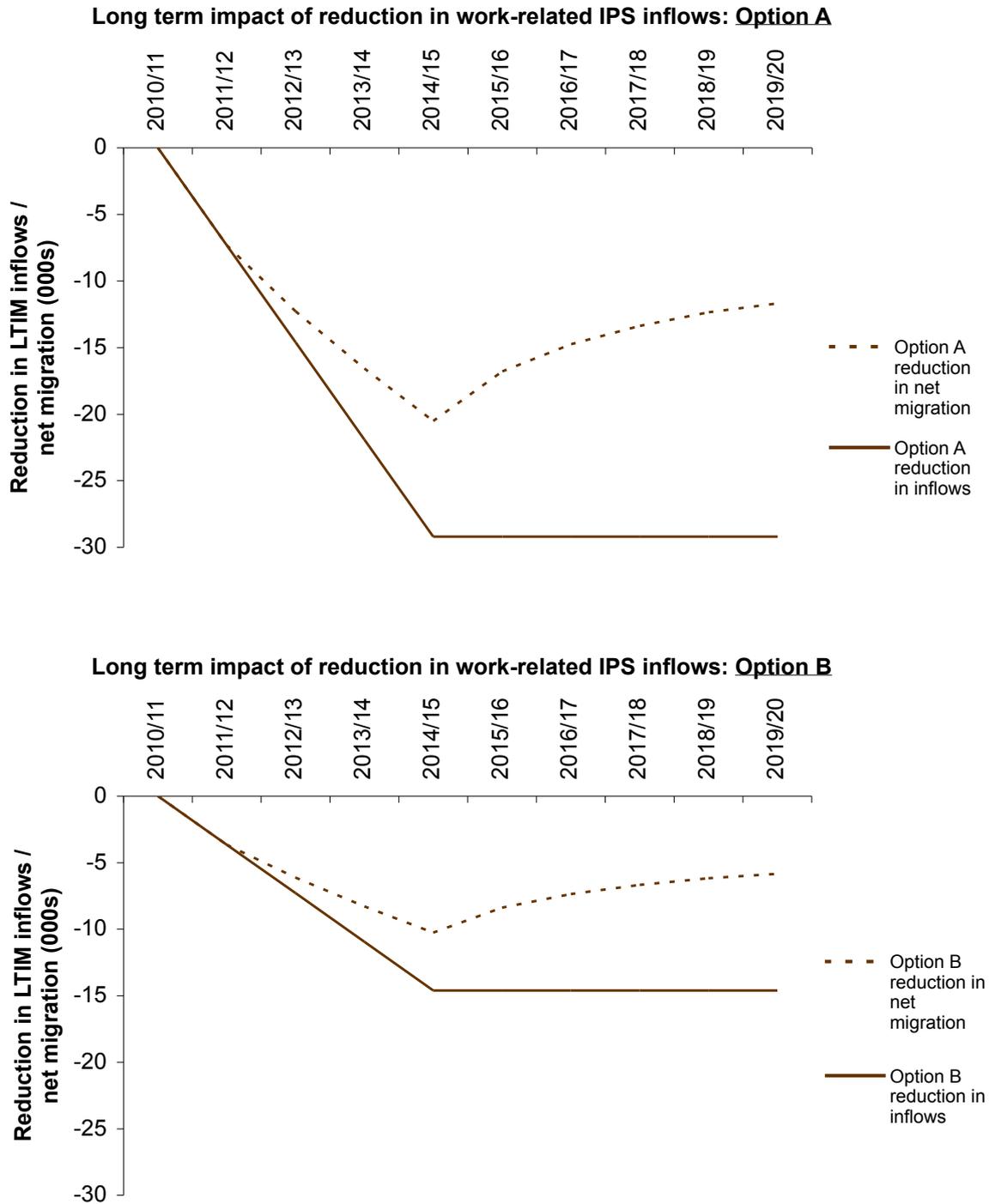
- B.44** To do this we:
- take the required reductions in work-related IPS inflows to be met through reductions to inflows through Tiers 1 and 2 from options A and B presented in Chapter 6;
  - use assumptions on the lengths of stay of Tier 1 and 2 migrants from UK Border Agency (2010b), shown in Figure B.2; and
  - estimate the longer-term reduction in net migration from the reduction in inflows described by options A and B, taking into account the fact that future outflows will be reduced.

**B.45** Figure B.5 presents the reduction in inflows resulting from options A and B, and an illustrative estimate of the impact on net flows. As shown, in the first few years the impact on net migration is very similar to the impact on inflows. The difference between the inflow reductions and net migration reductions becomes larger in the longer term, as the stock of Tier 1 and 2 migrants who are able to leave the UK as outflows decreases. In the long term, the estimated net migration reduction will only be 40 per cent of the size of the reduction in inflows. The reason for this is that we assume that only 40 per cent of Tier 1 and 2 migrants stay five years or more, based on evidence from UK Border Agency (2010b).

