Analysis of the Points Based System

Tier 1

Migration Advisory Committee

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December 2009

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Chairman's foreword

Tier 1 of the Points Based System (PBS) is the route into the UK for the brightest and best who can come to, or remain in, the UK, without a job offer, to search for skilled work. It is the supply-side highly skilled worker route. The Migration Advisory Committee (MAC) believes that selective, skilled immigration is vital to the UK economy and labour market. However, such immigration is only of real, lasting benefit to the UK economy if three conditions are met. First, UK workers should not be displaced. Second, such workers should not be undercut. Third, this immigration must not result in a disincentive to employers to up-skill British workers. We had these conditions in the forefront of our minds when developing our recommendations.

There are two main routes under Tier 1: applicants coming to work in the UK on the basis of their high prior earnings and advanced qualifications (Tier 1 General) – most of these applications are made from outside the UK – and former students from outside the European Economic Area (EEA) who have studied at British universities and colleges, predominantly switching into Tier 1 Post-Study Work Route (PSWR) from within the UK. We consider each route in turn. We also look at the other routes for entrepreneurs and investors, although these have much less impact.

Since April this year, applicants have not been able to enter the Tier 1 General route unless they hold a master's degree or PhD. The MAC recommends restoring a bachelor's degree as the minimum qualification, but coupled with much more stringent previous earnings requirements than before. Further, we recommend accommodating stakeholders' suggestions that professional qualifications, for example in areas such as accounting or law, count as if they are at master's level if there is appropriate evidence to support such claims.

We have concerns about the present method used to translate pay in other countries, for instance China or Nigeria, to its UK equivalent. The multipliers used are blunt and out of date, and the calculation method needs to be reviewed. It is vital to get this right because our recommendations comprise a package: the correct multiplier is crucial to ensure that the proposed earnings thresholds are properly applied. Our recommendation to revert to a bachelor's degree as the minimum qualification is based on the assumption that the salary multipliers will be rapidly and thoroughly reviewed prior to implementation.

The PSWR, where leave to remain is granted to non-EEA students awarded a bachelor's degree at a UK institution, raises two main questions. First, how long should such people be allowed to stay in the UK to search for a skilled job? Second, should all institutions and courses qualify? This is a complex judgement because immigration policy interacts strongly with education funding policy.

We considered recommending cutting leave to remain from the current two years to one, but this would risk making UK higher education somewhat less attractive to students from abroad. Any reduced financial contribution from overseas students may mean that our universities and colleges cannot afford to train as many British students as they do at present: the flow of new British human capital could be eroded. Therefore, we recommend retaining the present two-year period. However, there is a case for reviewing whether degree students at all UK listed bodies (i.e. those bodies that do not award their own degrees), on all courses, should remain eligible for the PSWR.

The six months leading up to this report have been both challenging and rewarding for the MAC. In April and October we published our revised shortage occupation lists under Tier 2 of the PBS, and in August we reported on Tier 2 itself, the employer-led skilled worker entry route, along with the economic impact on the UK of the dependants of PBS immigrants. We look forward to the opportunity to provide further evidence-based policy advice on immigration to the Government.

The MAC is grateful to the secretariat for their dedication, hard work and innovative thinking over this period.

Professor David Metcalf CBE

The Migration Advisory Committee and secretariat

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Summary

Task

In February 2009 the Government asked that we provide advice on what further changes to Tier 1 of the Points Based System (PBS) should be made in 2010/11, given the changing economic circumstances. This report considers that question.

We consider that the question was motivated in part by the Government's desire to respond to the current recession. The PBS was created during a period of sustained economic growth and was intended to be flexible to the changing economic and labour market circumstances.

Of additional relevance is the question of how to ensure that the positive impacts of highly skilled immigration on the UK's human capital accumulation, economic prosperity and investment prospects can be maximised. The system must, however, also ensure that resident workers, including recent graduates, are not displaced or undercut, and that disincentives to up-skill the UK workforce are not created.

Context

Tier 1 was preceded by the Highly Skilled Migrant Programme (HSMP) which was introduced in January 2002 to encourage highly skilled people to come to the UK to work without requiring a job before they arrived. The HSMP was a points based scheme and points were awarded for qualifications, previous earnings, age, prior UK experience and successful completion of an MBA programme from a specified list. The HSMP existed alongside schemes for business people, investors and foreign students.

The tier was introduced in 2008, and was fully in place by 30 June of that year. It replaced eight separate categories: the HSMP; Investors; Self Employed Lawyers; Business Persons; Writers, Composers and Artists; International Graduate Scheme; Innovators; and the Fresh Talent: Working in Scotland Scheme.

In announcing its plans for Tier 1 the Government said, *"The Highly Skilled tier is about boosting the UK's economy by attracting and retaining the 'brightest and best' as workers or business people."* The intention was to benefit the UK economy by attracting and retaining people who will increase the skills and knowledge base of the UK by widening the pool of highly skilled individuals available to employers, while maintaining the flexibility of the UK labour market.

The new arrangements were also intended to provide greater clarity over the requirements for entry in each sub-category in order to increase the predictability of the scheme, ensure consistency in entry decision-making and reduce the number of unsuccessful applications, while increasing the security of the points system.

Tier 1 has four routes:

- **General (Highly Skilled Workers):** for persons who wish to obtain highly skilled employment in the UK;

- **Post-Study Work:** 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.

Applicants under Tier 1 need to demonstrate sufficient points to qualify to enter or remain in the UK. Points are allocated against previous earnings, qualifications, age and prior UK experience. In most cases there are also compulsory requirements in terms of competence in English language, and maintenance (the ability to support oneself on first arrival in the UK).

In February 2009 the Government announced that possession of a bachelor's degree would no longer yield any points for prospective Tier 1 General applicants. A master's degree became the minimum qualification for entry via that route.

Some options for modifying Tier 1 that we considered include the following:

- closure of individual, or all, routes: this would mean that skilled non-European Economic Area (non-EEA) immigrants could only enter via Tier 2 and, hence, if they had a job offer from a UK Border Agency (UKBA) sponsored employer;

- changing the number of points awarded to immigrants for meeting the specified requirements under the Tier 1 General route;

- reintroducing points for possession of a bachelor's degree for the Tier 1 General route, subject to an appropriate corresponding earnings threshold;

- awarding points under the Tier 1 General route, for professional qualifications;

- introducing additional requirements;

- updating or changing the UKBA's method for converting overseas previous earnings to UK equivalents;

- reducing or changing leave entitlements for some or all routes;

- altering English language competency and maintenance requirements; and

- restricting the Post-Study Work Route (PSWR) to certain degree subjects from certain institutions.

There were approximately 92,200 successful applicants for Tier 1 for the period September 2008 to August 2009, with the vast majority of these applicants entering via the Tier 1 General and Post-Study Work Routes. However, this flow includes a significant number of individuals switching from the HSMP to the Tier 1 General route, and from predecessor routes into the Post-Study Work Route which permits greater leave to remain.

Net immigration to the UK was lower in 2008 than in 2007, but still strongly positive. Tier 1 General flows appear to be of a similar order of magnitude to those under the HSMP. Flows through the PSWR are difficult to interpret due to seasonal variation and switching from previous schemes, but have so far been of greater magnitude than the predecessor schemes. Indian nationals make up the largest proportion of applicants under Tier 1 General and the PSWR. Nationals of Australia, China, Pakistan and the US are also strongly represented.

The UK and world economies are currently in a deep recession. UK output will contract in 2009. Most commentators expect positive but modest output growth in 2010.

Unemployment and redundancies have risen, and the employment rate has fallen, in recent months. It is likely that recovery in the job market will lag behind the end of the economic recession by at least 12 months and possibly longer.

Evidence and methodology

To support our work we analysed data on the UK economy, labour market and immigration; we also conducted a review of the relevant academic and policy literature in relation to the UK and other countries. This entailed examination of points based systems operating elsewhere to identify what could be learned from international experience.

Additionally, we issued a call for evidence which generated over 70 responses specifically related to Tier 1. We also held a wide range of meetings and events with interested parties, as well as making specific visits to Scotland, Wales and Northern Ireland to ensure that we received a UK-wide response to the questions we were asked.

We believe that there is a clear economic case for selective highly skilled immigration into the UK. Any arbitrary restrictions could prove detrimental to ensuring that the UK is best placed to emerge successfully from recession. However, we also recognise the importance of ensuring that the Tier 1 system attracts only the 'brightest and best' as intended.

We closely considered the implications of the recession for our work. But we have focused much of our attention on how immigration policy should be designed to achieve its stated objectives, regardless of the economic cycle. Therefore, we have considered the evidence and analysed the available data to identify improvements to the current Tier 1 arrangements in order to ensure that the use of this route by employers and prospective immigrants is well joined to the intended policy outcome.

The Tier 1 recommendations in this report are concerned with the general characteristics of a well-designed economic immigration system. Conversely, it follows that if our recommendations are accepted, the policy changes should not be reversed when the UK comes out of recession. All of our recommendations should be seen as a package, because they are interdependent.

Tier 1 General

Most stakeholders felt that the Tier 1 General route should remain open, and many employers regarded the route as crucial to their commercial success and international competitiveness. We believe 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.

We recommend that the Tier 1 General route is retained.

We recommend that appropriate professional qualifications and specific undergraduate degrees are recognised as master's equivalent where sufficient justification can be provided. We also recommend that an individual holding a bachelor's degree is allowed to enter under Tier 1 subject to an appropriate earnings threshold.

Under our recommendations points will not be awarded for previous earnings under £25,000, and points for age are awarded up to age 39. We believe it is necessary to avoid excluding highly skilled immigrants with no high-level qualifications and thus recommend that an additional prior salary threshold of £150,000 is introduced, above which it is not necessary for the immigrant to possess a degree qualification in order to gain the required points for entry.

We also recommend that the salary conversion model applied by the UKBA to convert previous earnings in other countries to a UK equivalent level is reviewed prior to introducing our other recommendations for Tier 1.

Post-Study Work Route (PSWR)

We considered the options of recommending closure of the PSWR and reducing the granted leave to remain. We 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 significant, and likely to impact on some courses and institutions harder than others. On balance, we recommend retaining the PSWR and the current leave entitlement of two years.

Nonetheless, the PSWR is probably one of the most generous schemes of its type in the world, and we 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 recommend that the list of institutions whose graduates are eligible for PSWR approval is examined and that research is undertaken on the value of different degree subjects by institution.

Entrepreneur and Investor routes

We had very little data on these routes but know that Entrepreneur and Investor route approvals account for less than 1 per cent of total Tier 1 approvals. We considered whether the routes should be closed, whether the thresholds should be changed, and whether English language or maintenance requirements should be applied.

We make no recommendations to change these routes as they currently stand but we believe they should be kept under regular review. We also recommend that the UKBA dedicates sufficient resource to enforcement of this route to allow detailed examination of whether jobs created through the Entrepreneur route represent a genuine net increase.

Our recommendations in relation to Tier 1 routes primarily concern the features of a well-designed route for regulating new highly skilled immigration from outside the UK. Our general view is that, where an individual has operated within the existing rules and requirements, there is a case for putting in place transitional arrangements that would prevent a sudden and unexpected raise of the bar for that person.

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Chapter 1: **Introduction**

1.1 The Migration Advisory Committee

1.1 The Migration Advisory Committee (MAC) is a non-departmental public body set up to provide transparent, independent and evidence-based advice to the Government on where labour market shortages exist that can sensibly be filled by migration. The MAC also advises the Government on other matters relating to migration from time to time.

1.2 What we have been asked to consider and why

1.2 The Government has asked the MAC to address the following three questions in relation to the Points Based System (PBS):

- What further changes should there be to Tier 1 of the PBS in 2010/11, given the changing economic circumstances?

- Is there an economic case for restricting Tier 2 to shortage occupations only?

- What is your assessment of the economic contribution made by the dependants of PBS migrants and their role in the labour market?

1.3 We provided advice on the second and third of these questions in August 2009 (MAC, 2009c). This report advises on the first of the above questions.

1.4 The three questions are motivated by the Government's desire to respond to the current recession. The PBS was created during a period of sustained economic growth and was intended to be flexible to the changing economic and labour market circumstances.

1.5 Of particular relevance to Tier 1 is the question of how to ensure that the positive impacts of highly skilled immigration on the UK's human capital accumulation, economic prosperity and investment prospects can be maintained. Alongside this, there is a need to ensure that resident workers, including recent graduates, are not displaced and undercut, and that disincentives to up-skill the UK workforce are not created.

1.6 Our recommendations for Tier 2 (MAC, 2009c) reflected a desire to better align the policy with its objectives; in particular, that flows respond to labour market conditions without the need for constant amendments to the system. We recommended various changes to improve the extent to which Tier 2 achieved its objectives but did not see a case for restricting the tier to shortage occupations only, nor for making changes to the shortage occupation route at the time.

1.7 The MAC's regular task, but not the focus of this report, is the production of shortage occupation lists for the UK, and for Scotland only, used for Tier 2 of the PBS. These lists comprise occupations where the MAC believes there are shortages that can sensibly be filled by enabling employers to recruit immigrant labour. The shortage occupation list is

regularly reviewed and the last review was published in October 2009 (MAC, 2009d).

1.3 Our approach

1.8 We have considered various options for Tier 1 including how, if at all, the points and/or leave to enter or remain entitlements for the routes within the tier should be adjusted in 2010/11 to respond to changing economic and labour market conditions. We also examined whether the current set of requirements for the routes, for instance the requirement to hold qualifications, should be altered.

1.9 In April 2009, we published a conceptual paper setting out how we intended to approach the three questions the Government asked us in February 2009 (MAC, 2009b). To progress this work, we have carried out a detailed programme of evidence gathering and analysis. The key strands of this have been:

- analysis of data on the UK economy, labour market and migration;

- a review of the relevant academic and policy literature in relation to the UK and other countries;

- a call for evidence, contained within the conceptual paper; and

- a comprehensive programme of face-to-face engagement with key individuals, employers and public and private sector bodies.

1.10 In terms of our thinking about recommendations on both Tiers 1 and 2, we considered the aims of the tiers, and what they should be. We also examined whether and how the rules of the system could be appropriately monitored

and enforced in order to achieve the objectives. In addition, on the basis that perfect monitoring is unlikely to be feasible, we considered how the system could be designed to provide incentives for employers, employees and other relevant parties to act in accordance with the intended objectives.

1.11 Tier 1 was explicitly introduced as a highly skilled tier, with the aim of boosting the UK's economy by attracting the 'brightest and best' as workers or business people. It is necessary in this context to clarify what characteristics may be used to define and identify a highly skilled worker, or immigrant. Skill, as discussed in detail in MAC (2008), may be defined by the characteristics of the jobs that people do and the inherent attributes of individuals, such as the ability to perform particular tasks. It follows that a highly skilled person may be equipped to do a relatively challenging and difficult job, or perform in a job to a particularly high standard against the relevant success criteria.

1.12 Earnings and qualifications are held by most economists to be good, if imperfect, indicators or predictors of skill, and we use them as indicators of skill in our analysis and discussion of policy options in the later chapters of this report. However, there is no universally agreed definition or measure of skill, and 'highly' skilled is, by definition, a relative concept. A degree of judgement is therefore required to make evidence-based policy recommendations. Where we make judgements, on this and other matters, in this report we set out what they are and the underlying reasoning.

1.4 Structure of this report

1.13 Chapter 2 provides a description of the policy context for our review of Tier 1. It discusses the current policies for all Tier 1 routes and how they are put into practice. Chapter 3 provides contextual data on immigration, the economy, and the labour market.

1.14 Chapter 4 details the stakeholder evidence received and sets out our methodological approach for answering the question posed by the Government. It focuses on the responses to our call for evidence and the stakeholder meetings we undertook.

1.15 Chapter 5 explains the context of Tier 1, examining the data available on flows and composition of entrants as well as comparing the UK with systems other countries have in place to attract skilled immigrants.

1.16 Chapters 6, 7 and 8 detail our analysis of options for retaining and amending the General, Post-Study Work and Entrepreneur/Investor routes respectively. A range of options are examined and recommendations are made. Where we think issues would benefit from being looked at over a longer timescale, or again at some point in the future, we say this.

1.17 Chapter 9 concludes the report and summarises the recommendations and next steps.

1.5 Thank you

1.18 As detailed in the relevant chapters, we received a large volume of stakeholder input into this report. We appreciate the high quality of the evidence provided and the constructive and open nature in which interested parties engaged with us. We would like to thank all individuals and organisation that provided the MAC with the necessary evidence to complete this analysis.

Chapter 2: **Policy context**

2.1 Introduction

2.1 This chapter sets out the policy background to the current Tier 1 of the Points Based System (PBS). It provides information on the schemes that preceded Tier 1 and the reasons for their replacement by the new scheme. It sets out how Tier 1 operates, along with the associated criteria and fees.

2.2 Schemes that preceded Tier 1

The Highly Skilled Migrant Programme

2.2 The Highly Skilled Migrant Programme (HSMP) preceded the Tier 1 General route. It was introduced in January 2002 to encourage highly skilled people to come to the UK to work without requiring them to have a job before they arrived. An applicant to the HSMP who met the criteria would be granted one year's leave if they could show that they intended to make the UK their main home, then a three-year extension if they could show that they had taken all reasonable steps to become economically active in the UK. After four years they could be granted permanent residence if they could show that they actually were economically active. This did not necessarily include being in employment. The HSMP was a points based scheme and points were awarded for the following attributes:

- qualifications;

- previous earnings;

- age (bonus points were awarded to those under 28 and there were separate salary criteria for this group);

- prior UK experience (bonus points were given to those who had previously worked or studied in the UK); and

- successful completion of an MBA programme from a specified list (only at initial application stage).

2.3 In 2006 the Government made two separate changes which affected the HSMP. In April 2006, the continuous residence period required for settlement was extended from four to five years for all employment routes including the HSMP. In November 2006 the HSMP was suspended, with new criteria being implemented from December 2006 requiring applicants to meet a points assessment at extension stage as well as at their initial application.

2.4 The above changes were applied to all applications submitted after 7 November 2006 (when the HSMP was suspended) regardless of when the applicant entered the UK. This was subsequently challenged in the High Court in two separate judicial reviews.[1] In both of these cases the High Court found that immigrants who entered

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[1] HSMP Forum Ltd, R (on the application of) v Secretary of State for the Home Department [2008] EWHC 664 (Admin) (08 April 2008) available at www.bailii.org/ew/cases/EWHC/Admin/2008/664.html and HSMP Forum Ltd, R (on the application of) v Secretary of State for the Home Department [2009] EWHC 711 (Admin) available at www.bailii.org/ew/cases/EWHC/Admin/2009/711.html

on the HSMP prior to the changes had a legitimate expectation that they would continue to be assessed on the criteria in place when they began their journey.

Other predecessor routes

2.5　Tier 1 replaced eight separate categories in total:

- the HSMP;

- Investors (for high net worth individuals making a substantial financial investment in the UK);

- Self Employed Lawyers (concession);

- Business Persons;

- Writers, Composers and Artists;

- International Graduate Scheme (for international graduates who have studied in the UK);

- Innovators (for entrepreneurs with new and creative business ideas, particularly in science and technology, who may not qualify under any of the other entry routes); and

- Persons on the Fresh Talent: Working in Scotland Scheme (FT:WISS) (for international graduates who have studied and intend to seek employment in Scotland).

Replacement with Tier 1

2.6　The HSMP was replaced by Tier 1 General of the PBS on 29 February 2008 for applications made within the UK; 1 April 2008 for applications made in India; and 30 June 2008 for the rest of the world. The other Tier 1 sub-categories were all introduced on 30 June 2008 regardless of where the application was submitted. There are transitional arrangements to enable those immigrants who came to the UK under these categories to switch into Tier 1 subject to their meeting the relevant criteria.

2.3　The new Points Based System for economic immigration

2.7　In 2005 the Government launched a consultation on a more selective system for immigration (Home Office, 2005a). The consultation was part of the implementation of the five-year strategy on immigration and asylum (Home Office, 2005b).

Aims of the new system

2.8　The stated main aims of the proposed system were to:

- improve public confidence in the system;

- fill skills gaps;

- attract highly productive and highly skilled workers and students;

- attract investment and increase productivity and flexibility in the labour market; and

- ensure that people leave at the end of their stay.

2.9　The Government said that its proposals were intended to ensure that *"Britain attracts the skilled labour force it needs to perform key jobs in areas such as engineering, the financial sector, as well as education and the health service … its aim is to ensure that those who can contribute most to the UK are selected for entry and that the country takes in only as many people as our economy needs at any one time."* (Home Office, 2005c)

2.10　In 2006, the Government published its detailed proposals (Home Office, 2006), stating that *"The key outcomes of the new system will be:*

- *better identifying and attracting of migrants who have most to contribute to the UK;*

- *a more efficient, transparent and objective application process;*

- *improved compliance and reduced scope for abuse."*

2.11 The Government also recognised that the old system was not always easily understood by those who sought to use it or by the public. Revisions to the system meant that there were over 80 different routes by which a non-European Economic Area (non-EEA) national could come to the UK to work or study. Responses to its earlier consultation had shown a strong perception that the system was too complex and bureaucratic.

2.12 Additionally a new system was intended to help the Government achieve its targets set out under its Public Service Agreements (PSAs). The most recent PSAs were published in HM Treasury (2007). The PBS feeds in to PSA 3: to ensure controlled, fair migration that protects the public and contributes towards economic growth. In addition, it has an impact on a number of other PSAs, the most directly relevant ones being:

- PSA 1: raise the productivity of the UK economy;

- PSA 2: improve the skills of the population, on the way to ensuring a world-class skills base by 2020;

- PSA 6: deliver the conditions for business success in the UK; and

- PSA 8: maximise employment opportunities for all.

Structure of the new system

2.13 The PBS comprises five tiers:

- **Tier 1**: highly skilled individuals, to contribute to growth and productivity;

- **Tier 2**: skilled workers with a job offer, to fill gaps in the UK labour force;

- **Tier 3**: limited numbers of low skilled workers needed to fill specific temporary labour shortages;

- **Tier 4**: students; and

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

2.14 Tiers 1, 2, 4 and 5 are all in operation. Tier 3 is suspended for the present. To qualify for approval under each tier, individuals must earn a given number of points corresponding to requirements such as education and qualifications, current or prospective earnings, and maintenance.

2.15 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. Tier 2 was considered in detail in our earlier report this year (MAC, 2009c). We look in more detail below at how Tier 1 is currently intended to operate.

2.4 Tier 1 policy

2.16 In announcing its plans for Tier 1 the Government said *"The Highly Skilled tier is about boosting the UK's economy by attracting and retaining the 'brightest and best' as workers or business people. The requirements for both entry to and staying on in the UK will be set at levels commensurate with that objective. We will keep those requirements under review, with the help of the Migration Advisory Committee and the Migration Impacts Forum to ensure the points system is effectively controlling migration in*

Britain's national interest." (UK Border Agency, 2007).

2.17 The intention behind Tier 1 was to benefit the UK economy through attracting and retaining people who will increase the skills and knowledge base of the UK by widening the pool of highly skilled individuals available to employers, while maintaining the flexibility of the UK labour market. The new tier was intended to provide greater clarity over the requirements for entry in each sub-category in order to increase the predictability of the scheme, ensure consistency in entry decision-making and reduce the number of unsuccessful applications, while increasing the security of the points system.

Routes

2.18 Tier 1 has four routes:

- **General (Highly Skilled Workers):** for persons who wish to obtain highly skilled employment in the UK;

- **Post-Study Work:** 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.

2.19 Applicants under Tier 1 need to demonstrate enough points to qualify to enter or remain in the UK. Points are earned against three sets of criteria:

- criteria specific to each route (pass mark 75);

- competence in English language (pass mark 10); and

- maintenance (pass mark 10).

2.20 If an applicant does not score the pass mark for each of these three criteria then the application will fail (except for under the Investor route, where exceptions prevail).

2.21 The UK Border Agency (UKBA) will exclude applicants who may gain sufficient points but where other reasons, such as previous immigration abuses, merit refusal.

2.22 There are three ways to apply for Tier 1:

- out-of-country in order to come to the UK under one of the Tier 1 routes;

- in-country in order to extend a stay in the UK under one of the Tier 1 routes; and

- in-country in order to switch into or out of one of the Tier 1 routes.

2.23 Applicants under Tier 1 are not allowed to be employed as a Doctor in Training unless they are making an extension application to a grant of leave which was not subject to a condition restricting employment. In addition, they need to have been employed during that leave on a National Health Service Foundation Programme or as a Doctor in Training.

2.24 We consider below the specific criteria under each route and the main ways in which each of these routes and points criteria work in practice.

2.5 Tier 1 General route

2.25 Unlike sponsored skilled workers (who are covered by Tier 2 of the PBS), applicants do not need a job offer to apply under the Tier 1 General route.

2.26 Applicants are awarded points based on qualifications, previous earnings, UK experience, age, English language skills and available maintenance. The points requirements differ depending on whether an applicant is:

- applying to enter this route for the first time (initial applications);

- applying to extend existing permission to stay in this category (extension applications); or

- applying to extend existing permission to stay given under the previous HSMP.

2.27 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;

- already in the UK under the Tier 1 General route and wish to extend their permission to stay within this route;

- already in the UK under the previous HSMP, 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.

2.28 We focus primarily in this report on policy in relation to initial applications under Tier 1 of the PBS, rather than applications to switch from other routes (with the exception of switching within Tier 1 from the Post-Study Work Route (PSWR)). Table 2.1 illustrates how the requisite points can be achieved under the current Tier 1 General route for initial applications.

Qualifications under the Tier 1 General route

2.29 Points are currently only awarded for one qualification under Tier 1. This must be assessed and recognised by the National Recognition Information Centre (UK NARIC) to meet or exceed the recognised standard of a master's degree or a PhD in the UK. The UKBA uses a calculator to assess the equivalency of overseas qualifications, and points are awarded for vocational and professional qualifications that are deemed by UK NARIC, or the appropriate UK professional body, to be the same as a master's degree or a PhD. Professional qualifications held in addition to an undergraduate degree do not attract additional points, unless the qualification is assessed as being equivalent to a master's degree.

Previous earnings under the Tier 1 General route

2.30 The UKBA only considers actual earnings, and will not consider earnings claimed on a pro rata basis. Earnings will not be taken into account if the applicant was in breach of the immigration laws when the earnings were accrued.

2.31 Pay must arise from 12 consecutive months of employment and be earned within the 15 months before the application. Applicants can claim points for a 12-month period outside the 15-month period only if the applicant has been away from the workplace for a time during the last 12 months because of a period of maternity or adoption-related absence. Applicants cannot claim points beyond the 15-month period if they have been not earning a salary for other reasons, such as time spent in formal study.

2.32 Applicants do not have to be in continuous employment during the 12-month period being assessed, so:

- can claim for a period of earnings of less than 12 months; and

Table 2.1: Points under the Tier 1 General route				
Route/requirement		**Points criteria**		
General (95 points required)	75 points required	Qualifications	Bachelor's	0[1]
			Master's	35
			PhD	50
		Previous earnings (£s per annum)[2]	16,000–17,999	0[1]
			18,000–19,999	0[1]
			20,000–22,999	15
			23,000–25,999	20
			26,000–28,999	25
			29,000–31,999	30
			32,000–34,999	35
			35,000–29,999	40
			40,000 or more	45
		Age	under 28	20
			28 or 29	10
			30 or 31	5
		Previous earnings or qualifications were gained in the UK		5
	20 points required	English language[3] (10 points)		
		Maintenance[4] (10 points)		

(1) On 31 March 2009, the Government tightened the points criteria so that no points are awarded for a bachelor's degree or previous earnings below £20,000.
(2) An earnings multiplier applies to overseas earnings for initial applications. There are five bands of multiplier, ranging from 1 to 11.4, depending on the country in which money was earned.
(3) 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.
(4) 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, 2007

- earnings do not have to be from a single employer and can be from full-time, part-time, temporary or short-term work.

2.33 If applicants claim for a period that is longer than 12 months, the UKBA will assess the most recent period of 12 months for which the applicant sends evidence.

2.34 The UKBA assesses gross pay before tax. This also applies to the self-employed who draw pay from their business. If the money was earned in a country with no tax system, the UKBA will consider total earnings for the period. If the applicant is self-employed and not drawing a salary, earnings are assessed on the profits of the business before tax. If the applicant has

a share of a business and is not drawing a salary, earnings are assessed on the applicant's share of the business's net profits before tax.

2.35 The overall total earnings can include those from several sources of work, including paid employment and self-employed activities. Earnings may include:

- pay (including full time, part time, and bonuses);

- earnings from self-employment;

- earnings from business activities;

- statutory maternity pay and contractual maternity pay;

- allowances (such as accommodation, schooling or car allowances) that form part of a remuneration package;

- dividends paid by a company, where it is a company in which the applicant is active in the day-to-day management, or where the applicant receives the dividend as part or all of a remuneration package;

- income from property rental, where this forms part of an applicant's business; and

- payment in lieu of notice.

2.36 Unearned sources of income that the UKBA will not consider as previous earnings include:

- expenses (such as accommodation, schooling or car allowances) that reimburse money previously spent;

- dividends from investments, unless it is a company in which the applicant is active in the day-to-day management, or unless the applicant received the dividend as part or all of a remuneration package;

- income from property rental, unless this forms part of the applicant's business;

- interest on savings;

- funds that were inherited;

- money paid as a pension;

- expenses where the payment reimburses money previously spent;

- statutory redundancy payment;

- sponsorship for periods of study; and

- state benefits.

2.37 Earnings accrued overseas must be converted into pounds sterling. The UKBA uses the exchange rates produced by OANDA. Applicants must use the closing spot exchange rate on the OANDA website on the last day of the period for which they have claimed earnings in that currency.

2.38 To reflect differences in income levels across the world, and in 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 UKBA uses a series of calculations (known as salary multipliers or conversion rates) to bring overseas salaries in line with UK equivalents. The level of uplift depends on the average income in the country in which the earnings were made. This calculation is made automatically using the UKBA calculator. The approach is discussed in more detail in Chapter 6 and Annex C to this report.

2.39 The country in which the applicant has been working, rather than the applicant's nationality, determines the income bands against which the UKBA will apply the salary multipliers. Where an applicant has earnings from more than one country, the UKBA calculator will apply the appropriate

uplift for each country in which the relevant earnings were made, to provide a total that is equivalent to the UK value of earnings.

Previous UK experience under the Tier 1 General route

2.40 Initial applications score points for UK experience if:

- the applicant has successfully scored points under previous earnings and those earnings were in the UK; or

- the applicant has been in full-time study in the UK for at least one full academic year, and has been awarded a qualification at bachelor's degree level or above within the last five years.

2.41 To qualify for points under this section, earnings must be:

- earned in the UK; and

- at least £16,000.

2.42 Points for UK experience will only be awarded for either qualifications obtained in the UK or previous earnings in the UK, but not both, and previous earnings are not taken into account in awarding points for UK experience if the applicant was in breach of the immigration laws when the money was earned.

2.43 Qualifications for which points are being sought under this section must be obtained in the UK, at a UK institution or at an overseas academic institution based in the UK, and:

- be at bachelor's degree level or above;

- have been awarded within the last five years; or

- be for a period of full-time study in the UK of at least one full academic year, or three consecutive academic terms.

2.44 Points for UK experience for a qualification can only be awarded if the applicant is applying to enter the Tier 1 General route for the first time, and not if they are extending existing leave or switching into it from the HSMP. The qualification can be academic, vocational or professional.

2.45 Qualifications are assessed by referring to the UKBA calculator, which contains information provided by UK NARIC. For the purposes of the qualifications criteria, an accredited institution is a place of study assessed by UK NARIC to be a genuine provider of an academic, professional or vocational course of study.

English language under the Tier 1 General route

2.46 There are three ways that applicants can score 10 points for the English language requirement. They can:

- be a national of a majority English-speaking country;

- obtain a specified pass mark on an English language test on the UKBA's list of approved English language tests; or

- hold a degree assessed by UK NARIC as being taught in English to a standard comparable to that of level C1 on the Council of Europe's Common European Framework of Reference for Languages: Learning, Teaching, Assessment. The degree must be equivalent to a UK bachelor's degree or above.

2.47 Level C1 under the Council of Europe's Framework corresponds approximately to level 6.5/7.0 under the International English Language Testing System (IELTS). These frameworks are discussed in more detail in Chapter 6.

Maintenance requirement under the Tier 1 General route

2.48 Applicants applying from inside the UK will be awarded 10 points if they have £800 in available funds. Applicants applying from outside the UK must have £2,800 in available funds in their account for at least three months before the application, and be able to provide documentation of this.

2.49 Evidence must be in the form of cash funds. Other accounts or financial instruments, such as equities, bonds, pension funds or agreed overdraft facilities, are not acceptable.

2.6 Post-Study Work Route

2.50 Persons can apply under the PSWR if they are:

- in the UK with permission to stay under the Science and Engineering Graduates Scheme (SEGS), International Graduates Scheme (IGS) or FT:WISS;

- in the UK as a student, which includes Tier 4 students, student nurses, students resitting examinations, and students writing up a thesis, and want to switch into the post-study worker category; or

- outside the UK and meet the points criteria under this route.

2.51 The points requirements under the PSWR are different depending on whether the applicant is:

- applying for initial permission to enter or stay in the UK under the PSWR (initial applications); or

- in possession of leave under the SEGS, IGS or FT:WISS, and applying to stay in the UK under the PSWR (transitional arrangements).

2.52 We focus in this report on initial applications under Tier 1 of the PBS. Table 2.2 illustrates how the requisite points can be achieved under the PSWR for initial applications.

2.53 Applicants must score a total of 95 points to be eligible under this route, including a total of at least 75 points for a UK qualification, studying at a UK institution, immigration status during UK study and/or research and the date of award of qualification.

2.54 Applicants can claim 20 points if they have studied for the eligible qualification at an institution that:

- is a UK recognised or UK listed body;

- is a Scottish publicly funded institution of further or higher education, or at a Scottish genuine private education institution which keeps satisfactory records of enrolment and attendance; or

- holds a sponsor licence under Tier 4 of the PBS.

2.55 A UK recognised body is an institution which has been granted degree-awarding powers by a Royal Charter, an Act of Parliament or the Privy Council. All UK universities and some higher education colleges are UK recognised bodies. A UK listed body is an institution that is not a UK recognised body but which provides full courses that lead to the award of a degree by a UK recognised body. The current lists of UK recognised and listed bodies are in Annex A.

2.56 Scottish institutions must be on the Register of Education and Training Providers list or registered as a sponsor with the UKBA.[2] A genuine private education institution is defined in paragraph 6a of the Immigration Rules.

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[2] Available on the UKBA website (www.bia.homeoffice.gov.uk/employers/points/sponsoringmigrants/registerofsponsors/).

Table 2.2: Points under the Post-Study Work Route	
Post-Study Work Route (95 points required)	Has successfully obtained either: • a UK recognised degree at bachelor's level or above (20 points); • a UK recognised Postgraduate Certificate in Education or Professional Graduate Diploma in Education obtained in Scotland (20 points); or • a Higher National Diploma (HND) from a Scottish institution (20 points).
	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[1] (10 points).
	Maintenance[2] (10 points).

(1) 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.
(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, 2007

2.57 Points are not awarded for a postgraduate certificate or postgraduate diploma, with the exception of a Postgraduate Certificate in Education or a Professional Graduate Diploma in Education obtained in Scotland. It is not necessary for the awarding body to be a UK recognised body.

2.58 Other qualifications that cannot be used for the award of points include:

- foundation degrees;

- honorary degrees;

- qualifications awarded in the UK by overseas awarding bodies;

- qualifications undertaken in overseas campuses of UK institutions; and

- professional and vocational qualifications.

2.59 Applicants can claim 20 points if they can show that during their period of study and/or research in the UK, they had permission to enter or stay in the UK that was not subject to a restriction preventing them from undertaking a course of study and/or research.

2.60 Applicants do not need to have lived in the UK throughout the entire period of study. The date on which an applicant was first notified in writing, by the awarding institution, that the qualification has been awarded is the date on which the qualification was obtained (known as the date of award). As long as the date of award is no more than 12 months before the date of application, the UKBA will award the points.

English language and maintenance requirements under the PSWR

2.61 Applicants who score 75 points for their attributes will satisfy the English language requirement.

2.62 Applicants must obtain 10 points for £800 in available funds if applying inside the UK, and £2,800 if applying outside.

2.7 Entrepreneur route

2.63 A person can apply under the Entrepreneur route if they are:

- in the UK with leave in a switchable immigration category and wish to make an initial application as an entrepreneur;

- already in the UK as an entrepreneur and wish to extend permission to stay within this route;

- already in the UK as a business person or innovator and wish to extend permission to stay under the Entrepreneur route; or

- applying for permission to enter the UK under the Entrepreneur route.

2.64 The points requirements for entrepreneurs differ depending on whether the applicant is:

- applying to enter the Entrepreneur route for the first time; or

- applying to extend existing permission to stay in this route.

2.65 The main focus of this report is on initial applications under Tier 1 of the PBS, although, in the case of this route, in Chapter 8 we do briefly consider extension applications too. Table 2.3 illustrates how the requisite points can be achieved by initial applications under the Entrepreneur route.

2.66 Applicants will score 25 points if they have £200,000 of their own money available to make a fresh investment into business in the UK. This may include money made available by one or more other people, including a spouse or partner. Applicants must also provide a declaration, from every other contributor, that the money is available to the applicant or the business that the applicant is running, together with confirmation from a legal representative that the declaration document is valid.

2.67 Applicants will score 25 points if the money is held in one or more regulated financial institutions. The financial institution or institutions that provide confirmation of the money available must be regulated by an official financial regulatory body in the country where the financial institution operates and the money is located.

Table 2.3: Points under the Entrepreneur route	
Entrepreneur (95 points required)	£200,000 held in a regulated UK financial institution and disposable in the UK (75 points).
	English language[1] (10 points).
	Maintenance[2] (10 points).

(1) 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.
(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, 2007

2.68 Applicants will score 25 points if they have money held in the UK in an institution that is regulated by the Financial Services Authority. If the money is not held in the UK, all of the £200,000 required to qualify must be freely transferable to the UK and able to be converted to pounds sterling. If the money is held overseas but in an institution that has a presence in the UK and is regulated by the Financial Services Authority, then the institution already does business in the UK and the UKBA will not need any further evidence that the money can be transferred into the UK. If applicants rely on money held in an overseas institution that is not regulated by the Financial Services Authority, they must provide confirmation that the money can be transferred into the UK in order to gain the required 25 points.

2.69 Applicants for an extension of permission to stay under the Entrepreneur route need to be able to demonstrate that they registered as self-employed within three months of their successful initial application and have successfully engaged in entrepreneurial activities. They need to demonstrate that they have:

- invested £200,000 in a UK business;

- registered for business within three months;

- engaged in business activity; and

- created new employment.

2.70 Applicants score 20 points if they have invested, or had invested on their behalf, not less than £200,000 in cash directly into one or more business or businesses in the UK. Applicants must show that the full amount of £200,000 in cash has already been invested in business in the UK.

2.71 Applicants score 20 points if they show that they have:

- registered with HM Revenue and Customs as self-employed;

- registered a new company in which they are a director; or

- registered as a director of an existing company.

2.72 Applicants will score 15 points if they are engaged in business activity at the time of their application for an extension of permission to stay. Although they do not need to be engaged in the business in which they were originally working when they first entered the Entrepreneur route, they must still be engaged in business when making their application for an extension. They may change from being self-employed to being a director, or from director to self-employed, as long as they are engaging in business in the UK as one or the other.

2.73 Applicants will score 20 points if:

- they have established a new business or businesses, that have created the equivalent of two new full-time paid jobs for at least two people who are settled in the UK and those jobs have existed for at least 12 months each; or

- they have taken over or joined an existing business or businesses, and their services and money have resulted in a net increase in the employment of two extra full-time jobs for people who are settled in the UK and those jobs have existed for at least 12 months each.

English language requirement under the Entrepreneur route

2.74 Entrepreneurs are subject to the same English language requirement as those coming to the UK under the Tier 1 General route. There are three ways in which initial applicants under the Entrepreneur route can score 10 points for English language. They can:

- be a national of a majority English-speaking country;

- pass an English language test on the UKBA's list of approved English language tests; or

- hold a degree that is assessed by UK NARIC as being taught in English and is equivalent to a UK bachelor's degree or above.

Maintenance requirement under the Entrepreneur route

2.75 The maintenance requirement for the Entrepreneur route is the same as set out above for the Tier 1 General route. Applicants may not use any of their £200,000 as evidence of maintenance.

2.8 Investor route

2.76 Persons can apply under the Investor route if they:

- are in the UK with leave in a switchable category and want to make an initial application as an investor;

- are already in the UK as a Tier 1 investor or as an investor under the former category, and want to extend permission to stay within the Tier 1 Investor route; and

- wish to enter the UK under the Investor route.

2.77 The points requirements for the Investor route differ depending on whether the applicant is:

- applying to enter the Investor route for the first time; or

- applying to extend existing permission to stay in this route.

2.78 The focus of this report is on initial applications under Tier 1 of the PBS. Table 2.4 illustrates how the requisite points can be achieved for initial applications under the Investor route.

2.79 For an initial application under the Investor route points are awarded for the following attributes:

- £1 million of money that is disposable in the UK and in a regulated financial institution (75 points); or

- £2 million in personal assets and £1 million that is in a loan from an authorised financial institution (75 points).

Table 2.4: Points under the Investor route	
Investor (75 points required)	£1 million held in a regulated UK financial institution and disposable in the UK or personal assets are owned that, taking into account any liabilities to which they are subject, have a value exceeding £2 million AND have money under their control held in a regulated financial institution and disposable in the UK amounting to no less than £1 million, which may include money loaned by a financial institution regulated by the Financial Services Authority.

Source: UK Border Agency, 2007

English language requirement under the Investor route

2.80   Applicants do not need to meet the separate English language requirement that applies to most other applicants under the PBS. This is because, while they are allowed to work in the UK if they wish to, they should not need to work.

Maintenance requirement under the Investor route

2.81   Similarly, they will not need to meet the separate requirement for maintenance because they will have met the main attributes for this category and shown their ability to support themselves in the UK without recourse to public funds.

2.82   Applicants must show that they are able to make an investment of £1 million or more in the UK. This money may be held overseas at the time of application, or it may already be in the UK. If the money is not held in pounds sterling, it must be converted into pounds sterling to show that applicants have the minimum investment required.

2.83   Applicants may rely on money owned jointly with their spouse or partner or that is owned solely by their spouse or partner. Applicants must have an unrestricted right to transfer and dispose of the money held jointly or solely by their spouse or partner and have permission from the spouse or partner to have control of this money in the UK.

2.84   For an applicant who intends to borrow money from an authorised financial institution, and is pledging the investment as security, the level of personal net worth is £2 million. The applicant may borrow all of the £1 million investment money. Assets held by the spouse or partner of the applicant, either jointly or in their spouse or partner's own name, can be taken into account when assessing net worth.

Applicants may not mix personal money and borrowed money in order to meet the total £1 million investment required to score 75 points.

2.85   Applicants for an extension of permission to stay under the Investor route need to be able to demonstrate that they have:

- £1 million held in the UK in a regulated financial institution and disposable in the UK;

- invested not less than £750,000 of their capital in the UK by way of UK Government bonds, share capital or loan capital in active and trading UK registered companies, other than those principally engaged in property investment; and

- invested that amount within three months of their date of entry to the UK.

2.9   Additional rules relating to all Tier 1 routes

Access to benefits

2.86   All successful applicants under Tier 1 must be able to support themselves for the entire length of their stay in the UK without recourse to public funds, as they will be unable to claim most benefits paid by the state.

Dependants

2.87   Successful applicants under Tier 1, including 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 immigrants under Tier 1 are able to seek employment but 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.

Leave entitlement, residence and citizenship

2.88 Successful applicants entering the UK in, or switching into, the Tier 1 General, Entrepreneur or Investor routes are granted three years' leave. Successful applicants for the PSWR receive a single, non-renewable, grant of leave for two years.

2.89 Subsequent grants of leave in the Tier 1 General, Entrepreneur or Investor routes are for two years. The PSWR does not permit an extension of stay and time spent in the UK granted by this route does not count towards the requisite period of time in the UK that determines eligibility for permanent residence.

2.90 Time spent in the Tier 1 General, Entrepreneur or Investor routes counts towards the period the person needs to be here for before being eligible to apply for settlement. The minimum period is currently five years.

2.91 The same entitlements to apply for leave and then residency are available to the dependants of Tier 1 immigrants.

2.92 Since April 2007, all applicants for permanent residence must provide evidence that they have either passed the Life in the UK test or have an English for Speakers of Other Languages qualification which includes citizenship materials.

2.93 Tier 1 is a route to citizenship. In 2008 the Government published a consultation document setting out its proposals on new routes to citizenship (Home Office, 2008). Three key routes to citizenship were set out:

- highly skilled and skilled workers under the PBS, and their dependants (economic migrants);

- family members of British citizens and permanent residents; and

- those in need of protection (refugees and those granted humanitarian protection).

2.94 Three stages in the journey to citizenship were also set out:

- temporary residence;

- probationary citizenship; and

- British citizenship/permanent residence.

2.95 In June 2009 the Government published *Building Britain's Future* (HM Government, 2009), a wide-ranging strategy document which included proposals to change the system whereby permanent residence and citizenship have automatically followed from spending a certain amount of time in the UK. Immigrants would have to earn the right to stay in the UK under new routes to citizenship, including extending the PBS to probationary citizenship. The Government is consulting on these proposals with a view to implementing Earned Citizenship by July 2011.

2.96 The Government has initiated a public consultation to seek views on its proposals for earned citizenship fees as well as consulting more widely on charges for UKBA services. The consultation ran from 9 September 2009 to 1 December 2009.

2.97 On 21 July 2009 the Borders, Citizenship and Immigration Act 2009 received Royal Assent. The Act created a new unified force at the UK border, which allows frontline customs and immigration officers to work together as the UKBA, and provides a statutory framework for the Government's proposals for earned citizenship.

2.10 Calibration of the Tier 1 points

2.98 We understand that the UKBA carried out in-house analysis to inform the development of criteria for Tier 1. However, we have been unable to establish an explicit economic rationale for the precise calibration of the points. Most of the points calibrations have transferred directly across from the various preceding schemes and we have been unable to establish the precise methodology used to determine these initial calibrations.

2.99 The original criteria for the HSMP awarded points for qualifications, work experience, past earnings and achievement in the applicant's specialist field. This was revised in October 2003 to include additional points for those under the age of 28 and those with a skilled partner.

2.100 A further significant change was the introduction of a more objective assessment at extension stage in November 2006. Prior to this, applicants seeking an extension of leave were only required to demonstrate that they were making all reasonable attempts to be economically active. The November 2006 change introduced a points requirement at extension stage, awarding points for earnings, UK experience, age and qualifications. The intention was to ensure that those immigrants entering under this route were pursuing highly skilled roles, as it was suspected that the scheme was being abused by some immigrants.

2.101 With the changeover to Tier 1 of the PBS, an attempt was made to ensure that the new system could attract those with PhDs who had very low earnings yet could potentially offer significant value to the UK. Therefore the system was designed to allow in those aged under 28 with PhDs but little or no earnings. If they were a year older they were expected to begin earning,

which is reflected in the increased points for earnings. The same principle applied to the following years until age 32, whereupon they were expected to have become established with a commensurate salary.

2.102 In February 2009 the UKBA announced that possession of a bachelor's degree would no longer yield any points for prospective Tier 1 General route applicants. This was motivated by consideration of the prevailing economic conditions. Tier 1 allows the most highly skilled immigrants to come to the UK with open access to the labour market. With unemployment rising and vacancy rates falling, the Government felt it was the right time to be more selective about the skill levels of these immigrants, and to do more to put British workers first. The change does not necessarily prevent those immigrants who no longer qualify from coming to the UK. They can still enter under Tier 2, but only if they will fill a vacancy that that could not be filled by a suitable EEA worker. Hence this group no longer has unfettered access to the UK labour market.

2.11 Tier 1 operation and enforcement

Fees

2.103 An application under the Tier 1 General route made by post in the UK costs £400 if submitted with a valid HSMP approval letter for switching into Tier 1 (on the basis that the applicant has already paid for the approval letter), and £820 for all other applicants (including applications for extension within the Tier 1 General route if currently in the UK under the HSMP). Dependant applications cost £50 per dependant if sent together with the main application. Dependant applications for children over 18, or any dependant applications sent separately or later, cost £465.

2.104 Two different fees apply to a Tier 1 General route application made in person at a UKBA public enquiry office. If a valid HSMP approval letter is submitted with an application for switching into Tier 1 the fee is £600. For all other applicants the fee is £1,020. Dependant applications cost £50 per dependant if they are made at the same time as the main application. Dependant applications for children over 18, or any dependant applications made separately or later, cost £665.

2.105 For a Tier 1 General route application made from outside the UK the fee is £250 if submitted with a valid HSMP approval letter, and £675 for all other applicants. Nationals of countries which have ratified the 1961 Council of Europe Social Charter, namely Turkey, Croatia and FYR Macedonia, pay a reduced fee of £615, or £230 if submitted with a valid HSMP approval letter. The fee for dependants is £675.