**B.46** This illustrative estimate does not take into account any wider effects that a limit on Tier 1 and 2 migration may have on net migration. It is possible that employers may turn to either British workers living at home or abroad or EU nationals to fill jobs, instead of non-EU nationals. This may cause net migration of British and EU nationals to increase, compensating for any changes in net migration as a result of a limit on Tiers 1 and 2. It is also possible that non-EU migrants may be more likely to remain in the UK if opportunities to re-enter the UK are restricted. These displacement effects are very difficult to estimate and further increase the levels of uncertainty of future net migration, as discussed in section B.5.

**B.47** The estimates presented in this annex are generated using a set of broad assumptions to illustrate a way of thinking about the potential scale of the longer-term impact of reductions in inflows on net migration, over future years measured by the IPS. Understanding how long migrants stay in the UK, and the proportions that settle permanently, is key to understanding how net migration relates to long-term changes in the composition of the UK population. We strongly encourage future research in this area to better understand the dynamics of migration flows.

**Figure B.5: Estimating the long term impact on net migration from a reduction in work-related inflows, 2010/11 to 2019/20**



Notes: Option A and option B are taken from Chapter 6. In this chapter we consider reductions of work-related inflows of 7,300 for option A and 3,650 for option B per year from 2011/12 to 2014/15. The net migration reduction is generated by comparing the magnitude of these reductions with the 'do nothing' option of keeping the level of work-related migration constant from 2009. Source: MAC analysis

## **B.4 Estimating impacts of in-country policies**

**B.48** This annex has so far tackled two issues: understanding how the number of out-of-country visas issued are recorded in inflows (measured by the IPS); and how reductions in inflows are likely to lead to reductions in future outflows (again measured by the IPS).

**B.49** The question we turn to address now is how one might estimate the impact on net migration measured by the IPS of any changes in the number of in-country grants of leave to remain. We have not endeavoured to calculate this in the body of our report as we have not provided a limit on in-country grants of leave to remain. However, we briefly set out below three key issues which make addressing this question difficult.

**B.50** First, one needs to understand how inflows generate future in-country applications. This would require the construction of a model to understand the volume of in-country applications generated from past inflows.

**B.51** Second, it is necessary to understand how any additional outflows generated from a limit on in-country grants will be recorded by outflows measured by LTIM and the IPS. There is a large degree of uncertainty in reconciling the volume of out-of-country visas issued with IPS inflows. There is likely to be an even greater level of uncertainty in reconciling estimated outflows generated from an in-country limit with outflow measured by LTIM and the IPS.

**B.52** Third, there may be changes in behaviour as a result of a limit that could cause people to stay in the UK for longer or shorter periods of time. This further complicates any modelling approach.

## **B.5 Uncertainty and volatility in net migration flows**

**B.53** In Chapter 6, we outline the arithmetic used to generate two potential options for limits on Tiers 1 and 2 consistent with the objective of reducing net migration to the tens of thousands. As discussed in that chapter, calculating the extent of reductions in non-EU net migration required to reach total net migration in the tens of thousands depends on the scale of net migration of EU and British nationals.

**B.54** This section examines the range of uncertainty generated from the:

- sampling error in the IPS; and
- volatility of migrant flows outside the direct control of migration policy.

### **Sampling error in the International Passenger Survey**

**B.55** The reliability and accuracy of data on net migration has important implications for any policy that seeks to influence net migration. As with any survey, there are sampling errors associated with estimates from the IPS. The LTIM estimates of net migration are made up of estimates from the IPS with adjustments made to account for migrant and visitor switchers, flows to and from Ireland and asylum flows. Here we consider the confidence intervals around