2.106 An application for the PSWR made by post in the UK costs £500. Dependant applications cost £50 per dependant if sent together with the main application. Dependant applications for children over 18, or any dependant applications sent separately or later, cost £465.

2.107 For a PSWR application made in person at a UKBA public enquiry office, the fee is £700. Dependant applications cost £50 per dependant if they are made at the same time as the main application. Dependant applications for children over 18, or any dependant applications made separately or later, cost £665.

2.108 For a PSWR application made outside the UK the fee is £265. The fee for dependants accompanying the main application is also £265.

2.109 For an application made in the UK under the Entrepreneur or Investor routes the fee is £820. Dependant applications cost £50 per dependant if they are sent with the main application. Dependant applications for children over 18, or any dependant applications sent separately or later, cost £465. Nationals of Turkey, Croatia and FYR Macedonia pay a reduced fee of £750.

2.110 An application that is made outside the UK under the Entrepreneur or Investor routes costs £675. Dependant applications accompanying the main application also cost £675 each. Nationals of Turkey, Croatia and FYR Macedonia pay a reduced fee of £615.

Enforcement

2.111 Successful applicants under Tier 1 can work in the UK. Should those entering under the Tier 1 General, Entrepreneur or Investor routes wish to stay beyond the initial three-year period following their successful application, they must demonstrate that they meet the requirements for an extension application. Successful applicants under the PSWR who wish to stay in the UK beyond the end of the initial two-year period must make a successful application to transfer into another route of the PBS.

2.112 The onus is on employers to check that a non-EEA national has the right to work in the UK. There are no additional checks carried out on Tier 1 immigrants over and above those on other immigrant workers. Employers do not have to act as sponsors for Tier 1 employees but they must satisfy themselves that any Tier 1 employee has the relevant documentation of their status. Employers need to check that their employee's visa permits employment, and to retain copies of the relevant parts. Providing that the proof accepted by the employer is not obviously false, then this exercise will safeguard the employer against charges of knowingly employing an illegal worker. The employer should also carry out checks at least once a year to ensure that the employee continues to have valid leave.

Chapter 3: Economic and immigration context

3.1 Introduction

3.1 This chapter examines the wider background to our recommendations. First, we present a macro-economic overview of the UK economy. Next, we look at UK labour market data, with particular focus on highly skilled labour. Then we examine the latest data and evidence on immigration stocks and flows and the impact of the UK and global recession on migration.

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. In contrast, as shown in Figure 3.1, the UK economy has been in recession for six quarters, beginning in the second quarter of 2008. GDP contracted by 5.9 per cent over this period; however, the rate of decline fell from the first to the third quarter of 2009.

Figure 3.1: One-quarter and four-quarter growth of real gross domestic product, UK, 1973 Q3 to 2009 Q3
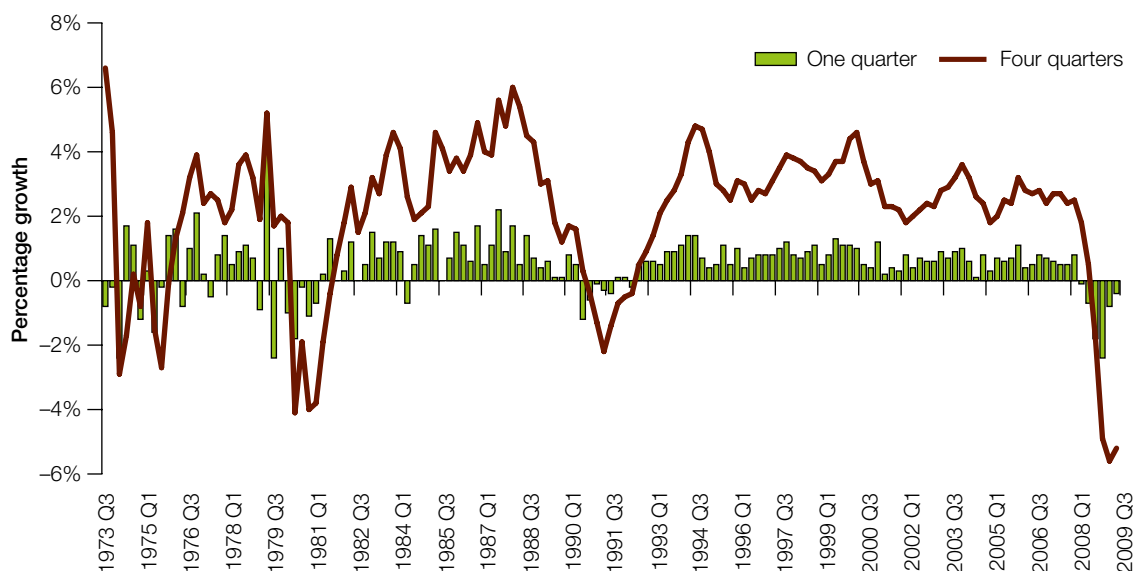
Note: Seasonally adjusted, market prices, chained volume measure, constant 2005 prices.
Source: Office for National Statistics, 2009a

3.3 The trend in the UK mirrors the position in the global economy, which has been in a severe recession inflicted by a massive financial crisis and acute loss of confidence. The International Monetary Fund's (IMF's) October 2009 World Economic Outlook update (2009) projects that world output is to decline by 1.1 per cent in 2009, its first annual decline since 1946, and to recover in 2010, growing by 3.1 per cent.

3.4 In terms of GDP, the UK performed slightly better than the advanced economy average in 2008, but is expected by the IMF to fare worse in 2009 and 2010, as shown in Table 3.1.

3.5 Short and medium-term forecasts are subject to exceptional uncertainty and have continued to be revised. A selection of forecasts from leading institutions published monthly by HM Treasury (2009) shows that the average expected rate of growth of UK GDP for 2009 has been revised downwards over the last 12 months and currently stands at –4.3 per cent, while for 2010 the average expected rate of UK growth is 1.2 per cent.

3.6 The National Institute of Economic and Social Research (NIESR) (2009) forecasts UK GDP contraction of 4.4 per cent in 2009, followed by growth of 1.3 per cent in 2010 and 1.5 per cent in 2011. World GDP is expected to contract by 1.1 per cent in 2009 and to expand by 2.8 per cent in 2010. The Independent Treasury Economic Model (ITEM) Club (2009) says it expects UK GDP to fall by 4.5 per cent in 2009, but for a modest recovery to begin in 2010.

Table 3.1: International gross domestic product growth comparison

		Per cent annual growth		
		2008*	2009**	2010**
	World	3.0	–1.1	3.1
	Advanced economies[1]	0.6	–3.4	1.3
	European Union	1.0	–4.2	0.5
G7 countries	United Kingdom	0.7	–4.4	0.9
	United States	0.4	–2.7	1.5
	Japan	–0.7	–5.4	1.7
	France	0.3	–2.4	0.9
	Germany	1.2	–5.3	0.3
	Canada	0.4	–2.5	2.1
	Italy	–1.0	–5.1	0.2

Note: *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, 2009

3.3   The UK labour market

3.7   In the past year there have been significant developments in the UK labour market. In this section we summarise the main labour market indicators in aggregate and by occupation.

The overall labour market

3.8   Figure 3.2 shows that the UK employment rate was 72.6 per cent in the three months to August 2009 (a level of 29.0 million), compared with a recent peak of 74.9 per cent 15 months earlier, a fall of 2.3 percentage points. It now stands at its lowest rate since 1997. In the last recession in the early 1990s, the employment rate fell by 3.0 percentage points in 15 months from its peak of 75.0 per cent.

3.9   It can also be seen that the unemployment rate (as defined by the International Labour Organisation (ILO)) was 7.9 per cent in the three months to August 2009 (a level of 2.5 million), from a recent low of 5.2 per cent 15 months earlier, a rise of 2.7 percentage points. It now stands at its highest rate since 1996. In the early 1990s, the rate rose by 2.4 percentage points in 15 months from its low of 6.9 per cent.

3.10   Figure 3.2 also shows that the claimant count rate increased to 5.0 per cent in September 2009 (a level of 1.6 million), from a recent low of 2.4 per cent 18 months earlier, a rise of 2.6 percentage points. It now stands at its highest level since 1997. In September 2009 there were 357,800 inflows to the claimant count, lower than the previous month. There were 335,900 outflows from the claimant count, higher than the previous month.

3.11   A selection of forecasts from leading institutions published by HM Treasury (2009) shows that, although mild GDP growth is expected in 2010, the claimant count is expected to continue to rise and reach 1.8 million by the end of 2009, and to reach 2.0 million a year later. NIESR (2009) predicts that the ILO unemployment rate will increase to 8.4 per cent at the end of 2010 and to 9.3 per cent at the end of 2011.

Figure 3.2: Unemployment rate, UK, Jul–Sep 1973 to Jun–Aug 2009. Working age employment rate, UK, Jun–Aug 1973 to Jun–Aug 2009. Claimant count rate, UK, Sep 1973 to Sep 2009
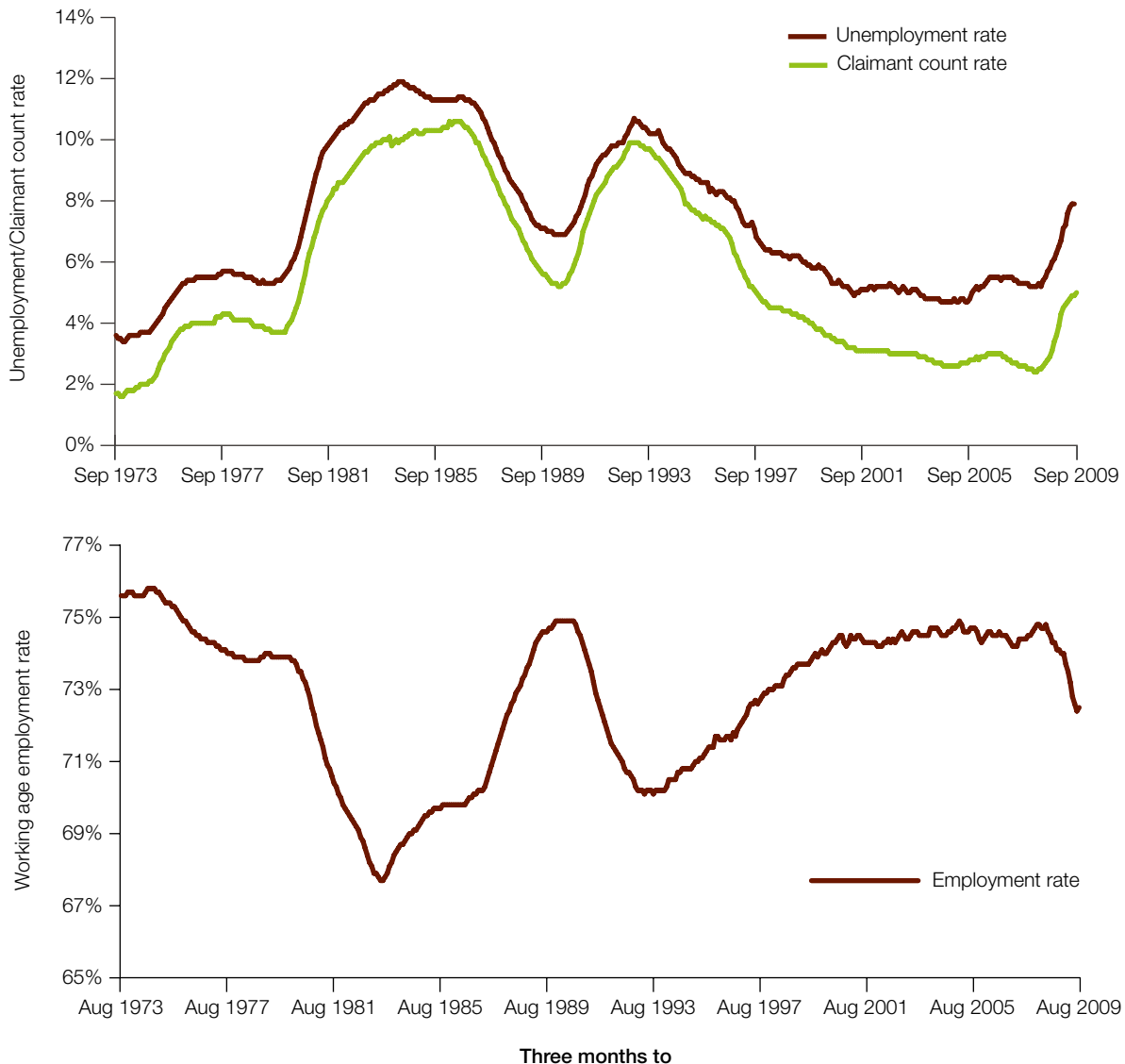
Note: Seasonally adjusted. The employment and unemployment rates are those calculated in the three months to the date shown. The employment rate is calculated from the Labour Force Survey (LFS) and is given by the number of working age individuals who did at least one hour's paid work in the week prior to their LFS interview, or has a job that they are temporarily away from, as a proportion of the working age population. 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 working during the week in which their claim is made. The claimant count rate is the number of resident 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, where every individual aged 16 or over is classified as either in employment, unemployed or economically inactive. 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. The September 2009 claimant count rate is provisional.
Source: Office for National Statistics, 2009b

3.12 Figure 3.3 shows that, according to the Office for National Statistics Vacancy Survey, there were 434,000 job vacancies in the three months to September 2009 (a rate of 1.7 vacancies per 100 employee jobs), down slightly from the three months to August 2009 and down 163,000 from a year earlier.

3.13 There were 233,000 redundancies in the three months to August 2009 (a rate of 9.3 per 1,000 employees), down 68,000 from the three months to May 2009 and up 85,000 from a year earlier. This is also shown in Figure 3.3.

Figure 3.3: Total vacancies, UK, Jul–Sep 2001 to Jul–Sep 2009. Total redundancies, UK, Jul–Sep 2001 to Jun–Aug 2009
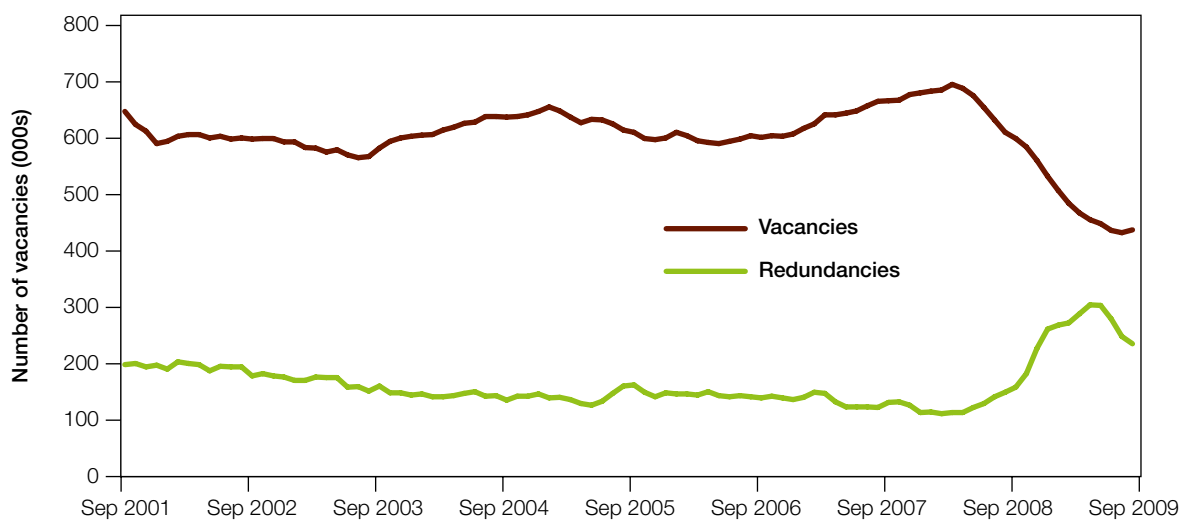
Note: Seasonally adjusted. Total redundancies are estimated from the LFS and describe the number of people, whether working or not, who had been made redundant or had taken voluntary redundancy in the month of the survey or in the two calendar months prior to this. Total vacancies are estimated from 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 September 2009 vacancies figure is provisional.
Source: Office for National Statistics (2009b)

3.14   Changes in earnings are an important indicator of labour market pressure. Figure 3.4 shows the deterioration in overall year-on-year earnings growth since the end of 2008. This is especially pronounced when bonuses are included, to the extent that the rate of earnings growth including bonuses fell below zero in the three months to March 2009, before recovering to 1.6 per cent in the three months to August 2009.

Figure 3.4: Average earnings growth, Great Britain, Jun–Aug 1997 to Jun–Aug 2009
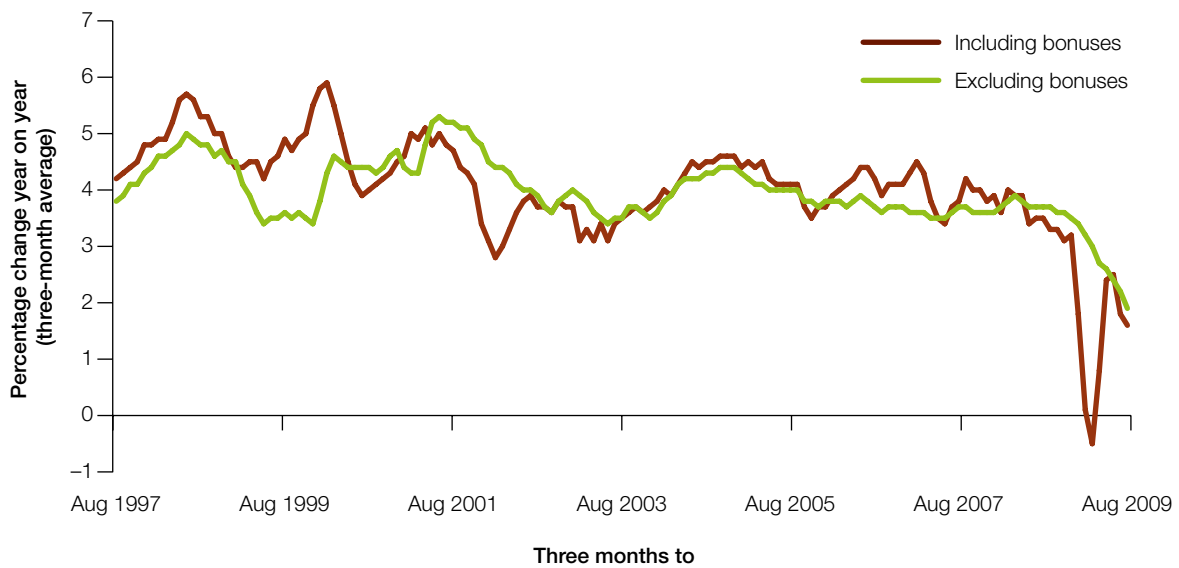
Note: Seasonally adjusted. Average earnings are calculated by dividing the total amount paid by the total number of employees paid. The growth rate is equal to average earnings over a three-month period against the same three-month period a year ago. The August 2009 figures are provisional.
Source: Office for National Statistics, 2009b

The labour market by occupation

3.15   In September 2009 the claimant count was higher than in September 2008 for all occupations at 1-digit Standard Occupational Classification (SOC) level, as shown in Figure 3.5. Lower skill occupations generally have higher numbers of claimants and have experienced the largest absolute increases in the claimant count. Higher skill occupations have experienced the greatest percentage increases in claimant count over this period: for example, the claimant count for managers and senior officials increased by 107 per cent over the year to September 2009.

Figure 3.5: Absolute claimant count and relative change in the claimant count by occupation, UK, Sep 2008 to Sep 2009
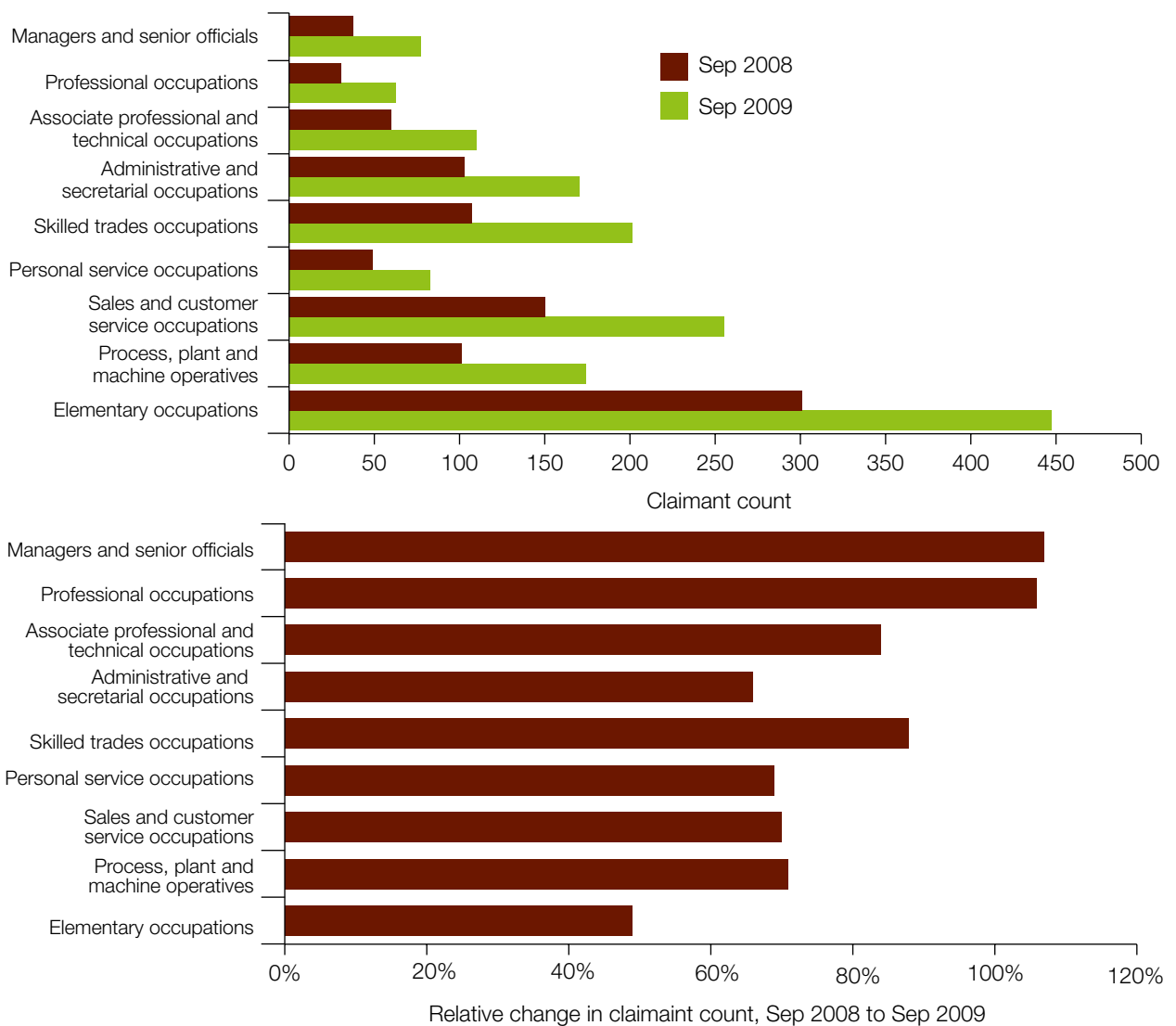
Note: Occupation is 1-digit SOC, and is sought occupation. The claimant count is defined in the note to Figure 3.2.
Source: Nomis (2009)

3.16   The number of vacancies relative to unemployment (the V/U ratio) is a good additional measure of the state of the labour market. In Figure 3.6 we present the relative change in this ratio in Great Britain between September 2008 and September 2009 by occupation. Here, total vacancies are limited to those recorded at Jobcentre Plus and therefore represent only a portion of total vacancies in Great Britain. Unemployment data are given by the claimant count and therefore represent only a portion of the total number of unemployed individuals. We assume that this measurement error over a 12-month period is approximately constant, allowing us to derive meaning from the change in this ratio over the same period.

Figure 3.6: Absolute and relative change in notified Jobcentre Plus vacancies per claimant by occupation, Great Britain, Sep 2008 to Sep 2009
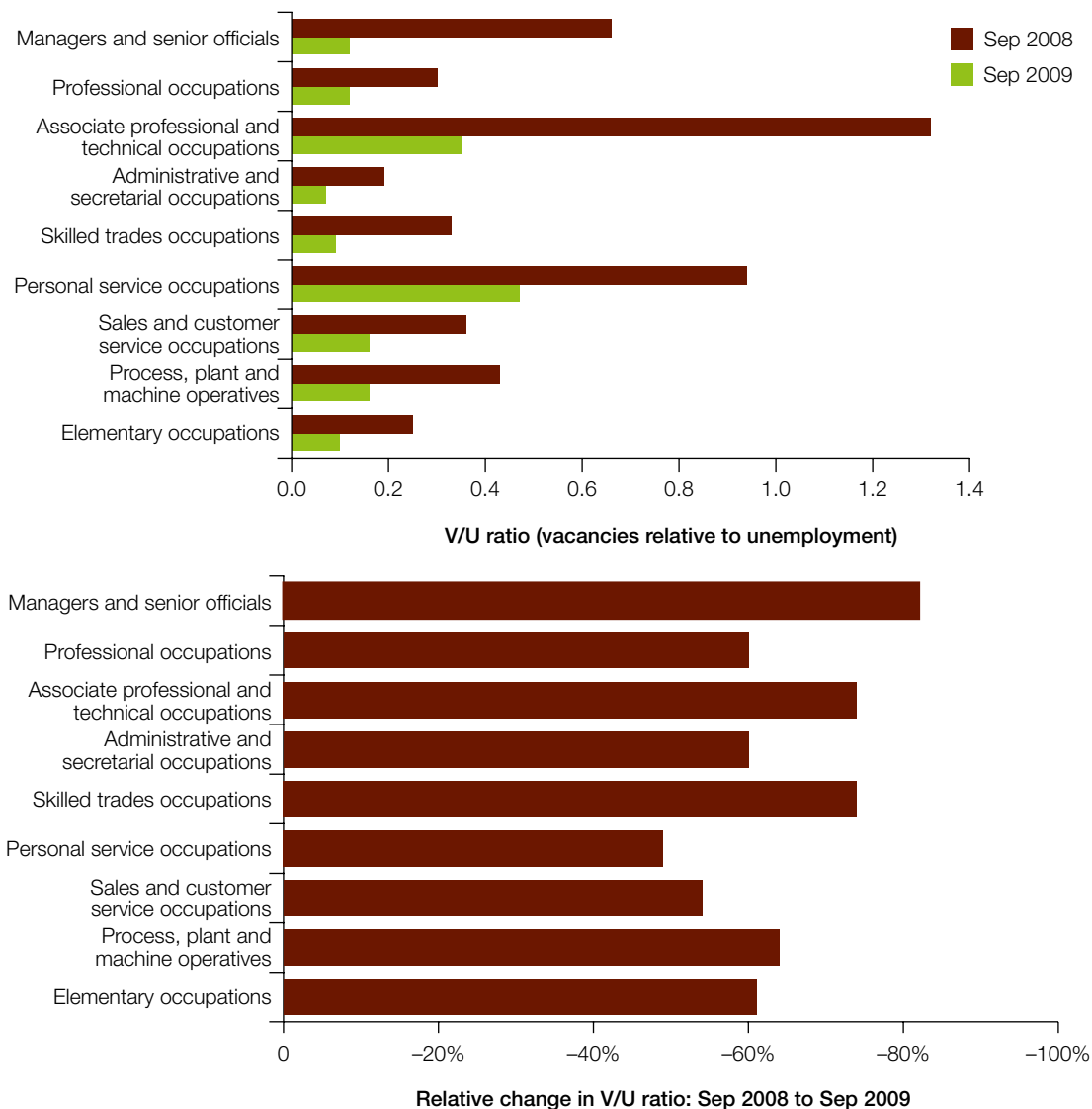
Note: Vacancies are live and unfilled and are recorded at Jobcentre Plus. The claimant count is defined in the note to Figure 3.2.
Source: Nomis (2009)

3.17   In September 2009, for all SOC major groups, the V/U ratio had fallen substantially compared with a year ago, indicating that the supply of employees had risen relative to demand for all 1-digit occupations. The smallest relative decline was for personal service occupations (49 per cent), while the largest relative decline was for managers and senior officials (82 per cent).

The labour market for graduates

3.18   Tier 1 of the Points Based System (PBS) aims to select highly skilled immigrants, and those entering through this route are likely to compete with graduates in the UK labour market. Figure 3.7 shows that the unemployment rate of all degree holders started rising in the third quarter of 2008 and now stands at 3.5 per cent,

compared with 6.7 per cent for the UK as a whole. The unemployment rate of recent degree holders (defined as those that obtained their degree in the 12 months preceding their Labour Force Survey (LFS) interview) began rising in the first quarter of 2008 and now stands at 11.8 per cent.

3.19   Elias and Purcell (2004a) analysed the 353 4-digit occupations 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 during the development of the SOC2000 on behalf of the ONS. These graduate occupations comprise 148 out of the 353 4-digit SOC occupations.

Figure 3.7: Graduate unemployment rates, UK, 2007–2009
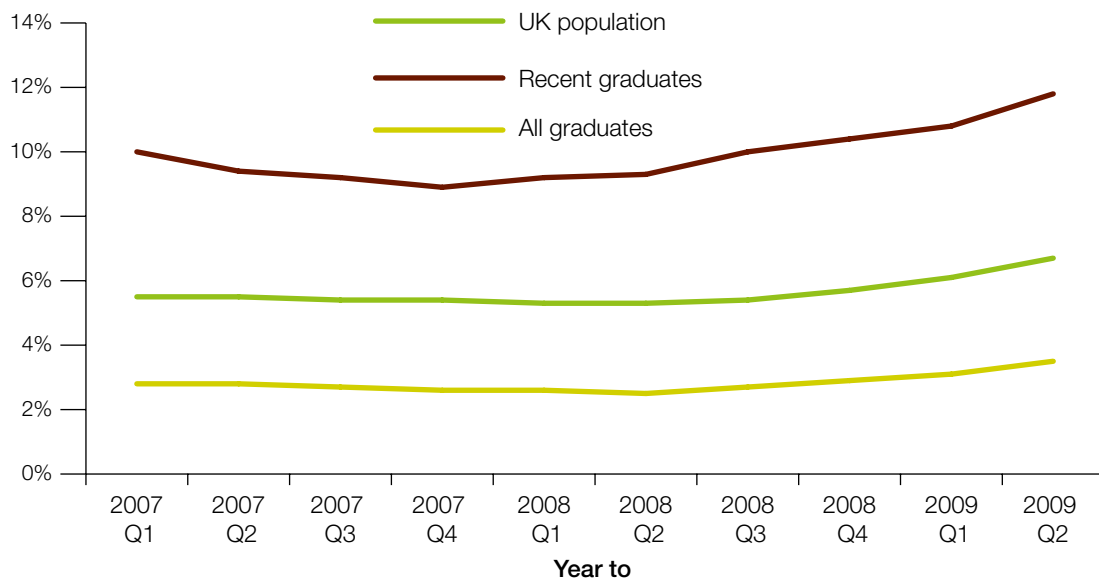
Note: The definition of unemployment is internationally agreed and recommended by the International Labour Organisation, where every individual aged 16 or over is classified as either in employment, unemployed or economically inactive. Individuals are defined as unemployed if they are without a job, 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. These figures do not include those graduating in the academic year 2008/09. Individuals are defined as having obtained their degree recently if they obtained it in the 12 months preceding their LFS interview.
Source: Labour Force Survey, 2006–09

Figure 3.8: Pay distribution of individuals in skilled graduate occupations, 2008 Q3 to 2009 Q2
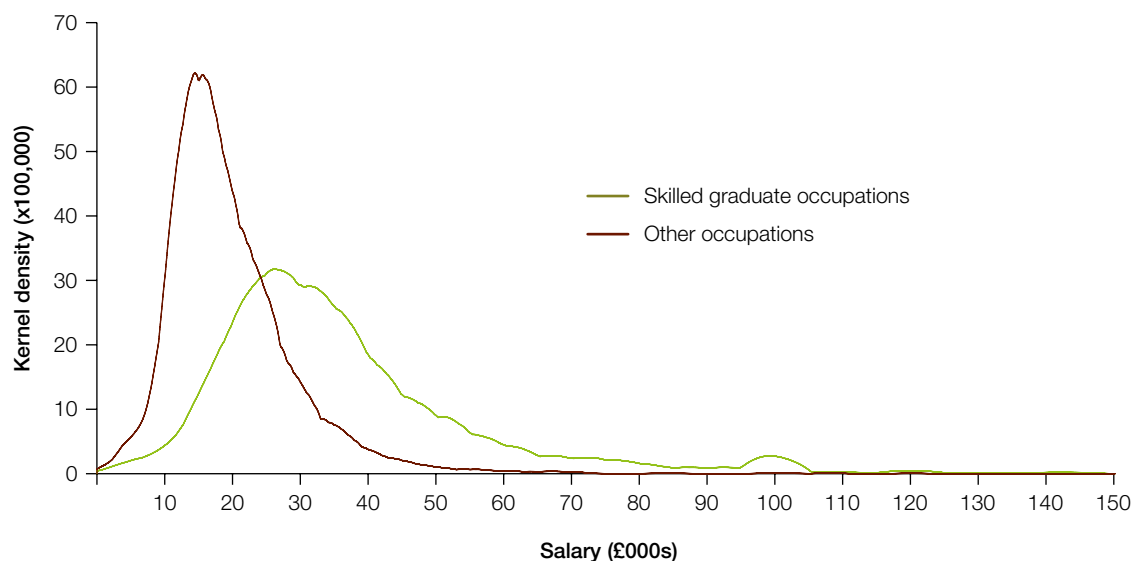
Note: Annual pay is calculated from gross weekly pay, multiplied by 52. Includes employees and self-employed; full-time only; aged 16+. Since data on salary in the LFS are continuous, rather than grouping observations together in bands in order to generate a histogram, the kernel density estimator is used. This technique uses a weighting function to estimate the density function of a random variable. The intuition behind this can be thought of as adding additional points at each observation, determined by the kernel function; the estimator then consists of summing these additional points and is smoother as a result. It is not possible to interpret the values of the y-axis; however, it allows visual comparison of the shape of the two distributions.
Source: Labour Force Survey, 2008 Q3 to 2009 Q2

3.20   In MAC (2008) we conducted our own analysis to identify the 192 out of 353 occupations in the SOC that we defined as 'skilled' to National Qualification Framework level 3 or above. Of those defined as graduate occupations by Elias and Purcell (2004a), two did not meet our threshold for skill. We therefore refer instead to the skilled graduate occupation list, comprising 146 occupations, where the two occupations not defined as 'skilled' have been removed from the Elias and Purcell graduate occupation list.

3.21   Figure 3.8 shows the pay distribution for those individuals currently working full time in those occupations found on the adjusted graduate occupation list, compared with that for those working in other occupations. Median pay in skilled graduate occupations is £32,000, compared with £18,000 for other occupations.

3.4   Immigration context

3.22   This section presents data on recent immigration flows to the UK, focusing particularly on highly skilled immigration. It also examines relevant data and literature concerning immigrants' role in the labour market. We use a number of different data sources in this section, some of which are subject to considerable lags, meaning that more recent data have yet to be made available. Box 3.1 sets out the various sources and the latest data available.

Box 3.1: Data sources on immigration to the UK

International Passenger Survey (IPS) – describes the flows of passengers to and from the UK. Immigrants can be defined by country of birth, nationality, intended purpose of visit and length of stay. Long-term migration is defined in the survey as those intending to change their place of residence for a year or more. Latest available finalised data relate to 2007. However, provisional estimates are available for 2008: these may vary slightly from finalised estimates and do not report reasons for migration by nationality.

Control of Immigration statistics – the latest figures relating to 2008 (Home Office, 2009) include a breakdown for those with PBS visas. They describe the inflows of passengers holding a PBS visa who are admitted to the UK. Leave to enter the UK is required for those subject to immigration control, primarily non-European Economic Area (non-EEA) nationals. Also included are decisions against applications for extensions to leave to remain and settlement (in-country applications) under the PBS. Immigrants are defined by immigration status and can be differentiated by nationality and length of stay.

Management information data – management information data from the PBS and the various arrangements (e.g. work permits, the Highly Skilled Migrant Programme (HSMP)) that preceded the PBS are collected by the UK Border Agency (UKBA), 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. Data are based on initial decisions and may therefore be subject to change. Immigrants are defined by immigration status and can be differentiated by nationality. We have received data for Tiers 1 and 2 up to and including August 2009.

National Insurance Number allocations – can be used as a proxy for inflows of workers. Migrants are defined by nationality. Figures are published quarterly by the Department for Work and Pensions and the latest data available relate to 2008.

Labour Force Survey – the best source of data currently available on stocks of immigrants in the UK and their labour market status. Immigrants can be defined by country of birth, nationality and length of stay in the UK, but not by immigration status. The latest available data relate to Apr–Jun 2009. The Office for National Statistics now publishes employment rates for migrant workers in their monthly Labour Market Statistics bulletin (ONS, 2009b).

Figure 3.9: Flows of long-term migrants to and from the UK, 1991–2007 and 2008 (provisional)

Inflows, outflows and balance of long-term migrants to and from the UK, 1991–2007 and 2008 (provisional)

Balance by country of birth, Dec 2007 to Dec 2008
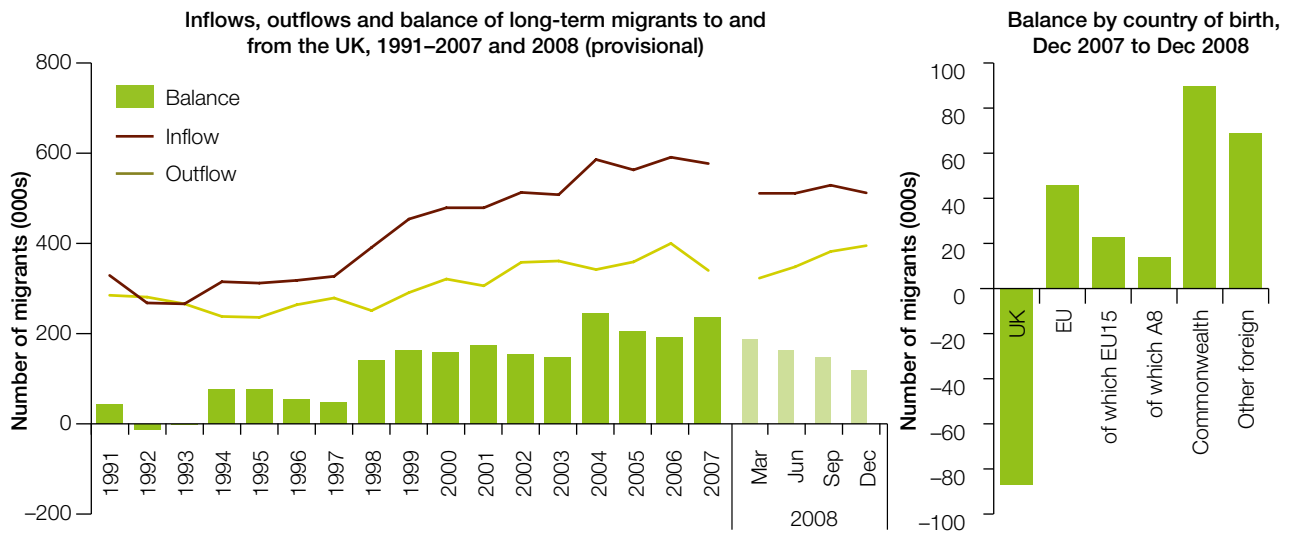
Note: Long-term migration is defined in the survey as those intending to change their place of residence for a year or more. This definition includes all nationalities and countries of birth, including the UK. Chart shows calendar years 1991–2007. Provisional estimates for years ending in each quarter are provided for 2008. EU includes EU15, A8, Bulgaria, Romania, Malta and Cyprus.

Source: International Passenger Survey, 1991–2008, published in Office for National Statistics (2008; 2009c)

Immigration flows

3.23   Since the end of the last recession in 1993, inflows of long-term immigrants (defined as those intending to change their place of residence for one year or more) have exceeded outflows, resulting in positive net inflows of immigrants to the UK, as shown in Figure 3.9. Provisional data for 2008 suggest that while gross inflows have been relatively stable in recent months, outflows have increased, leading to reductions in the net balance between inflows and outflows.

3.24   In the year to December 2008, provisional data show that 87,000 more UK-born individuals left the UK as long-term migrants than entered: a net outflow.

In contrast, net inflows of long-term immigrants were recorded for those born outside the UK. For those born within the European Union (EU), excluding the UK, a net inflow of 46,000 long-term migrants was recorded in the same period, and for those born outside the EU, a net inflow of 159,000 long-term immigrants was also recorded.

3.25   The fact that net inflows of non-UK-born immigrants have been positive in recent years is reflected in the increasing stock of such immigrants in the UK. The LFS estimates that approximately 13 per cent of the working age population in the UK in 2008 were born overseas, up from 9 per cent a decade earlier.

3.26 We can also look at net flows by reason for migration. Although immigration of workers tends to be the focus of public debate, many come to the UK for other reasons. Figure 3.10 shows net long-term immigration for all nationalities by their reason for immigration between June 2000 and December 2008. In recent years, net inflows have been strongly dominated by those coming for formal study, with 140,000 recorded in the year to December 2008. Net inflows for work-related reasons (those with a definite job and those seeking work are not distinguished in these provisional data) has historically been lower, and a net outflow is recorded for work-related reasons in the year to December 2008. However, the figures for those departing for work purposes include those who arrived as students and are returning home to work. The International Passenger Survey (IPS) does not distinguish between the two categories.

3.27 Table 3.2 expands on Figure 3.10, by focusing on non-EU nationals. Data are currently available at this level of detail only up to 2007. Since 2000, outflows of non-EU nationals looking for work have exceeded inflows. While 36,000 non-EU nationals came to the UK seeking work in 2007, 50,000 left for the same reason. For those with a definite job, positive net inflows of non-EU nationals were recorded between 1996 and 2006. In all, in 2007 the number of migrants departing for work purposes exceeded the number coming for work for the first time in ten years.

3.28 These migration figures give an indication of the reasons why people are migrating. They do not imply that the number of non-EU workers in the UK is falling. Many of those leaving the UK to seek work or with a definite job may have arrived for other reasons, for example as students. For those departing the UK, the IPS does not allow us to distinguish between the reasons why they originally arrived in the UK.

Figure 3.10: Balance of long-term migrants of all nationalities by reason for migration, Jun 2000–Dec 2008
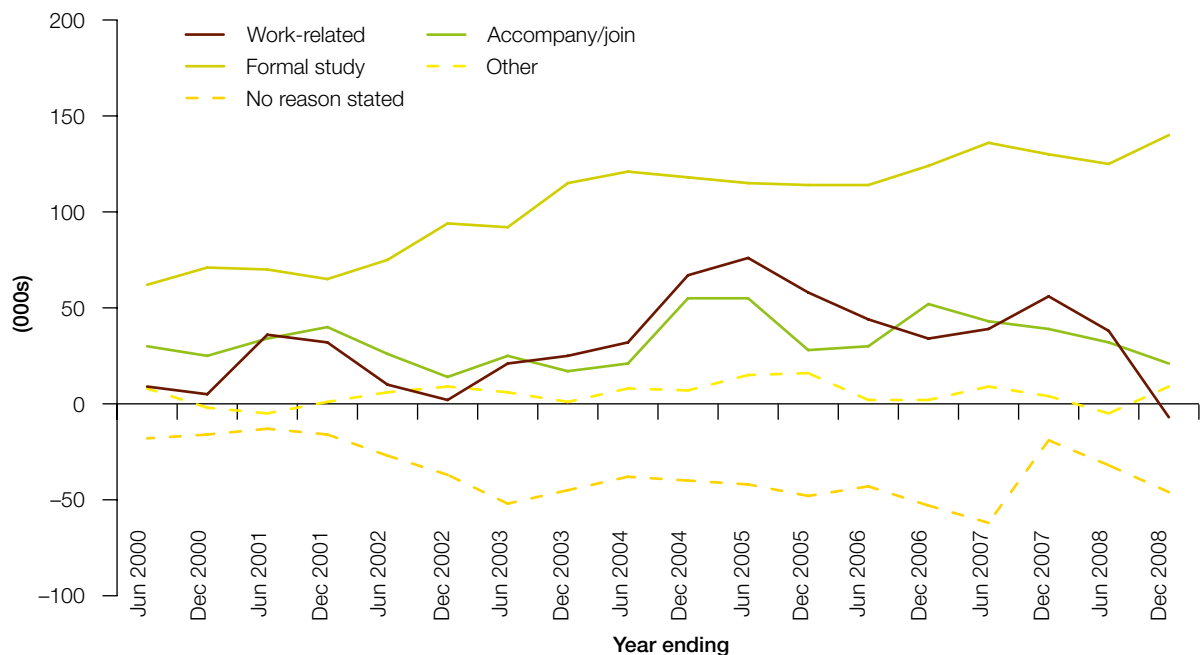
Note: The figures describe the balance of all nationalities intending to change their place of residence for a year or more. All estimates for 2008 are provisional. Finalised 2008 data will be published by the Office for National Statistics in November 2009. For 1995, those looking for work were not recorded separately from 'other reasons'.
Source: International Passenger Survey, 2008, published in Office for National Statistics (2008)

Table 3.2: Inflows, outflows and net balance of non-EU nationals to the UK by reason for immigration, 1991–2007

		1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
All reasons (000s)	Inflow	112	88	92	100	108	108	120	144	180	202	209	234	266	329	287	315	333
	Outflow	74	81	70	63	57	56	65	65	83	91	77	99	101	92	108	115	203
	Balance	+38	+6	+23	+37	+51	+52	+55	+80	+97	+111	+132	+135	+165	+236	+179	+200	+129
Definite job (000s)	Inflow	14	16	17	19	15	20	23	28	41	53	62	59	64	77	67	79	68
	Outflow	9	15	20	21	18	16	18	20	22	31	18	27	27	27	28	36	72
	Balance	+5	+1	–3	–2	–4	+4	+4	+8	+19	+22	+44	+31	+37	+49	+39	+42	–4
Looking for work (000s)	Inflow	5	8	9	7	*	13	11	20	23	22	20	25	21	37	25	22	36
	Outflow	3	10	13	13	*	19	20	19	22	30	29	33	36	37	46	44	50
	Balance	+2	–3	–5	–5	*	–7	–9	+1	+0	–9	–9	–8	–15	–2	–21	–22	–14
Accompany/ join (000s)	Inflow	42	33	36	33	29	29	34	34	44	50	54	45	58	74	65	74	74
	Outflow	20	23	21	15	15	11	13	11	17	14	10	14	13	11	10	12	34
	Balance	+22	+11	+15	+18	+15	+18	+22	+23	+27	+37	+44	+31	+44	+62	+55	+62	+41
Formal study (000s)	Inflow	26	22	21	30	31	33	35	40	50	55	55	76	99	110	95	114	110
	Outflow	3	3	5	3	2	4	4	5	4	4	3	6	6	4	4	3	10
	Balance	+23	+20	+15	+28	+30	+29	+31	+35	+46	+50	+53	+70	+94	+106	+90	+110	+100

Note: The figures describe the balance of non-EU nationals intending to change their place of residence for a year or more. Although provisional estimates for some migration series from the IPS are available up to September 2008, at the time of preparation of this report the latest data available by nationality and reason for immigration relate to 2007. Finalised 2008 data were due to be published by the Office for National Statistics in November 2009. *For 1995, those looking for work were not recorded separately from 'other reasons'.
Source: International Passenger Survey, 1991–2007, published in Office for National Statistics (2009c)

3.29 Falls are evident in the number of National Insurance Numbers allocated to non-European Economic Area (non-EEA) nationals. This was 8 per cent lower in 2008 than in 2007, reversing recent trends, as shown in Table 3.3. For EEA nationals, a 22 per cent reduction in National Insurance Numbers issued was observed between 2007 and 2008.

The Points Based System

3.30 The PBS was launched in 2008 and consists of five tiers. Tier 1 was launched in February 2008 in-country and became fully operational in June 2008. Tiers 2 and 5 were launched worldwide in November 2008. The PBS does not cover all migration to the UK; primarily it covers immigration of non-EEA visa nationals to the UK for work or study.

3.31 The Control of Immigration statistics (Home Office, 2009) describe passengers admitted to the UK and those within the UK who apply for extensions to their leave to remain and settlement. The figures show that just 3,240 principal PBS applicants were admitted to the UK from overseas during 2008. By comparison, there were approximately 9,060 approvals for out-of-country PBS applications (Tiers 1, 2 and 5) recorded in the UKBA PBS management information. One reason for

the difference may be the lag between the applicant receiving their visa and travelling to the UK, particularly as most PBS applications were made only in the second half of the year, following the launch of Tier 1 worldwide on 30 June 2008.

3.32 The figures also show approximately 42,600 approved decisions relating to extensions of leave to remain or settlement under the PBS. This compares with approximately 42,300 approvals for Tiers 1 and 2 shown in PBS management information (we do not have data for the small number of Tier 5 applications in 2008).