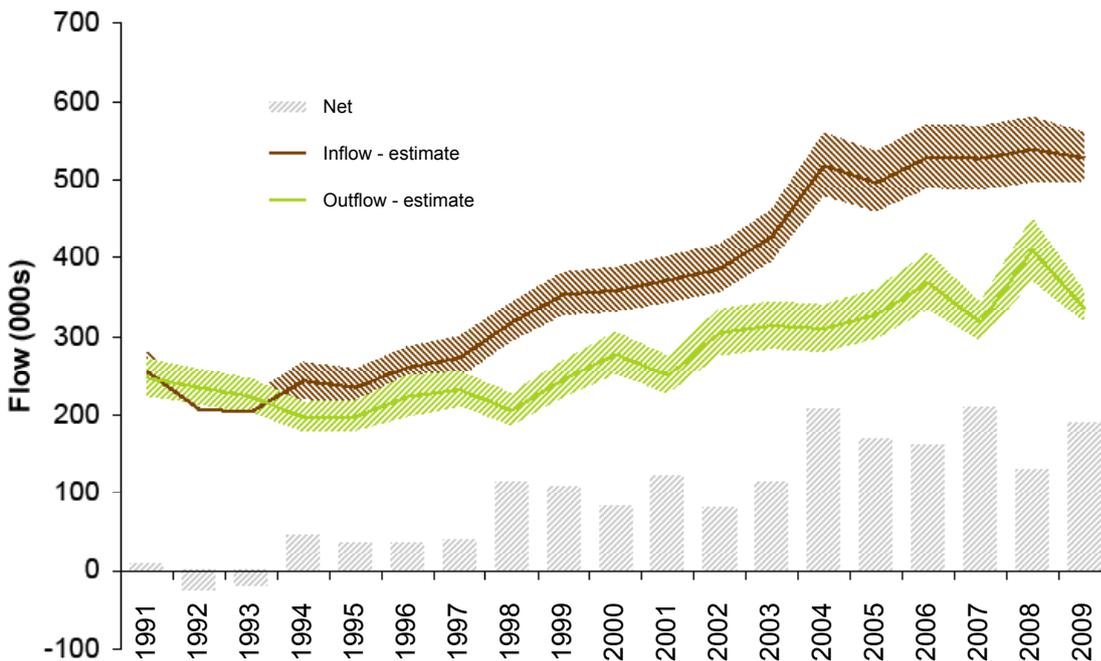
the sample estimates of the IPS components.

**B.56** The IPS is a survey of passengers arriving in, and departing from, the UK. Approximately one in every 500 passengers travelling through UK ports is surveyed, but the migrant sample (i.e. those defined as intending to change their usual place of residence for a year or more) is only a fraction of this. In 2008, 3,216 immigrants and 1,901 emigrants were surveyed.

**B.57** In 2009, we calculate the 95 per cent confidence interval for the total inflow was approximately +/- 31,000 and the equivalent

figure for the outflow was +/- 20,000, shown in Figure B.6. A 95 per cent confidence interval implies that, on average, for every 20 possible samples drawn we would expect 19 of them to result in estimates within the range. Since net migration is the result of a subtraction of outflows from inflows, the margin of error is not strictly a sampling error. Nevertheless, the sampling error associated with the inflow and outflow figures must introduce a degree of uncertainty. An approximation of the resulting error might be in the region of +/- 37,000 for the 2009 figure<sup>3</sup>. In other words, if the IPS was conducted

**Figure B.6: 95 per cent confidence intervals for inflows and outflows for all nationalities measured by the IPS, 1991 to 2009**



Note: Approximate confidence intervals are shown for inflows and outflows. The chart only refers to the International Passenger Survey components of net migration and do not include the adjustments made for the Long-Term International Migration (LTIM) estimates. 2009 figures are provisional. Source: MAC analysis of the International Passenger Survey, 1991-2009, published in Office for National Statistics (2010c)

<sup>3</sup> Calculated by taking the square root of the sum of the squared standard errors.

100 times we think the resulting LTIM net migration estimates would fall between 159,000 and 233,000 in 95 out of 100 times.

### **Volatility of British, EU and non-IPS net migration**

**B.58** Arguably, the largest source of uncertainty is around future flows of migrants outside direct Government control. These include flows of British and EEA (European Economic Area) nationals as well as the non-IPS components of LTIM.

**B.59** In this report we have adopted the simple assumption that these flows will remain at 2009 levels until 2014/15. We have not attempted to forecast different migration flows. One reason is that there are few clear underlying trends or relationships with other variables. Another more pragmatic reason is that the uncertainties are so large that forecasts may not actually be any better than a simple assumption.

**B.60** In the following paragraphs we consider the assumption that flows will remain constant together with the risks associated with doing this, focussing first on British and EU nationals measured in the IPS and then on the non-IPS components of LTIM.

**B.61** In 2009, provisional IPS net migration of British and EU nationals combined was positive, with a net inflow of 7,000. Net migration of UK citizens was -36,000 and the equivalent figure for EU citizens was +43,000, shown in Figure B.7.