3.33 The management information presented below provides an indication of relative flows through the tiers and routes of the PBS. These data are operational management information, not national statistics, and are therefore provisional and may be subject to change. They are not equivalent to statistics describing the number of passengers admitted for a number of reasons: most importantly, because they include applications made by those already in the UK, but also because there will be a lag between applications approved and passengers arriving and some initial decisions about applications (on which the management information data are based) may change.

Table 3.3: National Insurance Number allocations to overseas nationals, 2002–2008								
	(000s)							% change 2007–08
	2002	2003	2004	2005	2006	2007	2008	
EEA (excl. UK)	90	108	162	331	367	470	368	−22
Non-EEA	221	255	251	287	266	327	301	−8
Total	311	362	413	619	633	797	670	−16

Note: National Insurance Number allocations to UK nationals are not shown.
Source: Department for Work and Pensions, 2009

3.34   Figure 3.11 shows some of these data, alongside equivalent figures from the previous work permit arrangements, the Highly Skilled Migrant Programme (HSMP), International Graduate Scheme (IGS) and Science and Engineering Graduate Scheme (SEGS). We have tried to match routes as closely as possible, although it is important to note that the new PBS tiers and routes are not necessarily equivalent to these previous arrangements.

Figure 3.11: Approved monthly applications under Tiers 1 and 2 of the PBS and previous arrangements, Sep 2007–Aug 2009
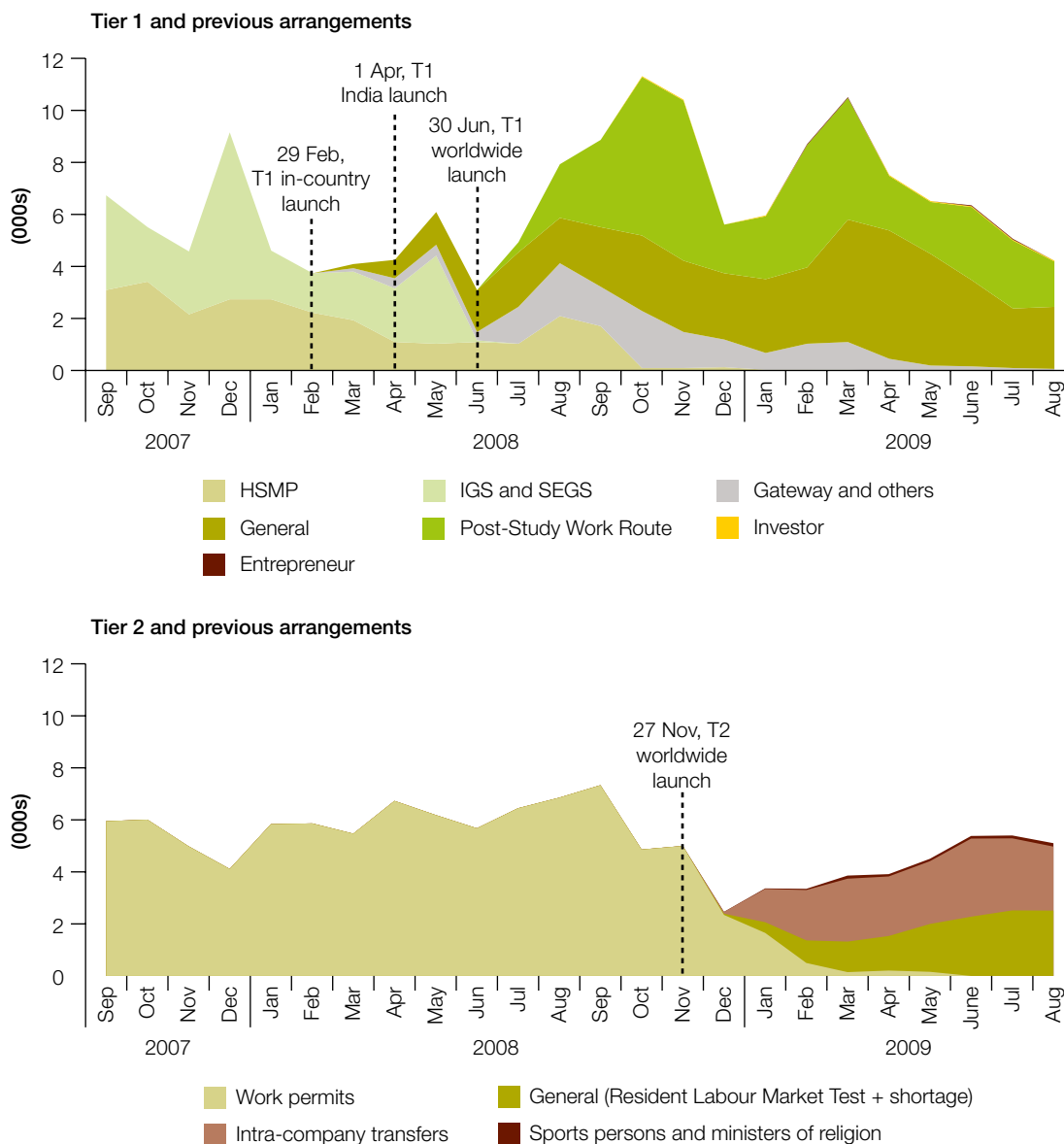
Note: 'Gateway and others' refers mainly to transitional cases where immigrants are switching from the HSMP. It also includes some cases reconsidered following a judicial review judgement on 8 April 2008, which may also have been counted in previous figures. All routes include both in-country and out-of-country applications and cover extensions, switches from previous routes and changes of employment, so do not equal the number of immigrants to which permits have been granted. Figures are based on initial casework decisions and may therefore be subject to change.
Source: UK Border Agency management information data for work permits, HSMP and PBS Tiers 1 and 2, 2008–2009

3.35 There are risks associated with drawing conclusions from short time-series. Transitional effects around the launch dates for the PBS, seasonal variation (for example a drop in casework decisions over the Christmas period) and UKBA's prioritisation of resources may all contribute to variation.

3.36 In May 2009, volumes of approvals under Tier 1 General appeared larger than those under the previous HSMP. New approvals were lower for July and August 2009 and the number of transitional cases diminished, meaning volumes through Tier 1 General look more in line with those under the HSMP. Approvals for Tier 2 up to May 2009 were of a smaller magnitude than under the work permit arrangements, but were continuing to grow. Presently, Tier 2 appears slightly smaller in volumes than equivalent routes under the work permit arrangements. Approvals for the Tier 1 Post-Study Work Route (PSWR) have seen considerable variation and, as discussed in Chapter 7, may include some re-applications of IGS/SEGS holders.

Students

3.37 Tier 4 of the PBS, which is for non-EEA students applying to study in the UK, was introduced on 31 March 2009. Given that demand for student visas is subject to considerable seasonal variation and there may be effects of transition from previous arrangement for student visas and leave to remain, we do not present management information data for Tier 4. However, data are available on passengers admitted holding a student visa (in place prior to Tier 4) and those granted further leave to remain in the UK as students. Table 3.4 shows that the number of foreign students admitted to the UK in 2008 was approximately 227,000. By comparison, 81,400 work permit holders were admitted during the same period.

Immigrants in the UK labour market

3.38 Here we consider the stock of immigrants in the UK labour market, defined by country of birth, which accounts for 13 per cent of the working age population. Unless otherwise stated, statistics in this section are derived from the 2008 Labour

Table 3.4: Non-EU passengers admitted as students to the UK and granted leave to remain within the UK, 2004–2008					
	(000s)				
	2004	2005	2006	2007	2008
Passengers admitted to the UK holding student visas	294	284	309	358[1]	227[1][2]
Extension to leave to remain, decisions granted[3]	150	127	134	136	110

Note:
(1) Includes estimates made where administrative data are unavailable.
(2) Provisional figure for 2008.
(3) This figure describes the number of decisions made, minus those that are refused.
Source: Home Office, 2009

Force Survey and immigrants defined by country of birth. The performance of immigrant in the UK labour market is particularly important with respect to Tier 1 of the PBS, as immigrants are admitted without requiring the offer of a job. In later chapters we will consider more tightly defined subsets of immigrants and flows under specific routes.

3.39 Those born outside the EEA account for 68 per cent of the stock of immigrants in 2008. This drops to 58 per cent if we only consider immigrants who came to the UK from 2003 onwards. Of the stock of non-EEA immigrants, 82 per cent are of working age and 32 per cent are aged 20–34. This compares with 64 per cent of UK-born individuals of working age, and 18 per cent aged 20–34. Fifty-one per cent of non-EEA immigrants in the UK are female.

3.40 Employment rates among foreign-born people in the UK in the three months to June 2009 were around 67 per cent in comparison to 73 per cent for UK-born (ONS, 2009b). There is considerable variation by country of birth. Employment rates for those born in Australia or New Zealand are around 86 per cent, compared with 49 per cent for those born in Pakistan and Bangladesh, as shown in Table 3.5. For some national groups employment rates are lower because females are much less likely to be in employment in those groups.

Table 3.5: Employment rates and levels by country of birth, UK, Apr 2009 to Jun 2009

Country of birth	Employment rate[1]		Employment level[2]	
	%	Change on year	(000s)	Change on year
UK	73.4	–2.1	25,104	–625
Non-UK (foreign born)	66.9	–2.2	3,730	22
EU14 countries	73.7	–2.4	674	–21
A8 countries	82.0	–2.3	518	12
US	71.1	–3.2	91	–8
Africa excl. South Africa	59.1	–7.7	545	–39
South Africa	81.8	–4.5	150	1
Australia and New Zealand	85.6	1.3	131	–4
India	68.0	–2.7	335	11
Pakistan and Bangladesh	49.0	2.9	267	24

Note:
(1) Employment rates are given for working age population (defined as females aged 16–59 and males aged 16–64).
(2) Employment levels are given for those aged 16 and over. Data are not seasonally adjusted. EU14 refers to members of the EU prior to 2004 apart from the UK.
Source: Office for National Statistics (2009b)

3.41 The occupational and sectoral distribution of non-EEA immigrants differs from that of UK-born, as shown in Figure 3.12. Non-EEA born immigrants tend to be over-represented in both some high and low skill occupations. Greater proportions are found in professional and associate professional occupations, but also more in elementary occupations. Non-EEA immigrants are also over-represented in certain sectors, notably real estate, renting and business activity, and health and social work. This may be the result of historical immigration patterns from the Commonwealth and the effect of past work permit and associated arrangements.

3.42 On average, non-EEA immigrants earn more than UK-born individuals, although the difference is largely due to the greater proportion of non-EEA immigrants in London. Descriptive evidence from the LFS suggests that earnings differences between UK-born and immigrants vary by skill level, with greater differences observed in higher skill occupations, as shown in Figure 3.13.

3.43 Dustmann *et al*. (2007) note that while immigrants in the UK labour market tend to be more educated, on average, than native-born workers this is not necessarily reflected in their position in the labour market. They find a tendency for recent immigrants to 'downgrade' to occupations with lower skill content and wages.

3.44 As we discussed in MAC (2009a), there is a growing body of evidence which addresses the impact of immigrants on resident workers in the labour market. The balance of empirical evidence suggests that the impacts of immigration on wages and employment of UK-born workers tends to be small (Reed and Lattore, 2009; Lemos and Portes, 2008). This may be because immigrants are imperfect substitutes for existing workers – a

hypothesis supported by Manacorda *et al*. (2006).

3.45 Dustmann *et al.* (2008) examine the effect of immigration along the wage distribution. They find the overall effect to be small and positive. At the high end of the wage distribution they find immigration has a positive effect on wages of resident workers, but at the lower end immigration depresses wages. Nickell and Saleheen (2008) look at effects in different occupational groups. They find a negative effect of immigration on pay overall but, like Dustmann *et al*., positive effects for those at the upper end. Their findings show notable evidence of wage depression in semi-skilled or unskilled services such as caring and personal service occupations and leisure, sales and customer service occupations.

3.5 Immigration and the labour market in recession

3.46 We reflected on the impact of the recession on immigration flows and immigrants' role in the labour market in our last two reports (MAC, 2009c; 2009d). These issues are particularly pertinent to Tier 1, as Tier 1 General immigrants might be expected to be highly mobile and do not need a job offer to come to or remain in the UK.

3.47 With respect to flows, we concluded that there were some tentative indications that migration flows are responding to the economic downturn. Data from the IPS earlier in this chapter lend some support to this view. But we also noted evidence from past recessions (see Dobson *et al.*, 2009) that suggested reductions in inflows are likely to be only temporary and may have little effect on the long-term stocks of immigrants. It is still too early to make any definitive assessment on what the impact of the recession has been on immigration to the UK.

Figure 3.12: Shares of non-EEA born immigrants by occupation and sector, 2008
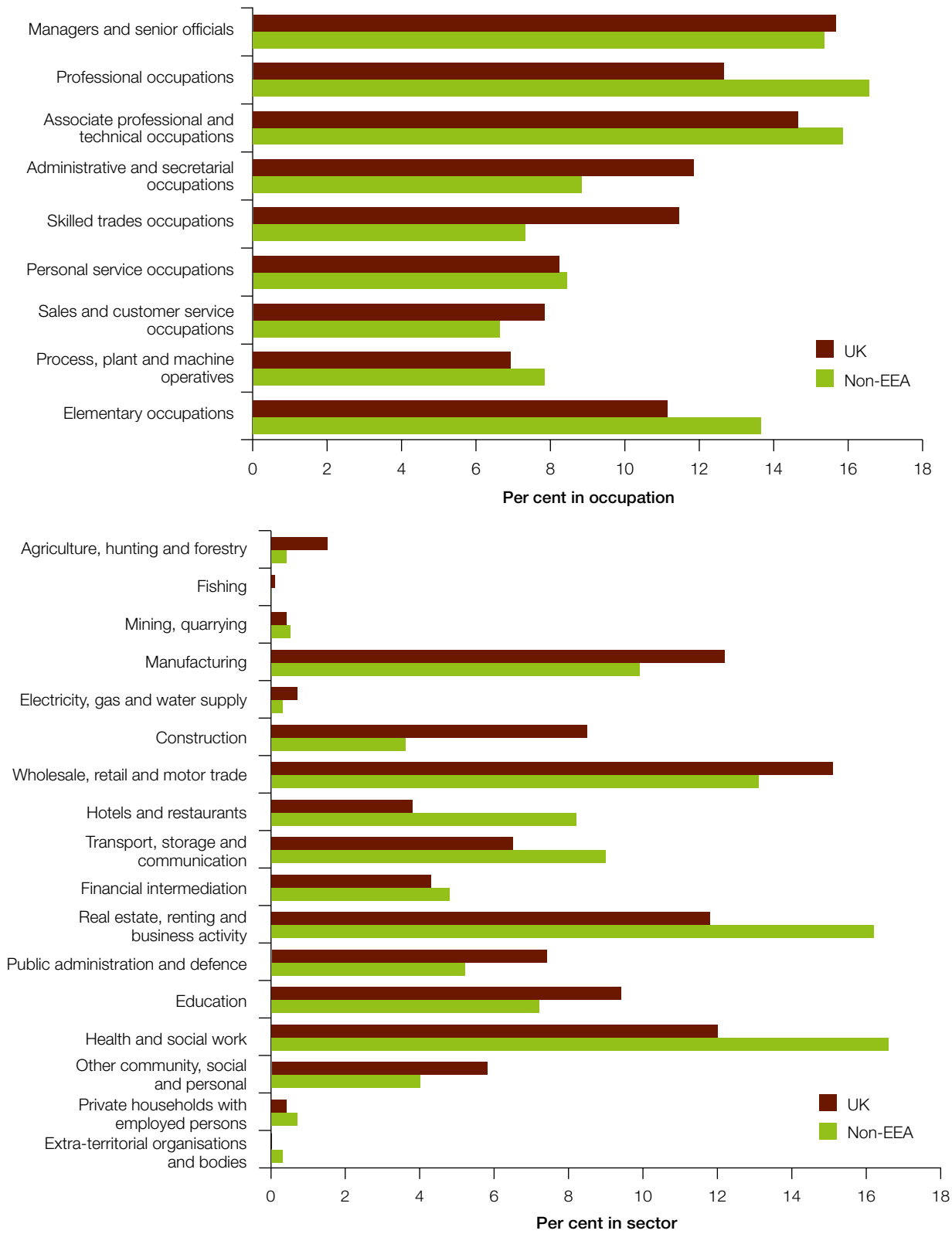
Note: Chart shows the percentage of working age non-EEA born in each sector and occupation, and the equivalent percentage of UK-born individuals. Immigrants are defined by country of birth; the charts exclude non-UK EEA-born individuals.

Source: Labour Force Survey, 2008

Figure 3.13: Earnings differential between UK-born and non-EEA born by occupational skill level, 2008
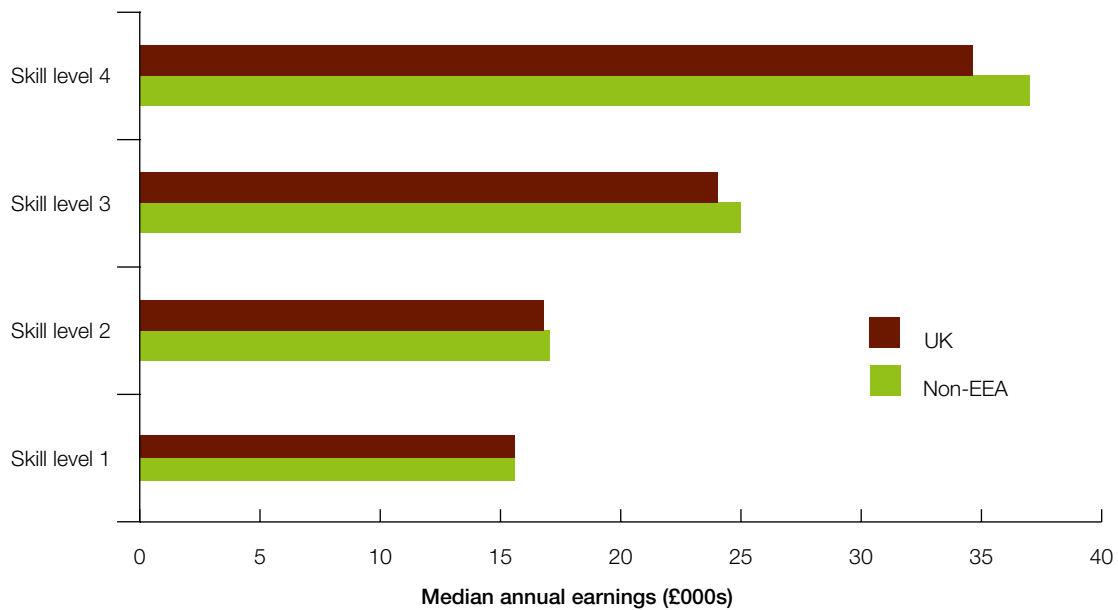
Note: Chart shows the average pay levels of working age full-time UK-born and non-EEA employees by occupational skill level. Skill level defined in the SOC: level 1 represents lowest skill occupations and level 4 the highest skill occupations. Non-EEA immigrants are defined by country of birth.
Source: Labour Force Survey, 2008

3.48 With respect to the role of immigrants in the labour market, the Organisation for Economic Co-operation and Development (OECD) (2009) notes that times of downturn tend to hit immigrants hardest. This is supported by analysis of employment and unemployment rates over the business cycles, although the converse has also been true in the past: employment rates of immigrants have recovered more quickly than those of natives during economic recovery (Dustmann *et al.*, 2006).

3.49 Earlier in the year, foreign-born employment appeared to be more resilient to the downturn than that of UK-born. Latest data suggest that the impact on employment rates so far is similar: employment rates for UK-born fell by 2.1 percentage points in the year to April–June 2009, while those for non-UK-born fell by 2.2 percentage points (see Table 3.5). Employment levels have actually increased

for non-UK-born over the same period, as a result of the increasing stock of working age immigrants. Patterns of employment vary considerably by country of birth, as shown in Figure 3.14.

3.50 Less evidence is available on the impact of the recession on immigrant employment across different skill levels and different occupational groups. Past experience suggests that those in lower skilled and more elementary occupations tend to be more affected in time of recession. But given the relatively even spread of the effects of recession across occupations for the UK labour market as a whole, the past may not be a good guide to the future.

3.6 Conclusions

3.51 The main themes emerging from examination of the data and literature on the labour market, the economy and immigration are as follows:

Figure 3.14: Employment rates and levels for selected countries of birth, Q3 2006 to Q2 2009

Note: Immigrants are defined by country of birth. Axes take different starting points for each country of birth, but the scales are the same. Employment rates (those in employment of all working age) are shown on the left-hand axes in increments of 2 percentage points. Employment levels are shown on the right-hand axes.
Source: Office for National Statistics (2009b)

- The UK and world economies are currently in a deep recession. UK output will contract in 2009. Most commentators expect positive but modest output growth in 2010.

- Unemployment and redundancies have risen, and the employment rate has fallen, in recent months. It is likely that recovery in the job market will lag behind the end of the economic recession by at least 12 months and possibly longer.

- Net immigration to the UK was lower in 2008 than in 2007, but still strongly positive. A considerable proportion of net inflows are for formal study.

- Flows through Tier 1 General were lower for the three months to August 2009 than for the three months to May and therefore recent Tier 1 General flows appear of a similar order of magnitude to those seen under the HSMP.

- Since the worldwide introduction of Tier 1, flows through the PSWR have been greater in magnitude than flows through predecessor schemes. However, these flows are difficult to interpret due to seasonal variation and switching from previous schemes.

- Employment of immigrants in the UK labour market shows, on average, a similar trend to that of UK-born over the past year. However, there is considerable variation by country of birth in the impact of the recession on the employment of immigrants.

- It is still too early to make a definitive assessment, but there are some tentative indications that migration flows may have reduced in response to the economic downturn. However, evidence from past recessions suggests that reductions in inflows are likely to be only temporary and to have little effect on the long-term stocks of immigrants.

Chapter 4: The evidence we received and our methodological approach

4.1 Introduction

4.1 This chapter sets out how we gathered evidence about the question we have been asked. It outlines our call for evidence and the responses we received. Details of the meetings we held with key stakeholders are provided, along with a discussion of what we did to access other relevant sources of evidence. Key themes emerging from the evidence we received, including a brief account of those that do not relate directly to our current remit, are also briefly discussed. Finally, we outline our broad methodological framework in terms of thinking about labour market and economic impacts and skilled immigration, and consider the implications of the economic recession for our work.

4.2 Conceptual paper and call for evidence

4.2 The Government asked us in February 2009 to consider questions relating to Tier 1, Tier 2 and dependants. In April 2009 we published a conceptual paper (MAC, 2009b) outlining our initial thinking on ways to approach these questions, identifying possible data sources and inviting contributions from stakeholders through a call for evidence. This paper was published on our website and copies were sent to over 350 key stakeholders.

4.3 Our conceptual paper incorporated a call for evidence, putting various questions to stakeholders in order to provide evidence from which we could form our conclusions. Subsequently, in August 2009, we reported to the Government and published our report, answering the questions we had been asked in relation to Tier 2 and dependants (MAC, 2009c). We were asked to report on the Tier 1 question by the end of October 2009.

4.4 In relation to Tier 1 the Government asked us: *"What further changes to the criteria for Tier 1 should there be in 2010/11, given the changing economic circumstances?"* We therefore sought the views of stakeholders on the following questions:

- **General route**: How, if at all, should the points and/or leave to enter or remain entitlements be adjusted or changed in 2010/11 to respond to current and future changes in economic and labour market conditions?

- **Entrepreneur and/or Investor routes**: How, if at all, should the points and/or leave to enter or remain entitlements be adjusted or changed in 2010/11 to respond to current and future changes in economic and labour market conditions?

- **Post-Study Work Route (PSWR)**: How, if at all, should the points and/or leave to enter or remain entitlements be adjusted or changed in 2010/11 to respond to current and future changes in economic and labour market conditions?

- In which sectors do Tier 1 workers who have entered through the General route and Post-Study Work Route work and why?

4.5 We also asked what economic and labour market criteria we should take into account when considering further changes to Tier 1. We received over 250 responses to our call for evidence. Over 70 of these were wholly or partly in relation to Tier 1. A list of those who responded on Tier 1 plus other organisations and groups that we worked with, with the exception of those who asked not to be identified, is in Annex D to this report. Evidence received in written submissions is quoted at relevant points throughout this report.

4.3 Visits and meetings

4.6 In addition to the call for evidence we undertook an extensive series of visits and meetings to engage directly with as wide a variety of stakeholders as time and resources would allow. Many of the meetings related to all three questions the Government asked us on Tier 1, Tier 2 and dependants, although some focused particularly on specific aspects of those questions. Many companies, organisations and individuals submitted both oral and written evidence to us.

4.7 We hosted a meeting with over 40 stakeholders, including representatives of large employers and employer organisations, to share our initial thinking on Tier 1 and hear views.

4.8 We went to the Chinese and Japanese Embassies and the Australian High Commission to meet with officials and business representatives from those countries. We also met with the New Zealand Minister of Labour and Associate Minister of Immigration. We also met with representatives from various embassies at the Foreign and Commonwealth Office (FCO) specifically to discuss Tier 1.

4.9 Linklaters hosted a meeting of the top UK law firms, which we attended. We also met with Universities UK and with representatives from major universities.

4.10 We took evidence at a number of different events from a wide range of companies, including IBM, Tesco, KPMG, Oracle, Clifford Chance, Siemens, Corus, Lockheed Martin, Roche, Cadbury and Unilever.

4.11 As well as ensuring that we understood the employer perspective, we took views from unions such as Unite and Unison and other bodies with an interest in our work, such as Migrationwatch UK.

4.12 We had extensive contact across Government, including with:

- the UK Border Agency (UKBA);

- the Department for Business, Innovation and Skills and UK Trade & Investment on strategic growth sectors, the business perspective and the higher education system;

- HM Treasury on emerging thinking on the recession and subsequent upswing;

- the Department for Children, Schools and Families and the Department of Health on teachers and healthcare professions respectively; and

- the FCO on the impact of our work on UK international relations and inward investment.

4.13 Additionally:

- we went to Scotland, where we visited employers and held a forum for over 40 stakeholders;

- we visited Northern Ireland, where we conducted an employer visit and held a forum for over 25 stakeholders; and

- we went to Wales, where we held a forum for over 25 stakeholders.

4.14 The MAC has its own Stakeholder Panel whom we consult on aspects of our work of direct interest to stakeholders. The Panel comprises representatives from the Trades Union Congress (TUC), Confederation of British Industry (CBI), the British Chambers of Commerce and the National Health Service. We convened a special meeting of the Panel to discuss our approach to this work and share our emerging findings. Latterly, we also ensured that Panel members were aware of the emerging conclusions from our review of Tier 1. We also had bilateral meetings with the TUC and CBI.

4.4 Themes emerging from the evidence

4.15 Given the amount of evidence we received and the range of contributors, it is perhaps not surprising that a variety of views was expressed. We were told that immigrant workers take UK workers' jobs and that immigrant employees create British jobs by transferring key new skills to their UK colleagues. We were told that most foreign workers are here only temporarily but also that access to settlement is a key factor in attracting high-quality immigrant workers. These differing perspectives illustrate that views on immigration and the immigration system are heavily dependent on the context of the organisation or person expressing them.

4.16 Evidence received from stakeholders that is relevant to our remit is discussed in detail in Chapters 6, 7 and 8, but several themes were particularly prominent in the verbal and written evidence we received:

- Many stakeholders said that Tier 1 was a very important route for recruiting highly skilled, and often senior, staff.

- The issue most frequently raised by stakeholders was the requirement for applicants to have a master's degree to enter under Tier 1 General. Stakeholders mainly opposed the recent change to tighten the requirement from what was previously a bachelor's degree. The main argument expressed was that it was preventing very experienced senior people who did not necessarily have the right paper qualification from coming to work in the UK.

- We heard from various sectors that certain professional qualifications should be taken into account (e.g. in health, law and engineering) when awarding points under the Points Based System (PBS).

- Some stakeholders suggested changes to the earnings criteria and in the main the suggestions were for additional points thresholds to award more points for higher earnings.

- We heard from the education sector that any restricting or tightening of the PSWR could result in fewer international students coming to the UK to study and that this would have a severe impact on university funding.

- Concerns were expressed that the Tier 1 maintenance requirements were unnecessarily high and were restricting the ability of highly skilled people to come to the UK.

- It was pointed out that other countries are engaged in attracting global talent in competition with the UK. For example, the European Union (EU) is introducing a residence and work permit called the EU Blue Card as discussed in Box 4.1. Many stakeholders argued that they have been through significant challenges and expense to comply with the PBS implementation, including adapting internal processes, training staff, and accepting responsibility for compliance. It was felt that the Government should not therefore make further changes to the system so soon after its introduction.

- A number of employers said that the PBS offered a much smaller degree of flexibility than the old system, both in terms of who employers were allowed to bring in and the routes they could use to do this.

Box 4.1: The EU Blue Card Scheme

The main principles of the Blue Card Scheme are the facilitation of access to highly skilled employment, entitlements to a series of socio-economic rights, favourable conditions for family reunification and movement across the EU for Blue Card holders.

A European Commission directive determines the common criteria to be set by the EU member states for holders of the Blue Card without prejudice to more advantageous conditions provided for by national laws.

After 18 months of legal residence in the first member state as an EU Blue Card holder, the person concerned and his family members may move, under certain conditions, to a member state other than the first member state for the purpose of highly qualified employment. Under the rules set by the directive, EU Blue Card holders will enjoy equal treatment with nationals of the member state issuing the Blue Card, as regards:

- working conditions, including pay and dismissal;

- freedom of association;

- education, training and recognition of qualifications;

- a number of provisions in national law regarding social security and pensions;

- access to goods and services, including procedures for obtaining housing, information and counselling services; and

- free access to the entire territory of the member state concerned within the limits provided for by national law.

The Blue Card Scheme has been agreed and adopted by EU member states, but not yet implemented. The UK and Ireland decided not to opt in to the Blue Card directive and so are not bound by it.

4.17 Unsurprisingly, as well as providing a great deal of evidence and opinion that was relevant to our remit, the individuals and organisations we met and took evidence from also raised broader issues around immigration. We do not discuss them all in detail in this report, and have not examined the validity of all the assertions in great detail. Some recurring themes were as follows:

- Some stakeholders highlighted the importance of considering the human and social dimensions of immigration policy and the consequences of that policy for individuals and their families. It was stated that the Migration Impacts Forum, which is tasked with advising on the social impacts of immigration, appears to play a much smaller role than the MAC (which is focused on the economics of migration) in policy-making.

- Although many stakeholders had positive stories to tell about how the PBS had worked for them, various points were also put to us with regard to the efficiency of the operation of the PBS: for example, the variability of visa decision-making and processing times at visa application centres around the world. Also, helpline assistance was patchy, with telephone lines frequently busy, those answering telephones sometimes lacking the appropriate knowledge, and email responses slow.

4.5 Methodological approach and the recession

Economic rationale for Tier 1

4.18 As discussed in Chapter 2, the UKBA rationale for Tier 1 of the PBS is to attract and retain people who will increase the skills and knowledge base of the UK

by widening the pool of highly skilled individuals available to employers, as well as encouraging entrepreneurs and investors to settle in the UK.

4.19 We have sought to determine whether there is an economic rationale behind a route to attract highly skilled immigrants to the UK labour market, given the existence of the other tiers of the PBS.

4.20 To address this issue we begin by outlining the fundamental economic reasons why highly skilled migration can benefit the UK. Some of the reasoning which we applied to the rationale for Tier 2 in MAC (2009c) also applies, and we again rehearse some of those arguments. Nonetheless, there are some important differences between Tier 1 and Tier 2, which we also discuss. We then relate this rationale to the strategic objectives of the current UK Government before questioning whether this reasoning remains relevant in the current economic climate.

Economic rationale for the Tier 1 General route for highly skilled workers

4.21 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. This general preference for skilled immigrants is mainly due to three factors:

- skilled immigrants are more likely to complement the skills and capital of existing residents;

- the net fiscal impact of immigration is more likely to be positive in the case of skilled immigrants;

- potential long-term growth effects and spillover benefits are more likely to arise from skilled immigration.

4.22   Below we consider the three factors in turn. Regarding whether skilled immigrants are more likely to complement the skills and capital of existing residents, a study by Borjas (1995) finds that a country maximises the overall net benefits of immigration by selecting those immigrants whose skills best complement the existing level of capital and labour force. In the case of the US, Borjas finds that skilled immigrants complement domestic capital more effectively than unskilled workers, and therefore the US can maximise the net gains from immigration by admitting only skilled immigrants. Boeri and Brücker (2005) consider this same issue for EU countries, whose labour market institutions, such as trade unions, make the wages of low-skilled workers less flexible than the wages of the highly skilled. Due to the wage rigidities in low-skilled industries they, like Borjas, find that skilled immigration leads to greater net gains for the domestic country than low-skilled immigration.

4.23   A study by Ben-Gad (2007) adds support to these findings. This study also finds that skilled immigration is more beneficial than unskilled immigration due to existing capital-skill complementarities in the receiving country. Highly skilled immigrants were found to substantially increase the rate of return to native-owned capital. This welfare benefit was furthermore found to be approximately ten times greater than the equivalent benefit generated by the same number of unskilled immigrants.

4.24   Attracting highly skilled immigrants to the UK, especially those with expertise in industries such as biotechnology and advanced manufacturing, could also assist in the achievement of the Government's strategic objectives, which we discuss later in this chapter.

4.25   The second potential basis for selecting skilled immigrants is net fiscal contribution. Rowthorn (2008) identifies the main determinants of the net fiscal impact of immigration. He argues that these are the immigrant's age, earnings and eligibility for welfare benefits, as well as the nature of the welfare system and the extent to which immigrants displace domestic workers and therefore affect their net contribution to the welfare state. As highly skilled immigrants are more likely to be in highly paid employment, the study argues that highly skilled immigrants are likely to make a larger net fiscal contribution than low-skilled immigrants. This greater net contribution is a combined result of the higher tax contributions and the smaller welfare burden which can be expected from highly skilled immigrants.

4.26   In relation to long-term growth effects, human capital accumulation has been a common feature of the economic growth literature for several decades, based on the essential idea that increasing a country's stock of human capital can increase a country's economic growth prospects.

4.27   It is thought that skilled immigrants can contribute to greater economic growth by improving long-term allocative efficiency and promoting innovation, both of which can boost total factor productivity. Economic theory suggests that the positive impacts of the increased innovation resulting from technical knowledge transfer, increased trade and the acquisition of country-specific knowledge enable UK firms to operate better in foreign markets. Poot and Cochrane (2005) argue that, at a macro level, immigration has a positive impact on productivity by generating additional aggregate demand that can only be met by a higher level of production. This, in

turn, requires a greater capital stock. The new investment needed to increase the capital stock embodies the latest imported or locally generated innovations. This qualitative improvement in the stock of capital results in productivity gains that lead to a higher total factor productivity.

4.28   In particular, the endogenous growth literature and its emphasis on human capital spillovers and scale effects in promoting technological development suggest that high-education immigration could bolster GDP per capita growth. Furthermore, as well as increasing the absolute number of workers and the associated human capital, highly skilled immigration can also enhance the rate of creation of jobs.

4.29   As discussed in House of Lords (2008), empirical evidence on the spillover and endogenous growth effects of highly skilled migration is limited. This is because these effects are very difficult to accurately measure. Of course, this lack of empirical evidence does not mean that such effects do not exist, as highlighted in the House of Lords report.

4.30   Drinkwater *et al.* (2007) develop a theoretical model that demonstrates how skilled immigration increases the incentives to engage in more skill-intensive research and development activity, thereby increasing long-term growth.

4.31   The United Nations Development Programme *Human Development Report* (UNDP, 2009) argues that immigration can also benefit the developing countries from which the immigrants originate. This benefit can take the form of remittances sent home to family members that are then spent in the wider economy, therefore creating local jobs. Alternatively, migration may benefit developing countries through improvements in healthcare and

education, or in a change in attitudes towards, for example, the role of women in the labour market. However, in this report we do not consider specifically the impacts on developing countries; we analyse the effects of highly skilled immigration from a UK perspective only.

Economic rationale for the Post-Study Work Route (PSWR)

4.32   A primary objective for retaining international students builds on the rationale for attracting highly skilled immigration. However, there is also a potential secondary objective in supporting UK higher education (HE) institutions in attracting international students. International students bring many benefits to the UK, such as knowledge of international markets, foreign languages and cultures.

4.33   Foreign students also provide a substantial funding stream for many universities, a fact that is especially true for those students who come from outside the EU and therefore pay higher tuition fees. They therefore effectively subsidise the education of domestic students. However, as discussed further in Chapter 7, it is erroneous to argue that the economic contribution of foreign students is equal to their financial contribution to UK HE institutions. If UK universities were teaching fewer foreign students, they would be able to contract their cost base and the human and physical capital released could, in principle, be deployed elsewhere. This would, at least to a limited extent, offset the revenue loss.

4.34   On the other hand, the financial benefits of international students can be argued to extend far beyond the education sector, as they consume a diverse range of UK goods and services during their time in the UK. Vickers and Bekhradnia (2007)

estimate that, for every £1.00 international students generate for universities, at least a further £0.50 is generated for other UK industries. The economic contribution of international students is discussed in more detail in Chapter 7.

4.35 Hunt and Gauthier-Loiselle (2009) examine the impact of skilled immigration on innovation. They estimate that a 1 percentage point increase in the share of immigrant college (university) graduates in the US population increases the number of patents per capita by 6 per cent. This may be an overestimate if immigrants act to crowd out native innovators, or an underestimate if immigrants create spillover effects in terms of stimulating native innovation.

Economic rationale for Tier 1 Entrepreneur and Investor routes

4.36 A potential basis for the above routes is that it is important for the UK to attract foreign investment by allowing investors to immigrate to the UK, particularly given the relative scarcity of capital as a result of the economic downturn.

4.37 A recent study has shown that skilled migrant entrepreneurs have made a major contribution to the creation of engineering and technology businesses and intellectual property in the United States (Wadhwa *et al.*, 2008).

4.38 The recently published *United Nations Conference on Trade and Development (UNCTAD) (2009) World Investment Report 2009* finds that France has overtaken the UK and now has first place in Europe for the stock of total Foreign Direct Investment (FDI) in 2008. This is largely attributed to the exchange rate fluctuations resulting from a lowering of the UK interest rate as a response to the global financial crisis, among other factors.

4.39 However, across a range of other key measures, UNCTAD (2009) shows that the UK is still the most attractive place for inward investment: the UK retains the number one spot in Europe for the number of projects and jobs created by foreign investment. Additionally, the World Bank's 2010 Ease of Doing Business survey ranks the UK as fifth in the world, up from sixth, and as the best performing country in the EU (The World Bank Group and the International Finance Corporation, 2009).

Fit of Tier 1 to UK strategic objectives

4.40 Taking into consideration the current context of the UK economy as outlined in Chapter 3, it is important to look at the Government's vision of how the UK will emerge from recession to ensure that immigration through Tier 1 can help support the UK's aspiration to secure future prosperity.

4.41 The launch of the Government's new strategy, *Building Britain's Future* (HM Government, 2009), and the corresponding report by the Department for Business, Enterprise and Regulatory Reform (2009) provides details of the current Government's intentions to take the UK out of recession and secure its long-term prosperity by establishing the vision of the UK economy for the next ten years.

4.42 Some of the key drivers of the UK's future economic success outlined in the Government's strategies are:

- to adapt and strengthen Britain's general competitiveness policies in critical areas such as innovation, skills, finance, infrastructure and access to global markets;

- to use its role and influence in the market in a new and more strategic way; and

- to use a new approach to targeted interventions to ensure that Britain continues to retain and develop strengths in high-value areas of global growth or rapid and fundamental technological change.

4.43 In reporting its new strategies, the Government highlighted the following:

- the UK's future economy should be underpinned by a world-class modern infrastructure and world-leading capabilities in the 'network' industries of the future: low carbon, biotechnology, life sciences, digital, advanced manufacturing and financial services; and

- there is a need to maintain a continued focus on skills and creativity as the main drivers of the economy.

4.44 The Government referred to the UK Commission for Employment and Skills report, *Ambition 2020: World Class Skills and Jobs for the UK* (UKCES, 2009), which found that:

- the UK is falling short of its skills ambitions to be in the top eight countries globally for skills;

- the international skills gap between the UK and the top countries is widening rather than closing;

- the UK will meet its own targets of 40 per cent qualified to National Vocational Qualification (NVQ) level 4 or above; however, projections still rank the UK only tenth internationally in 2020; and

- the UK is (relatively) in a low-skill equilibrium and should strive to shift to a 'high road' to economic development. In particular, *'the more that a post-recession recovery and renewal strategy is built around higher skills, the more likely it is to raise employer demand'*.

4.45 Successful achievement of the Government's aim set out in its new strategies will require efforts to ensure that the UK workforce has the necessary skills and knowledge base. This will support future British businesses and innovation, as outlined by UKCES, and help the UK to continue to be an attractive place for Foreign Direct Investment and for foreign companies to do business.

4.46 In summary, highly skilled immigration offers a variety of benefits to the UK by being able to pre-select only the highest skill levels and having an ability to target specific skill areas. However, immigration is clearly not the only mechanism by which the UK skill base can be enhanced. There are a number of disadvantages of immigration; with it comes increased population size and the selection mechanisms may not always be foolproof.

4.47 Furthermore, it is important to recognise that Tier 1 is supply driven. Immigrants coming to the UK under this tier do not need to have found a job before they arrive. However, the right selection mechanisms will ensure that only those who are capable of finding highly skilled work should be admitted under this tier and, if jobs are not likely to be available in the UK, it is reasonable to expect that many such individuals would remain in their source country or migrate to a country other than the UK. There is therefore an implicit demand-driven element to Tier 1, albeit one that is not as explicit as for Tier 2.

4.48 On balance, we believe that there is a clear economic case for selective highly skilled immigration into the UK. Any arbitrary restrictions could prove detrimental to ensuring that the UK is best placed to emerge successfully from recession. We discuss the basis for retaining Tier 1 specifically in Chapters 6, 7 and 8.

4.49   However, we also recognise the importance of ensuring that the Tier 1 system is selecting the 'brightest and best', as well as providing incentives to retain them, through appropriate selection criteria and operational processes. Therefore, a key focus of this report is on how the Tier 1 route is currently working and what recommendations could be made to improve it.

Responding to the recession

4.50   As described in Migration Policy Institute (2009), the global recession has had a significant impact on global migration. There is no single global trend that captures the full impact of the recession, as this has varied from country to country. However, faced with rising unemployment, countries across the globe have introduced policy changes to suppress the inflow of migrants to protect labour markets for native workers.

4.51   Countries from Malaysia and Thailand to Kazakhstan, Taiwan, Australia, South Korea and Russia have sought to restrict access to their labour markets by decreasing – in some cases halting – the number of work permits for foreigners. Most of these countries have focused on reducing the entry of low-skilled workers, the exception being the US which also placed very minor restrictions on companies bringing in highly skilled workers. Policy in relation to highly skilled migration in other countries is discussed in more detail in Chapter 5.

4.52   The required UK policy response to the recession was discussed in our August 2009 Tier 2 report (MAC, 2009c). Several months on, the impact and duration of this recession remain unclear, and we therefore feel that the general philosophy outlined in that report remains valid. It is clear from the discussion in Chapter 3 that the UK economy and labour market are still seriously disturbed. There is uncertainty about when economic contraction will cease and when the economy will emerge from recession, but we can expect the trends of falling employment and rising unemployment to continue for some time after GDP begins to rise. The timing, size and magnitude of these events will differ across sectors, occupations, regions, and between immigrant and non-immigrant groups. Short and long-term impacts may also differ substantially.

4.53   An important question for our work is the impact of immigration on the UK labour market. This is a particularly difficult question to answer, not least because the impact of immigration even during more normal times in the business cycle is not unequivocally established, as discussed briefly earlier in this chapter. All findings from such studies are also always specific to time and place.

4.54   Furthermore, traditional theoretical models are somewhat limited in the static short-term way that they consider immigration and its impacts. They also generally assume that the labour and product markets are in, or moving towards, equilibrium. Empirical studies of the impact of immigration on earnings and employment are of some value, but the key UK studies are primarily based on data that relate to very different economic circumstances than those prevailing today.

4.55   Therefore, the issue of how immigration policy should respond to the recession has been at the forefront of our minds and was given particularly close thought at MAC meetings. We also sought the views of leading UK economists and economists

from government departments with a key interest in this issue, including HM Treasury, the Department for Business, Innovation and Skills and the Home Office. We have taken account of these deliberations and consultations in drawing our conclusions. Although we are grateful for the advice and views received, the views expressed are our own.

4.56   We remained mindful of the 'lump of labour' fallacy. Applied to immigration, this fallacy is the assumption that there exists a fixed number of jobs and, therefore, more immigrants will cause one-to-one displacement of the resident workforce. This is not the case, partly because immigrants will themselves create demand for goods and services, and therefore create jobs.

4.57   Issues of complementarity and substitution further complicate the picture. The impact of immigration on outcomes for the resident labour force depends on the degree to which immigrants complement or substitute both capital and the existing labour force. If immigrant and native labour are perfect substitutes, increases to the labour supply as a result of immigration are likely to lower wage levels. If, instead, immigrants are imperfect substitutes for native labour, native wages will not necessarily be depressed. Since the degree of substitution is likely to fall with the skill demands of a job, the skill levels with which immigrants are entering the labour market are key in this respect.

4.58   There are some theoretical reasons to think that the risk of displacement or downward pressure on wages as a result of immigration may be greater during this recession, but these are tentative hypotheses, and untested

against empirical evidence. Given that the economic literature is somewhat equivocal in terms of providing direction to immigration policy even when economic conditions are stable, it is difficult to argue that it provides clear guidance on how immigration policy should respond to a recession. However, the incompleteness of the evidence base does not, in itself, constitute a case for inaction.

4.59   Current UK immigration policy includes some mechanisms to avoid potentially undesirable effects of immigration in the labour market (for example, undercutting or displacement of resident workers) regardless of our position in the business cycle. Such mechanisms may be particularly important at a time of recession. By and large, however, a well-designed immigration system should, where possible, enable flows to automatically adjust in response to the economic cycle. This avoids the need for constant adjustment of immigration policy, which would itself be sub-optimal because it creates business uncertainty and lags in data availability could precipitate policy errors.

4.60   A system that automatically adjusts to the cycle would see inflows responding to falling demand for labour. The evidence we have reviewed, discussed in Chapter 3, suggests that inflows are likely to decline in the short term, even without policy change.

"Migrant workers tend to be highly mobile and may well leave the UK to find work elsewhere … The most recent migration statistics are already starting to show this, with both National Insurance and Worker Registration Scheme registrations down on the year, and ONS [Office for National Statistics] *statistics showing increasing levels of emigration amongst non-UK citizens. So, migration tends to naturally adjust to changing economic circumstances, thus increasing the flexibility of the UK labour market."*

Department for Work and Pensions response to call for evidence

4.61 Tier 1 is unlike Tier 2 in so far as the flow of immigrants into the UK is not explicitly employer led; highly skilled Tier 1 immigrants do not require employer sponsorship to enter the UK and so, at least explicitly, there is nothing to suggest that Tier 1 immigrant flows will decline exactly in line with the fall in employer demand. However, in times of economic downturn, we would expect prospective Tier 1 immigrants to recognise the declining employment opportunities in the UK and subsequently lower their own expectations of the benefits of entering the UK labour market. It is therefore implicit in the current Tier 1 specification that inflows are likely to decline during a recession relative to what would have happened otherwise, even without policy change. Furthermore, Tier 1 promotes labour market flexibility to a greater extent than Tier 2, which may assist the economy and labour market in any necessary restructuring that is required in order to ensure that the UK economy grows and that unemployment falls in the longer term.

4.62 On balance, as in our former work on Tier 2, we have focused much of our attention on how immigration policy should be designed to achieve its stated objectives, regardless of the economic cycle. Therefore, we have considered the evidence and analysed the available data to identify improvements to the current Tier 1 arrangements in order to ensure that the use of this route by employers and prospective immigrants is well joined to the intended policy outcome.

4.63 The Tier 1 recommendations in this report are concerned with the general characteristics of a well-designed economic immigration system. Conversely, it follows that if our recommendations are accepted, the policy changes should not be reversed when the UK comes out of recession.

Data and analysis

4.64 The bottom-up evidence we received through meetings, visits, written stakeholder submissions and other stakeholder events was of primary importance to our work for this report. To complement this bottom-up evidence, we also carried out extensive top-down analysis of national data sources, such as the Labour Force Survey (LFS) and the Annual Survey of Hours and Earnings (ASHE), as well as on datasets that we received from other government departments. This analysis enabled us to examine the extent to which the issues that emerged from stakeholder submissions were also evident in the data.

4.65 The combination of top-down and bottom-up analysis is used to inform our recommendations for all of the policy options discussed in Chapters 6, 7 and 8. Where we encounter imperfections or gaps in the data, and where judgements and assumptions are required as a result, we highlight these issues; it is our hope that by suggesting improvements to national data sources we may further the robustness of the MAC's future work.