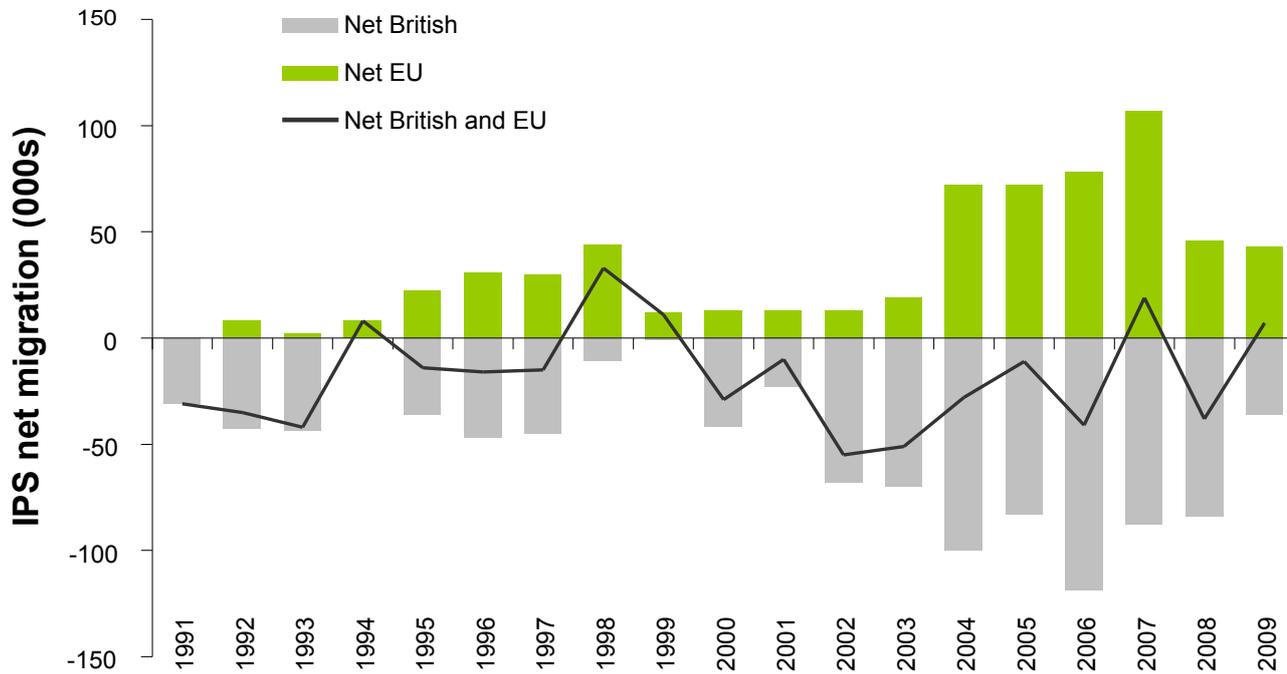
**B.62** The largest single factor influencing these historical flows was the large inflow of nationals of the countries that acceded to the EU in 2004 (the A8). However, net outflows of British nationals were generally larger over the same period, which somewhat balanced this out. There are some difficulties in assessing what might happen to these flows in the future:

- there is no clear trend in net EU or British net migration: there is considerable year-to-year variability in net migration of both; and
- there is no clear relationship between these flows and suitable economic variables which could be used to predict future flows.

**B.63** Our assumption is that net British and EU migration will remain at +7,000 until 2014. This is the same as the level observed in 2009. However, there may be reasons that net migration of EU and British citizens will be lower than in the past, such as:

- outflows of A8 citizens have increased in comparison to inflows, suggesting net migration of A8 citizens is likely to be smaller than in the past; and
- the lifting of transitional arrangements for A8 nationals in other European countries could mean that fewer A8 nationals choose to come to the UK.

**Figure B.7: Net migration of British and EU citizens recorded in the International Passenger Survey, 1991 to 2009**

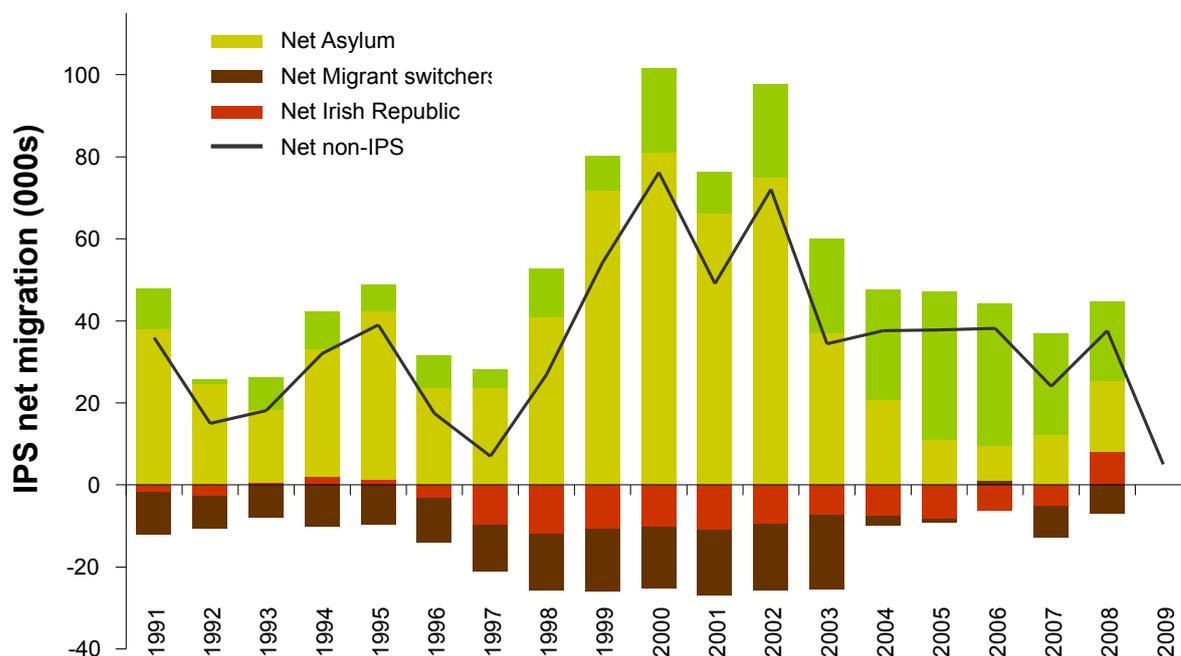


Note: This chart considers IPS flows rather than LTIM in order to isolate flows over which the Government has no direct control from LTIM figures. 2009 IPS figures are provisional.  
Source: MAC analysis of the International Passenger Survey, 2006-2009, published in Office for National Statistics (2010c)

- B.64** In contrast, there may be reasons why net migration of British and EU will be higher than in the past:
- comparative economic conditions between A8 countries and the UK may change, resulting in greater inflows and smaller outflows;
  - future accession of countries to the EU or lifting of transitional arrangements for Bulgaria and Romania may increase EU inflows; and
  - in the event that employers are prevented from recruiting non-EU nationals, they may seek to recruit British or EU nationals who are currently living abroad, which may increase inflows.

- B.65** In 2009, net migration of the **non-IPS components** of LTIM (the components of, and adjustments to, LTIM that are not derived from the IPS, described in the following paragraph) totalled +5,000, shown in Figure B.9. The magnitude and composition of these components remained broadly constant between 2004 and 2008. The 2009 figure for total non-IPS net migration is not available in the published ONS data, so we have estimated this figure based on the residual between published provisional LTIM and IPS estimates. This estimate is considerably lower in 2009 than the official figure for 2008. Therefore, the official

**Figure B.8: Net migration of non-IPS components of Long-Term International Migration**



Notes: Official figures for net migration of the non-IPS component of LTIM are not currently available from the ONS. In this chart, we estimate this figure from the residual between the total LTIM net migration estimate and the IPS net migration estimates by nationality for the provisional 2009 figures. Source: MAC analysis of estimates of Long-term International Migration (LTIM), 1991-2009, published in Office for National Statistics (2010c)

**B.66** Between 1998 and 2003, the figures were dominated by large asylum-related inflows. Net flows of visitor switchers (those originally intending to visit the UK, but who eventually become migrants<sup>4</sup>) have grown in recent years, with the exception of 2008. Migrant switchers and movements to and from the Irish Republic are relatively small flows.

**B.67** Again, there is no obvious trend evident in these flows. The largest component between 1998 and 2003 was asylum, which is likely to have been influenced by unpredictable changes to policy and world events. Visitor switchers are also a significant flow in recent years, but it would not be possible to accurately predict how any individual policy measure may influence their volume. We assume that flows will remain broadly at 2009 levels. Again, there is a large degree of uncertainty surrounding such an assumption.

<sup>4</sup> Switching assumptions apply to both inflows and outflows. Thus, the increase in net flows of visitor switchers is partly due to fewer numbers of individuals that intended to leave the UK for a short period, but stayed abroad as migrants.