Chapter 5: Tier 1 context

5.1 Introduction

5.1 This chapter sets out the context for Tier 1. We examine the data available on the flows and composition of entrants, and compare the UK system with points based systems in other countries also designed for the purpose of attracting skilled immigrants. We also briefly review academic literature on policy effectiveness and discuss the optimal design of mechanisms for selecting highly skilled immigrants.

5.2 Tier 1 data context

5.2 We used management information data from the Points Based System (PBS) and the previous Highly Skilled Migrant Programme (HSMP) to examine the composition of flows through different routes within Tier 1. Available data cover recent immigrant flows through the four main routes under Tier 1 (General, Post-Study Work Route (PSWR), Entrepreneur and Investor) and predecessor schemes. Where data allow, we also present information on the main characteristics of immigrants who were granted leave to enter or to remain under these routes.

5.3 Tier 1 had a phased introduction: it was introduced only for in-country applicants in February 2008, then for applicants applying from India in April 2008 and was launched worldwide in June 2008. Tier 1 is therefore still bedding in. This is an important qualification to the scope of our interpretation of management information received from the UK Border Agency (UKBA). As discussed in Chapter 3, these data are neither national statistics nor quality assured to national statistics standards and may be subject to change.

5.4 In Chapter 3 we presented some overall data on volumes of approved applications under Tier 1, together with those of predecessor routes. In this chapter we look in more detail at the composition of flows through Tier 1 routes. We also examine data from the HSMP on the points awarded to applicants under each of the selection criteria, as the equivalent data for the Tier 1 General route are not currently available from the UKBA. As the immediate predecessor to the Tier 1 General route, the HSMP provides a useful indicator of the distribution of points likely to be scored under the Tier 1 General route, as similar selection criteria were used.

Routes

5.5 Table 5.1 provides a breakdown, by route, of the total number of successful Tier 1 applicants from September 2008 to August 2009. The data show that the vast majority of successful applicants entered the UK via the Tier 1 General route or the PSWR. Only a very small proportion of approvals are made under the Entrepreneur and Investor routes.

5.6   The data on successful applicants for the Tier 1 General route for this period include a significant number of transitional cases. Due to the transition from the HSMP to the Tier 1 General route, immigrants granted leave under the HSMP may extend their leave to remain (termed gateway cases) or switch from other routes to the Tier 1 General route (termed switchers).

In-country and out-of-country

5.7   Table 5.1 shows that over 60 per cent of immigrants under the Tier 1 General route applied within the UK. However, this proportion is likely to be especially high for this period; the transition arrangements to the Tier 1 General route from the HSMP allowed immigrants to extend their leave to remain or switch to Tier 1, and most of these applications will be made within the UK.

5.8   Over 90 per cent of successful PSWR applicants applied within the UK. This is unsurprising given that these immigrants must apply within 12 months of graduating from a higher education institution within the UK. In-country and out-of-country applications for the Investor route are more evenly balanced, while more than two-thirds of immigrants entering the UK via the Entrepreneur route applied out-of-country.

Table 5.1: Granted applications under Tier 1, Sep 2008 to Aug 2009				
	In-country	Out-of-country	Total	% of total
General (incl. Gateway, switchers and others)	31,879	17,883	49,762	54.0
General	21,692	17,883	39,575	42.9
Gateway, switchers and others	10,187	–	10,187	11.1
Post-Study Work Route	38,625	3,362	41,987	45.6
Entrepreneur	43	94	137	0.1
Investor	144	131	275	0.3
Total	**70,691**	**21,470**	**92,161**	**100**

Note: 'Gateway' cases refer to those applying for an extension under Tier 1 who were previously granted leave under the HSMP. The 'Gateway' category was created to capture decisions made under the scope of the HSMP Forum Judicial Review judgement, discussed in Chapter 2. 'Switchers' are those switching from the HSMP to Tier 1. Dependants are not included in these data.
Source: UK Border Agency Management Information, September 2008 to August 2009

Nationality

5.9   Table 5.2 shows the top ten nationalities admitted under each of the Tier 1 routes, except for the Entrepreneur and Investor routes where we show top nationalities with ten or more approved applications. Nationals of India, Pakistan and the US are strongly represented in Tier 1 approvals. Indian nationals make up by far the largest proportion of approved

Tier 1 General and PSWR applications. Chinese and Nigerian nationals are also relatively well represented among both the Tier 1 General route and the PSWR. Australia, South Africa and New Zealand nationals are strongly represented in Tier 1 General route approvals, but not in the PSWR, perhaps reflecting a preference for working rather than studying in the UK.

Table 5.2: Top ten nationalities of approved applications under Tier 1, Sep 2008 to Aug 2009

Top nationalities for in-country Tier 1 approvals (per cent of total)		
Tier 1 General (1)	**PSWR**	**Entrepreneur**
India (40)	India (30)	China (23)
Pakistan (9)	Pakistan (15)	United States (16)
Australia (8)	China (15)	India (12)
China (6)	Nigeria (7)	
Nigeria (6)	Bangladesh (4)	**Investor**
South Africa (4)	Sri Lanka (3)	Russia (35)
New Zealand (4)	Malaysia (3)	China (18)
United States (3)	United States (2)	
Sri Lanka (2)	Ghana (1)	
Malaysia (2)	Japan (1)	
Top nationalities for out-of-country Tier 1 approvals (per cent of total)		
Tier 1 General (1)	**PSWR**	**Entrepreneur**
India (35)	India (25)	United States (24)
Australia (12)	China (24)	Australia (12)
Pakistan (9)	United States (6)	Pakistan (12)
United States (7)	Taiwan (5)	India (11)
South Africa (7)	Japan (4)	
New Zealand (6)	Pakistan (4)	**Investor**
Nigeria (5)	Malaysia (3)	Russia (28)
Canada (2)	Nigeria (2)	China (15)
China (2)	Canada (2)	Pakistan (7)
Russia (2)	Thailand (2)	

Note: Table shows the top ten nationalities for approvals under each of the Tier 1 routes between Sep 2008 and Aug 2009, split by in-county and out-of-country. Countries are not shown where fewer than ten approvals were granted in the period. (1) General route includes transitional cases and switchers.
Source: Points Based System Management Information, Sep 2008–Aug 2009

5.10 US and Chinese nationals are common among approvals under the Entrepreneur route. Russian and Chinese nationals are prevalent in the Investor route.

Distribution of points under the HSMP

5.11 In this section we analyse the distribution of points scored under the HSMP as a proxy for points awarded under each criterion of the Tier 1 General route, as the latter is not currently available from the UKBA. As discussed in Chapter 2, there are currently four main selection criteria under the Tier 1 General route alongside the mandatory English language and maintenance requirements. These are:

- age;

- formal qualifications;

- previous earnings; and

- UK experience.

5.12 The same criteria were applied under the HSMP, and were combined in a broadly similar way. There are, however, several major differences between the current Tier 1 General route selection criteria and those under the HSMP. Under the HSMP:

- 30 points were awarded for a bachelor's degree. The Tier 1 General route also awarded 30 points for a bachelor's degree until April 2009. Currently, no points are awarded for a bachelor's degree.

- MBA-qualified immigrants could achieve the pass mark on the basis of their qualification alone.

Table 5.3: Comparison of points available for the Tier 1 General route and HSMP selection criteria							
	Qualifications		Previous earnings (£000s)		Age		UK experience	
		Points		**Points**		**Points**		**Points**
Current Tier 1	Bachelor's	0	£20–£23	15	30 or 31	5	Where previous earnings or qualifications have been gained in the UK	5
			£23–£26	20				
	Master's	35	£26–£29	25	28 or 29	10		
			£29–£32	30				
	PhD	50	£32–£35	35	27 or under	20		
			£35–£40	40				
			£40+	45				
Previous HSMP (Dec 2006 to Dec 2008)	Bachelor's	30	£16–£18	5	30 or 31	5	Where previous earnings or qualifications have been gained in the UK	5
			£18–£20	10				
	Master's	35	£20–£23	15	28 or 29	10		
			£23–£26	20				
	PhD	50	£26–£29	25	27 or under	20		
			£29–£32	30				
	MBA	75	£32–£35	35				
			£35–£40	40				
			£40+	45				

Note: The pass mark for the HMSP and Tier 1 according to the criteria in this table was/is 75 points.
Source: UK Border Agency

Figure 5.1: Distribution of points scored for each of the criteria under the Highly Skilled Migrant Programme, Dec 2006 to Dec 2008
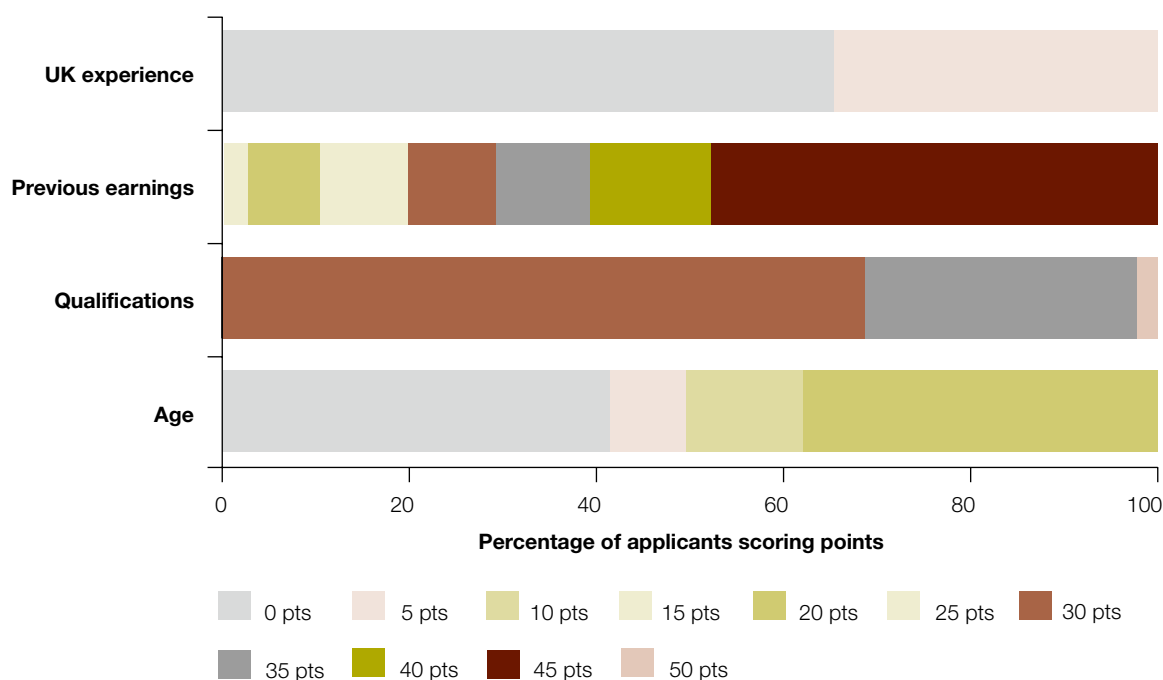
Note: The sample contains all approved applications from main applicants between Dec 2006 and Dec 2008. In order to best approximate to the current Tier 1 system, those entering through the MBA provision were excluded. Few applicants scored 5 and 10 points for earnings due to the limited circumstances in which these earnings bands apply. These data are management information, not national statistics, and are not quality assured to national statistics standards.
Source: UK Border Agency Management Information, December 2006 to December 2008

- It was possible to achieve points for earnings below £20,000. In practice, these points only made a difference for 28 and 29-year-olds with a PhD and UK experience and PhD holders aged 27 or under who did not have previous UK experience.

5.13 The points awarded under the Tier 1 General route and the HSMP are summarised in Table 5.3. The HSMP was clearly less restrictive than the current specification of the Tier 1 General route, as described above. However, prior to April 2009, the differences between the specification of the HSMP and the Tier 1 General route were relatively minor.

5.14 HSMP data from December 2006 to December 2008 are summarised in Figure 5.1 and show that:

- over half of successful applicants were aged 31 or under, and over one-third were aged 27 or under;

- over two-thirds of successful applicants under the HSMP claimed points for a bachelor's degree;

- almost half of successful applicants claimed points for previous earnings in excess of £40,000, while around two-thirds claimed points for earnings in excess of £32,000;

- few successful applicants scored 5 or 10 points for earnings because these earnings bands are only relevant to those who score 50 points for a PhD and 15 or more points on the age and UK experience criteria; and

- the proportion of successful applicants claiming points for earnings below £20,000 was close to zero, reflecting the limited set of circumstances in which these points could make a difference to an application.

5.15 Looking at how the points criteria work in combination reveals that the most common HSMP applicant was someone aged 32 or above, holding a bachelor's degree, earning in excess of £40,000 with no UK experience. Some 11 per cent of in-country and 32 per cent of out-of-country applicants matched this profile. The top five profiles under the HSMP between December 2006 and December 2008 were:

- age 32 or above with no UK experience, a bachelor's degree only and previous earnings in excess of £40,000 (22 per cent);

- age 32 or above with no UK experience, a master's degree only and previous earnings in excess of £40,000 (8 per cent);

- age 27 or under with UK experience, a bachelor's degree only and previous earnings between £23,000 and £26,000 (5 per cent);

- age 27 or under with no UK experience, a bachelor's degree only and previous earnings between £26,000 and £29,000 (4 per cent); and

- age 27 or under with UK experience, a bachelor's degree only and previous earnings between £29,000 and £32,000 (4 per cent).

Occupations

5.16 The only reliable source of data available to us regarding the occupation outcomes of Tier 1 immigrants comes from a survey conducted as part of a process evaluation of Tier 1 by Analysis, Research and Knowledge Management Directorate (ARK) within UKBA (see UKBA, 2009). Data collection for this study was carried out between February and April 2009. The data comprised 1,564 observations and include information on employment status and current occupation. The response rate was approximately 39 per cent and data were weighted to correct for sample design and response bias.

5.17 Of this sample, 90 per cent are in employment. Unfortunately, it is not possible to distinguish between those defined as unemployed and inactive in the remaining 10 per cent of the sample.

5.18 Figure 5.2 shows, for those in employment, the occupation outcomes of the Tier 1 immigrants surveyed in the ARK study compared with the UK labour market as a whole. This shows that over half of Tier 1 General route immigrants are in professional occupations, compared with only 14 per cent of the UK workforce. Nearly 90 per cent are in the more highly skilled occupations: managers and senior officials; professional occupations; and associate professional and technical occupations.

5.19 For the PSWR, the picture is quite different. Around half of those in employment are in the top three occupational groups, a slightly greater proportion than the UK labour force as a whole. But significant numbers are to be found in less skilled occupations: 7 per cent are in jobs classified as elementary

occupations, and the proportion in sales and customer service roles is around double that of the UK workforce as a whole.

5.3 International comparisons

5.20 This section describes immigration programmes and selection criteria applied by other countries to attract highly skilled immigrants. The programmes described have similar policy aims to Tier 1 in that they are designed to increase the supply of human capital rather than respond directly to employer-led demand for skilled labour.

5.21 We describe the policies currently in place to attract highly skilled immigrants, retain foreign students in the workforce once they have completed their studies, and to attract entrepreneurs and investors. It is

Figure 5.2: Occupations of Tier 1 immigrants reported in ARK survey compared with the UK workforce, Feb–Apr 2009
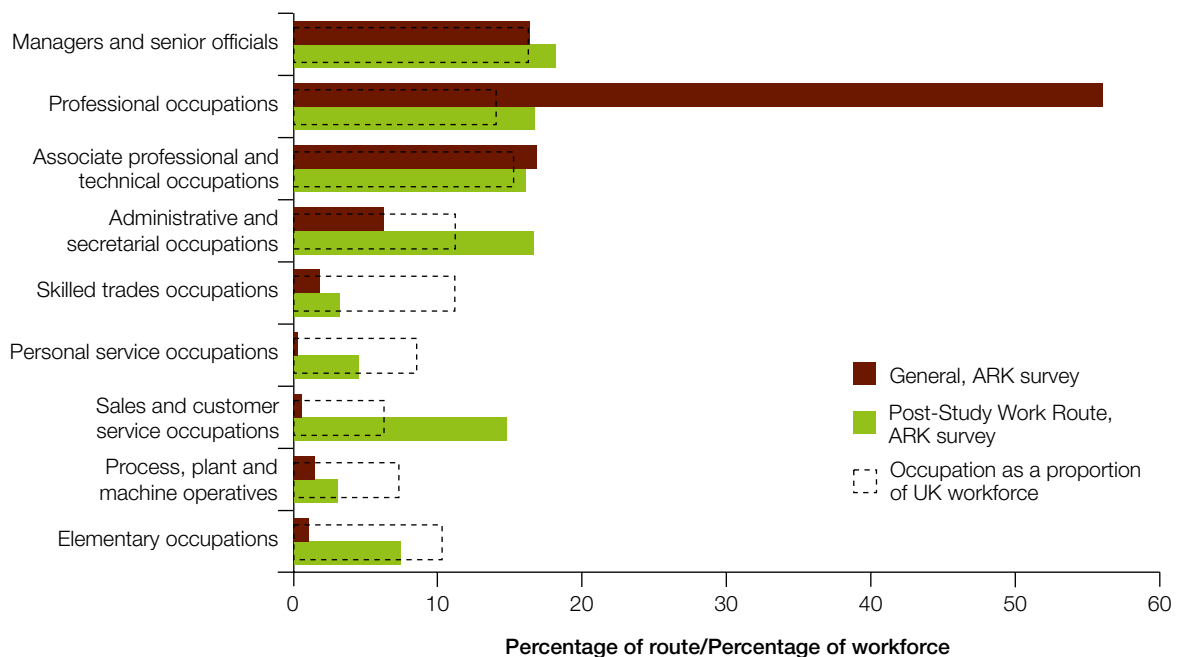
Note: Only those in employment are included. Entrepreneur and Investor routes are excluded due to very small numbers represented in the sample.
Source: UK Border Agency (2009), Labour Force Survey 2009 Q2

beyond the scope of this report to provide a comprehensive review of all countries and thus the focus is on a selection of countries with a similar immigration infrastructure.

Tier 1 General (highly skilled workers)

5.22 Some countries (e.g. Canada) have maintained selection-based immigration programmes for a number of decades. But in the last decade, there has been an increasing policy focus on attracting highly skilled immigrants in the developed world, and more countries, including the UK, have implemented selection-based immigration programmes.

5.23 The United Nations Development Programme (UNDP) (2009) compared the immigration policies of 14 developed countries with the immigration policies of 14 developing countries (defined as countries with a Human Development Index smaller than 0.9). All countries assessed favour highly skilled immigrants. All 14 of the developed countries in the sample have immigration routes designed to attract temporary skilled immigrants, and this is also the case for all but one of the developing countries. Points based systems are more common in developed countries.

5.24 Canada has the 'Skilled Workers and Professionals' Route (Citizenship and Immigration Canada, 2009a). Applications are processed according to six selection factors and points are awarded accordingly. The selection factors are education, abilities in English and/or French, work experience, age, adaptability, and whether the individual has arranged employment in Canada. This last point makes this route equivalent to a hybrid of Tiers 1 and 2 of the PBS.

5.25 Australia has a scheme known as the General Skilled Migration programme (Australian Department of Immigration and Citizenship, 2009a). This is for immigrants who are not sponsored by an employer and who are skilled in particular occupations required in Australia. Applicants must be over 18 and less than 45 years of age, have good English language ability, and have recent skilled work experience or a recently completed eligible Australian qualification.

5.26 The US has no equivalent scheme to the UK's Tier 1 General route (U.S. Citizenship and Immigration Services, 2009a). However, there are similar schemes, such as:

- the First Preference EB-1 visa, which is a permanent employment-based visa for applicants who possess extraordinary ability (e.g. Academy Award winner, Olympic medal winner), or are outstanding professors and researchers or multinational managers or executives; and

- the H-1B2 temporary visa for exceptional temporary workers who can enter without a Labor Condition Application if they work as researchers for the Department of Defense.

5.27 New Zealand operates a Skilled Migrant Category (Immigration New Zealand, 2009a). Under this scheme immigrants must be aged 20 to 55 (inclusive) and meet standards of health, character and English language proficiency before starting the process. If applicants qualify, they can submit an Expression of Interest (EOI), in which they claim points for skills, experience and other factors. If applicants have claimed 100 points or

more on their EOI, it goes into a pool. Every fortnight, all EOIs with over 140 points are automatically selected for an invitation to apply. After this, lower-scoring EOIs with certain factors, such as skilled employment in New Zealand, are selected. Once an EOI is drawn from the pool, it is examined and if it is credible, applicants receive an Invitation to Apply. They have to show proof of the claims made on the EOI, such as medical and police certificates, proof of English language ability, and documentation regarding skills, experience and other factors. Applicants are also assessed on their ability to settle in New Zealand successfully. Consideration may be based on the application alone, or may include an interview.

5.28 Hong Kong has the Quality Migrant Admission Scheme (Immigration Department, The Government of Hong Kong Special Administrative Region, 2009a). Prerequisites for this scheme are that applicants must be aged at least 18, they must satisfy the maintenance requirement, they must have no criminal record, they must be proficient in Chinese or English and they must have a good educational background. The General Points Test for this scheme awards points for age, academic or professional qualifications, work experience (not earnings), language proficiency and family background. At the end of the first year,

applicants must apply for an Extension to Stay. This requires the applicant to submit satisfactory evidence that he or she has settled in Hong Kong and made a contribution to Hong Kong through taking gainful employment or establishing a business.

5.29 Denmark operates a Greencard Scheme (New to Denmark, 2009a). This is a three-year residence permit for the purpose of working in Denmark. It is possible to apply for an extension of up to four years. Points are given for educational level, language skills, work experience, adaptability and age. The 'adaptability' criterion refers to a period of education or work in another European Economic Area (EEA) country, as this is taken as an indication of the applicant's ability to adapt quickly to the Danish labour market.

5.30 It is clear that there are some commonalities between different countries' selection criteria. All the countries so far reviewed base their aims on the human capital model – picking those with greater skills and experience in order to enhance their labour force.

5.31 We carried out a critical examination of selection criteria used to select highly skilled immigrants within the immigration programmes in the countries discussed above. This analysis is set out below in Table 5.4 and is based on Papademetriou *et al.* (2008).

5.32 Table 5.4 compares the relative weight of different selection criteria for highly skilled immigrants with the pass mark required for different countries' points systems. The figures in the table represent the maximum points available for each selection criterion as a proportion (out of 100) of the pass mark for each country's highly skilled immigration scheme.

Table 5.4: Variable-to-pass-mark ratios in schemes for attracting highly skilled immigrants in six countries

Criteria	Ratio of maximum points available for criteria to overall pass mark						
	UK Tier 1 General[1]	Australia[2]	Canada	New Zealand	Hong Kong	Denmark	USA[4]
Education	66.7	56.7	37.3	53.6	56.3	105.0	R
Work experience	–	28.3	31.3	42.9	62.5	15.0	R
Prior work experience or education in country	6.7	61.4	14.9	25.0	–	10.0	–
Age	26.7	28.3	14.9	21.4	37.5	15.0	–
Language	–[3]	28.3	35.8	–[3]	25.0	35.0	–
Job offer	–	18.9	22.4	57.1	–	–	–
Spouse/partner characteristics	–	11.4	22.4	14.3	18.8	–	–
Previous or proposed earnings	60	–	–	–	–	–	O
Occupation in demand	–	18.9	14.9	14.3	–	15.0	–
Close relatives	–	8.3	7.5	7.1	6.3	–	–
Settlement stipulations	–	11.4	–	–	–	–	–
Total number of criteria for which points are available	4	10	9	8	6	6	–
Total points available in comparison to pass mark	160	271.9	186.5	221.4	206.4	195.0	–

Note: (1) Points reported in Papademetriou *et al*. have been updated to reflect current specification of Tier 1 General. (2) Australia has three visas within its points system, and the points required for each visa differ. We list the average variable-to-pass-mark country across the three systems. (3) The UK and New Zealand make language proficiency a prerequisite to applying for a points test. (4) 'R' in this column means that this category is required through the US EB-2 visa. 'O' means this category is considered as optional in support of an application.
Source: Papademetriou *et al*. (2008)

5.33 There are two clear differences between the ways in which different countries operate systems for selecting immigrants.

5.34 First, the number and type of criteria used for selection varies between countries. For Tier 1 of the PBS, the UK uses only four criteria (plus language and maintenance requirements), while Australia uses ten.

5.35 Second, the extent to which applicants may substitute criteria for one another varies. Looking at the total points available in all criteria against the pass mark, Australia stands out as allowing greater freedom to combine different criteria in order to meet the pass mark; while Denmark is the only country that allows all its points to be met with educational qualifications. The UK allows the least flexibility in the extent to which criteria may substitute for one another, partly a function of the small number of criteria used. Qualifications and age are the only universally applied criteria across the six countries. Only the UK uses prior earnings. Selection criteria are discussed in more detail below.

Selection criteria

5.36 **Education**, as measured by formal qualifications, is widely used for selecting highly skilled immigrants. However, its importance varies between countries. In Canada, education criteria account for less than 40 per cent of the maximum points available. For the US EB-2 visa, an advanced degree is one of the main requirements, and relevance of subject to profession or occupation may also count towards additional criteria for an application. In the human capital literature, for example Greenaway and Haynes (2000), Elias and Purcell (2004b) and O'Leary and Sloane (2006), higher future returns in terms of both employment outcomes and higher wages are commonly found to be correlated with academic qualifications.

5.37 **Work experience** is usually measured by years in primary occupation, or the profession in which the applicant is seeking work. Nearly two-thirds of the necessary points can be acquired for work experience in Hong Kong, while it is only possible to score up to 15 per cent of the pass mark in Denmark on this criterion. For a US EB-2 visa, an applicant must demonstrate at least five years' relevant experience, and ten years' experience may count towards additional criteria for an application.

5.38 The UK is the only country not to award points for work experience (although it did under the HSMP until December 2006), but is also the only country to award points for **previous earnings**. Earnings are likely to correlate with work experience and achievement within professions, but will also reflect the scarcity of certain professional skills, and perhaps also some industry-specific factors. For out-of-country applicants, a multiplier is used to account for wage differentials between countries. The potential difficulties in calculating such a multiplier, as discussed further in Chapter 6, are perhaps one of the reasons why other countries have avoided adopting previous earnings as a selection criterion.

5.39 We understand that one of the reasons why work experience has been replaced with previous earnings in Tier 1 is that the UKBA encountered difficulties in objectively assessing and certifying work experience with previous schemes. The amount of work experience gained by an individual often gives little indication of the quality of this experience. Furthermore, the argument can be made that UK experience, either as a student or in

employment, is more valuable than work experience in the immigrant's native labour market; UK experience allows the individual to gain knowledge that is specific to the UK. This helps to improve immigrants' integration into the UK labour market and therefore increases their value to UK employers.

5.40 **Age** is a common selection criterion to all countries. Generally, the younger the applicant, the more points are awarded to reflect the greater potential lifetime earnings before retirement. Papademetriou *et al*. (2008) note an exceptional change to Hong Kong's system between 2006 and 2008, which awarded fewer points for younger age groups in order to protect its own graduates from international competition.

5.41 The range of maximum points awarded for age is relatively close between comparison countries, ranging from 15 per cent of the pass mark in Canada and Denmark to 38 per cent in Hong Kong. Age is not a consideration for the US EB-2 visa.

5.42 Although a minimum **language requirement** is common (for example in UK Tiers 1 and 2), not all countries use language ability to select immigrants over and above the minimum requirement. Points awarded for language ability can make between 25 per cent and 35 per cent of the required points in those countries with points based selection.

5.43 The recent study for the Australian Department of Education, Employment and Workplace Relations (2009) cites the importance of English language ability in determining the success of new foreign graduates in the Australian labour market.

5.44 Australia, Canada and New Zealand all award additional points for applicants with a **job offer**. These countries do not make

the same distinction between demand-led and supply-led tiers as the UK does with Tiers 1 and 2. They essentially adopt a hybrid system combining demand-led and supply-based immigration routes. For New Zealand, more than half of the necessary points can be attained via a job offer.

5.45 Another approach, quite distinct from the others, is to allocate points on the basis of a pre-determined **occupation deemed to be in demand**. This can be based on a similar principle to the shortage occupation list under Tier 2 of the UK's PBS. Australia compiles a Migration Occupation in Demand list, describing which occupations attract additional points and fast-track visa processing. Alternatively, restricting points to more skilled occupations within a Tier 1 type of system could be justified on the basis of human capital accumulation. Australia also uses this approach restricting independent immigrants (those without a job offer) to nominated occupations on a Skilled Occupation List (Australian Department of Immigration and Citizenship, 2009a).

5.46 Additional 'bonus' points apply in some countries for **experience or previous earnings accrued in the receiving country**: in effect a preference for in-country applicants. This is found in both the UK system and within the 'adaptability' criteria in Denmark, discussed above.

Post-Study Work Route

5.47 The US does not have any equivalent to the UK PSWR. Instead, recent graduates are encouraged to apply through other immigration routes. Australia does not have a route directly equivalent to the PSWR either. However, as outlined above, an eligible Australian qualification can replace the work experience requirement of the General Skilled Migration programme, and so graduates from

Australian universities are at an automatic advantage over other applicants. Arrangements in other countries vary.

5.48 The Canadian Post-Graduation Work Permit Programme is for students who have graduated from a participating Canadian post-secondary institution (Citizenship and Immigration Canada, 2009c). The main points to note are:

- graduates must have studied full time in Canada and passed the programme of study;

- the study programme must have lasted at least eight months and graduates must have a valid study permit;

- applicants must have graduated from an institution which meets certain criteria;

- graduates must apply within 90 days of graduating; and

- a Post-Graduation Work Permit can be valid for up to three years.

5.49 In Denmark, on completion of a higher education programme, the student residence permit will be valid for an additional six months to enable the individual to seek work (New to Denmark, 2009b). Dependants may also remain in Denmark during this additional six-month period.

5.50 In Hong Kong, graduates must submit an application within six months of graduation from an approved educational institution (Immigration Department, The Government of Hong Kong Special Administrative Region, 2009c). No secure job offer is required on application. Applicants are initially granted 12 months' stay.

5.51 Non-EEA graduates from Irish universities are permitted to stay in Ireland for six

months after graduation on the Third Level Graduate Scheme (OECD, 2008). During these six months, the individual can apply for a work permit or Green Card and is permitted to seek employment.

5.52 In France and Germany, steps have also been taken to encourage foreign students to remain after graduation (OECD, 2008). In France, legislation was drawn up in 2006 to encourage master's graduates to seek employment in the French labour market. The German legislation makes it easier for employers to hire non-EEA graduates from German universities; providing that the employment relates to the graduate's area of study, the employer is exempt from a resident labour market test.

5.53 Overall, therefore, the UK currently offers a very competitive route of entry for recent graduates relative to the other countries surveyed. As outlined in Chapter 2, the UK currently offers two years' leave to remain for non-EEA graduates with a bachelor's degree under the PSWR.

Entrepreneurs and investors

5.54 All the six countries we examined have some provision for entrepreneurs or investors, with the exception of Denmark which has a route for the self-employed. However, there are various differences between the schemes; a clear example is one of the Canadian routes, in place to specifically encourage immigrants to manage farms in Canada. For other currencies, the equivalent amount in pounds sterling (GBP) as of 14 October 2009 is given, rounded to the nearest £5,000.

5.55 In Australia, there are various different routes by which entrepreneurs and investors may enter the country

(Australian Department of Immigration and Citizenship, 2009b). These include the following:

- The Investor (Provisional) visa requires individuals to invest at least AU$1.5 million (ca. £860,000) in a government-approved designated investment in Australia for four years, and to be less than 45 years of age. In addition, applicants require net assets of at least AU$2.25 million (ca. £1.3 million).

- The State/Territory Sponsored Investor (Provisional) visa requires individuals to invest at least AU$750,000 (ca. £430,000) in a government-approved designated investment in Australia for four years. Applicants need to be under 55 years of age. In addition, applicants require net assets of at least AU$1.125 million (ca. £650,000).

- Senior Executive (Provisional) visas require total assets with a net value of at least AU$500,000 (ca. £285,000), which were legally acquired and are capable of being transferred to Australia within two years. In addition, they must also have sufficient assets – of at least AU$100,000 (ca. £55,000) – to settle in Australia.

- The Business Owner (Provisional) visa is for people who have a successful career, and have a genuine and realistic commitment to be involved as an owner in a new or existing business in Australia. Applicants need to be under 45 years of age and have net assets of at least AU$200,000 (ca. £110,000) in a qualifying business which has an annual turnover of at least AU$500,000 (ca. £285,000). In addition applicants need to meet the asset requirements listed above for Senior Executive (Provisional) visas.

5.56 In Canada, there are three classes under the Business Immigration Programme (Citizenship and Immigration Canada, 2009b). Criteria differ for each of the three classes, as explained below:

- Investors must have business experience a minimum net worth of C$800,000 (ca. £490,000) and make a C$400,000 (ca. £245,000) investment, which is returned five years and two months later.

- Entrepreneurs must have business experience and a minimum net worth of C$300,000 (ca. £180,000), and respect the conditions for entrepreneurs after entry to Canada.

- Self-Employed Persons must have either relevant experience that will make a significant contribution to the cultural or athletic life of Canada, or experience in farm management and the intention and ability to purchase and manage a farm in Canada.

5.57 In the US there is the 'Fifth Preference EB-5' (U.S. Citizenship and Immigration Services, 2009b). In order to be eligible, applicants must satisfy at least one of the following criteria:

- create an original business or expand an existing business or rescue a business that is recognised as 'troubled';

- invest, or have invested, at least US$ 1 million (ca. £630,000), or at least US$500,000 (ca. £315,000) if the investment is in a 'targeted employment area'; or

- create full-time employment for not fewer than ten qualified individuals in a new enterprise, or maintain employment numbers in a 'troubled' business for at least two years.

5.58　The aim of the Long Term Business Visa/Permit category in New Zealand (Immigration New Zealand, 2009b) is to attract immigrants who have been operating their own business and wish to establish a similar business in New Zealand:

- immigrants need to own at least 25 per cent of the shareholding of a business;

- they need to be actively involved in the management and operation of the business; and

- they may either establish a new business or buy an existing business.

5.59　In Hong Kong there is the Capital Investment Entrant Scheme (Immigration Department, The Government of Hong Kong Special Administrative Region, 2009b):

- applicants must be aged at least 18, have no criminal record and satisfy the maintenance requirement;

- the applicant must have assets of not less than HK$6.5 million (approximately £530,000), to which the applicant is fully entitled for two years preceding the application; and

- within six months before the application or within six months after the initial approval, the applicant must invest not less than HK$6.5 million in permissible investment asset classes.

5.60　In the UK, as explained in Chapter 2, the Entrepreneur route requires that applicants have access to at least £200,000, which must be held in a regulated institution and disposable in the UK. Additionally, applicants for the Entrepreneur route must meet the same maintenance and English language requirements as applicants under the Tier 1 General route.

5.61　The Investor route requires that applicants be able to invest £1 million in the UK. Applicants must prove that they have access to £1 million that is disposable in the UK and held in a regulated financial institution or have £2 million in personal assets and £1 million in a loan. Investor applicants are subject to the same maintenance requirement as Tier 1 General route applicants but are exempt from the English language requirement as they do not have to work in the UK.

5.4　How to select highly skilled immigrants

5.62　As outlined in Chapter 4, there are a number of strong economic reasons why it is important to allow highly skilled individuals to migrate to the UK. The key questions emerging from the comparison of international systems are:

- how open to highly skilled immigration should the UK be; and

- what is the best way to select highly skilled immigrants?

5.63　A balance needs to be struck in designing a system which is attractive to potential immigrants while only selecting the desired individuals, and which avoids the potential for abuse. Finch *et al*. (2009) also highlights that it is very important to incorporate incentives to retain highly skilled immigrants, as this group is often the first to migrate elsewhere.

5.64　In considering the first question, we present several studies which compare the restrictiveness of immigration systems across countries.

5.65　Cerna (2008) analyses the relative 'restrictiveness' of Highly Skilled Immigration (HSI) policies in 20 countries to develop an HSI Index. The HSI Index

uses a variety of criteria to compare routes of entry for each country in order to rank countries in terms of the degree of openness of their HSI policies. They find that the openness of policies is not always correlated with the policy success in attracting immigrants. Other factors can play a considerable role, including the difference between 'policies on paper' and 'policies in practice'. This difference can be the result of regulation of policies, enforcement mechanisms and administrative capacity.

5.66   At the time of writing, of the 20 countries analysed in Cerna (2008), the UK's HSMP, which preceded Tier 1 General, ranked third in terms of 'openness' after Ireland and the Netherlands. The most 'restrictive' countries were found to be Sweden, Austria and Switzerland.

5.67   Lowell (2005) produces similar rankings for the temporary skilled worker programmes in 12 countries based on the strictness of their selection criteria, the level of protection afforded to the native labour force, the enforcement mechanisms in place and the residency rights enjoyed by immigrants and their dependants. Like Cerna, Lowell finds that the UK has one of the most 'open' immigration policies. The HSMP is ranked as the most 'open' of the skilled worker programmes in the UK. That said, the UK 'work permit' and 'innovators' schemes are also ranked as above average in terms of 'openness' when measured against all 12 countries' immigration policies.

5.68   Turning to the question of how best to select highly skilled immigrants, an area explored in the literature is the extent to which immigrant 'quality' can be determined by selection mechanisms. From the US experience, Jasso and Rosenzweig (1995 and 2005) conclude that the immigrant mix is largely driven by the self-selection decisions of the immigrants. Contrastingly, the pertinent literature from Canada and Australia suggests that choosing the right selection mechanisms plays an important role in selecting the right immigrants, noting that important recent changes in Australia's selection criteria have evoked improved employment outcomes of newly recruited immigrants (Hawthorne, 2006). This is supported by Richardson (2004), who finds that there are a number of reasons why recent Australian migrants have superior labour market outcomes. However, on balance it is the policies that influence immigrant characteristics which are the most important factors influencing immigrants' labour market outcomes.

5.69   Although there is extensive literature that explores the determinants of immigrant labour market success based on human capital characteristics on arrival, it is very difficult to critically compare selection criteria used in the past and across countries, and there are very few studies which do this.

5.70   Typically, immigration selection mechanisms for skilled immigration have been set using a 'clinical' approach: decided by a panel of experts, or relying on a body of expert opinion, rather than taking a statistical approach.

5.71   McHale and Rogers (2008) are among the first to explore the optimal design question using a purely statistical approach. Their method takes the idea that a points system can be devised based on a human capital-based earnings regression for predicting how potential immigrants will 'perform' in the domestic labour market, using a chosen threshold for predicted earnings for deciding who to accept and who to reject. They base the regression

on a Canadian dataset which combines immigrants' characteristics on landing with longitudinal data from tax returns to estimate the effect of characteristics on subsequent earnings.

5.72 One of the most salient, although unsurprising, findings is that even using a relatively large number of theoretically plausible selection criteria (many of which are used in immigrant selection systems), even the best possible combination of criteria explains only a relatively small amount of the variation in immigrants' lifetime earnings. This suggests that immigrants' success is largely determined by idiosyncratic or unobserved factors. McHale and Rogers argue that selection could be improved if the amount of information used to inform the selection process could be increased. One potential way of doing that is to utilise employers' judgements about candidates' suitability as a proxy for unobservable characteristics.

5.73 Nevertheless, their model did point to the importance of the following characteristics in the selection of economic migrants with a view to maximising lifetime earnings:

- age on arrival (this is to some extent inevitable when the outcome variable is lifetime earnings);

- educational attainment; and

- language skills (English much more than French for Canada).

5.74 Previous experience was not found to be an important factor. Interestingly, educational attainment was found to play a stronger role than currently defined in Canada's system, with higher qualifications generating higher lifetime earnings than lower qualifications.

5.75 McHale and Rogers make it clear in their study that the desired policy objective is to maximise lifetime earnings, and for this reason age criteria are strongly weighted in their model. This may not always be the case. Nevertheless, we consider this as a potential objective when we discuss calibrating the points criteria for the Tier 1 General route in Chapter 6. Ideally we would have replicated their analysis for the UK. However, this was not possible, because a longitudinal dataset that contains both immigrants' attributes at entry (or points scored under the selection criteria) with subsequent labour market performance does not currently exist for the UK.

5.76 A potential option for improving the data situation for the future would be for the UKBA to record the points scored for initial and extension applications, including information on earnings and occupations, for Tier 1 General. This would allow outcomes at extension (usually three years after initial application) to be compared with attributes on entry in order to inform any adjustments to the points calibration. Introducing a question into the Labour Force Survey to identify the route which immigrants had used to enter the UK might also be a useful indicator in determining the success of PBS selection criteria.

5.5 Conclusions

5.77 Even in comparison with Tier 2, data regarding Tier 1 are limited. We strongly urge the UKBA to instigate robust recording of the points scored by Tier 1 immigrants when they apply under the PBS. However, we recognise the efforts in other areas, such as plans to commission a migrant survey, which may provide more fine-grained data about Tier 1 immigrants.

5.78 In terms of volumes, and bearing in mind the impact of transitional cases, it is difficult to predict whether Tier 1 will turn out to be very different from predecessor schemes. It is difficult to assess the impact that the removal of points for a bachelor's degree in April 2009 had on overall flows, but analysis of data from the HSMP suggests that the absence of points for a bachelor's degree may present a barrier to a considerable number of potential applicants.

5.79 With respect to the other points criteria, analysis of the HSMP suggests that many applicants were scoring towards the top of the earnings thresholds, despite a significant proportion gaining points for age.

5.80 The information on labour market outcomes of Tier 1 General immigrants that is available is encouraging, albeit limited: a high proportion are in employment and that employment is strongly skewed towards more skilled occupational groups.

5.81 The largest proportions of Tier 1 General and PSWR granted applications go to Indian nationals. Other newly industrialising countries such as China, and high-income English-speaking countries such as Australia, South Africa, New Zealand and the US, are also strongly represented.

5.82 A review of the experience of other countries reveals considerable variation in the criteria used to select highly skilled immigrants. A number of additional potential criteria therefore present themselves as options for Tier 1. For schemes broadly equivalent to Tier 1 General, criteria in use in other countries but not the UK include experience in an occupation in demand, years of work experience in the primary occupation, and the possession of a firm job offer.

5.83 No other country uses previous earnings within a points based system to select highly skilled immigrants. We recognise the value in attempting a more objective approach to selecting highly skilled immigrants, but also consider the practical limitations (not least in the data needed to support such an approach) to translating these into policy.

Chapter 6: Tier 1 General (route for highly skilled workers)

6.1 Introduction

6.1 The question we were asked by the Government was: *"What further changes to Tier 1 of the Points Based System (PBS) should there be in 2010/11, given the changing economic circumstances?"* We believe it to be the case that, despite the recession, the UK needs to continue to attract highly skilled immigrants. The evidence we received strongly suggested this conclusion. The issue therefore becomes a question of how to refine the appropriate selection criteria to ensure that Tier 1 attracts the 'brightest and best' who can be admitted to the UK without a job offer. The following chapters of this report address this issue.

6.2 Chapter 2 of this report explained that Tier 1 General applicants are awarded points based on four selection criteria: qualifications, previous earnings, UK experience and age. There are also two additional mandatory requirements: English language skills and available maintenance funds. In this chapter we consider the overall rationale for the Tier 1 General route. Then we briefly consider whether additional or alternative selection criteria should be used and whether the current criteria need to be refined. We present the various options for the Tier 1 General route and our recommendations, which, we believe, will improve the ability of this route to attract and select only the most highly skilled immigrants.

6.3 Chapter 7 assesses the Post-Study Work Route (PSWR), including the evidence received and our recommendations, and Chapter 8 considers the arrangements for non-EEA entrepreneurs and investors to invest and set up businesses in the UK. We summarise our recommendations in Chapter 9 alongside an outline of potential areas for future research and analysis.

6.4 The recommendations outlined in this chapter represent a coherent and interlinked package. There are important interdependencies between the proposals. If the recommendations were to be implemented in a piecemeal fashion this could potentially lead to adverse economic and labour market outcomes, including displacement of UK workers.

6.2 Option 1: close the Tier 1 General route

6.5 The purpose of the General route is to *"benefit the UK economy by attracting and retaining people who will increase the skills and knowledge base of the UK"*, thus leading to the broader objective to contribute to economic growth.

6.6 As discussed in detail in Chapter 4, the benefits of skilled immigration stem from three factors:

- skilled immigrants are more likely to complement the skills and capital of existing residents (and thus are less likely to displace them);

- the net fiscal impact of immigration 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 immigration.

6.7 Tier 1 General appears to be being relatively successful at attracting highly skilled immigrants. According to the recent Tier 1 evaluation study (UKBA, 2009) discussed in Chapter 5, 89 per cent of Tier 1 General immigrants were employed in the more highly skilled occupations: managers and senior officials, professional occupations and associate professional and technical occupations.

6.8 The UK currently ranks 11th in the world for productivity and 10th in terms of employment. For both of these, this is short of the Government's ambition to be in the top eight in the world (UK Commission for Employment and Skills (UKCES), 2009). UKCES argues that, if the UK is to meet its ambitions in terms of skills, productivity and employment, the highly skilled workforce will need to grow.

6.9 Most stakeholders that provided evidence to us felt that the Tier 1 General route should remain open. Many employers regard this route as crucial to their economic success and international competitiveness. We were told that Tier 1 is an important route through which employers gain access to highly skilled people and that it is a necessary alternative to Tier 2 for recruiting skilled immigrants who are technically self-employed, such as partners in law firms.

> *"Tier 1 plays a vitally important role in the reputation of the UK as a place to conduct business … Rather than imposing controls on highly skilled migrants, the UK should compete to draw their talents and investments to the UK."*
>
> CBI response to call for evidence

6.10 The University of Warwick told us that the suspension or severe restriction of this route would make them completely unable to recruit the high-quality staff they currently attract.

6.11 The Institution of Chemical Engineers (IChemE) cautioned against changes to Tier 1 to reflect the short-term economic pressures associated with the downturn. The Association of Foreign Banks (AFB) requested that no further changes are made to Tier 1 to make it more difficult to apply.

> *"Planning for skills availability clearly needs to be conducted on a long-term basis, as does planning for any major business asset. We also believe that stability in the migration system is itself an advantage to be sought after."*
>
> IChemE response to call for evidence

6.12 However, Migrationwatch UK told us that it does not see the case for admitting migrants who have no job to go to, especially given that there is no requirement on them to obtain skilled work once they have arrived. It suggested that if their skills are indeed needed, there is no reason why they should not be accommodated under Tier 2, subject to the Resident Labour Market Test.

6.13   We were advised by others against making frequent changes to Tier 1 in response to the downturn, because uncertainty over future immigration policy creates difficulties for employers and acts as a disincentive to potential immigrants. An argument was also made that skilled immigrants remain a long-term requirement for UK employers, and that unnecessary changes to Tier 1 in the short term should therefore be avoided. In view of the economic downturn, employers told us that they expected the number of immigrants entering the UK through Tier 1 to be self-correcting.

6.14   We believe there remains a strong rationale for attracting the most highly skilled immigrants to the UK without necessarily having a job offer. The Tier 1 General route plays an important role in attracting highly skilled immigrants. If we relied solely on Tier 2, as currently designed, some very highly skilled people who come to work in the UK at present would not do so. We also recognise that there is a global market for the very best people. **We recommend that the Tier 1 General route is retained.**

6.15   The remaining options in this chapter deal with how best to attract and select highly skilled immigrants. We will examine whether the points criteria are optimal in selecting highly skilled immigrants, and which criteria are the most relevant, in effect identifying the best predictors of the desired outcome. We will also look at how the points awarded under each of the criteria are calibrated and consider whether they are effective in selecting the right applicants. For qualifications, for example, this will include considering both the points awarded for different qualifications, and which particular qualifications are recognised.

6.16   We have considered various options regarding the introduction of additional requirements for the Tier 1 General route. As discussed in Chapter 5, one approach is to examine the points criteria and their calibration simultaneously, via a statistical model which evaluates all potential selection criteria against the desired outcome (see McHale and Rogers, 2008). In practice, the necessary data are not available to perform such an analysis for the UK, so we must draw on available evidence to address each question in turn. Option 2 therefore considers whether the current criteria are the right ones. Options 3 and 4 consider recognition of different levels of qualifications within Tier 1. Option 5 then examines the calibration of points for the criteria. Option 6 considers the case for allowing very high earners with lower levels of qualification to come to the UK through this route. Option 7 examines the salary conversion model. We conclude by discussing the more operational aspects of the leave entitlement and minimum language and maintenance requirements.

6.3   Option 2: introduce additional requirements

6.17   The international comparison evidence in Chapter 5 gives an overview of similar schemes operating in a selection of countries. Several countries award points for or give more weight to requirements that are not used in the Tier 1 General route, or which are given less weight. These include points for a job offer, previous work experience, and the language requirement. It should also be noted that all countries that we looked at with point based systems use age as a selection criterion.

6.18 Home Affairs Committee (2009), although welcoming the transparency of the PBS's criteria, expressed the view that undue priority is currently given to easily identifiable attributes such as qualifications and previous earnings while ignoring other potentially important indicators such as ability and work experience.