- B.68** Taking together our assumptions about British and EU flows and other flows over which the Government has no control, we find they balance out approximately at a modest positive 12,000 net migration inflow. However, there is considerable uncertainty around these assumptions, particularly if we are relying on them to make judgements about migration in the future.
- B.69** **Quantifying uncertainty** around future flows of British, EU and non-IPS flows is a difficult task. Ideally, we would want to express such uncertainties in the form of probabilities. The construction of such probabilities (often called prediction intervals) usually relies on the specification of a formal forecasting model, and assumptions about the model and underlying data. However, as noted above, we have not attempted to construct a formal forecasting model because of an absence of suitable data with which to do so. We have simply assumed that flows will remain at the same level as in 2009.
- B.70** One way of assessing the uncertainty around such an assumption is to look at how well it would have performed when applied to historic data. The distribution of the errors arising from these ‘in-sample’ forecasts may tell us something about the magnitude of the uncertainties associated with applying these assumptions to the future.
- B.71** Here, we follow a similar methodology to that employed by the Office for Budget Responsibility (OBR) in compiling

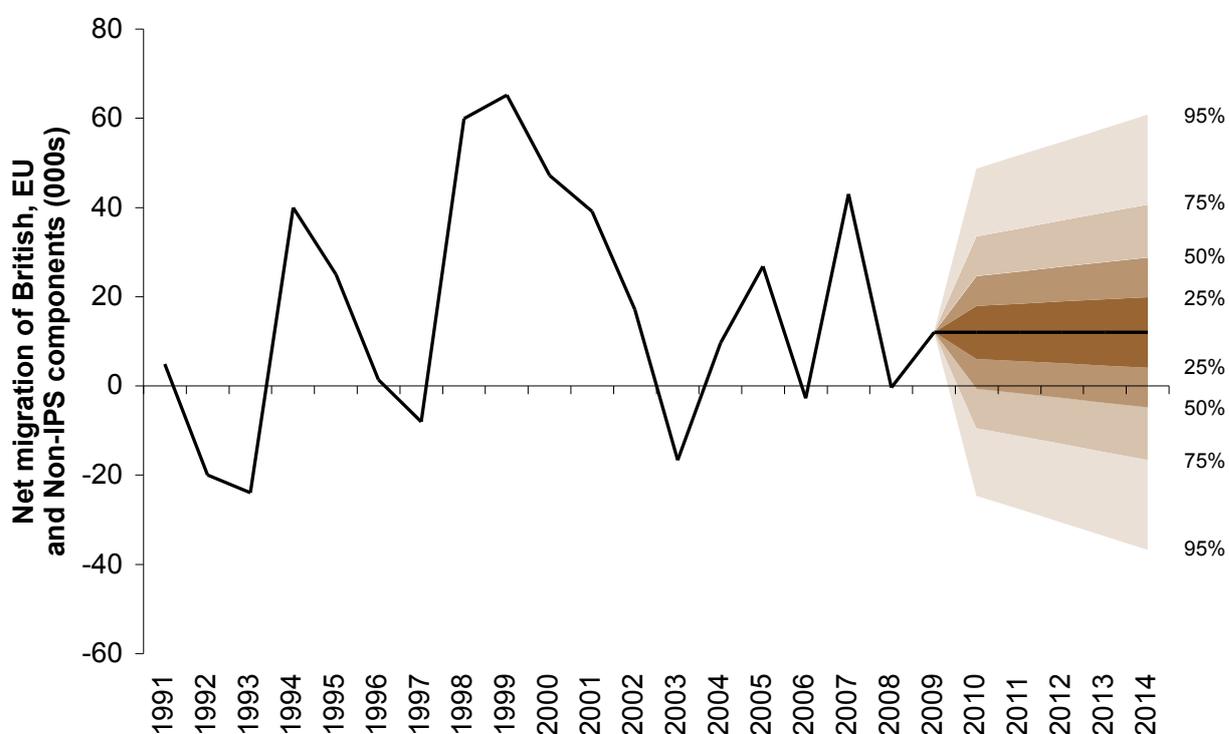
their fan charts to show the probability distribution around their forecasts of GDP growth (OBR, 2010). To produce estimates of uncertainty to illustrate the volatility of British, EU and non-IPS net migration we make two key assumptions. First, we assume that the net migration through these routes is equally as likely to increase as it is to decrease. Therefore the distribution of errors in the ‘in-sample’ forecast described above is likely to be symmetrical. Second, in the absence of a better assumption, we assume that these errors are likely to be normally distributed.

- B.72** Figure B.9 presents the mean squared error of the ‘in-sample’ forecasts  $t+h$  periods into the future. The mean squared error is calculated as the square root of the sum of the squared errors and is the measure of the average error experienced in the historic data. The standard error is also presented, which is the standard deviation of the ‘in-sample’ distribution of errors. Alongside the two assumptions made above, the standard errors can be used to estimate approximate confidence intervals, which are also presented in Figure B.9. The actual data, which are based on a small sample, show that the standard error for the three-year-ahead forecasts is smaller than that for the two-year-ahead forecasts. We would expect the standard errors to increase over time and therefore assume, as the OBR assumed in similar situations, that the standard errors follow a linear trend between the first-year and fifth-year forecasts.

**Figure B.9: Estimates of volatility in British, EU and non-IPS net migration flows, 1991 to 2009**

	Measures of error if net migration is assumed to stay constant $t+h$ years ahead				
	$t+1$	$t+2$	$t+3$	$t+4$	$t+5$
Mean squared error	32	39	39	38	40
Standard error	19	20	17	20	25
Assumed standard error	19	20	22	23	25

**Probability distribution around the assumption that future British, EU and non-IPS net migration will stay constant over time**



Note: The table shows mean squared error and standard error for the distribution of errors that result if actual historical net migration figures are compared with the assumption that net migration will stay constant  $t+h$  periods ahead. The chart shows the probability distribution, or confidence intervals, around the assumption that net migration from British, EU and non-IPS will stay constant going forward. The probability distribution is calculated assuming a normal distribution of errors, with mean 12,000 and the assumed standard error listed in the table above.

Source: MAC analysis of estimates of Long-Term International Migration (LTIM), 1991-2009, published in Office for National Statistics (2010c)

**B.73** For British, EU and non-IPS net migration between 1991 and 2009, the average error, measured by the mean squared error, was +/- 32,000 one period ahead. As shown in Figure B.9, there is only a 50 per cent probability, based on historic data, that British, EU and non-IPS net migration will be between -1,000 and 25,000 in 2010 and between -5,000 and 29,000 in 2014. There is a 95 per cent probability, again based on historic data, that net migration through these routes will be between -25,000 and 49,000 in 2010 and -37,000 and 61,000 in 2014. To put these figures into context, between 1991 and 2009, the maximum level of British, EU and non-IPS net migration was 65,000 and the minimum was -24,000.

**B.74** In summary, the approach used to illustrate the level of uncertainty with future net migration of British and EU nationals and the non-IPS LTIM components is crude, and relies on a variety of assumptions: most fundamentally, that uncertainty in the future will be the same as that experienced in the past. It also suffers from a very small number of data points in the time-series. Nevertheless, even a casual examination of the scale of error presented in Figure B.9 suggests a potentially very large degree of error around making assumptions about future net migration.

# Summary of required limits calculations

### C.1 Introduction

C.1 This annex presents a summary table of the calculations derived in Chapters 6 and 9 to reach the options A and B for limits on Tier 1 and Tier 2 migration. The table also illustrates the implications for these options were the overall objective for net migration to be varied.

### C.2 Summary table of options A and B and an alternative option

C.2 As described in detail in Chapter 6, the Government's aim for overall net migration to be in the 'tens of thousands' by the end of this Parliament may be interpreted as a level of net migration above zero and below 100,000. Because of the uncertainties involved, described in Chapter 6 and Annex B, we assume policy will aim for the mid point between zero and 100,000 to ensure the highest chance of net migration being within that range by 2014/15. We assume a precise objective for net migration of 50,000.

C.3 Box C.1 provides a summary of the calculation steps described in Chapter 6. We also include an additional column which repeats the same calculation described in Chapter 6 but with an assumed precise objective for net migration of 80,000.

<b>Box C.1: Summary of calculation steps to derive options A and B for limits on Tier 1 and Tier 2 (described in Chapters 6 and 9)</b>		
<b>Calculation steps assuming a net migration objective of 50k</b>	<b>50k objective</b>	<b>80k objective</b>
We start with the 2009 estimate of LTIM net migration for all nationalities.	196,000	196,000
We think the highest chance of net migration in 2014/15 being in the “tens of thousands” would be to aim for the middle of the range, i.e. 50,000	50,000	80,000
Since the Government can only control non-EU migration, this component must bear all of the reduction to 50,000. By the end of this Parliament, non-EU migration needs to fall by 196,000 minus 50,000 = 146,000 (assuming other migration flows are constant)	146,000	116,000
Assuming we use a linear trajectory for net migration over four years, the annual reduction in net migration is 146,000 / 4	36,500	29,000
Next we decide on the proportion of the 36,500 reduction that should be borne by Tiers 1 and 2, based on the proportional contribution of work-related migration to inflows and come up with two options	-	-
<b>Option A:</b> We assume Tier 1 and 2 main applicants make a 20 per cent contribution. This is equivalent to the share that work-related migration accounts for in IPS inflows. This limit does not assume the other work-related routes (Tier 5 and permit-free employment) make a contribution. The required reduction in IPS work-related inflows each year under option A is: $36,500 \times 20\% = 7,300$ .	7,300 each year	5,800 each year
<b>Option B:</b> We assume Tier 1 and 2 main applicants make a 10 per cent contribution. This is equivalent to our estimate of the share that Tiers 1 and 2 account for in IPS inflows. The required reduction in IPS work-related inflows each year under option B is: $36,500 \times 10\% = 3,650$ .	3,650 each year	2,900 each year
We then decide, for both practical and economic reasons, that the reduction for 2011/12 should come from out-of-country visas only. We need to use a scaling factor to translate the necessary IPS reduction into a visa reduction. This is 0.58 for work-related migration (i.e. 100 visas result in 58 IPS inflows). Therefore, for the two options the reductions in Tier 1 and 2 visas are: Option A Main applicants = $7,300 / 0.58$ Option B Main applicants = $3,650 / 0.58$	2011/12 visa reductions: 12,600 6,300	2011/12 visa reductions: 10,000 5,000
To derive figures for a limit, we subtract the required reduction in main applicants from the 2009 baseline for Tier 1 General and Tier 2 main routes (ICT, RLMT, shortage occupation) and their predecessors within the scope of the limit: Option A: $50,000 - 12,600$ Option B: $50,000 - 6,300$	2011/12 limit for main applicants: 37,400 43,700	2011/12 limit for main applicants: 40,000 45,000
Note: Initial LTIM figures are rounded to the nearest 1,000 and steps in the calculation are rounded to the nearest 100. Source: MAC calculations		