6.19 In view of the international comparison evidence and the findings of the Home Affairs Committee report, we have considered the following requirements:

- points for a job offer; and

- points for previous work experience.

Points for a job offer

6.20 Australia, Canada, Hong Kong and New Zealand all award points for applicants with a job offer. These countries do not make the same distinction between demand-led and supply-led tiers as the UK does with Tier 2 and Tier 1 of the PBS. In New Zealand more than half the necessary points can be attained through a job offer.

6.21 McHale and Rogers (2008) suggest that points for a job offer could reflect unobserved or 'softer' human capital characteristics for which the recruitment choice of an employer represents a proxy.

6.22 The Department for Business, Innovation and Skills (BIS) pointed out that in the current economic climate, in which there are high levels of unemployment, there will be UK or European Economic Area (EEA) workers who are unemployed and have qualifications to fill most vacancies. Nevertheless, there remain sectors of the economy where there are vacancies that UK workers could not fill or where it would be inefficient to do so. This raises the question of whether additional points could be awarded for working in particular sectors or occupations.

6.23 At a stakeholder meeting it was suggested that proof of a job offer could replace the need for the maintenance requirement. This suggestion received support from several employers along with an alternative to at least allow employers to 'guarantee' the maintenance requirement in a similar way to how an employer can sponsor an immigrant under Tier 2. The option for employers to 'guarantee' the maintenance for an immigrant is considered later under option 10.

6.24 In summary, although we note that some countries award points for a job offer, we also note that it is these countries that do not have schemes equivalent to Tier 2. We believe that, in general, immigrants with a job offer can be accommodated within Tier 2 and adding this requirement in Tier 1 may create undue complication for both employers and immigrants, especially if the employer is then required to be a registered sponsor with the UK Border Agency (UKBA).

Points for previous work experience

6.25 Prior to December 2006, the UK awarded points for previous work experience under the Highly Skilled Migrant Programme (HSMP). We understand that the main reason for exclusion of this requirement from the PBS was a response to operational difficulties encountered in the pre-PBS schemes. We were told that it was particularly challenging for UKBA officers to assess the documentation provided by applicants to prove previous work experience in an objective, fair and consistent manner.

6.26 A few stakeholders favoured awarding points for work experience, as they felt that this would enable the UK to accept highly skilled, older immigrants, who are less likely to have a master's degree than their younger counterparts.

6.27 International evidence discussed in Chapter 5 does not offer strong support for including work experience as a selection criterion, although it is widely used in other countries' points systems. Hawthorne (2008) notes the continued emphasis on work experience in the Canadian system, in spite of evidence of *"very substantial decline in the economic return to pre-Canadian labour market experience (particularly when gained in non-OECD* [Organisation for Economic Co-operation and Development] *nations)"*. Sweetman (2004) finds that substituting experience for age variables makes little difference in predicting outcomes of immigrants in the Canadian labour market. If we value age strongly in selection, as a lifetime earnings approach following McHale and Rogers (2008) does, experience may even be a negative indicator owing to its correlation with age.

6.28 Australia, Canada, Denmark and New Zealand all award points for previous work experience, with none awarding points for previous earnings. To the extent that work experience is an effective proxy for valuable skills and experience, prior earnings are likely to be a superior proxy measure. Furthermore, earnings are easier to assess on a consistent basis and therefore represent a more objective criterion than a subjective comparison of experience. We regard the use of points for earnings in the PBS as a positive feature of its design.

6.29 On balance, we have not found sufficient evidence to support the introduction of additional selection criteria to those already applied by Tier 1 General. We do not recommend that points for previous work experience should be introduced into Tier 1. We believe that effectively assessed previous earnings act as a sufficiently accurate proxy for work experience. We also believe that Tier 2 functions to capture relevant experience by requiring a job offer as a pre-condition for approval.

6.4 Option 3: recognition of professional qualifications

6.30 In written evidence and meetings with us, various stakeholders expressed concern that professional qualifications are not recognised under the qualifications requirement and that, as a result, many highly skilled immigrants are rejected for approval. We were told that recent changes to the PBS have had a significant negative impact on the professional services sector. It was argued that the Legal Practice Course should be regarded as equivalent to a master's degree, along with undergraduate veterinary, dentistry and medical degrees. Undergraduate medical degrees are considered to meet the expectations of master's degrees according to a recent Quality Assurance Agency for Higher Education ruling, and the British Medical Association (BMA) argued that this ruling should be reflected in Tier 1.

"The BMA believes that serious considerations should be given to awarding points for professional qualifications under Tier 1. Presently, doctors with years of experience, some of whom have passed Royal College exams or been awarded a Certificate of Completion of Training (CCT) to enable them to take up a substantive consultant-level post, do not meet the educational requirements within Tier 1 as they do not possess a formal master's level qualification. In many instances success at professional examinations and in gaining a CCT will demonstrate more sustained and greater commitment than that required to gain a master's level qualification."

British Medical Association response to call for evidence

"The possession of a Chartered qualification such as CEng represents a step beyond mere academic qualification. CEng requires substantial proof of having held a position of responsibility over a sufficient period of time, typically five years minimum. CEng status or equivalent should therefore carry additional points."

Institution of Chemical Engineers (IChemE) response to call for evidence

6.31 The University of Oxford said they would like to see more qualifications recognised by the UKBA to reduce the cost and administrative burden of getting qualifications checked by the National Recognition Information Centre (UK NARIC), the agency responsible for providing information, advice and expert opinion on vocational, academic and professional skills and qualifications. They said they were concerned that UK NARIC's assessment of qualification is not always accurate.

6.32 IChemE said that there should be recognition of professional registration reflecting both experience and learning as well as academic qualifications alone.

6.33 A leading employer said that the allocation of points for professional qualifications or experience may be of more relevance than a master's degree to the potential contribution of an applicant to enhance economic performance and productivity.

"It would be better if there could be a wider definition of qualification level to encompass professional qualifications – not just university-awarded Master's/PhDs".

Royal College of Veterinary Surgeons response to call for evidence.

6.34 At a stakeholder event in September 2009 the need for greater recognition of professional qualifications was once again highlighted. This received very strong support from many of the employers in attendance and was reiterated on more than one occasion.

6.35 The Home Affairs Committee (2009) notes "*the overemphasis on formal qualifications at the expense of professional experience or training is arbitrary and unfair*".

6.36 We have already considered the relevance of professional qualifications in our recent assessment of Tier 2. One of our recommendations was that the UKBA considers whether specific professional qualifications should be regarded as equivalent to National Vocational Qualification level 3, or bachelor's or master's degree level, when allocating points under the PBS, where there is good evidence to support such claims. The logic underpinning that recommendation was straightforward:

where a qualification confers skill or valuable knowledge, a points system that seeks to recognise skill should recognise the value of the qualification. The fact that many employers go to great lengths and expense to recruit staff with professional qualifications, and to ensure that existing staff obtain them, demonstrates that professional qualifications often confer economic value. This logic applies to both Tier 1 and Tier 2.

6.37 As illustrated above, we received a great deal of evidence on this issue and we have not been able to carry out an in-depth analysis of the likely values of qualifications on a case-by-case basis. Nevertheless, we believe that professional qualifications are likely to be associated with positive labour market and economic outcomes. Therefore, **we recommend that appropriate professional qualifications held in addition to an undergraduate degree are recognised as equivalent to a master's for the purposes of the PBS, and that claims that some undergraduate degrees are equivalent to a master's degree are also given consideration on a case-by-case basis.** Decisions on how this applies to specific qualifications need to be made by the UKBA in consultation with UK NARIC and the stakeholders. We understand this already happens in some cases.

6.38 In principle, vocational qualifications at levels 3 and 4 are also likely to confer economic value and the above argument implies that some allowance should also be made for people holding such qualifications under Tier 1. We have not had time to fully consider such issues for this report, but we are aware that the UK Commission for Employment and Skills is carrying out research into this issue. The

Government may wish to consider the findings in due course.

6.39 Specific issues were raised in relation to international medical students by stakeholders including the BMA, the National Association of Medical Personnel Specialists and the Department of Health. Because of the current restrictions on training posts for Tier 1 applicants, a significant proportion of graduates from UK medical schools are prevented from progressing with their postgraduate training beyond a certain point. One option would be a relaxation of current Tier 1 restrictions to allow UK-trained medical non-EEA graduates to apply for medical training posts after completion of the Foundation Programme (two years' training following completion of the medical degree).

6.40 We have not considered the above issue in great detail because we believe that this is primarily an operational issue that the UKBA should consider with relevant stakeholders. However, a situation where medical students can commence their medical training within the UK but cannot complete it does not appear to be optimal and we would not object to amended arrangements being put in place.

6.5 Option 4: reintroduce points for undergraduate degrees

6.41 When it was launched last year, the minimum qualification requirement in the Tier 1 General route was a bachelor's degree. A stricter requirement to have at least a master's degree was introduced on 31 March 2009. It is too early to examine the impact on Tier 1 applications as this route is still bedding in following its introduction last year, and it is very difficult to disentangle the potential impact of the

recession on immigrant flows from that of the new requirements for the route.

6.42 As mentioned in Chapter 4, the master's degree requirement was by far the most common issue raised by stakeholders, most of whom regarded it as too crude and too strict. Stakeholders told us that many highly skilled immigrants do not have a master's degree, particularly older immigrants. The restriction, therefore, means that employers are unable to recruit what they regard as highly experienced skilled immigrants. Furthermore, the proportion of skilled workers with a master's degree varies greatly across sectors; for example, many skilled immigrants working in financial services have only a bachelor's degree.

6.43 The Home Affairs Committee (2009) states: *"it seems spurious that a master's graduate fresh from university on their first job should qualify as a 'highly skilled migrant' under Tier 1, whereas a business person of 25 years' global experience and earnings of hundreds of thousands of pounds but without a master's degree would not."*

6.44 There was a general preference among stakeholders to reinstate the bachelor's requirement. Common supporting arguments stated that many roles only required a bachelor's degree and immigrants with a master's degree were often found to be no more competent or desirable**.** Some recommended that immigrants with a bachelor's degree only be awarded sufficient points to qualify via Tier 1 if they also passed a higher earnings threshold.

"The changes implemented [in March 2009] *have highlighted that a higher level of academic qualification does not necessarily equate to an individual being a higher skilled professional and this now needs to be addressed."*

NHS Employers response to call for evidence.

"The restriction on points for master's qualifications only will result in the UK missing out on vast numbers of talented applicants with bachelor's degrees. It is evident already that these individuals are now going elsewhere to work."

Speechly Bircham LLP response to call for evidence

"The assumption that all experienced and senior level individuals would have master's [degrees] *has meant that many highly valued and skilled C-level executives have not or could not have come to the UK under* [the Tier 1] *route."*

Intellect UK response to call for evidence

6.45 The Association of Graduate Recruiters, Engineering, Energy and Industry (AGR EEI) said that the recent change upping the basic entry level from bachelor's to master's has adversely affected its recruitment. AGR EEI said its talent pool has been reduced by 20 per cent.

6.46 In addition, AGR EEI said that, although one of its organisations, E.ON, does recruit PhD and master's students via its Graduate Recruitment Programme, the majority of individuals who join the business have just a bachelor's degree. They said that there is therefore an issue with E.ON's ability to meet its business requirements.

6.47 IChemE said that they have some concern about the removal of points for a bachelor's degree. A leading retailer said that there is no proven link between a master's qualification and the skills required to succeed in business and to only award points for master's qualifications means that the UK is missing out on the contribution these workers could be making to both UK business and the economy.

6.48 A leading employer of highly skilled immigrants said that in light of the need for applicants to have a master's degree or equivalent to qualify under Tier 1 of the PBS, they believe that the points level to obtain a visa has been restricted sufficiently.

> *"It is BP's submission that an alternative to the mandatory minimum master's degree requirement be introduced to allow for very senior hires in the interest of better identifying and attracting immigrants who have the most to contribute to the UK."*
>
> BP response to call for evidence

6.49 As highlighted by many stakeholders, requiring Tier 1 immigrants to hold a master's degree could exclude highly skilled individuals with the potential to offer a significant economic contribution to the UK. To examine this issue further, we consider two questions, both predicated on the assumption that earnings are a good proxy for skill:

- Does a bachelor's degree command a substantial earnings premium over lower-level qualifications, suggesting that a holder of such a degree is likely to be relatively highly skilled?

- Does a master's degree command a substantial earnings premium over and above that from a bachelor's degree, suggesting that the holder of the former is likely to be highly skilled in comparison with somebody holding the latter?

6.50 We would have liked to analyse the earnings and qualifications characteristics of Tier 1 immigrants, the impact that the master's restriction has had on application flows, and the relevance of the qualification criteria in the selection process. However, the UKBA was not able to provide information on points scored for those granted leave under Tier 1. We have been told that in future this information may be produced in line with UKBA quality standards.

6.51 In absence of these data, we carried out two strands of analysis. The first used the Labour Force Survey (LFS). The second was based on a sample of extension applications under the HSMP, the predecessor scheme to Tier 1.

6.52 The first analysis examines the returns to qualifications for non-EEA immigrants in the LFS. Returns to highest qualification held are estimated by running an earnings regression equation controlling for age, the year the immigrant entered the UK and UK region. Table 6.1 shows that the expected earnings premium for an individual holding a bachelor's degree relative to an individual holding a qualification below bachelor's level is 37 per cent.

6.53 On the assumption that salary is a good proxy for skill, these results suggest that those holding a bachelor's degree are substantially more likely to be highly skilled than those holding a lower qualification.

6.54 There is considerable variation around the estimates given in Table 6.1. Figure 6.1 shows that, according to the LFS, there is a large variation between the salaries of full-time non-EEA employees for those with a bachelor's degree and for those with either a master's degree or PhD. There is a significant degree of overlap between these two distributions of earnings. For example, somebody at the 90th percentile of the bachelor's degree distribution earns nearly four times as much as somebody at the 10th percentile of the master's or PhD distribution, and nearly double the amount of somebody at the median point of the master's or PhD distribution.

6.55 For the second piece of analysis we used data from a sample of further leave to remain applications from the first quarter of 2007, which provides the points awarded for several criteria at extension stage, including, crucially, current salary at the time in the UK. These are matched, where possible, with management information data on initial applications from the HSMP in the last quarter of 2005 and the first quarter of 2006. This combined dataset contains the points awarded for each requirement, including previous salary, highest qualification held and age. However, the actual values of the requirements themselves are not held in the data. This means that we know, for instance, in which earning band an immigrant was located, but not their exact earnings.

6.56 There are a number of caveats with this approach. Information on further leave to remain extension applications for Tier 1 and the previous HSMP are not recorded in a central database by the UKBA. The sample of further leave to remain applications used here was compiled by a caseworking team in the first quarter of 2007. It is our understanding that, because this information is not normally provided by the UKBA, it has not been possible to verify the quality of these data. However, we have been informed that in the future, data on further leave to remain applications are planned to be produced in line with UKBA quality standards.

Table 6.1: Return to highest qualification for non-EEA born individuals	
Highest qualification held	**Estimated salary premium (per cent)**
Bachelor's	37
Master's	46
PhD	74

Note: The salary premium figures in this table are relative to those qualified to A-level, NVQ 3 level and 'other qualifications'. The sample includes full-time, non-EEA migrants only. Dummy variables are included to capture regional effects and the year the immigrant arrived.
Non-EEA born individuals in the LFS often report their highest qualification held as falling into the 'other qualifications' category as they are unable to locate this qualification in the UK framework. Correlating years of schooling against highest qualification held suggests that those individuals that hold a bachelor's degree equivalent or above are largely able to map this qualification to the UK framework. It is therefore those individuals with qualifications below bachelor's level that tend to report 'other qualifications'. We therefore group those individuals with those reporting qualifications below bachelor's level. The sample comprises 2,501 observations.
Source: Labour Force Survey 2008 Q3 to 2009 Q2

Figure 6.1: Distribution of earnings of non-EEA born immigrants with a bachelor's degree and with either a master's degree or PhD
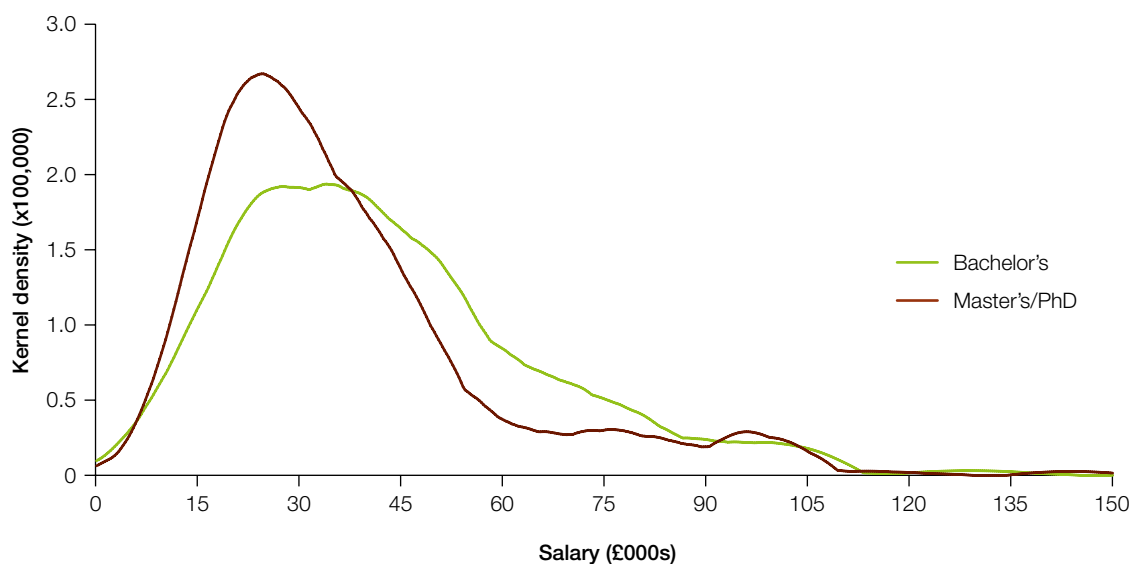
Note: The sample contains non-EEA born individuals in all occupations. Since data on salary in the LFS are continuous, rather than grouping observations together in bands in order to generate a histogram, the kernel density estimator is used. This technique uses a weighting function to estimate the density function of a random variable. The intuition behind this can be thought of as adding additional points at each observation, determined by the kernel function; the estimator then consists of summing these additional points and is smoother as a result. It is not possible to interpret the values of the y-axis; however, it allows visual comparison of the shape of the two distributions.
Source: Labour Force Survey 2008 Q3 to 2009 Q2

6.57   Furthermore, in considering the matched dataset described above, we assume that the dataset is a good proxy for potential Tier 1 General route applicants. However, the points selection criteria that were in effect at the end of 2005 and the start of 2006 changed significantly in December 2006, and so the characteristics of those in the dataset used here may differ from those who are applying under Tier 1 now or who may apply in the future.

6.58   Despite the limitations of the data, given the absence of alternative information, we draw tentative inferences to Tier 1 General. It is important to be clear that our recommendation in this section is not based on further leave to remain data in isolation, but rather that this information is used in conjunction with other evidence received by stakeholders and analysis of the LFS.

6.59   We first restrict the sample to those successful in their initial application. We then split this sample into two groups: those that *would* and those that *would not* have been successful were the master's requirement in effect at the time. This is equivalent to dividing the group into those that *held* and *did not hold* at least a master's at initial application stage.

6.60   Figure 6.2 displays the UK salary outcomes for these two groups at the further leave to remain (extension) stage. It shows that those holding a bachelor's degree are more likely to have earnings in the highest salary band. This outcome, however, suffers from selection bias, as applicants holding lower qualifications (and so gaining fewer points for qualifications) will be required to gain more points for salary to meet the total salary threshold.

We have not found a solution to control for this bias. Nevertheless, the data do show that Tier 1 immigrants with bachelor's degrees as their highest qualification can achieve high salary outcomes in the UK.

6.61 The points scored by previous applicants under the HSMP and their subsequent UK labour market experience corroborate the evidence from stakeholders and the LFS that immigrants with only a bachelor's degree are capable of earning a very high salary in the UK. If we believe that earnings and skills are positively correlated, keeping the qualification requirement at master's degree level will exclude highly skilled immigrants from entering the UK under Tier 1. Therefore, **we recommend that individuals with**

an undergraduate degree are allowed to enter under Tier 1, subject to an appropriate earnings threshold. Points for different levels of qualifications and earnings thresholds are discussed below.

6.6 Option 5: recalibrate points for previous earnings, qualifications, age and UK experience

6.62 As set out earlier in this chapter, we do not, in this report, recommend amending the selection criteria for the Tier 1 General route. Here we explore how best to award points within the existing selection criteria: previous earnings; qualifications; age; and UK experience.

Figure 6.2: Distribution of UK earnings at further leave to remain application stage by highest qualification held, 2007 Q1 sample
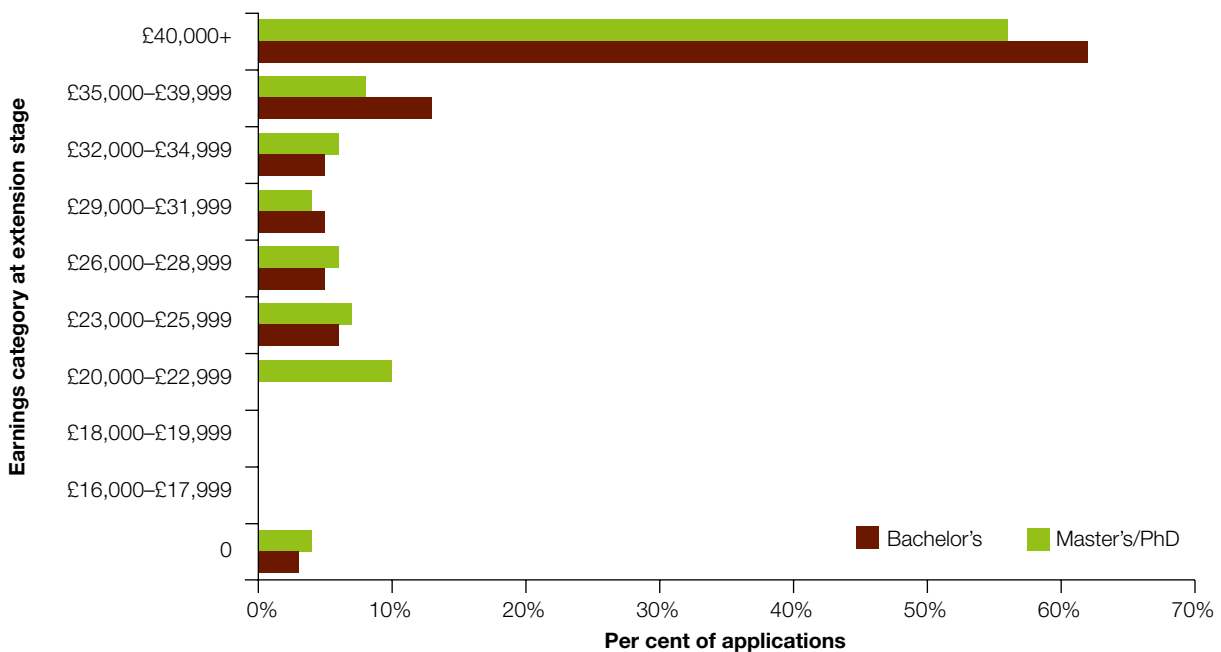
Note: The chart above shows the proportion of further leave to remain extension applications that fall into each earnings band split by highest qualification held. The chart is based on HSMP extensions and case sampling undertaken by UKBA caseworkers in 2007 Q1. The information collated was not undertaken within the operational caseworking IT systems and was not subject to the casework quality inspection and management checks that is routinely performed as part of the immigration casework decision-making process. These data are not official national statistics.
Source: UK Border Agency Highly Skilled Migrant Programme initial applications and further leave to remain applications sample data.

6.63 We understand that, prior to the introduction of the PBS, analysis was carried out on the factors most likely to predict future economic success in the UK labour market. However, we are not aware of a detailed rationale which determined the precise current allocation of points for previous earnings, qualifications, age and UK experience. We have therefore been mindful that, although the criteria used appear to be good general predictors of economic success, the points awarded may not optimally target 'highly skilled' workers. As an example, too many points may be awarded for a certain level of previous earnings, or the qualifications requirement may be unnecessarily restrictive.

6.64 Some stakeholders commented on the calibration of points within the Tier 1 General route, coming up with various proposals on how to amend points awarded to the various criteria.

"The Migration Advisory Committee should consider changing the age and qualification requirements under Tier 1 to enable migrant Higher and Further Education teaching professionals to offer their skills to the Further and Higher Education sectors."

"The average age for Further Education teaching professionals is 45 …. Further education lecturers are less likely to have post graduate degrees, but usually have a first degree, a post graduate teaching diploma and teaching experience."

Lifelong Learning UK response to call for evidence

6.65 BP recommended that the points allocation for Tier 1 attributes be changed so that an individual could qualify for Tier 1 status on the basis of a bachelor's degree and minimum previous base pay of £120,000. BP suggested that, where the immigrant cannot demonstrate pay of £120,000 in 12 of the 15 months immediately prior to submission of the Tier 1 application, a minimum master's degree could continue to be required to meet the attributes test of Tier 1.

6.66 Microsoft believes that the current points scale for academic qualifications should be left in place, but additional salary ranges should be added to the previous earning category. For example the maximum amount of points (45) in the earnings category is currently set at £40,000. They said additional points should be awarded to applicants who have earned higher amounts.

6.67 Further stakeholder evidence on the points awarded for qualifications was submitted by the University of Warwick. They told us that *"An increase in the number of points accrued for possession of a PhD would be acceptable as the majority of our Tier 1 applications come from post doctoral workers."*

6.68 IChemE suggested that there should be amendments to the earnings table and the age banding. They said they would like to see a slower tapering off of the points allocation so that candidates aged over 31 receive some credit. IChemE also said that there may be a case for an extra tier on the previous earnings table for those who may be earning more than £40,000, again as an indication of seniority. They also suggested that it is important to consider the specific needs of those sectors which have been identified as priorities for technology-based investments and growth, for example the field of industrial biotechnology.

6.69 Doosan Babcock questioned the continuation of the age criterion given the UK discrimination legislation. They said that, with a potential working life of many years, they would expect the age band to be extended to allow more entrepreneurs up to the age of 40 (or even 45). The Law Society recommended that prospective Tier 1 migrants without a master's degree should be awarded sufficient points to qualify via a higher earnings threshold (of at least £100,000).

"It is a widely held belief that academic achievement is not always an ideal proxy for 'highly skilled' and that salary and/or experience are sometimes better indicators."

BIS response to call for evidence

6.70 BIS suggested that consideration be given to recalibrating the points given for salary. The Department for Communities and Local Government suggested that we examine the calibration of points for holding a master's degree. However, we note that the same outcome could be achieved by keeping points for a master's degree at their current level and recalibrating points for earnings instead.

6.71 We regard the correct calibration of points as fundamental to successful achievement of the economic objectives of the PBS. We gave careful consideration to the evidence received and also undertook a calibration exercise to inform the recommendation for the awarding of points according to what we regard as a reasonable definition of 'highly skilled'. This analysis is discussed below and further detail is provided in Annex B.

Our approach to points calibration

6.72 We are limited by the available data and evidence. Ideally, to calibrate points we would use data that capture immigrants' characteristics, perhaps recorded at the time of application. This would be combined with information on labour market outcomes collected from, for example, tax records or visa extension applications. However, detailed data to allow such analysis are not currently available from the UKBA or other relevant authorities.

6.73 Therefore, we have taken a pragmatic approach to improving the calibration of the points by applying a number of constraints and judgements. The approach is constrained in the following ways:

- the current range of criteria remains as it is at present, that is: previous earnings, qualifications, age and UK experience;

- the maximum points available under each criterion remain approximately the same; and

- the pass mark remains the same at 75 points, allowing similar scope for applicants to substitute between each of the criteria.

6.74 In addition, as discussed in section 6.5, points are reintroduced for a bachelor's degree under the qualifications criterion.

6.75 The analysis uses the LFS which covers the UK workforce. Immigrants may differ in many ways from the UK workforce, and such differences are not necessarily directly reflected in the analysis presented here. Nonetheless, analysis of the UK labour market yields a good indication of

the types of jobs available in the UK, some of which could potentially be carried out by immigrants, including the earnings, qualifications and age of people doing such work.

6.76 This approach does not allow us to assess how points for UK experience should be awarded. Prior experience in the host country not only assists in language development, but also improves assimilation into the host labour market. Evidence available from Australia suggests that immigrants in possession of an Australian qualification had significantly improved employment outcomes relative to those qualified elsewhere, particularly those from non-English speaking background countries (Australian Department for Education, Employment and Workplace Relations, 2009). In absence of robust quantitative evidence, we recommend that no change to the current requirement is made. Therefore, it is proposed that 5 points are awarded to an immigrant with UK experience.

6.77 We received some representations requesting that points be calibrated according to the characteristics of certain occupations. However, any objective analysis of the skill level of particular occupations is likely to rely on the same indicators of skill as the points system for the Tier 1 General route itself: namely qualifications and earnings. Furthermore, there is no guarantee under Tier 1 that the immigrant will work in the UK in the occupation that they are experienced in, or qualified for. Given the existence of Tier 2 for employers to recruit into particular occupations, it seems sensible to retain a focus on individual, rather than occupational, skills for Tier 1.

6.78 The analysis begins by defining a measure of 'highly skilled', and proceeds to calibrate the points according to the characteristics of the UK labour force that meet that benchmark. The calibration analysis follows a sequential progression, in that once one set of points criteria is calibrated, we take this into account in calibrating subsequent criteria.

Defining highly skilled immigrants

6.79 To determine the appropriate calibration of points awarded within the Tier 1 General route, we need a benchmark for a desired outcome that the criteria should proxy.

6.80 In MAC (2008) we analysed the Standard Occupational Classification (SOC) to identify the set of occupations that we defined as 'skilled'. We analysed the data at the greatest level of disaggregation possible, looking at the 353 '4-digit' occupations that span the UK labour market. This analysis looked at the skill levels defined in the SOC hierarchy, formal qualifications and earnings using the LFS.

6.81 In MAC (2009c) we used this list of 'skilled' occupations as a benchmark when forming our recommendations to recalibrate the points awarded under Tier 2. As Tier 1 is for 'highly skilled' immigrants, while Tier 2 is for 'skilled' immigrants, we believe that the benchmark used to recalibrate the points for the Tier 1 General route should be higher than that used for Tier 2.

6.82 Elias and Purcell (2004a) analysed the 353 4-digit occupations to identify a set of 'graduate' occupations. Their analysis looked at changing qualifications in the workforce, together with survey evidence. It also incorporated more fine-grained information acquired during the

development of the SOC2000 on behalf of the Office for National Statistics. These 'graduate' occupations comprise 148 out of the 353 4-digit SOC occupations.

6.83   Of those defined as 'graduate' occupations by Elias and Purcell, two were not defined as 'skilled' in MAC (2008). We do not believe that our benchmark for the 'highly skilled' immigrant route should be based on occupations that we have previous defined as not 'skilled'. We therefore refer to the skilled graduate occupation list, where these two occupations have been removed from the Elias and Purcell 'graduate' occupation list. This revised list comprises 146 of the 353 4-digit SOC occupations, covering approximately 43 per cent of the UK labour market.

6.84   Our chosen benchmark for 'highly skilled' workers comprises the top 10 per cent of earners in these skilled graduate occupations. This reflects the ambition to attract the 'very best'. In addition, modelling carried out for the purposes of the salary conversion model, discussed later in this chapter and in Annex C to this report, suggests that at the time of the development of the PBS there was at least an implicit understanding that the PBS was intended to target the top 10 per cent of the UK earnings distribution. We have conducted sensitivity analysis to assess the impact of our assumption as reported in Annex B.

6.85   We calibrate points for earnings, age, qualifications and UK experience in order to be able to select immigrants who are most likely to join the UK labour market in the top 10 per cent earnings category for skilled graduate occupations.

Points for age

6.86   We begin by calibrating points for age. The order in which we conduct the analysis is not crucial but we start with age to render subsequent calculations more straightforward.

6.87   Currently, points are awarded for age in the Tier 1 General route only to those immigrants aged 31 and under. As outlined above, concern was expressed by some stakeholders that the current age bands were too limited in their focus on the basis that the approach prejudices against those with experience.

6.88   Since we wish to award points for age and previous earnings, it is important to note that age and previous earnings will be positively correlated. Nonetheless, there are two economic reasons why it is valid to award points for age as well as earnings:

- first, we wish to admit immigrants we consider to be highly skilled now but also those that we would consider to be highly skilled in the future; and

- second, holding other characteristics constant, younger immigrants have more working years available to them and thus are potentially able to contribute more to the economy in the future.

6.89   We considered using expected lifetime earnings as a basis to calibrate points for each requirement. In practice, given the data available, using such an approach would have made little difference to our results. This approach and related issues are discussed in more detail in Annex B.

6.90 The first task in awarding points for age is to plot the 90th percentile of earnings by age for skilled graduate occupations in the UK using the LFS, as shown in Figure 6.3. In this cross-sectional sample, the peak of the earnings distribution occurs at age 40. It is therefore appropriate to award points for age to those immigrants aged below 40 to allow for the fact that earnings tend to rise with age until this point.

6.91 We wish to minimise administrative complications on the part of the UKBA and employers that might occur as a result of changes to the points calibrations. Therefore, we have chosen to retain the points categories awarded for age, but not the age bands themselves, from the current specification of the Tier 1 General route. Immigrants are thus awarded 20 points, 10 points, 5 points or 0 points for age. We apply the same logic when we consider calibration of points for earnings and qualifications below.

6.92 To determine the precise age bands, we divide the sample by age, proportional to the number of points given for each category, from a minimum value of 21 years to a maximum value of 39 years defined above. Dividing the bands equally by age is justified because, as shown in Figure 6.3, relevant earnings rise in an approximately linear fashion between the ages of 21 and 40. The resulting age bands are:

- age 29 and below: 20 points;

- age 30–34: 10 points;

- age 35–39: 5 points; and

- age 40 and over: 0 points.

Points for earnings for immigrants with a bachelor's degree only

6.93 The Tier 1 General route currently awards maximum points for earnings of £40,000 or above. Some stakeholders saw value in having higher points categories for earnings, as described above.

Figure 6.3: 90th percentile of earnings for skilled graduate occupations by age in the UK, Labour Force Survey 2008 Q3 to 2009 Q2
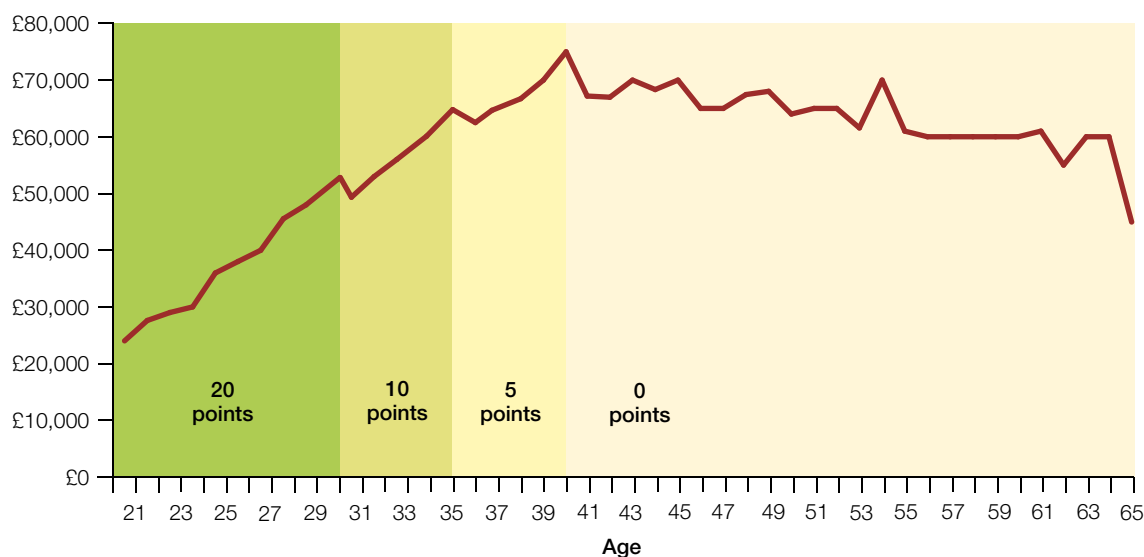
Note: Skilled graduate occupations are as defined by Elias and Purcell (2004a) minus two occupations not defined as 'skilled' by the MAC (see MAC, 2008).
Source: MAC analysis of the UK Labour Force Survey, 2008 Q3 to 2009 Q2

6.94 As described in section 6.5, we recommend that, under some circumstances, those holding a bachelor's degree should be able to enter the UK through the Tier 1 General route. Under our recommendations, this therefore constitutes the minimum qualification level required to enter through this route, with one exception discussed later in section 6.7. As such, we benchmark the points awarded for higher levels of qualification and for previous earnings and age to those for a bachelor's degree.

6.95 The allocation of points for qualifications is therefore determined in the following way:

- qualifications below bachelor's level earn no points;

- a bachelor's degree earns 30 points, as was the case prior to April 2009; and

- a master's degree and PhD earn more than 30 points, with precise points calibrations calculated below.

6.96 Since we are using bachelor's-level qualification as our benchmark, points for earnings are calibrated on the basis that the required 75 points for Tier 1 will be awarded if the immigrant:

- holds a bachelor's degree; and

- can demonstrate previous earnings that would place them in the top 10 per cent of the earnings distribution for their age band in skilled graduate occupations.

6.97 A prospective immigrant with a bachelor's degree will therefore need to achieve an additional 45 points for age, earnings and UK experience to qualify for the Tier 1 General route. We calculate the minimum previous salary required for each of the age categories defined above, and award points appropriately. In each case the benchmark salary used is the 90th percentile of earnings in skilled graduate occupations, adjusted to allow for age.

6.98 According to this analysis, those aged 40 and over are thus required to demonstrate previous salary of at least £75,000 to identify them as 'highly skilled' (the precise figure is £74,984; however, all previous salary thresholds are rounded to the nearest £5,000). As these individuals are awarded no points for age, we award the necessary 45 points for previous salary of at least £75,000.

6.99 Those aged between 36 and 39 are required to demonstrate a previous salary of at least £65,000 to be identified as 'highly skilled'. As these individuals are awarded 5 points for age, we award the necessary 40 points for previous salary of at least £65,000.

6.100 This process is repeated for all four age categories. Table 6.2 takes stock of the recommended points allocations decided thus far. The remaining categories and thresholds that need to be determined are denoted by question marks.

Points for qualifications at master's and PhD level

6.101 We next calculate the appropriate points for qualifications above bachelor's level, by reference to the expected economic return, or expected premium in future earnings, from holding a master's degree or PhD relative to a bachelor's degree.

6.102 There is substantial literature examining the returns to qualifications. We compared four sources to estimate returns to the levels of qualification that are under consideration here. Although estimates varied (as we would expect from sources that use different samples and approaches), all showed higher returns to a master's degree than to a bachelor's degree, and all higher once again for a PhD.

Highest qualification		Previous earnings		Age		UK experience
	Points		Points		Points	Points
Bachelor's	30	?	?	40 and over	0	5
Master's	?	?	?	35–39	5	
PhD	?	?	?	30–34	10	
		£40,000–?	25	29 and under	20	
		?–£54,999	?			
		£55,000–£64,999	35			
		£65,000–£74,999	40			
		£75,000+	45			

Table 6.2: First summary of recommended new points calibration for qualifications, previous earnings, age and UK experience in the Tier 1 General route determined so far in this chapter

Note: The table shows the points calibrated so far in this chapter or those retained from the current Tier 1 General calibration. A question mark denotes the remaining points that are determined later in this chapter. Points are awarded once per application for each criterion.
Source: Migration Advisory Committee analysis

6.103 As explained further in Annex B, we use approximate averages from four sources to identify approximate overall adjustments to reflect the additional economic value of holding these higher-level qualifications:

- master's degree relative to a bachelor's degree: 10 per cent; and

- PhD relative to a bachelor's degree: 30 per cent.

6.104 The next step, therefore, was to translate these estimated premia to points awarded for qualifications. To calibrate points awarded for a master's degree, our method was as follows:

- An immigrant awarded no points for age (i.e. those aged 40 or above) holding a bachelor's degree is required to demonstrate previous earnings of at least £75,000, as defined previously.

- Therefore, we require an immigrant of equivalent age holding a master's degree to display previous earnings of 10 per cent less than this value: £67,500.

- This figure is then rounded to the nearest £5,000. In this particular instance, given that the exact figure used in the first step of this calculation is just below £75,000, this rounds to £65,000.

- As 40 points are awarded for previous earnings of £65,000, we award the required additional 35 points to an immigrant holding a master's degree.

6.105 To calibrate the points awarded for a PhD, we used the same method:

- We require an immigrant who is awarded no points for age (i.e. aged 40

or over) holding a PhD to demonstrate previous earnings of 30 per cent less than £75,000, or £52,500, which rounds to £50,000.

- No points are presently awarded for this level of previous earnings. Since earnings of £55,000 and £40,000 receive 35 and 25 points respectively, we introduce a new category for previous earnings of £50,000 and award 30 points.

- As no points are awarded for age in this case, we award the remaining required 45 points to an immigrant holding a PhD.

6.106 Table 6.3 updates Table 6.2 and again takes stock of the points awarded so far. The remaining points required are once again denoted by question marks. As shown, the previous earnings categories allowing applicants aged 29 and under to enter the UK with either a master's degree or PhD are still to be determined.

Calculation of additional previous salary thresholds

6.107 The remaining thresholds for previous salary are calculated to ensure that someone in the younger age categories with either a master's degree or a PhD is able to pass under Tier 1 General, taking into account the estimated returns these additional qualifications yield. These categories are therefore calibrated as follows:

- An immigrant awarded maximum points for age (i.e. aged 29 or under) holding a bachelor's degree is required to demonstrate previous earnings of at least £40,000, defined previously.

- Therefore, an immigrant of equivalent age with a master's degree is required to demonstrate previous earnings of 10 per cent less than £40,000. When rounded to the nearest £5,000 this gives previous earnings of at least £35,000.

Table 6.3: Second summary of recommended new points calibration for qualifications, previous earnings, age and UK experience in the Tier 1 General route determined so far in this chapter						
Highest qualification		**Previous earnings**		**Age**		**UK experience**
	Points		Points		Points	Points
Bachelor's	30	?	?	40 and over	0	5
Master's	35	?	?	35–39	5	
PhD	45	?–£39,999	?	30–34	10	
		£40,000–£49,999	25	29 and under	20	
		£50,000–£54,999	30			
		£55,000–£64,999	35			
		£65,000–£74,999	40			
		£75,000+	45			

Note: The table shows the points calibrated thus far in this chapter or those retained from the current Tier 1 General calibration. A question mark denotes the remaining points that are determined in the following section. Points are awarded once per application for each criterion.
Source: Migration Advisory Committee analysis

- As this immigrant is awarded 35 points for qualifications and 20 points for age, we thus award the required 20 points for previous earnings of at least £35,000.

- Similarly, an immigrant of equivalent age with a PhD is required to demonstrate previous earnings of 30 per cent less than £40,000. When rounded to the nearest £5,000, this yields previous earnings of at least £30,000.

- Following the above logic suggests that this immigrant should be awarded 10 points for previous earnings to pass the overall Tier 1 General route threshold. The exact number of points that needs to be awarded in practice is discussed below.

6.108 Awarding points for UK experience essentially allows an applicant to lower their previous earnings requirement by a 5-point band if they can demonstrate previous such experience.

6.109 If only 10 points were awarded for previous earnings of £30,000, someone with previous earnings of £35,000 (which awards 20 points) would not be able to qualify under a lower pay band by demonstrating they have UK experience. This is because, following the logic above, there is a difference of 10 points between the £35,000–£39,999 category and the band below it. We believe UK experience should confer an advantage on the individual holding it. Therefore, we award 15 points for previous earnings of £30,000 to ensure that UK experience gains useful recognition in such a case. This matters because we believe that a well-designed system should trade off pay against UK experience.

6.110 We recommend awarding 5 points for pay between £25,000 and £29,999. This is because a person with such earnings (5 points), aged 29 or under (20 points), with a PhD (45 points) and UK experience (5 points) would gain the required 75 points. We award 5 points for pay rather than 10 in this instance because, otherwise, the UK experience requirement would be deemed obsolete for such a person. Or, to put it differently, there would be no additional advantage to such a person being in a higher pay threshold if they did not have UK experience.

6.111 So why do we choose a lower salary threshold of £25,000? In our report on Tier 2 (MAC, 2009c) we argued that to be skilled to NVQ level 3 a job needed to pay at least £20,000 per annum. Such a figure is equivalent to only the 30th percentile of the earnings distribution for full-time workers (Annual Survey of Hours and Earnings, 2008) and it appears too low to ensure that only the 'brightest and best' come to the UK via Tier 1. So £20,000 is too low for a minimum threshold and, it follows from the discussion above, £30,000 is too high. Therefore we recommend a minimum of £25,000.

Final calibration

6.112 Having completed the calibration exercise, the resulting recommended points table is set out in Table 6.4.

6.113 Under the new calibration of points outlined in Table 6.4, a total of 115 points is available for qualifications, previous earnings, age and UK experience. A maximum of 45 points (or 39 per cent of the total points available) are available for previous earnings; 45 points (39 per cent) for qualifications; 20 points (17 per cent) for age; and 5 points (4 per cent) for UK experience. With the exception of points for qualifications, the approximate balance of points available under each criterion remains broadly the same as

the current Tier 1 set-up. The final pass mark of 75 points remains the same and this represents 65 per cent of the total points available.

6.114 A comparison with the current system is provided in Table 6.5. The bracketed figures are the minimum salary requirements if 5 points for UK experience are awarded. Under our recommendations, the earnings thresholds are significantly higher than under the previous system, but this is balanced by an increase in eligibility by virtue of wider age bands and awarding points for a bachelor's degree.

Table 6.4: Summary of recommended new points calibration for the Tier 1 General route (excluding very high earners)							
Highest qualification		**Previous earnings**		**Age**		**UK experience**
	Points		**Points**		**Points**	**Points**
Bachelor's	30	£25,000–£29,999	5	40 and over	0	5
Master's	35	£30,000–£34,999	15	35–39	5	
PhD	45	£35,000–£39,999	20	30–34	10	
		£40,000–£49,999	25	29 and under	20	
		£50,000–£54,999	30			
		£55,000–£64,999	35			
		£65,000–£74,999	40			
		£75,000+	45			

Note: Points are awarded once per application per criterion. 75 points are required to pass. In addition, there are two mandatory requirements, outlined in Table 2.1, which we discuss later in this chapter.
Source: Migration Advisory Committee analysis

Comparison with Tier 2

6.115 In July 2009 we published a report recommending changes Tier 2, which were subsequently accepted by the Government (MAC, 2009c). It is therefore important to check whether the recommendations in this report are consistent with those we made in relation to Tier 2. Specifically, as a job offer is required to enter through Tier 2, but not through Tier 1, it is crucial that the minimum salary (previous or prospective) required for a hypothetical immigrant with any given set of characteristics (in terms of age, qualifications, UK experience and route of entry in Tier 2) is greater in Tier 1 than in Tier 2.

6.116 Table 6.6 shows this comparison, and confirms that the condition described above holds in all cases (overleaf).

Points calibration recommendations

6.117 We have undertaken a calibration analysis, based on an objective of selecting highly skilled workers according to a benchmark in the UK labour market. These conclusions are, to a significant extent, supported by the limited amount of stakeholder evidence we received with respect to the calibration of points bands within Tier 2.

Table 6.5: Summary of the minimum salary requirements for the new recommended points calibration and the current Tier 1 points calibration

| | Minimum earnings thresholds (£000s) | | | | | |
| | Bachelor's | | Master's | | PhD | |
	New	Old	New	Old	New	Old
40 and over	75 (65)	N/A	65 (55)	35 (32)	50 (40)	26 (23)
35–39	65 (55)	N/A	55 (50)	35 (32)	40 (35)	26 (23)
30–34	55 (50)	N/A	50 (40)	35 (32)	35 (30)	26 (23)
29 and under	40 (35)	N/A	35 (30)	29 (26)	30 (25)	20 (20)

Note: Figures in brackets are the minimum salary requirements if 5 points for UK experience are awarded. Figures in bold assume points are not awarded for UK experience.
Source: Migration Advisory Committee analysis and UK Border Agency information

Table 6.6: Comparison of minimum earnings required in Tier 1 and Tier 2		
Qualification	Tier 1	Tier 2
Bachelor's	£35,000	£24,000
Master's	£30,000	£20,000
PhD	£25,000	£20,000

Note: Points are awarded for previous earnings in Tier 1, but for prospective earnings in Tier 2. Here we assume that the potential Tier 1 immigrant gains maximum points for age and for UK experience, but gains the minimum of 30 points for route of entry in Tier 2 (as would be awarded for an individual entering under the intra-company transfer route).
Source: Migration Advisory Committee analysis

6.118 We strongly recommend that the points allocated for age, qualifications and previous earnings are calibrated to align more closely with the long-term objective of attracting highly skilled immigrants.

6.119 **We therefore recommend that the following changes are made to the Tier 1 General route:**

- **For age: those aged 29 and under are awarded 20 points; those aged 30 to 34, 10 points; those aged 35 to 39, 5 points; and no points are awarded to those aged 40 and over.**

- **For qualifications: 30 points awarded for a bachelor's degree is reinstated; 35 points continue to be awarded for a master's degree; and points for a PhD are reduced to 45.**

- **For previous earnings: points are not awarded for earnings less than £25,000; and earnings bands are set as in Table 6.7.**

- **The 5 additional points continue to be awarded as at present for UK experience.**

6.120 Under our recommendations, immigrants qualifying in accordance with the 75-point threshold must, as at present, meet the two additional mandatory requirements of English language proficiency and maintenance.

Table 6.7: Recommended points bands for previous earnings under Tier 1 General (excluding very high earners)	
Previous earnings	Points
£75,000 +	45
£65,000–£69,999	40
£55,000–£64,999	35
£50,000–£54,999	30
£40,000–£49,999	25
£35,000–£39,999	20
£30,000–£34,999	15
£25,000–£29,999	5

Estimating the impact of the recommended new points calibration

6.121 It is not possible to determine the likely impact on flows of Tier 1 General route immigrants by analysing the impact of previous policy changes on historical data, as Tier 1 is still bedding in since its introduction last year. It is also very difficult to disentangle the potential impact of the recession on immigrant flows from that of changes in policy. Given that information on the points scored by immigrants under Tier 1 General is not available from the UKBA, we have used the UK LFS[3] to examine the likely implications of our recommendations.

6.122 This analysis consists of two parts:

- First, we look at the proportion of the UK workforce that would pass under the new recommended calibration compared with the existing calibration, as a proxy indicator for the impact on flows.

- Second, we look at the proportion of UK jobs by 'skill level' that would pass under each calibration, to proxy for the types of UK jobs likely to be filled by immigrants were these recommendations to be implemented.

6.123 For the first piece of analysis, we awarded points to all employed individuals in the LFS based on the new recommended calibration and the current calibration. We found that under the current system 3.6 per cent of the UK workforce would pass Tier 1 General compared with 4.0 per cent under our recommended calibration. To put this result into context, 11.4 per cent of individuals would have passed under

the Tier 1 system in place prior to April 2009 (where points were awarded for a bachelor's degree and previous earnings under £20,000).

6.124 This analysis of the UK workforce cannot be extrapolated to produce a quantitative estimate of the future flow of Tier 1 immigrants, as it is unknown how closely the characteristics of potential immigrants correspond with the UK workforce. Furthermore, it is not possible to estimate the impact of any changes to the salary conversion rates used to convert previous earnings in foreign countries to the UK equivalent, discussed in section 6.8.

6.125 For the second piece of analysis, we again awarded points based on the current Tier 1 General points calibration and the new recommended calibration for employed individuals in the LFS. We then compared the proportion of UK jobs that would pass under each system by 'skill level'. Skill level here refers to the classification used by the Office for National Statistics based on grouping occupations defined at 2-digit SOC level into one of four levels of skill. Further details on what constitutes each 'skill level' are summarised in Table 6.8 overleaf.

6.126 Table 6.8 shows that a greater proportion of those employed in the highest skill-level occupations in the UK would pass under our new recommended points calibration relative to the current system.

6.127 In summary, our analysis comparing our recommended calibration with the current calibration suggests that our approach is better at selecting highly skilled immigrants (i.e. those in the most skilled occupations) for the benefit of the UK.

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[3] The LFS sample comprises 2008 Q3 to 2009 Q2 and is restricted to those who were asked about their salary (52,351 observations).

6.7 Option 6: introduce additional salary threshold for very high earners

6.128 Some stakeholders have told us that they are concerned that Tier 1 currently does not provide any provision for high-earners, whose main source of income is a salary, who do not possess a high-level qualification such as a master's or bachelor's degree and do not wish to set up a business in the UK.

6.129 For example, an anonymous stakeholder proposed a top salary band of £120,000 for those with a bachelor's degree. Another stakeholder who wished to remain anonymous proposed a range of additional salary thresholds above £40,000 to allow those without the required qualifications to be allowed. Their proposal included a band of £50,000 which would score 55 points and a top threshold of £200,000 which would score 75 points. The justification was to extend

Table 6.8: Comparison of the proportion of UK jobs by skill level that pass the new MAC points calibration compared with the current calibration		
Skill level	Percentage of UK jobs that pass current Tier 1 General	Percentage of UK jobs that pass under new MAC calibration
1	0.2	0.1
2	2.4	1.5
3	15.0	14.1
4	82.4	84.3

Note: The skill level categories are defined below:

Level 1: The first skill level equates with the competence associated with a general education, usually acquired by the time a person completes his/her compulsory education and signalled via a satisfactory set of school-leaving examination grades. Competent performance of jobs classified at this level will also involve knowledge of appropriate health and safety regulations and may require short periods of work-related training. Examples of occupations defined at this skill level include postal workers, hotel porters, cleaners and catering assistants.

Level 2: The second skill level covers a large group of occupations, all of which require the knowledge provided via a good general education as for occupations at the first skill level, but which typically have a longer period of work-related training or work experience. Occupations classified at this level include machine operation, driving, caring occupations, retailing, and clerical and secretarial occupations.

Level 3: The third skill level applies to occupations that normally require a body of knowledge associated with a period of post-compulsory education but not to degree level. A number of technical occupations fall into this category, as do a variety of trades occupations and proprietors of small businesses. In the latter case, educational qualifications at sub-degree level or a lengthy period of vocational training may not be a necessary prerequisite for competent performance of tasks, but a significant period of work experience is typical.

Level 4: The fourth skill level relates to what are termed 'professional' occupations and managerial positions in corporate enterprises or national/local government. Occupations at this level normally require a degree or equivalent period of relevant work experience.

Source: Migration Advisory Committee analysis of the UK Labour Force Survey 2008 Q3 to 2009 Q2. Further details of the Office for National Statistics definition of skill level can be found at: www.statistics.gov.uk/methods_quality/ns_sec/downloads/SOC2000_Vol1_V5.pdf

the approach used for the Entrepreneur route to integrate with Tier 1 General. Other stakeholders expressed similar concerns.

> *"We appreciate that evidence supports the Government's view that university-level qualifications and prior earnings are good indicators of likely future success. However, as a supply-side intervention, we feel that to effectively bar non-graduates (other than those with £200,000 at their disposal [via the Entrepreneur route]) from using this route is unduly restrictive. It is often stated but nevertheless remains true that Bill Gates would not qualify under Tier 1 General."*
>
> Kingsley Napley response to call for evidence

6.130 As discussed earlier, we believe that previous earnings is a good proxy for skills and very high earnings is a market signal that an employer values the services provided by those people even if they do not possess high-level qualifications. Therefore, we do accept the principle that those with very high earnings should be eligible to enter through the Tier 1 General route, as this route aims to select those who can positively contribute to the skill and knowledge base in the UK. In that case, what should the salary threshold be for these highly skilled immigrants without high-level qualifications?

6.131 We believe that this threshold has to be at least £130,000 because this is the limit recently set under the Resident Labour Market Test route, within Tier 2, to exempt employers from advertising the job in Jobcentre Plus prior to sponsoring an immigrant worker. We understand that the UKBA arrived at this figure following the submission of evidence from a number of major UK corporations.

6.132 A second relevant benchmark, which is £157,000, is also approximately equal to the 99th percentile of annual gross earnings for full-time employees in the private sector in the UK. This figure was calculated from the Annual Survey of Hours and Earnings (ASHE), 2008. Many high earners coming to the UK under Tier 1 will enter the private sector, so something close to this might be an appropriate benchmark.

6.133 Because of the lack of a qualifications safety net, and also because employees under Tier 2 have to arrive in the UK with a firm job offer while Tier 1 immigrants do not, we believe the threshold level in this instance has to be higher than £130,000. Therefore, **we recommend that an additional salary band is introduced with a threshold of £150,000 for which 75 points are awarded.** An immigrant able to demonstrate this level of previous earnings will be eligible to enter the UK through the Tier 1 General route with no additional points required for age, qualifications or UK experience. However, we recognise that there are various decision rules that could be used to set this threshold and the UKBA may want to consider that, if introduced, this additional salary threshold be kept under regular review.

6.134 Because of the uncertainty surrounding the calculation of the multipliers used to convert previous salaries earned abroad to their UK equivalent, discussed in section 6.8, it may also be appropriate for the UKBA simply to apply spot exchange rates to the earnings calculation in the case of this threshold.

6.135 We also recommend that people qualifying in accordance with this threshold will still need to meet the same two mandatory

6.8   Option 7: amend salary multipliers

6.136   Previous earnings are given a large amount of weight in our recommended points calibration. To ensure the efficiency and integrity of the system, it is, therefore, of the utmost importance that the method used to convert and uplift previous earnings outside the UK to a UK-equivalent level is appropriate. This is not a straightforward task and perhaps one of the reasons, if not the main one, why other countries do not consider previous earnings as a selection criterion. Inappropriate salary multipliers may potentially seriously undermine the effectiveness of Tier 1 in attracting the most highly skilled immigrants from other countries.

6.137   The current salary conversion model is used by the UKBA to uplift the previous earnings of applicants from different countries. This model was devised in 2002 and used under the HSMP. It has since been used within Tier 1 but has not been altered or updated since 2002. It applies a 'multiplier' to previous earnings after the UKBA has already converted these earnings using a spot exchange rate.

6.138   Despite the above, we received little evidence pertaining to the salary multipliers. Indeed, those that mentioned potential earnings differentials between countries were not aware that multipliers were applied to previous earnings. For example, one stakeholder suggested that the minimum salary band of £20,000 in Tier 1 may disadvantage applicants from countries in Africa and Asia with lower

per capita incomes in favour of those from wealthy countries. This should not be the case: the multipliers, if correctly calibrated, should work to ensure that the salary thresholds select similarly skilled individuals irrespective of the country in which their earnings were paid. Discussions with the UKBA suggest that awareness of the multipliers is generally low despite the fundamental role they play in the operation of the Tier 1 General route.

6.139   There is no published information relating to the methodology used to calculate the salary multipliers. Information pertaining to the current salary multipliers used was therefore obtained through discussions with the UKBA. The broad rationale 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.

6.140   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 multiplier.

6.141   Without access to the original work used to devise the multipliers, the exact values used at each stage are unknown. However, 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.

- We understand that data on income percentiles were taken from the World Bank's *Global Income Inequality* database for some countries in 1993.

- Multipliers 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.

6.142   Table 6.9 provides the current salary multipliers used by the UKBA for each band and a selection of countries included within these bands.

Issues with the current model

6.143   We have considered the current methodology and, although the rationale and approach appear to have some merit, there are at least four possibly important issues that merit consideration:

- The model has not been updated since 2002 and so it is very likely that the rankings of countries will have changed to some extent (although some changes will reflect genuine re-ordering of countries and others will be due to measurement error in the PPP estimates).

- The appropriate salary multiplier for countries at the top and bottom of each band can be a long way from the salary multiplier used for that band. In addition there is suggestive evidence that a number of countries are potentially benefiting from salary multipliers that are too high, and conversely a number that are potentially hindered by multipliers that are too low.

- The assumptions as to where highly skilled individuals will sit in the income distributions within different countries (for example, the top 3 per cent in Band C is equivalent to the top 2 per cent in Band D) appear to be based on out-of-date evidence (although up-to-date evidence at the required level of detail may not be obtainable).

- The observational breakpoints used to devise the original bands (for example, the decision on where to draw the line between band B and band C) appear arbitrary. This can lead to counter-intuitive outcomes: for example, Australia has a multiplier of 1 and New Zealand of 2.3.

6.144 These issues are examined in more depth in Annex C. In the time available we were not able to fully analyse alternative approaches that could be used by the UKBA to calculate the salary multipliers and form a firm judgement on what the best method was. This is an issue that requires careful consideration by economists from various Government departments, probably including the UKBA, the Foreign and Commonwealth Office, BIS and HM Treasury.

6.145 Therefore, **we recommend that the Government carries out a full review of the salary conversion model prior to introducing the recommendations we are making in relation to Tier 1.** The review would require the relevant departments to establish the rationale for the salary conversion model, gather the relevant data, identify potential options and weigh up the pros and cons of these options. We would be happy to steer this work and to make a recommendation regarding the final approach used if the Government wished us to do so.

Table 6.9: Salary bands and multipliers currently used in Tier 1 of the Points Based System		
Band	**Multipliers**	**Selection of countries by band**
A	1.0	Australia, Canada, Japan, Kuwait, United States
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

6.146 Some issues that the review group may wish to consider are discussed below. These relate to two key questions:

- If the current approach is to be retained, can it be refined and/or updated?

- Should the approach to calculating the salary multipliers be more fundamentally amended?

6.147 In terms of **refining or updating the current approach**, the first question is whether it is right for the UKBA, at the start of the process, to convert salaries using spot exchange rates. Would it be preferable to use PPP exchange rates instead? PPPs are a form of exchange rate that take into account the cost and affordability of common items in different countries, usually expressed in the form of US dollars. However, they are not updated on an ongoing basis, whereas spot exchange rates are.

6.148 The most up-to-date PPP figures are for 2005 and were calculated as part of the International Comparison Program under the World Bank. It is possible to adjust these using price indices for each country to ensure that they are kept up to date with varying inflation across countries. PPP is calculated in several different ways and PPP based on household consumption may potentially be the most useful here.

6.149 The relative ranking of countries in terms of GDP per head is likely to have changed over time. Therefore, a second refinement would be to update the salary multipliers using the latest data. The multipliers are calculated using data on GDP per capita (PPP) and income distribution for non-EEA countries:

- the GDP per capita (PPP) data are readily available from the IMF and the World Bank; and

- there may be difficulties in obtaining up-to-date income distribution data by percentile, as this information is scare and difficult to collate.

6.150 A third refinement would be to revisit the banding structure. The banding structure appears to be particularly blunt, raising the question of whether it is right to have only five bands. There is scope either to increase the number of bands or to remove the bands altogether and use individual salary multipliers, although the latter approach would be hindered by incomplete data for certain countries.

6.151 Regarding the second question, **whether the approach to calculating the salary multipliers should be fundamentally amended**, a good starting point would be to investigate the extent to which PPP exchange rates may serve as adequate salary multipliers themselves, without further supplementary calculations. The key issues here are whether using PPP exchange rates makes sufficient allowance for the following facts:

- individuals in poorer countries will earn less on average; and

- skilled people in poorer countries are likely to be positioned higher up in the income distribution than in the UK.

6.152 If simply using PPP exchange rates does not sufficiently adjust for those factors, there are several alternative approaches that may be worthy of consideration:

- median earnings in the UK could be compared to median earnings in the relevant foreign country to generate the multiplier;

- a similar comparison could be made of UK GDP per capita with that of the foreign country; and/or

- using the difference in the income share held by the top 10 per cent relative to that held by the bottom 10 per cent in comparison to the UK to generate an adjustment factor to be used instead of, or in addition to, the approaches described above.

6.153 In either case, the UK and foreign country figures would first have to be converted to make them comparable, using spot exchange rates or PPP.

6.154 The above approaches would alleviate the problem, raised earlier, of having limited income distribution data available by percentile for updating the multipliers using the current methodology. Recent work examining income inequality across countries has tended to compare the percentage of income held by different shares of the population, usually by decile – for example, the World Institute for Development Economics Research of the United Nations University *World Income Inequality Database*.

6.155 Lastly, as a sense-check for any alterations to the salary multipliers the review group may wish to scope the use of occupational salary surveys, such as the *Occupational Wages around the World* database by the National Bureau of Economic Research or internet resources designed for companies relocating staff across countries, to compare the magnitudes of any revised salary multipliers. Occupational salary surveys themselves are unlikely to be able to be used to calculate revised salary multipliers in isolation due to their limited worldwide coverage.

6.156 The above are preliminary comments only and further investigation is required into their validity and feasibility, along with consideration of any possible alternatives, as part of a full comprehensive review.

6.9 Option 8: amend leave to remain and extension of leave to remain periods

6.157 Under the current specification of the Tier 1 General route the initial leave to remain entitlement is three years, which can then be extended for an additional two years. Once individuals have entered the UK, they can work in unskilled jobs, or not work at all, for up to three years. This is a generous amount of time to allow an immigrant to establish themselves in skilled employment, given the potential risk of displacement in less skilled occupations.

6.158 Several stakeholders mentioned the initial leave and extension periods under Tier 1 General. Most evidence received on this issue urged caution when considering any restrictions to the leave entitlement. The Immigration Advisory Service warned against any restructuring of the Tier 1 specification that would cause further confusion to immigrants; many immigrants who currently apply for leave extensions often feel the need to seek legal advice before doing so. There was also concern that skilled immigrants who entered the UK under the HSMP would suddenly face tighter restrictions. These stakeholders suggested that immigrants should remain subject to the conditions prevailing when they originally entered the UK. We discuss the issue of how our recommendations

should be applied to people already in the UK in section 6.13.

6.159 The limited evidence we have in relation to Tier 1 General immigrants, such as that from the Tier 1 evaluation discussed in Chapter 5, suggests that most do find skilled employment relatively quickly. Furthermore, two years should be a sufficient amount of time for a highly skilled person to find appropriate employment within the UK. Therefore, **we recommend that the initial leave to remain entitlement is reduced from three to two years, with a three-year extension subject to evidence that the individual is in highly skilled employment**.

6.10 Option 9: change English language requirement

6.160 As with Tier 2, there is a requirement that applicants under the Tier 1 General route meet a minimum requirement for English language ability. This can be met if an applicant:

- is a national of a majority English-speaking country; or

- has passed a test in English equivalent to C1 of the Council of Europe's Common European Framework for Language Learning; or

- has a degree taught in English which is verified using UK NARIC.

6.161 Currently, English proficiency is a requirement of successful applications under the Tier 1 General route. Evidence from other countries, notably Australia, shows that language ability can be an important factor in labour market

success for immigrants. A study by the Australian Department of Education, Employment and Workplace Relations (2009) highlights the importance of English language proficiency within the context of post-study visas in Australia. The study shows that both in-country and out-of-country graduates who assessed their own level of spoken English to be very good were more likely to be employed within 18 months of arrival in Australia, or graduation, than skilled immigrants who felt their spoken English was poor.

6.162 Tier 1 General route immigrants are expected to access highly skilled jobs in the labour market; they need to have sufficient language ability to do jobs that will require a high level of communication skills. Common sense dictates that those of majority English-speaking countries who have a bachelor's degree are likely to possess sufficient language skills to make use of their skills in the UK. Likewise, gaining a degree which is taught in English is a relatively high benchmark.

6.163 Level C1 is described as 'Advanced Level' or 'Proficient User' in the Common European Framework, and implies that an individual *"can understand a wide range of demanding, longer texts, and recognise implicit meaning. Can express him/herself fluently and spontaneously without much obvious searching for expressions. Can use language flexibly and effectively for social, academic and professional purposes. Can produce clear, well-structured, detailed text on complex subjects, showing controlled use of organisational patterns, connectors and cohesive devices."* (Council of Europe, 2009)

6.164   Table 6.10 sets out the other levels within the Council of Europe's Common European Framework (CEF), and the other common assessment framework, the International English Language Testing System (IELTS).

6.165   One stakeholder, who wished to remain anonymous, stated that in their experience Tier 1 applicants' command of English was not good enough for some employers, suggesting an increase to level C2. The University of Oxford, instead, argued for additional exemptions to the English language requirement.

Table 6.10: Levels of English language ability in the IELTS and CEF frameworks		
IELTS	**CEF**	**Meaning in practice**
9.0		Has fully operational command of the language.
8.0		Has fully operational command of the language with only occasional errors. Handles complex detailed argumentation well.
	C2	
7.0		Has operational command of the language, though with occasional errors. Generally handles complex language well and understands detailed reasoning.
	C1	
6.0		Has generally effective command of the language. Can use and understand fairly complex language, particularly in familiar situations.
5.0	B2	Has partial command of the language, coping with overall meaning in most situations. Should be able to handle basic communication in own field.
4.0		Basic competence is limited to familiar situations. Unable to use complex language.
	B1	
3.0	A2	Conveys and understands only general meaning in very familiar situations.
	A1	Basic knowledge of the language, familiar everyday expressions and phrases.

Note: The International English Language Testing System (IELTS) and the Common European Framework (CEF) do not have direct level equivalents.
Sources: British Council (2009); www.ielts.org/institutions/test_format_and_results.aspx

"We would also like to see some recognition of English Language skills gained by people who have lived and worked for years in English-speaking environments (this also applies to applicants for Tier 2 visas). It is overly bureaucratic for such people to have to take an English language test – while they would doubtless pass easily, they are not necessarily willing to incur the inconvenience, expense and delays involved in taking a test and so may decide not to accept posts here."

University of Oxford response to call for evidence

6.166   Level C1 appears to be a reasonably high benchmark. There is little firm evidence to draw on in terms of determining what is precisely the right level but, intuitively, level C1 appears to represent about the right level of stringency. We therefore make no recommendation to change the English language requirement under Tier 1 General.

6.11 Option 10: amend maintenance requirement

6.167   Along with the English language requirement, a maintenance requirement is mandatory for the Tier 1 General route, as described in Chapter 2. Several stakeholders felt that the maintenance requirement should be relaxed. Among the reasons given to support this argument were the restrictive nature of the maintenance requirement and the problems it causes for immigrants from developing countries. In addition, some stakeholders complained that the requirement was applied in an inappropriately inflexible manner.

6.168   The Confederation of British Industry (CBI) felt that the maintenance requirement ensured that any burden placed on the UK public purse by immigrants was limited. However, the Biotechnology and Biological Sciences Research Council (BBSRC) and the Wellcome Trust Sanger Institute argued that salaries paid to scientists are often insufficient for them to meet the maintenance requirement.

"Scientists are not always paid the highest salaries therefore, to be able to demonstrate maintenance funds of £3,000 (more if there are dependants) for a period of 3 months prior to application for a Tier 1 certificate [sic] can be very difficult and for some almost impossible."

BBSRC response to call for evidence

6.169   The Immigration Law Practitioners' Association (ILPA) further suggested that the requirement, as it stands, is biased against those from poorer countries. On the other hand, the Home Affairs Committee (2009) recognised that *"there is no circumventing the fact that there is a set cost of living in the UK, regardless of whether meeting that cost is more or less onerous on migrants from different parts of the world"*.

6.170   In terms of inflexibility, the BBSRC suggested that *"if the individual has a written job offer it should be possible for the employer to provide a guarantee of maintenance (i.e. a salary offer) as part of the application process. Likewise, if an individual has been awarded a personal fellowship … it should be possible for them to provide proof of maintenance by providing a copy of the fellowship award."*

6.171   The Immigration Advisory Service and ILPA also argued for more flexibility to be applied on the maintenance requirement.

"That an individual with adequate funds is refused because for a couple of days during a three month period his/her bank balance dropped below a required level has led ILPA to question what mischief the maintenance requirements are designed to address and whether they are indeed crafted to address the mischief or just to put a hurdle in the way of all, in a way that does not distinguish between those whose skills the UK needs … and others."

ILPA response to call for evidence

6.172 Concerns about the maintenance requirements were reiterated at a stakeholder event in September 2009. We were told that the amount required for families seemed particularly excessive, and furthermore that the length of time that adequate funds must be held in a bank account should be reduced from three months to two months, or possibly even one month.

6.173 We have considered these issues. Overall, we believe that robust requirements need to remain in place. We are of the view that the purpose of the maintenance requirement is to ensure that individuals are able to maintain themselves *in the UK*, not in their country of origin.

6.174 Nonetheless, if there are operational changes that can be made to curb unnecessary inflexibilities while maintaining robust controls, we encourage the UKBA to give them consideration. Specifically, we believe that allowing employers to act as guarantors for highly skilled migrants with an appropriate job offer may help to address both concern of bias against immigrants from poorer countries, and instances where highly skilled immigrants may not be sufficiently remunerated to meet the maintenance requirement. Sponsored employers under Tier 2 can

act as guarantors. On the other hand, employers under Tier 1 do not have to be sponsored, so we recognise there may be genuine operational barriers to such a change.

6.175 Therefore, **we recommend that the UKBA considers the operational feasibility of an employer acting as a guarantor for an individual's maintenance requirement within the Tier 1 General route**.

6.12 Enforcement

6.176 We have not encountered widespread accusations of abuse of Tier 1 and stakeholders have not raised any specific issue around enforcement. Nevertheless, we briefly set out some principles in terms of practices that the UKBA should ensure are implemented:

- rigorous checks of documentation regarding age, earnings and qualifications prior to entry to the UK;

- follow-up enforcement activity to ensure that the individual leaves the UK when an application is refused: to switch in-country into, or within, Tier 1 General; or to extend a stay in the UK under Tier 1 General; and

- adequate intelligence-led checks to ensure that employers are viewing and regularly reviewing all relevant documentation, and keeping appropriate records.

6.177 The Association of Foreign Banks, in its response to the call for evidence, encapsulates the aspiration for the PBS: *"It was the very essence of the PBS to implement a more 'policed' migration regime with migrants being vetted and assessed at various stages by the UKBA, British diplomatic posts,* [the] *Immigration Service and indeed employers; we believe*

this significantly removes the risk of abuse."

6.13 Conclusions

6.178 The Tier 1 General route is an important route within the PBS that attracts and selects highly skilled immigrants. We do, however, make some recommendations with regard to the design and operational aspects of this route.

6.179 Our analysis and recommendations primarily concern the features of a well-designed route for regulating new highly skilled immigration from outside the UK. We have not considered in depth the issue of how our recommendations should be applied to immigrants already in the UK looking to extend their stay through this route, as we see this as an operational decision for the Government. However, our general view is that, where an individual has operated within the existing rules and requirements, there is a case for putting in place transitional arrangements that would prevent a sudden and unexpected raising of the bar for that person.

"Effectively raising the bar … might create problems for those who have qualified under the current PBS but who apply for extensions in the future. If the bar is to be raised, then consideration needs to be given to employees in this situation to ensure that they are treated fairly. For the TUC this should mean they remain subject to the same rules as those applied when they first applied to work in the UK."

TUC response to call for evidence

6.180 We recommend that the Tier 1 General route is retained and in terms of calibration of points we recommend that:

- appropriate professional qualifications held in addition to an undergraduate degree are recognised as equivalent to a master's degree for the purposes of the PBS and that claims that some undergraduate degrees are equivalent to a master's degree are also given consideration on a case-by-case basis; and

- individuals with an undergraduate degree are allowed to enter under Tier 1, subject to an appropriate earnings threshold.

6.181 In addition, in relation to the current selection criteria, we make the following recommendations:

- For age: those aged 29 and under are awarded 20 points; those aged 30 to 34, 10 points; those aged 35 to 39, 5 points; and no points are awarded to those aged 40 and over.

- For qualifications: 30 points awarded for a bachelor's degree is reinstated; 35 points continue to be awarded for a master's degree; and points for a PhD are reduced to 45.

- For previous earnings: points are not awarded for earnings less than £25,000; and earnings bands are set as in Table 6.7.

- The 5 additional points continue to be awarded as at present for UK experience.

6.182 We also recommend that an additional salary band is introduced with a threshold of £150,000 for which 75 points are awarded with no additional points required for age, qualifications or UK experience. Table 6.11 summarises our recommendations on selection criteria and points.

6.183 We recommend that the Government carries out a full review of the salary conversion model prior to introducing the recommendations we are making in relation to Tier 1. We would be happy to steer this work and to make a recommendation regarding the final approach used if the Government wished us to do so.

6.184 We recommend that the initial leave to remain entitlement is reduced from three to two years, with a three-year extension subject to evidence that the individual is in highly skilled employment.

6.185 Regarding maintenance, we recommend that the UKBA considers the operational feasibility of an employer acting as a guarantor for an individual's maintenance requirement within the Tier 1 General route.

Table 6.11: Summary of the MAC's recommendations on criteria and points for the Tier 1 General route						
Highest qualification		**Previous earnings**		**Age**		**UK experience**
	Points		**Points**		**Points**	**Points**
Bachelor's	30	£25,000–£29,999	5	40 and over	0	5
Master's	35	£30,000–£34,999	15	35–39	5	
PhD	45	£35,000–£39,999	20	30–34	10	
		£40,000–£49,999	25	29 and under	20	
		£50,000–£54,999	30			
		£55,000–£64,999	35			
		£65,000–£74,999	40			
		£75,000–149,999	45			
		£150,0000+	75			

Note: Points are awarded once per application per criterion. 75 points are required to pass. In addition, there are two mandatory requirements: English language and maintenance.
Source: Migration Advisory Committee analysis

Chapter 7: Post-Study Work Route

7.1 Introduction

7.1 This chapter details the policy options we have considered and recommendations we are making in relation to the Post-Study Work Route (PSWR). As in Chapter 6, the options are informed by a combination of stakeholder input, our own supporting analysis and other relevant evidence. As is usual in our analysis of the Points Based System (PBS), we begin by asking what justification there is for retaining the route at all.

7.2 Option 1: close the PSWR

7.2 The Tier 1 Statement of Intent described the purpose of the PSWR as being to *"boost the UK's attractiveness as a place to study, bringing benefits to our educational establishments".* Therefore, in addition to boosting the supply of graduates to the UK labour market, the objectives of the route also concern the financial and non-financial benefits that international students bring.

7.3 Most stakeholders that submitted evidence relating to the PSWR argued that there was no need for it to be altered in any way. Universities UK told us that the PSWR has evolved from a number of predecessor schemes that had changed their requirements too frequently. Further change would add to existing confusion among international students and could have a detrimental impact on the attractiveness of the UK as a destination for study.

7.4 Universities UK welcomed the creation of the PSWR as a way of recognising the value of international graduates to UK employers and told us that it was a significant factor in the recruitment of international students to the UK. According to Universities UK (2009), the number of non-European Economic Area (non-EEA) students at UK universities has almost doubled since 1998.

7.5 A paper by Vickers and Bekhradnia (2007) was supplied by Universities UK. This estimated that the net direct cash benefit to the UK from the fee income and living expenditure of non-EEA students amounts to at least £3.3 billion per year. Furthermore, according to this report, those non-EEA students who remain in the UK to work after graduation contribute at least £100 million per year in fiscal benefit as well as at least an additional £1 billion per year to UK gross domestic product (GDP).

7.6 However, the above estimates depend on various assumptions, including use of GDP multipliers, which are based on limited evidence yet significantly affect the results. Such estimates must therefore be treated with caution.

7.7 Also submitted by Universities UK was a 2009 report from the Council for Industry and Higher Education (Connor and Brown, 2009). This outlined numerous non-financial benefits of non-EEA students. One such benefit was that non-EEA students and graduates bring specific knowledge of different countries, languages and cultures which are beneficial to UK businesses that wish to develop new markets. The report suggests that the presence of non-EEA graduates in UK firms broadens the outlook of the companies' workforces and makes businesses more receptive to new ideas. We note, however, that the PSWR is only one of several routes by which non-EEA graduates of UK universities may come to work in the UK.

"By limiting the ability of overseas nationals to train and work in the UK, the UK may irrevocably damage its reputation as a centre of international business excellence and commerce. This reputation will not be easy to regain once the recession ends and the country is keen to attract entrepreneurs, graduates, and corporate investment. It is appropriate to 'hold our nerve', lest we regret any overreaction to temporarily difficult economic times."

Deloitte response to call for evidence

7.8 Cardiff University said that further restrictions to the PSWR would have severe impacts on university funding.

7.9 The Institute for Public Policy Research (IPPR) said that the PSWR was important for attracting high-quality foreign students, and that any restriction to this route would negatively impact on the recruitment of non-EEA students. Furthermore, Deloitte argued that restrictions to the PSWR would reduce the overall competitiveness of the UK economy.

"The post-study route in Tier 1 is an important factor in attracting many high-quality foreign students to the UK – these students are providing a valuable source of revenue in tight times for the higher education sector as well as highly skilled labour. We consider that any restriction in students' post-study access to the labour market would have a negative impact on the recruitment of non-EEA students to British universities."

IPPR response to call for evidence

"To limit or restrict the post-study route in the UK may have an adverse effect on where students choose to study in future. This may in turn have economic repercussions for our universities and colleges of higher education as well as narrowing the pool of available talent for UK employers."

Deloitte response to call for evidence

7.10 The Ground Forum stated that it was essential for the recruitment of ground engineers that the PSWR be kept open because non-EEA student enrolments help to maintain the financial viability of courses in ground engineering. Without these students, it was said, the courses may no longer be available to domestic students at UK universities. Another anonymous stakeholder stated that the PSWR visa works well in practice, especially with regard to the ability to switch to Tier 2.

7.11 As detailed above, some stakeholders provided us with evidence in relation to the financial and economic importance of the PSWR. We also carried out our own analysis of this issue.

7.12   We obtained data from the Department for Business, Innovation and Skills (BIS) on undergraduate and postgraduate course enrolments by domicile for the academic year 2007/08. We also received, from the Higher Education Funding Council for England (HEFCE), data on aggregate revenues from EEA and non-EEA domiciled students.

7.13   As shown in Table 7.1, total fee income from non-EEA domiciled students for the academic year 2007/08 was £1,880 million compared with £1,776 million and £1,461 million for income from UK student loan funding and other fee income respectively. These sums have been highlighted in bold. Other fee income is income derived from full and part-time undergraduates and postgraduates paid from sources other than the Student Loans Company (SLC). It also comprises course fees paid in cash, further education course fees and research training support grants. It does not include any fees paid by non-EEA students. As with funds contributed by non-EEA students, these funds are accrued directly by universities and are not sourced from the UK Government.

7.14   Non-EEA students therefore contribute 37 per cent of total university fee income and 8 per cent of total university income, as illustrated in Table 7.1.

7.15   Average fees per non-EEA student substantially exceed those per UK student. For the academic year 2007/08 EEA students paid an average fee of £2,200 and non-EEA students paid an average fee of £8,600. On the basis that the service provided to non-EEA students is essentially the same as that provided to UK students, and that the educational institutions reinvest the revenue gained from international students, it follows that the foreign students are effectively cross-subsidising the education and human capital accumulation of their UK counterparts. This corroborates the bottom-up evidence that fewer non-EEA students would, all other things being equal, mean fewer UK students being able to access university education.

Table 7.1: UK universities' funding sources from the Higher Education Funding Council for England for academic year 2007/08			
Source	**Funding stream**	**Value of income (£m)**	**Percentage of total**
BIS/Scottish Assembly/National Assembly for Wales/Dept for Employment and Learning (NI)	**UK student loan funding**	**1,776**	**7.6**
	Funding Council grants	8,508	36.3
UK research councils	Research grants and contracts	1,358	5.8
	Postgraduate fees	427	1.8
Other government	Research	919	3.9
	Non-research	1,549	6.6
Other research income		619	2.6
UK charities		826	3.5
Non-EEA student fees		**1,880**	**8.0**
Residence and catering		1,316	5.6
Other income	**Other fee income**	**1,461**	**6.2**
	Income for non-research services	979	4.2
	Endowments	508	2.2
	Other operating income	1,314	5.6
Total		**23,440**	**100**

Note: UK student loan funding comprises payments of tuition fees afforded by loans granted to students through the Student Loans Company (SLC) as part of the UK Government's financial support package for students. Other fee income comprises full and part-time undergraduate and postgraduate fees paid from sources other than SLC/local education authorities and the Department of Health. It also comprises course fees paid in cash, further education course fees and research training support grants.
Source: Higher Education Funding Council for England: A guide to UK higher education (September 2009)

7.16   It is reasonable to assume that a proportion of students who come to the UK to study are attracted by the prospect of working in the UK after graduation. Of those who are attracted by the PSWR, some might not come to study if the post-study work option is removed. If we estimate the likely impact of closing the PSWR on non-EEA student flows to the UK, it is then possible to estimate the financial implications. Below we estimate the potential impact on flows by:

- attempting to estimate the proportion of students currently entering the PSWR; and

- considering the revenue implications, should these students decide not to come to the UK.

7.17 There are some caveats to this calculation. The proportion of students attracted by the prospect of the PSWR may be either above or below the proportion that ultimately enters the route. The calculation may overestimate the numbers attracted by the PSWR because:

- some of the students who are attracted by the PSWR will be drawn by other factors too, and would come to the UK to study even if the route did not exist; and

- some of the students who eventually enter the PSWR might not, at their time of entering the UK, have been attracted by the route, or even aware of it.

7.18 Alternatively, flows onto the PSWR route may underestimate the impact of the PSWR on non-EEA student numbers because:

- some will be attracted to study in the UK by the PSWR, but not ultimately enter the route; and

- the presence of the route may send positive signals, intended or otherwise, to other countries about the UK's openness to international students.

7.19 Despite the caveats, the calculations below provide a broad indication of the possible financial impacts of abolishing the PSWR. The first stage is to estimate the annual flow of non-EEA graduates eligible for PSWR approval based on total non-EEA student enrolments in 2007/08 as we cannot directly acquire data on annual non-EEA student grants. The data we used were acquired from BIS and then adjusted to reflect the fact that students 'enrol' separately for each year of their study. We have therefore divided total enrolments in 2007/08 by the typical duration of each course in years, as shown in Table 7.2, yielding an estimate of 134,546 for the annual flow of non-EEA students eligible for PSWR approval.

Table 7.2: Non-EEA enrolments and adjusted enrolments for the academic year 2007/08		
	Total enrolments	**Adjusted enrolments**
Bachelor's	98,500	32,833
Master's	94,070	94,070
PhD	22,930	7,643
Total	**215,500**	**134,546**

Note: Non-EEA enrolments for bachelor's degree and PhD are divided by three to reflect a typical three-year duration; total non-EEA enrolments for master's degree are unadjusted to reflect a typical one-year duration.
Source: Department for Business, Innovation and Skills

7.20   The second stage of calculation involves estimating the number of PSWR applicants. Unfortunately, PBS management information does not allow us to disaggregate individuals who have switched from predecessor schemes, specifically the International Graduates Scheme (IGS), from those applying for the PSWR for the first time. We also reiterate that the management information data are neither national statistics nor quality assured to national statistics standards and may be subject to change.

7.21   Figure 7.1 shows the number of approvals to all post-study routes over the last five years to May 2009. There were 37,100 granted Tier 1 PSWR applications in 2008/09. This includes both first-time PSWR applicants and those IGS applicants from the previous 12 months who may decide to switch to the PSWR to gain an additional year's leave to remain, as the entitlement under the IGS was only one year.

Figure 7.1 Successful post-study applications: 2004/05 to 2008/09
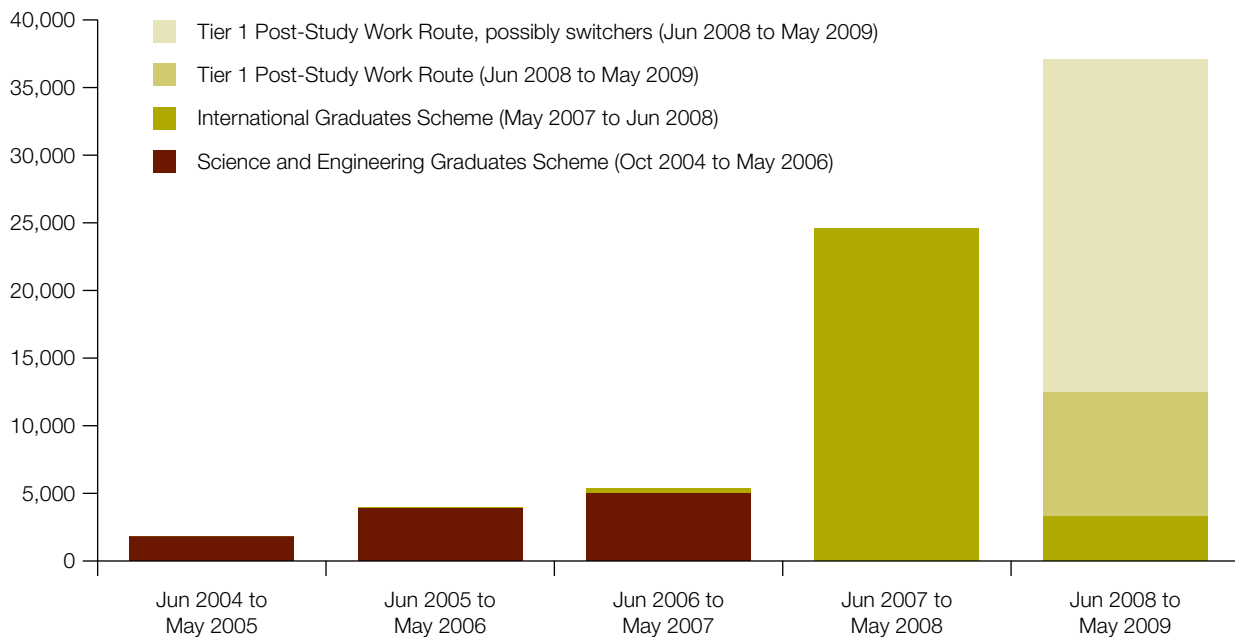
Note: Between June 2008 and May 2009, 37,100 applications were approved under the Tier 1 Post-Study Work Route (PSWR). The maximum number of possible switchers is calculated as equal to the number of admissions under the International Graduates Scheme (IGS) during the previous 12 months. We do not have equivalent figures for the Fresh Talent: Working in Scotland Scheme (FT:WISS). Years are taken from June to May in order to isolate IGS applicants in the year 2007/08.
Source: UK Border Agency management information, 2004–2009

7.22   We do not know the volume of IGS switchers, but it will be somewhere between zero and the volume of IGS approvals in 2007/08, which was 25,000. Unlike the PSWR in 2008/09, there was no switching into the IGS in 2007/08.

7.23   The figure of 37,100 is an upper-bound estimate of the current annual flow of PSWR applicants, in the extreme and unrealistic scenario which assumes there were no IGS switchers. We have also calculated a lower-bound estimate of 12,100. This is based on an alternative extreme scenario whereby all 25,000 students gaining IGS approvals in 2007/08 subsequently switched to the PSWR: this figure is the difference between 37,100 and 25,000.

7.24   As neither extreme scenario will materialise in practice, we have also used a more plausible middle-bound estimate of 25,000, which is equal to the flow

of IGS applicants in 2007/08. We have chosen to measure annual approvals from June until the following May in order to best isolate IGS approvals from the preceding Science and Engineering Graduates Scheme (SEGS) and from the PSWR approvals. This provides us with 12 months of data in which potential double-counting caused by switchers is avoided.

7.25   Table 7.3 shows how these three upper, middle and lower-bound estimates of PSWR approvals convert to 28 per cent, 19 per cent and 9 per cent respectively of estimated non-EEA annual flows into UK degree courses. This translates into an impact on university fee income of between 10 per cent and 3 per cent, with a preferred mid-range estimate of 7 per cent. Since fees account for only a proportion of total university income, the 7 per cent figure equates to 1.5 per cent of total UK university income as defined in Table 7.1.

Table 7.3: Estimated proportion of the annual flow of non-EEA students applying to the Post-Study Work Route (PSWR) and associated possible impacts on UK university fee income for the academic year 2007/08				
Estimate of PSWR approvals	Estimated new PSWR applicants	Estimated flow of non-EEA enrolments	PSWR applicants as a proportion of adjusted non-EEA enrolments (per cent)	Estimated contribution to university fee income (per cent)
Upper bound	37,100	134,546	28	10
Middle bound	25,000	134,546	19	7
Lower bound	12,100	134,546	9	3

Note: These estimates are derived from the value of university income for the academic year 2007/08 depicted in Table 7.1.
Source: Higher Education Statistics Agency/Department for Business, Innovation and Skills, Points Based System management information

7.26 It is worth noting that the loss of fee income would translate into a smaller net loss to UK universities, as they can reduce part of their cost base in response to reduced enrolments. On the other hand, some costs will be fixed, and even a relatively small revenue loss would not be evenly distributed: it would be likely to have a disproportionate effect on some institutions and some subject areas.

7.27 One way of calculating the net benefit, or net disbenefit, of PSWR closure is to consider the costs in terms of university revenue alongside the extent to which, if at all, levels of unemployment among UK-born graduates would fall in response. This in turn depends on the degree to which PSWR immigrants would otherwise displace UK-born graduates in the labour market.

7.28 As illustrated in Figure 3.3 of Chapter 3, the unemployment rate of 20–29-year-old degree holders started rising at the beginning of 2008, and now stands at 4 per cent for 25–29-year-olds and 11 per cent for 20–24-year-olds. Although we might expect those obtaining their degree in the preceding 12 months to exhibit relatively high unemployment rates, even in a healthy labour market, the rate for these individuals has also increased recently.

7.29 It is not self-evident that PSWR graduates have displaced, or will in the future displace, UK graduates. It is also possible that some PSWR approved immigrants could fill a shortage of graduates in a particular location or in a particular sector. They may also create additional jobs in the UK as a result of being complementary to the UK workforce and generating additional demand for goods and services produced in the UK. Some PSWR immigrants will, furthermore, not seek or find employment and may set up businesses.

7.30 Although rising unemployment rates for UK graduates suggest the situation should be kept under review, we have to date seen no direct evidence of displacement resulting from the PSWR and we do not recommend closure on this basis.

7.31 An additional benefit of the PSWR is that it could, theoretically, have a positive impact on international trade if a non-EEA graduate then returns to their home country and goes on to work for a foreign government or a foreign company. This could increase demand for UK goods and services and boost UK employment, but it is impossible to prove that this effect is likely to be significant.

7.32 In summary, non-EEA students contribute significantly to university fee income, and closing the PSWR is likely to significantly reduce the number of non-EEA students applying to study in the UK. This will have a small but significant impact on the higher education (HE) sector as a whole, and a larger impact on specific courses and institutions. There is no evidence that PSWR immigrants are displacing UK graduates. **We recommend that the Post-Study Work Route remains open.**

7.3 Option 2: change leave to remain entitlement

7.33 In general, the stakeholder evidence argued that there should not be any changes made to the PSWR leave to remain (LTR) entitlement. It was argued that restricting the entitlement would reduce the attraction of the UK as an immigration destination for students and highly skilled immigrants, and contravene the rationale for Tier 1.

7.34 However, one university, while recognising the value of the PSWR, argued that there may be a case for restricting leave entitlement because of the lack of available jobs for UK and EEA students. It was argued that reducing the amount of time that students can remain on the PSWR before either leaving the UK or switching to Tier 2 would help to protect domestic workers, while still providing an incentive for non-EEA nationals to come to the UK.

"Keeping non-EEA students in the UK after their studies … contributes to the UK economy and knowledge base, although here there are clearly some issues over the availability of jobs for UK/EEA graduates. … I can see the argument for tighter restrictions on post-study work. This could be achieved by a reduction in the time people can remain on this category before being required to transfer to Tier 2 or leave the UK. This would help protect the resident labour market whilst still contributing to the overall attractiveness of the UK as a place to study for non-EEA nationals."

Anonymous university response to call for evidence

7.35 Above we estimated the likely revenue loss to UK universities of closing the PSWR at around 2 per cent of total revenue. The impact of reducing the leave entitlement from two years to one would be smaller than that, but above zero. There is no clear evidence on the likely behavioural response of non-EEA potential enrolees at UK universities that would allow us to robustly quantify this effect.

7.36 Broadly, the arguments for and against restricting leave entitlement under this route are analogous to those as to whether or not it should be abolished, as already set out above. There are, however, two specific and significant reasons why

reduction of the leave entitlement for the PSWR could disadvantage the UK.

7.37 The first reason is that many PSWR-approved graduates will seek to transfer to the Tier 1 General route, which requires 12 months of previous earnings at the required level. The employer of a PSWR graduate switching to Tier 2 while remaining with that employer will also gain exemption from the Resident Labour Market Test (RLMT) only if they have worked for the company for six months or longer beforehand.

7.38 The above 12 and 6-month periods fall within the PSWR leave entitlement. A well-designed post-study route needs to allow scope for employed and productive immigrants to subsequently switch to other routes, and a leave entitlement of 12 months would significantly hinder the potential to switch in some cases. As a result, the UK may lose access to highly skilled and productive labour. This would apply to immigrants with master's degrees and PhDs as well as those with bachelor's degrees.

7.39 It is also the case that many large employers or graduates, including many blue-chip companies, operate a recruitment round for posts commencing in September. Thus someone graduating in 2009 may gain a graduate internship in September 2009 and then be recruited to join a different firm commencing in September 2010 or September 2011. Reduction of the LTR to one year would mean such a graduate could not apply for transfer to the Tier 1 General route in September 2010 since they might not have had 12 months of previous earnings, nor indeed the chance to have accumulated sufficient levels of earnings for their age and degree category.

7.40   Would an entitlement of between one and two years, 18 months, for example, strike the right balance? Because many firms operate an annual cycle of graduate recruitment, any leave entitlement of between one and two years would lead to some graduates having to return home because their leave would expire before they could switch from the PSWR to take up employment under Tier 1 General or Tier 2.