## Abbreviations

ADCS	Association of Directors of Children's Services	ECHR	European Convention of Human Rights
AFB	Association of Foreign Banks	EEA	European Economic Area
APS	Annual Population Survey	EFTA	European Free Trade Association
APSCo	Association of Professional Staffing Companies	ESR	Electronic Staff Record
ASEAN	Association of Southeast Asian Nations	EU	European Union
ASHE	Annual Survey of Hours and Earnings	FDI	Foreign Direct Investment
BBA	British Banker's Association	FTA	Free Trade Agreement
BBUS	Balfour Beatty Utility Solutions	GATS	General Agreement on Trade in Services
BCC	British Chambers of Commerce	GDP	Gross Domestic Product
BIS	Department for Business, Innovation and Skills	GLA	Greater London Authority
BVPI	Best Value Performance Indicators	GMC	General Medical Council
CBI	Confederation of British Industry	GP	General Practitioner
CfWI	Centre for Workforce Intelligence	GSCC	General Social Care Council
CIC	Commission on Integration & Cohesion	GTC	General Teaching Council
CIPD	Chartered Institute for Personnel and Development	GVA	Gross Value-Added
CLG	Communities and Local Government	HEFCE	Higher Education Funding Council for England
COI	Control of Immigration Statistics	HEIs	High Education Institutions
CoS	Certificates of Sponsorship	HESA	Higher Education Statistics Agency
CPI	Consumer Price Index	HMRC	HM Revenue & Customs
DfE	Department for Education	HSMP	Highly Skilled Migrant Programme
DfT	Department for Transport	ICT	Intra-company transfer
DH	Department of Health	ILO	International Labour Organisation
EAL	English as an Additional Language	ILR	Indefinite leave to remain
EB	Employment Based	IMF	International Monetary Fund
ECAA	European Community Association Agreement	IPPR	Institute for Public Policy Research
		IPS	International Passenger Survey
		LAs	Local Authorities
		LFS	Labour Force Survey
		LGA	Local Government Association
		LTIM	Long Term International Migration

## Limits on Migration

MAC	Migration Advisory Committee	PPP	Purchasing Power Parity
MI	Management Information	PSWR	Post-Study Work Route
MIF	Migration Impacts Forum	PwC	PricewaterhouseCoopers
MODL	Migration Occupations in Demand List	QTS	Qualified Teacher Status
MPI	Migration Policy Institute	RBC	Royal Bank of Canada
NAIRU	Non-Accelerating Inflation Rate of Unemployment	RLMT	Resident Labour Market Test
NASSCOM	National Association of Software and Services Companies	RPI	Retail Price Index
NFU	National Farmers Union	SEN	Special Educational Needs
NHS	National Health Service	SOC	Standard Occupational Classification
NINo	National Insurance Number	SSSC	Scottish Social Services Council
NPD	National Pupil Database	STEM	Science, Technology, Education and Mathematics
NQF	National Qualifications Framework	TCS	Tata Consultancy Services
OBR	Office for Budget Responsibility	TFP	Total Factor Productivity
OCJS	Offending, Crime and Justice Survey	TUC	Trades Union Congress
OECD	Organisation for Economic Co-Operation and Development	UCEA	Universities and Colleges Employers Association
ONS	Office for National Statistics	UK	United Kingdom
PBS	Points Based System	UKCES	UK Commission for Employment and Skills
PCG	Professional Contractors Group	UKTI	UK Trade and Investment
		UN	United Nations
		US	United States
		WTO	World Trade Organisation

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