7.41   A second reason for retaining the two-year PSWR leave entitlement is that it makes UK universities a competitive destination for non-EEA students. The two years' leave afforded by the PSWR is significantly more generous than that offered by other countries, such as Denmark and Hong Kong, discussed in Chapter 5. Furthermore, many countries do not have an equivalent to the PSWR at all. This was described to us as a USP (unique selling point) for the UK in terms of attracting non-EEA graduates when we met foreign diplomats in a meeting organised by the Foreign and Commonwealth Office. We were also told that retention of the two years' initial leave period would help maintain the UK's reputation as a welcoming country for skilled people, which will positively impact on international relations and the UK's standing in the world.

7.42   Although we have some limited information from the evaluation of Tier 1, as discussed in Chapter 5 and later on in this chapter, we are concerned by what we regard as a lack of evidence in two key areas: first, the extent to which leave entitlement and length incentivises foreign students to study in the UK; and, second, the resulting outcomes when the post-study graduates enter the labour market. BIS has initiated a project that it believes will provide a better understanding of what international students do once they graduate from a UK higher education institution. The project will also look at the extent to which permission to work serves as a motivator for international students to come to the UK. The first phase of results will be available by summer 2010, and more robust results will be available by autumn 2011. We welcome the BIS study and it may be that our recommendations in this report, if accepted for the time being, should be considered again in the light of the findings.

7.43   We gave serious consideration to recommending that the leave entitlement for non-EEA graduates under the PSWR should be reduced from the current two years to a shorter period. It was a finely balanced decision, and should be reviewed in due course. However, for the time being, **we recommend that the leave entitlement for the Post-Study Work Route remains at its current level of two years.**

7.4   Option 3: increased leave entitlement for graduates in Scotland

7.44   The Scottish Government stated that it would like the PSWR leave period increased in Scotland from two years to three years. This evidence was received only three weeks before our deadline for reporting to the UK Government, but we have considered it.

7.45   The stated reason for the request was to help counteract the decline in Scotland's population observed since the 1970s. The Scottish Government said that the lower GDP growth rate in Scotland, when compared with the UK as a whole, can be explained to a large extent by the relatively lower population growth rates

in Scotland. Future projections also show the increased proportion of pensioners to workers expected to be more pronounced in Scotland than in most other parts of the UK.

7.46 We were told that Scotland has been successful in attracting settlement of many individuals from the EU, including the A8 countries and other parts of the UK, in recent years. Population growth rates, however, remain considerably below those for the UK as a whole. It was also argued that the deterioration of labour market conditions resulting from the economic downturn has made it more difficult to attract immigrants to Scotland.

7.47 The Scottish Government's proposed extension of the PSWR leave period in Scotland only would allow non-EEA graduates from UK universities who have spent the majority of the initial two-year leave period in Scotland to extend this for an additional year. It was asserted that this proposal would not disadvantage universities outside Scotland because the extension would be available to non-EEA graduates from all UK universities, provided they could evidence their commitment to settle in Scotland. Although immigration policy is not a devolved matter, it would not be unprecedented for Scotland to have special arrangements, as Scotland already has its own shortage occupation list under Tier 2 of the PBS.

"Extending post-study to three years … would allow Scotland to compete more effectively for global talent and spread the benefits of migration more evenly across the UK."

Scottish Government response to call for evidence

7.48 However, the submission acknowledged that it is not possible to control where immigrants choose to spend the additional year, and there is, therefore, no guarantee that immigrants will remain in Scotland.

7.49 An additional concern is that this scheme would also primarily benefit graduates who do not have the skills and experience to meet the criteria to switch into Tier 1 or 2 of the PBS after two years. To the extent that such an arrangement would attract a flow of additional immigrants to Scotland, those immigrants would be likely to be less skilled, on average, than the PSWR cohort as a whole.

7.50 For the above reasons, we do not believe there is a clear economic case for extending the PSWR leave period for Scotland only, and we do not recommend such a change.

7.5 Option 4: restrict the PSWR to certain institutions or courses

7.51 Very few responses specifically raised the issue of courses and institutions that qualify for the PSWR. However, Kingsley Napley suggested that if the PSWR must be tightened, it should at least remain open for graduates of subjects that develop skills that are in short supply in the UK. Additionally, we believe that, because the PSWR entitlement applies equally to all degree subjects and all registered institutions, it is sensible to consider whether there is a robust economic basis for such uniform treatment.

"The Post-Study Work Route has already been amended once to limit the number of overseas students who qualify. If it is felt that the qualifying criteria are still too wide, we suggest that the route be restricted to graduates of specific subjects where there is a shortfall of skills. However, any such restriction must be balanced against it being a possible disincentive to international students in choosing the UK for their tertiary education."

Kingsley Napley response to call for evidence

7.52   Calculations of returns to degree courses alongside evidence of non-EEA enrolment on such courses could permit analysis

of the value of non-EEA students to employers. Such valuations could also suggest a list of courses to which PSWR eligibility could be limited, or indeed for which additional eligibility (such as increased initial leave) could be permitted.

7.53   As discussed above, data limitations mean we have been unable to extensively analyse the employment outcomes resulting from PSWR approvals, or approvals from the predecessor schemes. There is, however, a small economic literature on the returns to degree subjects.

7.54   Zhu (2007) analyses Labour Force Survey (LFS) data from 1994 to 2006 to compare

Table 7.4: Estimated returns to degree course, by gender relative to two plus A-levels		
Degree subject	**Men (per cent)**	**Women (per cent)**
Economics	41.6	68.0
Health	39.4	61.8
Business/Management	38.4	53.2
Science	20.6	40.6
Maths/Statistics	34.1	63.9
English	26.9	46.5
Law	37.9	60.7
Education	12.6	52.5
Social Science	12.0	35.8
Languages	11.5	45.5
Arts/Humanities	0.4	27.9

Source: Yu Zhu (Department of Economics, Kent University), based on data in the Labour Force Survey (LFS) (2007). Data available at http://whystudyeconomics.ac.uk/jobs/earnings.htm

the average earnings of those students with a highest qualification of at least two A-levels (i.e. those who were academically capable of attending university) with the average earnings of university graduates. LFS data for graduates contain details of their chosen university subject, and it is therefore possible to compare the returns to university education for various degree subjects. These percentage wage differentials are derived from statistical models of real gross hourly wages. Degree subject dummy variables are included, as well as controls for ethnicity, age and the year in which the data were recorded. As illustrated in Table 7.4, there are substantial variations in the estimated returns to a university degree depending on the chosen subject of study. Other studies have shown similarly wide variations in terms of the economic returns to different degree subjects.

7.55   Enrolment data from 2007/08 from BIS show that the proportion of all students enrolled on courses associated with higher returns is significantly greater for non-EEA students than for EEA students. At undergraduate level, almost 15 per cent of non-EEA students were enrolled on business/management courses compared with just over 6 per cent of EEA students. The same observation is made for business/management courses at master's level, with nearly 25 per cent of non-EEA master's students enrolled on these courses compared with less than 15 per cent of EEA students. In the case of economics, nearly 5 per cent of non-EEA undergraduates enrolled on these courses compared with just over 1 per cent of EEA undergraduates. Again, at master's level, the proportion of all students enrolled on economics courses was more than three times greater for

non-EEA students than for EEA students. Engineering degrees, unfortunately not covered by the Zhu analysis, were also popular among non-EEA students, with over 14 per cent of all non-EEA students enrolled on such courses.

7.56   Moving from courses to institutions, the current list of bodies that can award recognised UK degrees is held by BIS and is shown in Annex A. This list currently comprises 154 recognised bodies and 599 listed bodies. Recognised bodies have their own degree-awarding powers, whereas degrees from listed bodies are awarded by one of the 154 recognised bodies. As a general rule, recognised bodies are UK universities and listed bodies are HE institutions or colleges.

7.57   There are therefore students at 753 institutions that may be eligible for PSWR approval. It is plausible that the standard of the qualification, in terms of both the quality of teaching and assessment, and the value of the qualification to employers, varies greatly among these institutions. Yet all are treated equally in terms of post-study leave entitlement.

7.58   Numerous complex issues must be taken into account when considering whether the PSWR entitlement should vary between different institutions or courses. First, there are the various key information gaps, discussed above. Second, different institutions will be impacted to differing degrees by any changes. Third, there may be multiple policy objectives to take into account: a policy which aimed to maximise the economic return per student may conflict with one intended to provide sufficient financial support to those institutions that play a particular role in terms of broadening participation in higher education according to socio-economic background.

7.59   Owing to the complexities and information gaps, we recommend no immediate change to the current list of institutions and degree subjects that permit eligibility for PSWR leave, nor any variations in the nature of that leave entitlement at this time. However, we believe this issue requires further detailed consideration, alongside the results of the BIS study discussed in the previous section.

7.60   Data from evaluation of the PBS, presented in Figure 5.2 in Chapter 5, suggested that, compared with the Tier 1 General route, a relatively large proportion of PSWR graduates work in less skilled occupations following graduation. Possible policy responses could be to close the PSWR route or to restrict the LTR entitlement to less than two years. We do not recommend such changes, for reasons set out in this chapter. Nonetheless, if the PSWR leave entitlement is to remain at two years, this adds extra urgency to efforts to ensure that only the most skilled and talented individuals enter the route to begin with.

7.61   Therefore, **we recommend that the Government commissions detailed analysis of the economic returns to studying at particular institutions and for particular degree subjects. The Government should then review whether the current policy with regard to equal Post-Study Work Route allowance for graduates of all qualifying institutions and degree subjects should be amended.**

7.62   In relation to the PSWR, the Department for Communities and Local Government (CLG) cited rising unemployment experienced by UK graduates and the detrimental effect that this can have in the long term. One option we considered was making a stay in the UK under the PSWR

for two years contingent on the graduate finding employment within a certain shorter period of time. We have not recommended this partly because we are not sure how such an arrangement would be made operational within the current PSWR system. However, we support CLG's sentiment that the PSWR should not inadvertently damage the prospects of UK graduates and this provides additional justification for ensuring that only genuinely highly skilled and talented immigrants are eligible for the scheme.

7.6   English language, maintenance and enforcement

7.63   English language proficiency is currently not assessed for eligibility for the PSWR on the implicit assumption that such proficiency would have been a prerequisite for enrolment in the education institution. The introduction of an English language requirement for the PSWR was not mentioned in the stakeholder evidence. For this reason, we do not recommend that an English language proficiency requirement needs to be introduced to determine eligibility for LTR under the PSWR.

7.64   Amending the maintenance requirement entry condition for the PSWR was not mentioned in the written stakeholder evidence. Applicants must obtain 10 points for £800 in available funds if applying inside the UK, and £2,800 if applying outside the UK. We have not analysed whether any such amendment is necessary for eligibility for the PSWR, as we regard this as an operational decision for the UK Border Agency (UKBA).

7.65   We have not encountered widespread abuse of the PSWR, and stakeholders raised no specific issues on enforcement.

Nevertheless, as with the Tier 1 General route, we briefly set out some principles of good enforcement:

- There should be follow-up enforcement activity to ensure that an individual leaves the UK when either: an application for LTR under the PSWR is refused; or an application for transfer from the PSWR to Tier 1 General, or Tier 2 or any other route, is refused.

- Where PSWR immigrants are employed, there should be adequate intelligence-led checks to verify that employers are viewing and regularly reviewing all relevant documentation, and keeping appropriate records.

- There should be robust checks to ensure that only bona fide institutions can award degrees in the UK, thereby ensuring that only appropriately qualified immigrants can enter the PSWR.

7.7 Conclusions

7.66 We recommend that:

- the Post-Study Work Route remains open;

- the leave entitlement for the Post-Study Work Route remains at its current level of two years; and

- the Government commissions detailed analysis of the economic returns to studying at particular institutions and for particular degree subjects. The Government should then review whether the current policy with regard to equal Post-Study Work Route allowance for graduates of all qualifying institutions and degree subjects should be amended.

7.67 We have considered other issues including policy in relation to Scotland, and maintenance and language requirements, and have not recommended policy change regarding these issues at the current time.

7.68 We recommend a broad continuation of current policy in relation to this route for the time being because the PSWR undoubtedly brings economic benefits and we have not seen evidence that the route has acted to displace UK graduates. This is partially, however, because we lack data on non-EEA student employment outcomes. It is particularly important that better data and evidence become available, and that the use and impacts of this route are subject to regular review.

Chapter 8:   **Entrepreneur and Investor routes**

8.1   Introduction

8.1   This chapter details the policy options we have considered in relation to the provision made for entrepreneurs and investors under Tier 1 of the Points Based System (PBS).

8.2   Highly skilled individuals wishing to operate businesses in, or wishing to invest in, the UK can enter or remain in the UK under either the Tier 1 General route or the Entrepreneur or Investor Tier 1 routes if they meet the relevant criteria. We first discuss issues in relation to potential entrepreneurs and investors coming via the Tier 1 General route. We then discuss options in relation to the current routes specifically designed for entrepreneurs and investors.

8.3   We have very limited data on individuals entering under the Entrepreneur and Investor routes, and on the resulting outcomes. We do know, however, as set out in Chapter 5, that these routes have to date accounted for less than 1 per cent of approved Tier 1 applications. Only a small number of stakeholders who responded to our call for evidence mentioned these routes. Additionally, these routes do not easily lend themselves to labour market analysis as do those discussed in Chapters 6 and 7 of this report.

8.4   For the above reasons, the discussion of the Entrepreneur and Investor routes in this report is relatively brief and based primarily on the limited bottom-up evidence we received, and on comparisons between relevant policy in the UK and other countries, as discussed in Chapter 5.

8.2   Entrepreneurs and investors under the Tier 1 General route

8.5   As outlined in Chapter 6, many stakeholders expressed concern that the qualifications requirement for immigrants under the Tier 1 General route was too high. Many immigrants who would have previously gained sufficient points to enter via the Tier 1 General route are now unable to do so following the introduction of the master's requirement in April 2009.

8.6   UK Trade & Investment (UKTI) told us that the limitations and financial requirements of the Entrepreneur and Investor routes meant that the Tier 1 General route used to be the preferred route of entry for many highly skilled immigrants wishing to invest or establish businesses in the UK, but that this is now being inhibited by the master's requirement. They expressed the view that individuals with the knowledge and experience required to develop businesses in the UK are unable to enter via Tier 1. This is particularly problematic for small and medium-sized businesses, which cannot always meet the financial requirements of the Entrepreneur and Investor routes.

"… potential investors will look for the best route of entry to the UK (which may not be Entrepreneurs or Investors routes if they cannot meet the criteria). This means that Tier 1 General is sometimes used – but the changes in April made this more restrictive."

UKTI response to call for evidence

8.7   UKTI also provided examples of entrepreneurs who have proved beneficial to the UK economy in recent years, yet would be unable to enter via Tier 1 under the current specification. One such example was a managing director without a master's degree who obtained a Tier 1 General visa before the master's requirement was introduced. They argued that the business had grown significantly during this individual's tenure, yet the business may have foregone this growth had the managing director been denied entry to the UK under the current Tier 1 General route requirement.

8.8   Another (anonymous) stakeholder said that the Tier 1 General route and Tier 2 intra-company transfer route were important for inward investment, but did not make specific reference to the Entrepreneur and Investor routes.

8.9   We recognise that entrepreneurs and investors are not precluded from entering the UK via the Tier 1 General route, nor indeed the Post-Study Work Route, if they meet the requirements. The recommendations set out in Chapter 6 of this report, notably the allowance for people qualified to undergraduate level and below subject to sufficient prior earnings, should help address the issues expressed by UKTI. However, the Tier 1 General route is not primarily designed to meet the needs of entrepreneurs and investors. Therefore, our further

consideration of policy options for these persons is restricted to the Tier 1 routes that are designed for this purpose. Policy options relating to these routes are discussed below.

8.3   Option 1: close the Entrepreneur and Investor routes

8.10   We would consider recommending the closure of one or both of these routes if we encountered evidence that they were causing adverse outcomes for the UK economy or labour market, or if economic theory or evidence suggested that such outcomes were possible.

8.11   IBM said that the UK's openness to inward investors was a key contributor to job creation and the international competitiveness of the UK. In its submission, IBM referred to a presentation by UKTI that had identified the UK as one of the largest recipients of foreign investment in the world. It stated that inward investment created nearly 100 jobs every day, as well as safeguarding almost 120 existing ones.

"Britain's openness to inward investors continues to contribute strongly to UK job creation. It keeps us in the lead among European nations in this respect, and worldwide second only to the US."

IBM response to call for evidence

8.12   The Confederation of British Industry (CBI) also made the case that these routes should not be restricted. They attract money to the UK and help to stimulate economic growth and employment. The CBI argued that, especially during the economic downturn when access to credit is more difficult, and with the

future regulation of financial institutions likely to lead to tighter credit conditions in the future, there can be no reason to restrict individuals investing in the UK. The Department for Business, Innovation and Skills (BIS) also cited evidence that these routes were economically important.

"The entrepreneur category contributes positively to gross domestic product (GDP) per head, the labour market and capital investment in the UK … The increased availability of capital provided in the UK financial system by those entering under the Tier 1 Investor route has the potential to stimulate enterprise creation and growth and economic growth through reducing access to finance barriers which have increased in the current credit crunch (particularly for small and medium-sized enterprises). For the macro economy more productive capital invested per worker increases output per worker."

BIS response to call for evidence

8.13   Some stakeholders argued that the system needed to do more to attract investment. The Immigration Advisory Service said that more incentives were needed to encourage investors to enter the UK. The Institute for Public Policy Research (IPPR) supported this argument, saying that the UK was experiencing a greater need for entrepreneurs and investors during the economic downturn.

"Now more than ever the UK needs investors and entrepreneurs. Capital has become scarce since the financial crisis, and the depth of the economic crisis has led many … to suggest that the economy needs to be re-structured. If the UK is to diversify away from financial services, for example in favour of innovative new sectors and so-called 'green-collar' jobs, this group of migrants will be particularly important. We suggest that, if anything, the Government might want to consider doing more to encourage people to come to the UK via this route in the current economic circumstances."

IPPR response to call for evidence

8.14   We also note that most of the comparator countries discussed in Chapter 5 make some type of allowance for entrepreneurs and investors. For the UK to close its routes while those other countries kept theirs open may reduce the UK's international competitiveness.

8.15   In conclusion, we believe there is a valid economic case for the maintenance of routes under Tier 1 to facilitate investment and entrepreneurship in the UK. **We therefore recommend that the Entrepreneur and Investor routes be kept open**. Below we consider options in relation to their design.

8.4   Option 2: change the thresholds for the routes

8.16   As set out in Chapter 2, entry under the Entrepreneur route requires that the immigrant has £200,000 held in a regulated UK financial institution and disposable in the UK. The Investor route requires £1 million held in a regulated institution and disposable in the UK, or a larger amount available in loans and personal assets. We considered whether £200,000 and £1 million were the appropriate threshold values.

8.17 UKTI argued that in considering thresholds the case of 'born global' companies needed to be considered. Harris and Cher Li (2007) define 'born global' companies as 'knowledge-intensive or knowledge-based firms that sell products that are so specialised that their market is global from a very early stage'. Such companies are therefore unable to establish themselves in one market before operating internationally.

8.18 UKTI outlined cases in which, because of the financial thresholds, lawyers looked for British nationals in an entrepreneur's ancestry to see if the individual could enter the UK while bypassing Tier 1 altogether. We were told that such cases were of particular concern in the context of the current recession, during which the UK should be supporting business and enterprise as much as possible. Kingsley Napley added to this point, commenting that a restrictive set of supply-side criteria for entrepreneurs would be harmful to the UK in the longer term.

8.19 BIS cited an estimated fall of around 25 per cent in global wealth levels due to the fall in global property and equity markets since the introduction of Tier 1 and a shortage of capital in the UK economy due to de-leveraging of UK financial institutions and the withdrawal of some foreign financial institutions.

8.20 On the basis of the above arguments we considered whether the thresholds should be reduced. A limitation is that estimates of global wealth are subject to uncertainty and frequent change. The argument would also be predicated on the assumption that £200,000 and £1 million were the correct thresholds when Tier 1 was introduced. The thresholds were transferred across to Tier 1 from predecessor routes, and

have been at the same levels since at least 1994. We have been unable to ascertain the economic basis on which the original thresholds were set, but they were not scaled up to reflect growth in global wealth or inflation during the period between 1994 and the introduction of Tier 1 in 2008.

8.21 UKTI told us that new inward investors often wanted to send more than one person to establish a business in the UK, and expressed concern that the £200,000 threshold in relation to the Entrepreneur route is applied to individual applicants, rather than being permitted to apply jointly to business partners. However, we note that the current rules do not preclude business partners from entering the UK to work together. They merely require both parties to individually gain leave to enter and satisfy the entry criteria.

8.22 An alternative way of thinking about the right thresholds for the UK is to look at similar routes in other countries to assess whether the UK risks missing out on investment income because it sets higher investment hurdles than other countries. Such comparisons are hindered by fluctuations in exchange rates. There are also differing requirements in terms of the nature of the investment, such as government securities in the case of Australia, or the manner in which the investment is targeted: examples are farm management in the case of Canada and troubled businesses or targeted employment areas in the case of the US. To the extent that comparisons are possible, comparator countries seem to tend to set similar or slightly lower hurdles than the UK, but often with strict conditions attached to the nature of the investment.

8.23 On balance, there is no clear basis for us to recommend a change in the thresholds for either the Entrepreneur or Investor routes, and we do not do so. We are mindful that the thresholds have not increased in line with inflation and global wealth over time, meaning there might be scope to uprate the thresholds. On the other hand, we have seen no evidence of adverse outcomes resulting from these routes as they are currently designed, and do not wish to unduly jeopardise future investment in the UK, particularly during these difficult economic times.

8.24 We have not examined in depth the options for changing the conditions associated with investment via these routes based on experience in other countries. However, it would be good practice for the Government to keep policy in other countries and the evidence base for the thresholds under review.

8.5 English language, maintenance and enforcement

8.25 The evidence we received on the Entrepreneur and Investor routes generally argued for maintaining or loosening the current requirements and did not focus on the issue of language. The English language requirement for the Entrepreneur route is identical to that for the Tier 1 General route, and we consider it logical that business people should be subject to the same language requirements as highly skilled employees.

8.26 There is no English language requirement for the Investor route. Individuals coming through the Investor route do not have to work and there is no obvious argument for immediately introducing a language requirement.

8.27 On balance, we think there is a case for keeping the English language requirements for these routes under review, but do not recommend any changes at this time.

8.28 UKTI said that many potential entrepreneurs who would like to establish businesses in the UK are quite young, and therefore often have limited savings and may not possess a master's degree. As a result of the Tier 1 maintenance requirement, these prospective entrepreneurs are unable to come to the UK under the Entrepreneur route and may not be able to meet the requirements under the Tier 1 General route.

"… the ages of those looking to come and build businesses are often quite young and [they] have minimal levels of savings, if any. Therefore many people also struggle with the maintenance funds aspect of Tier 1."

UKTI response to call for evidence

8.29 Our recommendations on the Tier 1 General route included allowance for people with qualifications below master's level. However, as detailed in earlier chapters, we regard maintenance levels primarily as a management issue for the UK Border Agency (UKBA). We make no recommendation in this report regarding maintenance levels for the Entrepreneur and Investor routes. However, we would be concerned if individuals were being admitted to the UK explicitly for the purpose of starting a business if they did not have access to sufficient funds for their own maintenance.

8.30 We received no evidence relating to enforcement of the Entrepreneur and Investor routes. As set out in Chapter 2, individuals applying for extensions under the Entrepreneur route need to have created the equivalent of at least two new full-time jobs for persons settled in the UK, or provided an investment that has led to the creation of two such jobs. Under the Investor route, there is a requirement to have invested not less than £750,000 of capital in the UK by way of government bonds, share capital or loan capital.

8.31 The above appear to be reasonable criteria, but it will be difficult in practice to establish whether the creation of jobs definitively represents the creation of new jobs directly attributable to the investment. **We recommend that the UK Border Agency dedicates sufficient resource to enforcement to allow detailed examination of whether jobs created through the Entrepreneur route represent a genuine net increase in jobs.** This could involve UKBA officials visiting and interviewing entrepreneurs applying for extensions, and the staff whose jobs have been created.

Chapter 9: **Conclusions**

9.1 Policy and economic context

9.1 The objective of Tier 1 is to benefit the UK economy by attracting and retaining people who will increase the skills and knowledge base of the UK by widening the pool of highly skilled individuals available to employers, while maintaining the flexibility of the UK labour market.

9.2 It was conceived that Tier 1 would provide greater clarity on the requirements for entry in each sub-category to increase the predictability of the scheme, ensure consistency in entry decision-making and reduce the number of unsuccessful applications, while increasing the security of the points system.

9.3 We consider highly skilled immigrants to be of great value to the UK economy. This has been heavily underlined by the stakeholder evidence we received. The main issues we addressed were how to refine the selection criteria and extension requirements to ensure that Tier 1 attracts the 'brightest and best' who can be admitted to the UK without a job offer.

9.2 Tier 1 recommendations

9.4 We have made use of a variety of data sources in completing our analysis, including data from the system operated in the UK prior to the introduction of Tier 1. We were able to use only very limited data on Tier 1 itself. It is essential that such data are collected if the Points Based System (PBS) is to be rigorously monitored and evaluated.

9.5 It is also essential to note that the recommendations are mutually reinforcing and should be seen as a package.

9.6 Our recommendations primarily concern the features of a well-designed route for regulating new highly skilled immigration from outside the UK. Our general view is that, where an individual has operated within the existing rules and requirements, there is a case for putting in place transitional arrangements that would prevent a sudden and unexpected raising of the bar for that person.

9.7 For the Tier 1 General route, we recommend the following:

- **Recommendation 1:** that the Tier 1 General route is retained.

- **Recommendation 2:** that appropriate professional qualifications held in addition to an undergraduate degree are recognised as equivalent to a master's degree for the purposes of the PBS and that claims that some undergraduate degrees are equivalent to a master's degree are also given consideration on a case-by-case basis.

- **Recommendation 3:** that individuals with an undergraduate degree are allowed to enter under Tier 1, subject to an appropriate earnings threshold.

- **Recommendation 4:** that the following changes are made to the Tier 1 General route:

— For age: those aged 29 and under are awarded 20 points; those aged 30 to 34, 10 points; those aged 35 to 39, 5 points; and no points are awarded to those aged 40 and over.

— For qualifications: 30 points awarded for a bachelor's degree is reinstated; 35 points continue to be awarded for a master's degree; and points for a PhD are reduced to 45.

— For previous earnings: points are not awarded for earnings less than £25,000; and earnings bands are set as in Table 9.1.

— The 5 additional points continue to be awarded as at present for UK experience.

- **Recommendation 5:** that an additional salary band is introduced with a threshold of £150,000 for which 75 points are awarded.

- **Recommendation 6:** that the Government carries out a full review of the salary conversion model prior to introducing the recommendations we are making in relation to Tier 1.

- **Recommendation 7:** that the initial leave to remain entitlement is reduced from three to two years, with a three-year extension subject to evidence that the individual is in highly skilled employment.

- **Recommendation 8:** that the UK Border Agency (UKBA) considers the operational feasibility of an employer

Highest qualification		Previous earnings		Age		UK experience
	Points		**Points**		**Points**	**Points**
Bachelor's	30	£25,000–£29,999	5	40 and over	0	5
Master's	35	£30,000–£34,999	15	35–39	5	
PhD	45	£35,000–£39,999	20	30–34	10	
		£40,000–£49,999	25	29 and under	20	
		£50,000–£54,999	30			
		£55,000–£64,999	35			
		£65,000–£74,999	40			
		£75,000–149,999	45			
		£150,0000+	75			

Table 9.1: Summary of the MAC's recommendations on criteria and points for the Tier 1 General route

Note: Points are awarded once per application per criterion. 75 points are required to pass. In addition, there are two mandatory requirements: maintenance and English language.
Source: Migration Advisory Committee analysis

acting as a guarantor for an individual's maintenance requirement within the Tier 1 General route.

9.8 For the Post-Study Work Route (PSWR), we recommend the following:

- **Recommendation 9:** that the PSWR remains open.

- **Recommendation 10:** that the leave entitlement for the PSWR remains at its current level of two years.

- **Recommendation 11:** that the Government commissions detailed analysis of the economic returns to studying at particular institutions and for particular degree subjects. 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.

9.9 For the Entrepreneur and Investor routes, we recommend the following:

- **Recommendation 12:** that the Entrepreneur and Investor routes remain open.

- **Recommendation 13:** that the UKBA dedicates sufficient resource to enforcement of this route to allow detailed examination of whether jobs created through the Entrepreneur route represent a genuine net increase in jobs.

9.3 Next steps and future work

9.10 It is for the Government to decide whether and when to accept our recommendations, as well as the timescales for implementing any it does accept. The PBS was designed to be flexible and the majority of our recommendations can be implemented quite quickly, if accepted.

9.11 We have, throughout this report, identified some areas where further research and analysis may be justified. Some potential topics are as follows:

- Research on employment and economic outcomes for Tier 1 approved immigrants.

- Returns to qualifications by subject and institution of study, with particular reference to international students qualifying for the PSWR.

- Research into the evidence base and international practice for the determination of the optimal value of funds to be held by prospective applicants to the Entrepreneur and Investor routes.

9.12 Successful research will need to address issues of data availability in many of the relevant areas, either through development of new data collection methods or better collection and collation of data through existing means such as the Labour Force Survey and PBS management information.

9.13 The next policy report scheduled to be published by the MAC is our third partial review of the shortage occupation lists for Tier 2 of the PBS, in spring 2010.

Annex A: Current lists of recognised and listed bodies

A.1   List of recognised bodies that have their own degree awarding powers[1]

University of Aberdeen
University of Abertay Dundee
Aberystwyth University (Prifysgol Aberystwyth)
Anglia Ruskin University
The Archbishop of Canterbury
The Arts Institute at Bournemouth (now The Arts University College at Bournemouth)
University of the Arts, London
Ashridge (Bonar Law Memorial) Trust (also known as Ashridge)
Aston University

Bangor University (Prifysgol Bangor)
University of Bath
Bath Spa University
University of Bedfordshire
Birkbeck College
University of Birmingham
Birmingham City University
University College Birmingham
Bishop Grosseteste University College Lincoln
The University of Bolton
Bournemouth University
BPP College of Professional Studies
University of Bradford
University of Brighton
University of Bristol
Brunel University
University of Buckingham
Buckinghamshire New University

University of Cambridge
Canterbury Christ Church University
Cardiff University (Prifysgol Caerdydd)
University of Central Lancashire
The Central School of Speech and Drama
University of Chester
The University of Chichester
City University
The College of Law
Courtauld Institute of Art
Coventry University
Cranfield University
University for the Creative Arts
University of Cumbria

De Montfort University
University of Derby
University of Dundee
University of Durham

University of East Anglia
University of East London
Edge Hill University
University of Edinburgh
University of Essex
University of Exeter

University College Falmouth

University of Glamorgan (Prifysgol Morgannwg)
University of Glasgow
Glasgow Caledonian University
University of Gloucestershire
Glyndŵr University (Prifysgol Glyndŵr)

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[1] The current list is kept at www.dcsf.gov.uk/recognisedukdegrees

Goldsmiths College
University of Greenwich

Harper Adams University College
Heriot-Watt University
University of Hertfordshire
Heythrop College
University of Huddersfield
University of Hull

Imperial College of Science, Technology and
    Medicine (also known as Imperial College
    London)
Institute of Education
Institute of Cancer Research

University of Keele
University of Kent
King's College London
Kingston University

University of Lancaster
University of Leeds
Leeds Metropolitan University
University of Leicester
University of Lincoln
University of Liverpool
Liverpool Hope University
Liverpool John Moores University
University of London
London Business School
London Metropolitan University
London School of Hygiene and Tropical Medicine
London School of Economics and Political
    Science
London South Bank University
University College London
Loughborough University

University of Manchester
The Manchester Metropolitan University
Middlesex University

Napier University
University of Newcastle upon Tyne
Newman University College
The University of Northampton
University of Northumbria at Newcastle
Norwich University College of the Arts
University of Nottingham
Nottingham Trent University

Open University
University of Oxford
Oxford Brookes University

University of Plymouth
University College Plymouth, St Mark and St John
University of Portsmouth

Queen Margaret University, Edinburgh
Queen Mary and Westfield College (also known
    as Queen Mary, University of London)
The Queen's University of Belfast

University of Reading
The Robert Gordon University
Roehampton University
Royal Academy of Music
Royal Agricultural College
Royal College of Art
Royal College of Music
Royal Holloway and Bedford New College (also
    known as Royal Holloway, University of
    London)
Royal Northern College of Music
The Royal Scottish Academy of Music and
    Drama, Glasgow
Royal Veterinary College

University of Salford
School of Oriental and African Studies
School of Pharmacy
University of Sheffield
Sheffield Hallam University
University of Southampton
Southampton Solent University
University of St Andrews
St George's Hospital Medical School
St Mary's University College
Staffordshire University
University of Stirling
University of Strathclyde
University of Sunderland
University of Surrey
University of Sussex
Swansea Metropolitan University (Prifysgol
    Fetropolitan Abertawe)
Swansea University (Prifysgol Abertawe)

University of Teesside
Thames Valley University

UHI Millennium Institute
University of Ulster

University of Wales (Prifysgol Cymru)
University of Wales Institute, Cardiff (Athrofa
    Prifysgol Cymru, Caerdydd)
University of Wales Lampeter (Prifysgol Cymru,
    Llanbedr Pont Steffan)
University of Wales Newport (Prifysgol Cymru,
    Casnewydd)
University of Warwick
University of the West of England, Bristol
University of the West of Scotland

University of Westminster
The University of Winchester
University of Wolverhampton
University of Worcester

University of York
York St John University

A.2 Listed bodies which deliver courses that lead to degrees awarded by recognised bodies[2]

Abingdon and Witney College
Academy of Contemporary Music, The
Academy of Live and Recorded Arts
Accrington and Rossendale College
Adam Smith College, Fife, The
All Nations Christian College
All Souls College (Oxford)
Al-Maktoum Institute for Arabic and Islamic
    Studies
Alpha Meridian College
Alton College
American Intercontinental University, London
Amersham and Wycombe College
Anglo-European College of Chiropractics
Arts Educational Schools
Asante Academy of Chinese Medicine
Ashton-Under-Lyne Sixth Form College
Askham Bryan College
Association of Chartered Certified Accountants
    (ACCA)
Aylesbury College

Balliol College (Oxford)

Barclays PLC
Barking College
Barnet College
Barnfield College
Barry College
Basingstoke College of Technology
Bath College, City of
Bedford College
Belfast Bible College
Belfast Metropolitan College
Bellerby's College
Berkshire College of Agriculture
Bexley College
Bicton College
Bird College of Dance & Theatre Performance
Birmingham Christian College
Bishop Auckland College
Bishop Burton College
Blackburn College
Blackburne House
Blackfriars (Oxford)
Blackpool and The Fylde College

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[2] The current list is kept at www.dcsf.gov.uk/recognisedukdegrees

Bolton Community College
Boston College
Bournemouth and Poole College, The
Bournville College of Further Education
Bracknell and Wokingham College
Bradford College
Brasenose College (Oxford)
Bridgend College
Bridgwater College
Brighton Institute of Modern Music
Bristol Baptist College
Bristol College, City of
Bristol Old Vic Theatre School
British College of Osteopathic Medicine
British Institute in Paris (London)
British Institute of Technology and E-Commerce
British School of Osteopathy, The
Brittin College
Bromley College of Further and Higher Education
Brooklands Technical College
Brooksby Melton College
Burnley College
Burton College
Bury College

Calderdale College
Cambridge Regional College
Cambridge Theological Federation
Campion Hall (Oxford)
Cannock Chase Technical College
Canterbury College
Carlisle College
Carnegie College (formerly Lauder College)
Carshalton College
Castle College Nottingham
Cavendish College
CECOS London College
Central School of Ballet
Centre for Homeopathic Education
Centre for Management Development
Centre for Nutrition Education and Lifestyle
    Management
Centre for Youth Ministry
Chesterfield College
Chichester College
Chicken Shed Theatre Company
Christ Church (Oxford)

Christie's Education Ltd
Christ's College (Cambridge)
Churchill College (Cambridge)
Circus Space
Cirencester Tertiary College
City and Guilds of London Art School
City and Islington College
City Banking College
City College Manchester
City College Norwich
City College, Birmingham
City College, Brighton and Hove
City College, Coventry
City College, Plymouth
City College, The
City Lit
City of Bath College
City of Bristol College
City of London College
City of Sunderland College
City of Westminster College
City of Wolverhampton College
Clare College (Cambridge)
Clare Hall (Cambridge)
Cleveland College of Art and Design
Cliff College
Clouds, Department of Professional Education
    Training and Research (PETR)
Clydebank College
Colchester Institute
Coleg Gwent
Coleg Harlech WEA(N)
Coleg Menai
Coleg Morgannwyg
Coleg Powys
Coleg Sir Gar, Carmarthenshire College
College of Agriculture, Food and Rural Enterprise
College of Animal Welfare
College of Ayurveda
College of Estate Management, The
College of Integrated Chinese Medicine
College of North East London
College of North West London
College of Osteopaths, The
College of St Hild and St Bede (Durham)
College of Technology, London

College of the Resurrection
College of Traditional Acupuncture, The
College of West Anglia, The
Collingwood College (Durham)
Compton Hospice
The Conservatoire for Dance and Drama
Cornwall College
Corpus Christi College (Cambridge)
Corpus Christi College (Oxford)
Court Theatre Training Company
Craven College
Creative Academy
Croydon College

Darlington College
Dartington College of Arts
Darwin College (Cambridge)
Dearne Valley College
Defence Medical Services Training Agency
Delphi Diesel Aftermarket
Derby College
Dewsbury College
Diocese of Oxford, The
Doncaster College
Downing College (Cambridge)
Dudley College of Technology
Dumfries and Galloway Council Education
    Department
Dunstable College

Ealing, Hammersmith and West London College
East Berkshire College
East Devon College
East Durham College
East Riding College
Eastleigh College
Easton College
Edinburgh College of Art
Edinburgh's Telford College
Education for Health
Emmanuel College (Cambridge)
Enfield College
Estover Community College
EThames Graduate School
European Business School, London, The
European College of Business and Management
European School of Economics

European School of Osteopathy
Evesham and Malvern Hills College
Exeter College
Exeter College (Oxford)

Farnborough College of Technology
Filton College
Fire Service College
Fitzwilliam College (Cambridge)
Flagship Training Ltd
Forth Valley College of Further and Higher
    Education
Foundation for Conductive Education (National
    Institute of Conductive Education), The
Free Church College
Furness College

Gateshead College
Gateway School of Recording
Girton College (Cambridge)
Glasgow School of Art, The
Gloucestershire College of Arts and Technology
Gonville and Caius College (Cambridge)
Grafton College of Management Sciences
Grantham College
Great Yarmouth College
Greater Manchester Fire and Rescue Service
Green College (Oxford)
Greenbank Sports Academy
Greenwich Community College
Greenwich School of Management
Grey College (Durham)
Greyfriars (Oxford)
Grimsby Institute of Further and Higher
    Education, The
Guildford College of Further and Higher Education
Guildford School of Acting (GSA Conservatoire)
Guildhall School of Music and Drama

Hackney Community College
Hadlow College
Halesowen College
Harlow College
Harris Manchester College (Oxford)
Harrow College
Hartlepool College of Further Education
Hartpury College
Hastings College of Arts and Technology

Hatfield College (Durham)
Havering College of Further and Higher Education
Henley College, Coventry
Herefordshire College of Art and Design
Herefordshire College of Technology
Hertford College (Oxford)
Hertford Regional College
Highbury College, Portsmouth
HMS Collingwood
HMS Sultan
Holborn College
Holy Cross College
Homerton College (Cambridge)
Hopwood Hall College
Huddersfield Technical College
Hugh Baird College
Hughes Hall (Cambridge)
Hull College
Huntingdonshire Regional College

ifs School of Finance
Institute for Optimum Nutrition, The
Institute for the Study of the Americas (London)
Institute of Advanced Legal Studies (London)
Institute of Cancer Research (London)
Institute of Classical Studies (London)
Institute of Commonwealth Studies (London)
Institute of English Studies (London)
Institute of Germanic and Romance Studies
    (London)
Institute of Historical Research (London)
International Christian College
International College of Oriental Medicine, The
International Correspondence Schools Ltd
Irish Baptist College, Belfast, The
Islamic College for Advanced Studies
Isle of Wight College
Italia Conti Academy of Theatre Arts
Itchen College

James Watt College of Further and Higher
    Education
Jesus College (Cambridge)
Jesus College (Oxford)
John Snow College, Queen's Campus (Durham)
Joseph Priestley College

Kaplan Aspect

Keble College (Oxford)
Kellogg College (Oxford)
Kendal College
Kensington and Chelsea College
Kensington College of Business
Kidderminster College
King's College (Cambridge)
Kingston College
Kingston Maurward College
KLM UK Engineering Ltd
Knowsley Community College
KYRA Education and Training

Lady Margaret Hall (Oxford)
Lakes College West Cumbria
Lambeth College
Lancashire and Morecambe College
Lancashire Fire and Rescue Service
Leeds Addiction Unit
Leeds College of Art and Design
Leeds College of Building
Leeds College of Music
Leeds College of Technology
Leeds Thomas Danby
Leeds Trinity and All Saints
Leicester College
Leo Baeck College, Centre for Jewish Education
Lewisham College
Leyton Sixth Form College
Light Project, The
Linacre College (Oxford)
Lincoln College (Oxford)
Lincoln College
Lincolnshire Partnership Trust
Liverpool Community College
Liverpool Institute for Performing Arts
Llandrillo College (known as Coleg Llandrillo)
London Academy of Music and Dramatic Arts
London Centre for Fashion Studies
London City College
London College of Accountancy
London College of Business
London College of Management and Information
    Technology
London College of Professional Studies
London College of Traditional Acupuncture and
    Oriental Medicine, The

London Contemporary Dance School
London International College
London School of Commerce
London School of Osteopathy, The
London School of Theology
London Studio Centre
Loughborough College
Lowestoft College
Lucy Cavendish College (Cambridge)
Ludlow College
Luther King House Educational Trust (formerly
    The Partnership for Theological Education)

Macclesfield College
Magdalen College (Oxford)
Magdalene College (Cambridge)
Management Development Partnership
Manchester Business School (Manchester)
Manchester College of Arts and Technology
Mansfield College (Oxford)
Marie Curie Cancer Care
Markfield Institute of Higher Education, The
Maryvale Institute
Matrix College
Mattersey Hall, Doncaster
Matthew Boulton College of Further and Higher
    Education
McTimoney College of Chiropractic
Merton College
Merton College (Oxford)
Metanoia Institute
Mid-Cheshire College of Further Education
Middlesborough College
Mid-Kent College of Higher and Further
    Education
Milton Keynes College
Ming-Ai (London) Institute
Missionary Institute London, The
Moorlands College
Moulton College
Mountview Academy of Theatre Arts
Myerscough College

National Institute of Medical Herbalists Archway
    Clinic
Nazarene Theological College
NCC Education

Neath Port Talbot College
Nelson and Colne College
New College (Oxford)
New College, Durham
New College, Nottingham
New College, Swindon
New Hall (Cambridge)
Newbold College
Newbury College
Newcastle College
Newcastle-under-Lyme College
Newham College of Further Education
Newham Sixth Form College
Newnham College (Cambridge)
Norland College
North East Surrey College of Technology
    (NESCOT)
North East Worcestershire College
North Hertfordshire College
North Lindsey College
North Thames Ministerial Training Course
North Warwickshire and Hinckley College
North West Kent College of Technology
North West Regional Authority, Royal Bolton
    Hospital
North West Regional College
Northbrook College Sussex
Northern Regional College
Northern School of Contemporary Dance
Northumberland College
Norton Radstock College
Notre Dame Centre, Glasgow
Nottingham Healthcare Trust
Nuffield College (Oxford)

Oak Hill College
Oaklands College
Oasis Trust
Oldham College, The
Open College of Equine Studies, The
Opus School of Textile Arts
Oriel College (Oxford)
Orpington College of Further Education
Otley College of Agriculture and Horticulture
Oxford and Cherwell College
Oxford Business College

Oxford Centre for Mission Studies
Oxford House College

Park Lane College, Leeds
Pembroke College (Cambridge)
Pembroke College (Oxford)
Pembrokeshire College
Penwith College
Persona Development and Training
Peterborough Regional College
Peterhouse (Cambridge)
Plumpton College
Plymouth College of Art and Design
Preston College

QinetiQ, The Empire Test Pilots' School
Queens' College (Cambridge)
Queen's College, The (Oxford)
Queen's Foundation for Ecumenical Theological
    Education, The

Rambert School of Ballet and Contemporary
    Dance
Ravensbourne College of Design and
    Communication
Rayat London College
Reaseheath College
Recruitment and Employment Confederation
Redbridge College
Redcar and Cleveland College
Redcliffe College
Regents Business School London, The
Regent's Park College (Oxford)
Regents Theological College, Nantwich
REME School of Electronic and Aeronautical
    Engineering at Arborfield
Resource Development International
Richard Huish College, Taunton
Richmond Adult Community College
Richmond upon Thames College
Richmond, the American International University
    in London
Ripon College Cuddeson, Oxford
Riverside College Halton
Robinson College (Cambridge)
Rodbaston College
Rose Bruford College
Rotherham College of Arts and Technology

Royal Academy of Dance, The
Royal Academy of Dramatic Art
Royal Botanic Gardens (Edinburgh), The
Royal College of Nursing
Royal Marines School of Music, The
Royal Military School of Music, Kneller Hall, The
Royal School of Military Engineering, The
Royal School of Military Survey, The
Royal Welsh College of Music and Drama
    (Glamorgan)
Runshaw College
Ruskin College, Oxford

SAE Institute, London
Salford College
Salisbury College
Sandwell College
School of Advanced Study (London)
School of Dental Hygiene and Therapy
REME, The School of Electronic and Aeronautical
    Engineering
School of Psychotherapy and Counselling
    Psychology
School of Technology and Management
Scottish Agricultural College, The
Scottish Baptist College
Scottish Institute of Human Relations (SIHR)
Scottish Police College, The
Scottish School of Herbal Medicine
Selby College
Selwyn College (Cambridge)
Sheffield College, The
Sherwood Psychotherapy Training Institute
Shrewsbury College of Arts and Technology
Sidney Sussex College (Cambridge)
Sir George Monoux Sixth Form College
Skills Solution
Solihull College
Somerset College of Arts and Technology
Somerville College (Oxford)
Sotheby's Institute of Art, London
South Birmingham College
South Cheshire College
South Devon College
South Downs College
South East Essex College of Arts and Technology,
    Southend

South Eastern Regional College
South Kent College
South Nottingham College
South Thames College
South Trafford College
South Tyneside College
South West College
Southern Regional College
Southern Theological Education and Training
    Scheme, The (STETS)
Southgate College
Southport College
Southwark College
Sparsholt College, Hampshire
Spurgeon's College, London
St Aidan's College (Durham)
St Albans and Oxford Ministry Course
St Anne's College (Oxford)
St Antony's College (Oxford)
St Benet's Hall (Oxford)
St Catharine's College (Cambridge)
St Catherine's College (Oxford)
St Chad's College (Durham)
St Cross College (Oxford)
St Cuthbert's Society (Durham)
St Edmund Hall (Oxford)
St Edmund's College (Cambridge)
St Helens College
St Hilda's College (Oxford)
St Hugh's College (Oxford)
St John Rigby Roman Catholic Sixth Form
    College
St John's College (Cambridge)
St John's College (Durham)
St John's College (Oxford)
St John's College, Nottingham
St John's Roman Catholic Seminary
St Luke's Hospice, Sheffield
St Mary's College (Durham)
St Mary's College Blackburn
St Mary's College, Oscott
St Patrick's International College
St Peter's College (Oxford)
St Stephen's House (Oxford)
St Vincent College
Stafford College

Stamford College
Stanmore College
Stephenson College
Stephenson College, Queen's Campus (Durham)
Stockport College of Further and Higher
    Education
Stockton Riverside College
Stoke on Trent College
Stranmillis University College: A College of the
    Queen's University of Belfast
Stratford-upon-Avon College
Strode's College, Egham
Stroud College of Further Education
Suffolk County Council
Sunfield School, Stourbridge
Sussex Downs College
Sutton Coldfield College
Swansea College
Swindon College

Tameside College
Tamworth and Lichfield College
TASMAC London School of Business
Taunton's College
Telford College of Arts and Technology
Temenos
Templeton College (Oxford)
Thurrock and Basildon College
Totton College
Tresham Institute
Trevelyan College (Durham)
Trinity College (Cambridge)
Trinity College (Oxford)
Trinity College, Bristol
Trinity College, Carmarthen
Trinity Hall (Cambridge)
Trinity Laban Conservatoire of Music and Dance
    (formerly Trinity Laban)
Truro College
Tyne Metropolitan College

Union Theological College, Belfast
University Campus Suffolk
University Centre Yeovil
University College (Oxford)
University Marine Biological Station, Millport
    (London)

Ushaw College
Ushaw College (Durham)
Ustinov College (Durham)
Uxbridge College

Van Mildert College (Durham)

WAC Performing Arts and Media College
Wadham College (Oxford)
Wakefield College
Walford and North Shropshire College
Walsall College of Arts and Technology
Warburg Institute (London)
Warrington Collegiate
Warwickshire College, Royal Leamington Spa,
    Rugby and Moreton Morrell
Welsh College of Horticulture
Wesley College, Bristol
Wesley Study Centre
Wessex Institute of Technology
West Cheshire College
West Herts College
West Kent College
West London College
West Nottinghamshire College
West Suffolk College
West Thames College
Westminster Kingsway College
Weston College
Weymouth College
Whitefield Schools and Centre
Wigan and Leigh College
Williams College
Wiltshire College
Wirral Metropolitan College
Witan International College
Wolfson College (Cambridge)
Wolfson College (Oxford)
Worcester College (Oxford)
Worcester College of Technology
Writtle College
Wycliffe Hall (Oxford)

YMCA George Williams College
York College
Yorkshire Coast College of Further and Higher
    Education
Ystrad Mynach College

Annex B: Further information on the points recalibration methodology for Tier 1 General

B.1 Introduction

B.1 This annex presents some further information on the analysis presented in Chapter 6, section 6.6.

B.2 First, we begin with an extension of the discussion about using expected lifetime earnings to calibrate points and the issues associated with this approach.

B.3 Second, we present the sources of information used as a basis for our assumptions on the returns to qualifications. In section 6.6 we adjust the minimum previous earnings thresholds required by applicants to reflect the expected returns that qualifications above a bachelor's degree bring.

B.4 Third, we present a summary of the sensitivity analysis conducted on three of the essential assumptions used in our points calibration.

B.2 Use of expected lifetime earnings

B.5 Our methodology aims to provide an objective framework to best select highly skilled immigrants through the Tier 1 General route. In our discussion about why it is important to award points for age, we note that it is essential to consider not only an immigrant's immediate contribution to the UK economy but also their lifetime contribution.

B.6 As put forward in McHale and Rogers (2008), with the appropriate data it is possible to calibrate a points system to select highly skilled immigrants using expected lifetime earnings. McHale and Rogers find that the criterion that the greatest number of points should be available for is age, on a sliding scale, resulting in a strong preference for younger immigrants. This, in part, reflects the fact they have more potential working years available to them, thus making their expected lifetime earnings greater.

B.7 In our approach we were limited by the data available for immigrants in the UK. We do not have any data sources at present that compare immigrant attributes at entry with subsequent earnings in later years. Therefore, we adopted a pragmatic approach, basing our calibration of points on a static snapshot of current salaries across the UK labour market from the Labour Force Survey (LFS) to set our benchmark for highly skilled immigrants. However, in developing our recommendation, we considered the option of calibrating points according to an estimate of expected lifetime earnings.

B.8   This approach starts from a similar point to that of calibrating points according to a static snapshot of the UK labour market. The benchmark for immigrants who are considered to be 'highly skilled' is assumed to be those earning at least the equivalent of the 90th percentile of earnings in skilled graduate occupations in the UK. Skilled graduate occupations here refer to those defined as 'graduate' by Elias and Purcell (2004a) minus two not defined as 'skilled' in MAC (2008).

B.9   We then calculated the expected lifetime earnings of people meeting this benchmark. This was done by cumulative summation of the distribution in Figure 6.2 for each age. This means that for each age we sum the 90th percentile earnings

of subsequent years (until age 65). To convert into present values we applied the standard 3.5 per cent HMT Green Book discount rate. We also applied an assumption of 2 per cent real income growth per annum to reflect the fact that 90th percentile earnings for each age are likely to increase in the future. The resulting distribution is presented as Figure B.1.

B.10   It is worth noting again that this estimate of expected lifetime earnings is a 'proxy' using the UK labour force. The sample size of non-EEA born immigrants is too small to plot this distribution for immigrants only and there are no other sources of data for the UK that would be appropriate to use for this purpose.

Figure B.1: Expected lifetime earnings of the 90th percentile individual in a skilled graduate occupation in the UK, 2008 Q3 to 2009 Q2
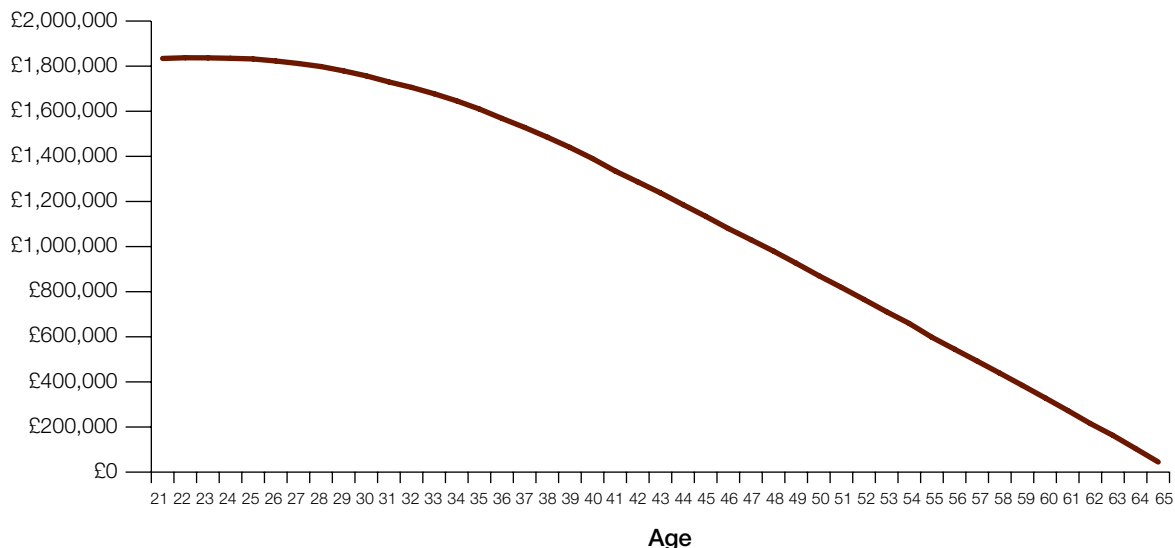
Note: The expected lifetime earnings are calculated by cumulative summation using the data from Figure 6.2 in Chapter 6. Skilled graduate occupations here refer to those defined as 'Graduate' by Elias and Purcell (2004a) minus two not defined as 'skilled' in MAC (2008).
Source: Migration Advisory Committee analysis of the Labour Force Survey, 2008 Q3 to 2009 Q2

B.11 Using this approach, we aim to select immigrants who would have expected lifetime earnings at least equal to the 90th percentile of skilled graduate occupations in the UK. In other words, they will lie above the line in Figure B.1. However, at this point this approach becomes problematic because of the following:

- Previous earning cannot be directly calibrated against expected lifetime earnings. Therefore, points must be awarded for current salaries scored by the benchmark group we consider to be 'highly skilled'.

- Justifying selection criteria on the sole basis of lifetime earnings without appropriate data requires the unrealistic assumption that selected immigrants will remain in the UK for the remainder of their working lives. It is not practical to build in assumptions for immigrants' duration of stay and, therefore, although we wish to reward younger immigrants based on their additional contribution to the economy through higher expected lifetime earnings, it is also important to consider their immediate contribution.

- Using expected lifetime earnings to calibrate points for age would suggest that points should be awarded on a sliding scale from age 21 upwards. This is again impractical for our purposes.

B.12 The last of these problems can be avoided if a position on the distribution is chosen beyond which points for age are not awarded. We considered using the median of expected lifetime earnings, age 43, as the maximum age above which points would not be awarded. However, given that the negative relationship between lifetime earnings and age is relatively linear after about 30 years old, and in the absence of other evidence, any such breakpoint

will be characterised by a degree of arbitrariness.

B.3 Returns to qualifications assumptions

B.13 In section 6.6, points that should be awarded for qualifications are calculated by determining the minimum salary thresholds required under Tier 1 General for individuals with qualifications above a bachelor's degree. This is done by allocating lower thresholds for prior earnings that would apply to those with a master's degree or PhD in proportion to the expected returns associated with those higher qualifications. Thus, the minimum earnings threshold is lower for someone with a PhD than someone with a bachelor's degree, because we expect that their earnings will increase at a faster rate over their lifetime than for an equivalent immigrant with a bachelor's degree.

B.14 There is an abundance of literature examining the returns to qualifications in terms of earnings over an individual's lifetime. We took the approximate average of four sources of information as a basis for our assumptions. These are outlined below:

- The first estimates come from our own calculation using the LFS. Here we compared the percentage difference in the median expected lifetime earnings for those with each type of degree in the skilled graduate occupation sample. Lifetime earnings were calculated from the age at which someone typically enters the labour market with a particular degree. Therefore, expected lifetime earnings of someone with a bachelor's degree were calculated from age 22 to 65, a master's degree from 25 to 65 and a PhD from 29 to 65.

During this process we also applied a real income growth assumption of 2 per cent and a discount rate of 3.5 per cent following HM Treasury Green Book guidance to calculate the present value, as described in the previous section.

- The second is taken from O'Leary and Sloane (2004), who estimated the return to qualifications in the UK labour market using an earnings equation. They split these estimates by gender.

- The third is the return to qualifications reported in McHale and Rogers (2008).

They calibrated a points system using a longitudinal dataset of Canadian immigrants, comparing their initial entry attributes with tax records over subsequent years.

- The fourth is the earnings equation reported in section 6.5 of Chapter 6. Here we estimated the return to qualifications for the non-EEA born sub-sample in the LFS, controlling for age, year of arrival and UK region.

B.15 The estimates derived from these four sources are summarised in Table B.1.

Table B.1: Summary of estimates of returns to qualifications relative to a bachelor's degree from various sources					
	MAC expected lifetime earnings calculation, UK [1] (%)	O'Leary and Sloane (2004), UK (%)		McHale and Rogers (2008), immigrants only, Canada (%)	MAC earnings equation, immigrants only, UK [2] (%)	Approximate average used in calibration (%)
		Men	Women			
Bachelor's	100	100	100	100	100	**100**
Master's	114	109	119	111	109	**110**
PhD	130	111	125	140	137	**130**

Note: All estimates of returns are presented as percentage premia in terms of earnings relative to a bachelor's degree (set at 100 per cent). (1) This calculation compares the percentage difference in the median expected lifetime earnings for those with each type of degree in the skilled graduate occupation sample. The method for calculating the expected lifetime earnings is the same as described earlier in this annex. (2) This is presented in Chapter 6, section 6.5.
Source: O'Leary and Sloane (2004), McHale and Rogers (2008) and Migration Advisory Committee analysis of the Labour Force Survey 2008 Q3 to 2009 Q2

B.16   Therefore, in summary,[1] our approach assumes that:

- the return to a master's over a bachelor's degree is 10 per cent; and

- the return to a PhD over a bachelor's degree is 30 per cent.

B.4   Sensitivity analysis of key assumptions

B.17   This section examines the sensitivity of three underlying assumptions underpinning the model used to recalibrate points under Tier 1 General described in Chapter 6, section 6.6. These assumptions are as follows:

- The top age category is set at age 40. This is set on the basis that this is where the 90th percentile earnings peak.

- The thresholds for prior earnings are set for each age category based on the 90th percentile earnings for skilled graduate occupations. This is on the basis that this is the correct benchmark for highly skilled individuals.

- Qualifications thresholds are calculated on the assumption that a master's degree is worth 10 per cent more than a bachelor's degree and a PhD 30 per cent more. This is on the basis of evidence on the returns to qualifications.

B.18   The sensitivity analysis varies these assumptions in the following way:

- First, we examine what age categories would ensue if we set the top age category at 43 instead of 40.

- Second, we examine the previous earnings thresholds that would result from using a different sub-sample of the LFS instead of the 90th percentile earnings of skilled graduate occupations.

- Third, we vary the returns to qualifications assumptions for a master's and PhD by ± 5 percentage points and note the resulting impact on the corresponding previous earnings thresholds.

B.19   In summary, the sensitivity analysis shows that the calibration is most sensitive to varying the benchmark for selecting 'highly skilled' individuals (the second assumption). This assumption also requires the most judgement. The calibration is less sensitive to potential differences in the method used to set the age bands (the first assumption), and not very sensitive to variation in the estimated returns to qualifications (the third assumption).

Selecting the top age category

B.20   The baseline model uses 40 as the highest age threshold as this is the point where 90th percentile earnings for skilled graduate occupations are highest according to the LFS.

B.21   As discussed in section B.2 of this annex, an alternative approach was considered that examined expected lifetime earnings. This approach estimated an expected lifetime earnings profile by cumulating the 90th percentile earnings distribution for skilled graduate occupations. The median value of this distribution, presented as Figure B.1, above, was found to be age 43.

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[1]   In MAC (2009c) we recommended awarding points for a master's and PhD together as there were only two bands available to award points for qualifications. There is a significant difference between the returns from a bachelor's degree and a master's degree and therefore we decided to group a master's degree with a PhD.

B.22 Here we consider this alternative of using age 43 as the highest age threshold. Table B.2 below compares the age categories that would result if we set the highest age threshold at age 43 instead of age 40.

B.23 The age categories that result in both cases are determined by dividing the ages below the top age threshold and above age 21 into three bands. The size of each band is determined by the number of the points awarded.

B.24 The problem with using age bands calculated from age 43 to set the thresholds for prior earnings, as indicated by the 90th percentile distribution, is that earnings begin to decrease after age 40 in the cross-section. Our approach to calibrating points for earnings is predicated on the assumption that age and earnings can be traded off against each other for points purposes.

B.25 It is very likely that declining earnings beyond age 40 reflect characteristics that are not controlled for when examining the cross-section of 90th percentile earnings. We therefore decided it would make more sense to award points for age up to the earnings peak, and cease awarding points thereafter.

Calculating the previous earnings thresholds for each age category

B.26 Our approach to the points calibration sets the benchmark for previous earnings using the 90th percentile earnings for skilled graduate occupations in full-time employment.

B.27 Table B.3 compares the minimum salary thresholds (to the nearest £5,000) that would result from using different sub-samples of the LFS. The thresholds illustrated are for someone holding a bachelor's degree only.

Table B.2: Age categories that result if the top age threshold is set at age 40 or age 43		
Points	**Top age threshold is 40**	**Top age threshold is 43**
20	29 and under	31 and under
10	30–34	32–37
5	35–39	38–42
0	40 and over	43 and over

Source: MIgration Advisory Committee analysis

Table B.3: The minimum previous earnings thresholds for someone with a bachelor's degree only if different sub-samples of the LFS are used as a measure of 'highly skilled'					
	90th percentile, skilled graduate occupations	90th percentile, all occupations	90th percentile, all occupations, bachelor's or above held	Mean, skilled graduate occupations	80th percentile, skilled graduate occupations
29 and under	£40,000	£30,000	£40,000	£25,000	£30,000
30–34	£55,000	£45,000	£55,000	£35,000	£45,000
35–39	£65,000	£50,000	£70,000	£40,000	£50,000
40 and over	£75,000	£55,000	£80,000	£45,000	£55,000

Note: The minimum salary thresholds are for someone holding a bachelor's degree only, with no UK experience. Skilled graduate occupations here refer to those defined as 'Graduate' by Elias and Purcell (2004a) minus two not defined as 'skilled' in MAC (2008). All estimates are for full-time salaries only.
Source: Migration Advisory Committee analysis of the Labour Force Survey 2008 Q3 to 2009 Q2

Making different returns to qualifications assumptions

B.28 In our methodology, we assume that the return to a master's degree relative to a bachelor's degree is 10 per cent and for a PhD relative to a bachelor's degree it is 30 per cent. The adoption of these assumptions is discussed in section B.3 of this annex.

B.29 Table B.4 highlights the change in the minimum previous earnings thresholds required if these returns to qualifications assumptions are varied by ± 5 percentage points.

B.30 Broadly speaking, varying the assumptions on the returns to a master's degree and a PhD lead to either no change or a shift in the minimum previous earnings threshold required by ± £5,000 (this is due to the rounding of each earnings category to the nearest £5,000).

Table B.4: The minimum salary thresholds required for someone with a master's degree or PhD if the returns to qualifications assumptions are varied by ± 5 percentage points

Figures are in £ and rounded to the nearest £5,000. Numbers in brackets are the amounts rounded to the nearest £50.

Master's		
	105%	110%	115%
29 and under	40,000 (38,000)	35,000 (36,000)	35,000 (34,000)
40 and over	70,000 (71,250)	65,000 (67,500) [1]	65,000 (63,750)
PhD		
	125%	130%	135%
29 and under	30,000 (30,000)	30,000 (28,000)	25,000 (26,000)
40 and over	55,000 (56,250)	50,000 (52,500) [2]	50,000 (48,750)

Note: The minimum salary thresholds are for someone with no UK experience. Skilled graduate occupations here refer to those defined as 'Graduate' by Elias and Purcell (2004a) minus two not defined as 'skilled' in MAC (2008). All estimates are for full-time salaries only.

(1) This number lies just below £67,500. This is because the 90th percentile earnings for someone aged 40 is just under £75,000. We use £75,000 as we need to round to the nearest £5,000. Therefore in this case we round down to £65,000.
(2) For the same reason as (1) this number is rounded down to £50,000.
Source: Migration Advisory Committee analysis of the Labour Force Survey 2008 Q3 to 2009 Q2

Annex C: Issues with the current salary conversion model for Tier 1 General

C.1 Introduction

C.1 This annex presents some further information on the analysis presented in Chapter 6, section 6.8. In this section we outlined the current methodology used to calculate the salary multipliers that are used to convert the previous earnings of a Tier 1 immigrant obtained outside the UK into an equivalent UK salary. We highlighted the following four issues with this methodology:

- **Issue 1:** The model has not been updated since 2002; hence, it is likely that the rankings of countries by gross domestic product (GDP) per capita[1] will have changed to some extent.

- **Issue 2:** The appropriate conversion rate for countries at the top and bottom of each band can be a long way from the conversion rate used for that band. In addition, there is suggestive evidence that a number of countries are potentially benefiting from salary conversion rates that are too high, and conversely a number that are potentially hindered by conversion rates that are too low.

- **Issue 3:** The assumptions as to where highly skilled individuals will sit in the income distributions within different countries (for example, the top 3 per cent in Band C is equivalent to the top

2 per cent in Band D) appear not to be based on robust evidence.

- **Issue 4:** The observational breakpoints used to devise the original bands (for example, the decision on where to draw the line between Band B and Band C) appear arbitrary.

C.2 This annex considers each of these issues in turn and outlines the analysis used to identify them.

## C.2 Issue 1: The ranking of countries by GDP per capita

C.3 As the model has not been updated since 2002, it is likely that the rankings of countries by GDP per capita will have changed to some extent. There may also be changes to other factors that have had an impact on the rankings of countries, such as exchange rates and the correction of previous data errors.

C.4 Each country was allocated to one of five bands in 2002. Those countries with the highest GDP per capita in 2002 were allocated to Band A and those with the lowest GDP per capita were allocated to Band E. In the seven years that have followed, countries have experienced various rates of GDP per capita growth. Therefore, it is likely that the ranking of countries by GDP per capita has changed.

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[1] In this annex, GDP per capita is at purchasing power parity (PPP) constant prices.

C.5   This issue is highlighted in Figure C.1, which compares the current salary multipliers with GDP per capita estimates for 2008 from the International Monetary Fund (IMF) World Economic Outlook Database. Several countries are omitted due to lack of data. The wide blocks in Figure C.1 represent the highest threshold for prior earnings under the current Tier 1 General points criteria, converted to US dollars. The narrower bars, which partially obscure these blocks, represent the GDP per capita of individually ranked countries in US dollars.

C.6   If the current allocation of countries to bands were correct, we would expect to see a gradual decline in GDP per capita as we move from countries in Band A to countries in Band E. However, Figure C.1 shows that this is not the case as there appear to be inconsistencies in the allocation of countries across bands according to GDP per capita. In Russia (in Band C) GDP per capita is significantly greater than in Costa Rica (Band B), yet a higher salary multiplier is applied to earnings in the former under the current methodology.

Figure C.1: A comparison of GDP per capita and the level of previous earnings required to achieve the maximum number of points for previous earnings under Tier 1 General
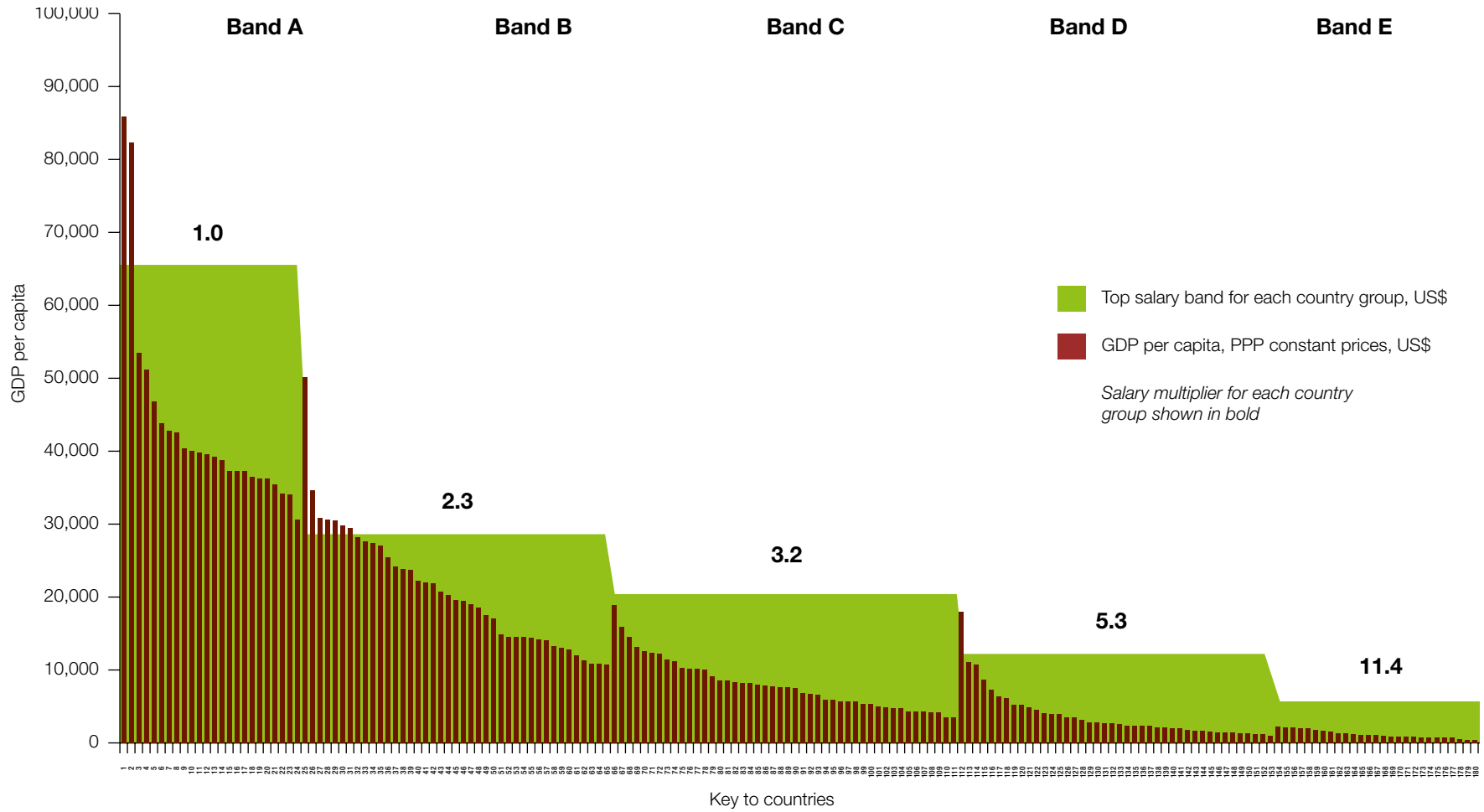
Note: This figure compares 2008 GDP per capita with the highest salary threshold for each banding according to the current Tier 1 point calibration. The thresholds were converted into US$ at an exchange rate of £1 = US$1.63851 on 23 October 2009. The GDP per capita data are represented as the red lines and the bandings are the purple blocks. Some countries are missing due to unavailable data.

Source: Data from the International Monetary Fund (IMF) World Economic Outlook Database, April 2009

Countries from Figure C.1

1. Qatar
2. Luxembourg
3. Norway
4. Singapore
5. United States
6. Hong Kong SAR
7. Switzerland
8. Ireland
9. Netherlands
10. Iceland
11. Kuwait
12. Austria
13. Canada
14. United Arab Emirates
15. Australia
16. Denmark
17. Sweden
18. United Kingdom
19. Belgium
20. Finland
21. Germany
22. France
23. Japan
24. Italy
25. Brunei Darussalam
26. Bahrain
27. Taiwan (Province of China)
28. Spain
29. Greece
30. Cyprus
31. Slovenia
32. Israel
33. Korea
34. Bahamas
35. New Zealand
36. Czech Republic
37. Oman
38. Saudi Arabia
39. Malta
40. Portugal
41. Slovak Republic
42. Seychelles
43. Trinidad and Tobago
44. Estonia
45. Antigua and Barbuda
46. Hungary
47. Barbados
48. Croatia
49. Poland
50. Latvia
51. Botswana
52. Mexico
53. Libya
54. Chile
55. Argentina
56. St Kitts and Nevis
57. Malaysia
58. Uruguay
59. Lebanon
60. Venezuela
61. Mauritius
62. Panama
63. Grenada
64. St Lucia
65. Costa Rica
66. Lithuania
67. Russia
68. Gabon
69. Turkey
70. Romania
71. Bulgaria
72. Belarus
73. Kazakhstan
74. Iran, Islamic Republic of
75. Brazil
76. St Vincent and the Grenadines
77. South Africa
78. Dominica
79. Macedonia
80. Peru
81. Dominican Republic
82. Suriname
83. Thailand
84. Colombia
85. Tunisia
86. Belize
87. Jamaica
88. Ecuador
89. Bosnia and Herzegovina
90. El Salvador
91. Albania
92. Algeria
93. Namibia
94. China
95. Egypt
96. Samoa
97. Turkmenistan
98. Swaziland
99. Tonga
100. Jordan
101. Maldives
102. Guatemala
103. Paraguay
104. Syrian Arab Republic
105. Morocco
106. Bolivia
107. Honduras
108. Vanuatu
109. Fiji
110. Philippines
111. Cape Verde
112. Equatorial Guinea
113. Montenegro
114. Serbia
115. Azerbaijan
116. Ukraine
117. Angola
118. Kiribati
119. Armenia
120. Bhutan
121. Georgia
122. Sri Lanka
123. Guyana
124. Indonesia
125. Congo, Republic of
126. Mongolia
127. Iraq
128. Moldova
129. Vietnam
130. India
131. Pakistan
132. Nicaragua
133. Uzbekistan
134. Yemen
135. Djibouti
136. Timor Leste (East Timor)
137. Sudan
138. Cameroon
139. Papua New Guinea
140. Mauritania
141. Solomon Islands
142. Senegal
143. Kenya
144. Côte d'Ivoire
145. Benin
146. Zambia
147. Gambia
148. Bangladesh
149. Haiti
150. Lesotho
151. Myanmar
152. Comoros
153. Guinea
154. Lao People's Democratic Republic
155. Kyrgyz Republic
156. Nigeria
157. Cambodia
158. Tajikistan
159. São Tomé and Príncipe
160. Chad
161. Ghana
162. Tanzania
163. Burkina Faso
164. Uganda
165. Nepal
166. Mali
167. Rwanda
168. Madagascar
169. Ethiopia
170. Mozambique
171. Malawi
172. Togo
173. Afghanistan
174. Eritrea
175. Central African Republic
176. Niger
177. Sierra Leone
178. Guinea-Bissau
179. Burundi
180. Liberia
181. Congo, Democratic Republic of

## C.3 Issue 2: Variations within and between country bands

C.7 If the current allocation of countries to bands were correct, we would expect to see a gradual decline in GDP per capita as we move from countries in Band A to countries in Band E. However, Figure C.1 shows that this is not the case, as there appear to be inconsistencies in the allocation of countries across bands according to GDP per capita. In Russia (in Band C) GDP per capita is significantly greater than in Costa Rica (Band B), yet a higher salary multiplier is applied to earnings in the former under the current methodology.

C.8 Further, immigrants from countries in the bands allocated the higher multipliers may gain a disproportionate advantage when applying for Tier 1. This advantage may be caused by a salary multiplier that is too high, making it comparatively easier for immigrants to achieve points for previous earnings. Immigrants therefore have a much stronger preference for applying for Tier 1 entry than would otherwise be the case. Similarly, it may also be the case that the salary multipliers may be significantly disadvantaging immigrants from certain countries.

C.9 The requirements for Tier 1 and Tier 2 are the same for applicants from all non-EEA countries. Therefore, we would expect the ratio of Tier 1 to Tier 2 applications in each country to be similar; the relative difficulty of meeting the points requirement of Tier 1 compared with meeting the requirements of Tier 2 should be approximately equal in every country.

C.10 Figure C.2 compares the ratio of Tier 1 to Tier 2 out-of-country applications with the salary multiplier for countries with a positive number of Tier 1 General and Tier 2 applications. This shows that immigrants from certain countries tend to display a relative preference for Tier 1 over Tier 2, and that this effect is more pronounced in the bands that are allocated the higher multipliers.

C.11 There may be a number of other reasons why immigrants from countries in the higher bands may favour Tier 2 over Tier 1. Industrial links with the UK may make it easier to apply for job postings under Tier 2 for certain countries, for example under the intra-company transfer route. Therefore, the evidence presented is only suggestive, but it does provide an indication that the current salary multipliers may favour applications from countries in the lower bands.

C.4 Issue 3: The proportion of highly skilled in each band

C.12 This issue can be illustrated by analysing the relationship between the percentage of the income distribution in each country considered to be highly skilled and the Gini coefficient for each country.

C.13 The Gini coefficient is a measure of income inequality and provides a relative measure of the income distribution across countries. A Gini coefficient of 0 represents absolute equality in a country, where everyone has identical income, whereas a Gini coefficient of 100 represents maximum inequality. Examining the Gini coefficient cannot tell you whether

Figure C.2: A comparison of the ratio of Tier 1 General to total Tier 2 out-of-country applications with the current Tier 1 General salary multiplier
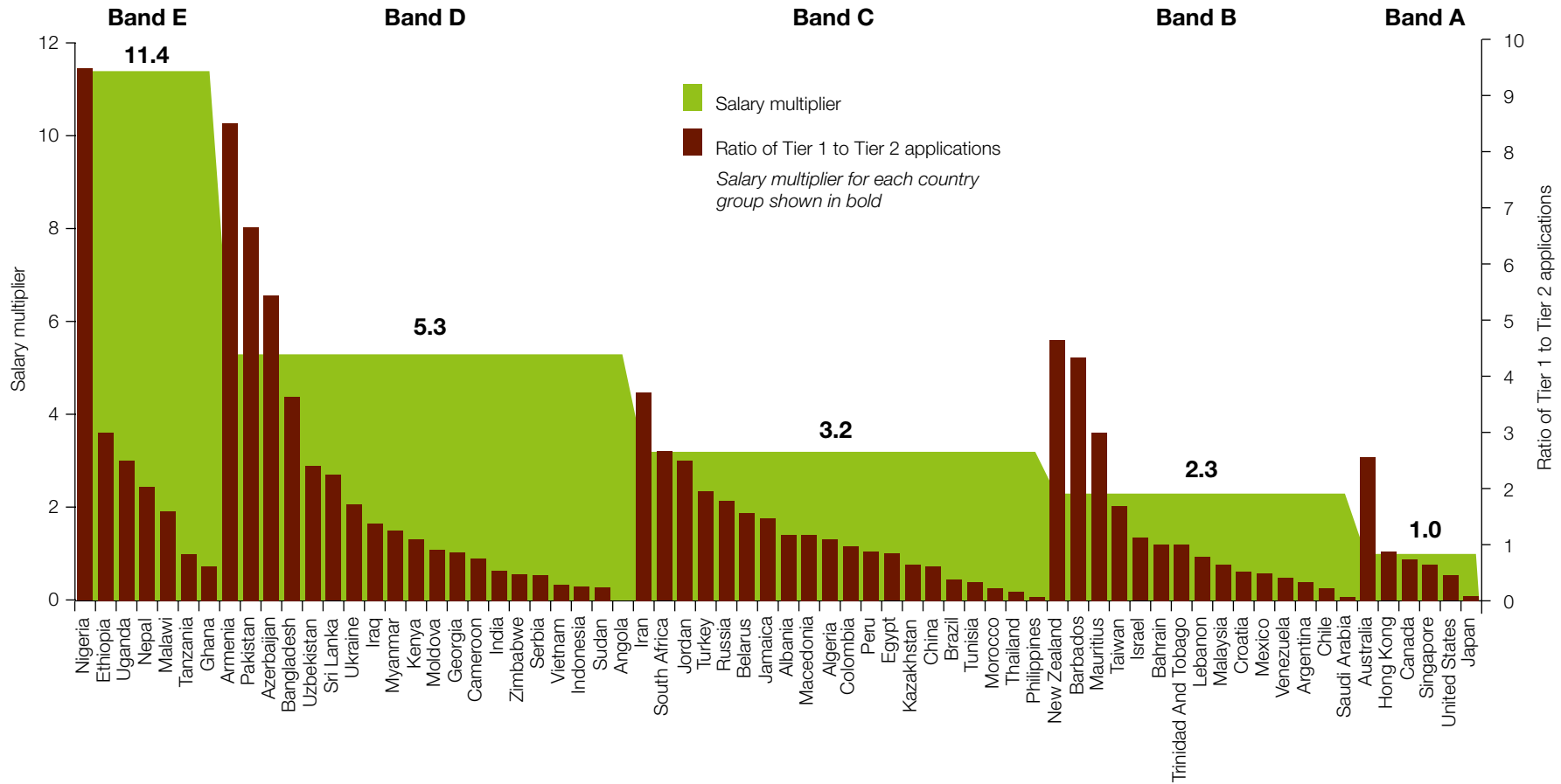
Note: These data are from out-of-country applications only. The ratio between the numbers of Tier 1 General and Tier 2 (all) applications has been calculated using application data from Sep 2008 to Aug 2009, dividing the number of Tier 1 General granted applications by the total number of granted Tier 2 applications. Countries with no granted Tier 1 General applications and no Tier 2 granted applications were excluded from the analysis.

Source: UK Border Agency Management Information data

there are more highly skilled people in one country relative to another; however, it is able to tell you whether income distributions are broadly similar across countries.

C.14   As discussed in Chapter 6, the salary multipliers intend to take into account both the difference in average incomes across countries and the difference in the proportion of the population considered highly skilled. The percentiles of the income distribution targeted by the salary multipliers for Bands A to E respectively are 10 per cent, 5 per cent, 3 per cent, 2 per cent and 1 per cent, broadly reflecting the proportion of the population of each country in each band considered to be highly skilled.

C.15   Figure C.3 compares the proportion of the income distribution considered to be highly skilled for each band with the Gini coefficient for each country.

C.16   Ideally, we would expect the income distributions of countries in each band to be similar. If this were the case, we could assume similar levels of income inequality between skilled and unskilled workers in each country within a band. Therefore, targeting the same top percentile of earners across these countries should attract workers with the same level of skill, leaving individuals in no one country at a relative advantage or disadvantage.

C.17   However, it appears from Figure C.3 that the Gini coefficient varies greatly across countries within the same band. For example, the income distribution is more equal (i.e. the Gini coefficient is much lower) in the Czech Republic than in Botswana, but both of these countries are in Band B. This means that for both

countries calculation of the previous earnings for Tier 1 General focuses on only the top 5 per cent of the income distribution, yet this may be a very different group in these two countries.

C.18   Furthermore, Figure C.3 illustrates that there are inconsistencies in the allocation of countries across bands. There are countries in Band A that have less equal income distributions than some countries in Band B; the same is also true when comparing Gini coefficients for countries across Bands C, D and E. However this is likely to be a direct result of grouping countries based on their GDP per capita alone.

C.5   Issue 4: Observational breakpoints

C.19   It appears that there is limited rationale for the breakpoints between each band. This problem is exacerbated in two areas: when comparing those countries with the highest and lowest GDP per capita within a given band, with individuals in the former having a significant advantage over individuals in the latter; and when comparing those countries with the lowest GDP per capita in one band with those countries with the highest GDP per capita in the following band.

C.20   For example, it is not clear why earnings in New Zealand are subject to a multiplier of 2.3 while earnings in Australia are subject to a multiplier of only 1. The previous earnings of applicants in New Zealand are therefore potentially disproportionately inflated compared with the earnings of Australian applicants when applying for Tier 1.

Figure C.3: A comparison of the proportion of the income distribution considered highly skilled with the Gini coefficient of each country
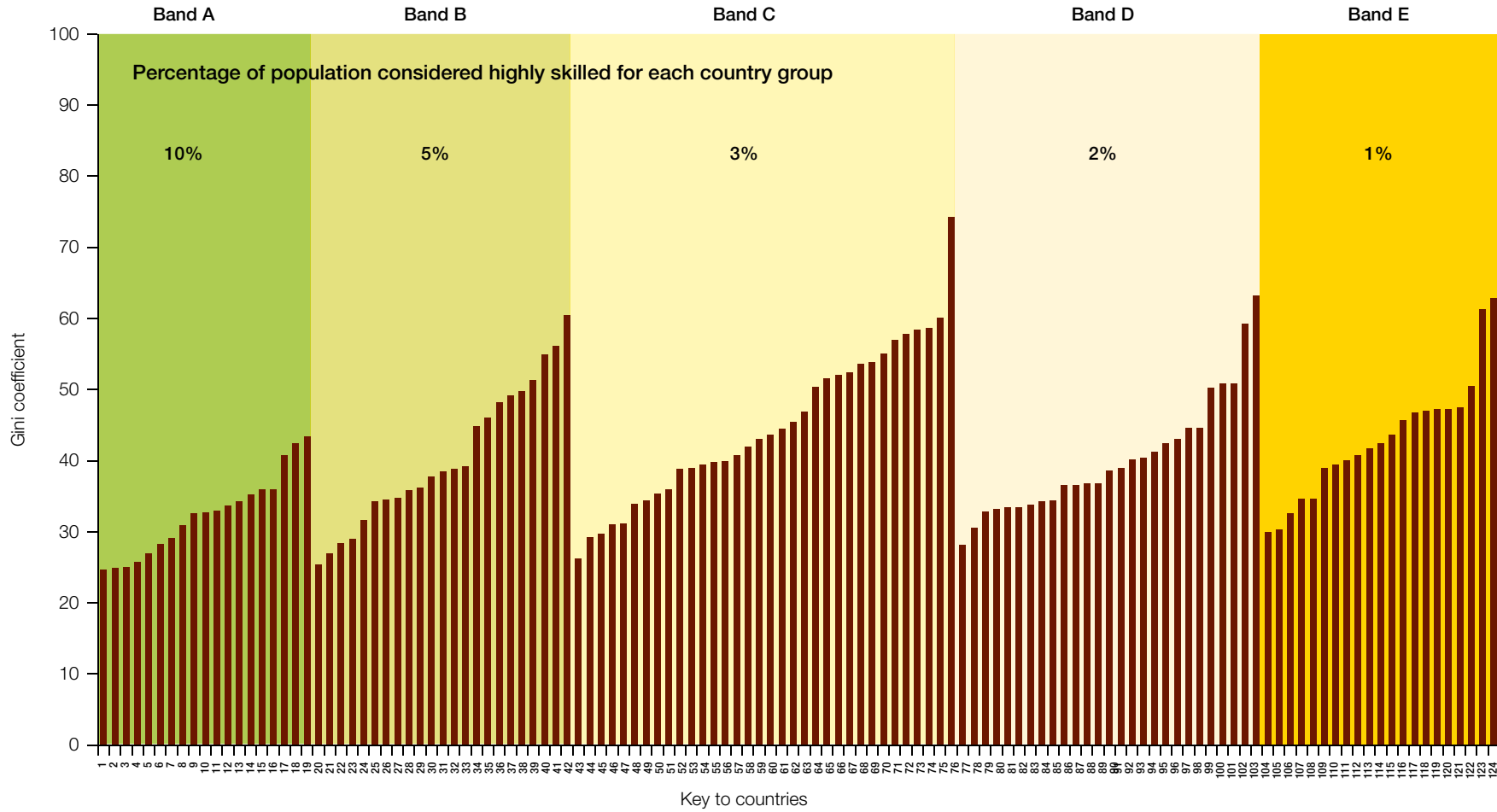
Note: Some countries are missing due to unavailable data.
Source: Data from the United Nations Development Programme 2007/2008 Human Development Report

Countries from Figure C.3

1. Denmark
2. Japan
3. Sweden
4. Norway
5. Finland
6. Germany
7. Austria
8. Netherlands
9. Canada
10. France
11. Belgium
12. Switzerland
13. Ireland
14. Australia
15. Italy
16. United Kingdom
17. United States
18. Singapore
19. Hong Kong SAR
20. Czech Republic
21. Hungary
22. Slovenia
23. Croatia
24. Korea
25. Greece
26. Poland
27. Spain
28. Estonia
29. New Zealand
30. Latvia
31. Portugal
32. Trinidad and Tobago
33. Israel
34. Uruguay
35. Mexico
36. Venezuela
37. Malaysia
38. Costa Rica
39. Argentina
40. Chile
41. Panama
42. Botswana

43. Bosnia and Herzegovina
44. Bulgaria
45. Belarus
46. Romania
47. Albania
48. Kazakhstan
49. Egypt
50. Algeria
51. Lithuania
52. Jordan
53. Macedonia
54. Morocco
55. Tunisia
56. Russia
57. Turkmenistan
58. Thailand
59. Iran, Islamic Republic of
60. Turkey
61. Philippines
62. Jamaica
63. China
64. Swaziland
65. Dominican Republic
66. Peru
67. El Salvador
68. Ecuador
69. Honduras
70. Guatemala
71. Brazil
72. South Africa
73. Paraguay
74. Colombia
75. Bolivia
76. Namibia
77. Ukraine
78. Pakistan
79. Mongolia
80. Moldova
81. Bangladesh
82. Yemen
83. Armenia
84. Indonesia

85. Vietnam
86. Benin
87. Azerbaijan
88. India
89. Uzbekistan
90. Guinea
91. Mauritania
92. Sri Lanka
93. Georgia
94. Senegal
95. Kenya
96. Nicaragua
97. Cameroon
98. Côte d'Ivoire
99. Gambia
100. Zambia
101. Papua New Guinea
102. Haiti
103. Lesotho
104. Ethiopia
105. Kyrgyz Republic
106. Tajikistan
107. Lao People's Democratic Republic
108. Tanzania
109. Malawi
110. Burkina Faso
111. Mali
112. Ghana
113. Cambodia
114. Burundi
115. Nigeria
116. Uganda
117. Rwanda
118. Guinea-Bissau
119. Nepal
120. Mozambique
121. Madagascar
122. Niger
123. Central African Republic
124. Sierra Leone

Annex D: **Consultation**

D.1 List of organisations that submitted evidence

ASG Immigration Limited
Association for Consultancy and Engineering
Association of Foreign Banks
Association of Graduate Recruiters, Engineering, Energy and Industry
BHP Billiton
Biotechnology and Biological Sciences Research Council
BP International Limited
BritishAmerican Business
British Medical Association
Cardiff University
Cemex UK Services Limited
Clifford Chance LLP
Confederation of British Industry
Deloitte LLP
Department for Business, Innovation and Skills
Department for Communities and Local Government
Department for Work and Pensions
Department of Health
Doosan Babcock Energy Limited
East Midlands Development Agency (for all regional development agencies except London)
EDF Trading Ltd
Emigra Europe Ltd
Engineering Council UK
Financial Services Skills Council
Fragomen LLP
General Medical Council
Greater London Authority
Ground Forum
HSBC

HSMP Forum
Immigration Advisory Service
Immigration Law Practitioners' Association
Institute for Public Policy Research
Institution of Chemical Engineers
Intellect
Kingsley Napley
KPMG LLP
Lantra
Law Society
Lifelong Learning UK
London First
London Investment Banking Association
Manhattan Associates
Microsoft Ltd
Migrationwatch UK
MSHK
National Association of Medical Personnel Specialists
NHS Employers
NHS Pharmacy Education and Development Committee
PricewaterhouseCoopers Legal LLP
Recruitment and Employment Confederation
Ricardo
RIG Radiography Recruit
Royal College of Veterinary Surgeons
Scottish Government
SEGA Europe Limited
Skills for Care and Development
Speechly Bircham LLP
Sun Life Assurance Company of Canada (UK) Limited
Swansea University
Thomson Reuters
ThoughtWorks Limited

Trades Union Congress
UK Trade & Investment
Universities UK
University of Exeter
University of Oxford
University of Sheffield
University of Warwick
Wellcome Trust Sanger Institute
Westinghouse Electric Company UK & Uranium
    Asset Management Ltd

D.2   List of organisations met with

ABN AMRO
Accenture
AET
AET Tankers
Alcatel-Lucent
Allen & Overy
Atos Origin
Australian Embassy
Australian High Commission
BP International Ltd
British American Business
British American Tobacco
British Medical Association
British Petroleum
British Telecom
Broadridge Financial Solutions Ltd
Cadbury
Cap Gemini
CB&I
Chevron UK Limited
Citi
Clifford Chance
CMS Cameron McKenna LLP
Complinet Ltd
Confederation of British Industry
Corus – Tata Steel Group
CSC
Deloitte LLP
Department for Business, Innovation and Skills
Department for Children, Schools and Families
Department of Health
DHL Supply Chain Limited
Doosan Babcock
DTZ
Eli Lilly and Company Limited

Embassy of Japan
Embassy of the People's Republic of China
Embassy of the United States of America
Engineering Council UK
Ferguson Snell
Financial Services Skills Council
Foreign and Commonwealth Office
Foster Wheeler
Foster Wheeler Energy Limited
Fragomen LLP
Freshfields
Genpact UK
Go Native – Corporate Housing
Google
Harsco Corporation
Hess Services UK Limited
Higher Education Funding Council for England
HM Treasury
IBM
Indian Embassy
Intellect UK
International Personnel Management Ltd
Kingsley Napley LLP
KPMG LLP
Law Society
Linklaters LLP
Lloyds TSB
Lockheed Martin
Logica
London First
London Investment Banking Association
Macquarie
Magrath LLP
Malaysian Embassy
Mastek (UK) Limited
Microsoft
Migrationwatch UK
Mindtree
Morgan Dias Immigration Consultants Ltd
MW Kellogg Limited
New Zealand Minister of Labour and Associate
    Minister of Immigration
NHS Employers
Nigerian Embassy
Nomura International Plc
Norton Rose LLP
Oracle

Overseas Nurses Network
Penningtons Solicitors LLP
Primacy Relocation
Recruitment and Employment Confederation
Research in Motion (BlackBerry)
Ricardo plc
Rio Tinto
Roche Products Ltd
Royal Bank of Scotland
Sanger (the Wellcome Trust Sanger Institute)
Sarah Buttler Associates LLP
Scottish Government
Siemens International Delegations Unit
Siemens plc
Slaughter & May
Smith & Nephew Plc
Sopra Group
Steria
Tata Consultancy Services
Taylor Wessing
Tesco Stores Limited
Tiffany & Co
Totally Expat
Trades Union Congress
TUI Travel PLC
Turkish Embassy
UBS
UHY Hacker Young LLP
UK Border Agency
UK Trade & Investment
Unilever
Unison
Unite
Universities UK
University of Cardiff
USB AG
Washington E&C Ltd, Washington Div.,
   URS Corporation
WestLB

D.3 List of stakeholder forum attendees (spring/summer 2009)

Scotland

Alliance of Sector Skills Councils
Contract Scotland
Convention of Scottish Local Authorities
David Hulme Institute
Di Maggio's
Federation of Small Businesses
Financial Services Skills Council
First Permit Limited
FutureSkills Scotland
Harlequin Leisure Group
Hilton
Laing O'Rourke Scotland Ltd
Lantra
Mother India
National Australia Group
Nuffield Health
Oil & Gas UK
Overseas Nurses Network
People 1st
Registered Nursing Home Association
Scotland Office
Scottish Care
Scottish Chambers of Commerce
Scottish Council for Independent Schools
Scottish Enterprise
Scottish Executive
Scottish and Southern Energy
Scottish Tourism Forum
Skills Development Scotland
TalentScotland
Transcal Ltd
UK Border Agency
Unison
University of Edinburgh
Windows Catering Co (Four) Ltd

Northern Ireland

ABP Lurgan
AngloBeef
Anglo-North Irish Fish Producers Organisation Ltd
Bombardier Aerospace
Business in the Community
Carman Leather Ltd
Dunbia
Foyle Food Group
Gangmasters Licensing Authority
Gems NI
Invest Northern Ireland
Irish Congress of Trade Unions
Lantra
Linden Foods
Northern Ireland Council for Ethnic Minorities
Northern Ireland Fish Producers Organisation Ltd
Northern Ireland Food and Drink Association
Northern Ireland Meat Exporters Association
Office of the First Minister and Deputy First
    Minister
Queen's University of Belfast
S.T.E.P. NI
University of Ulster

Wales

Airbus
Bronglais General Hospital
Caerphilly County Borough Council
Cardiff and Vale NHS Trust
Cardiff University
Care Council for Wales
Care Forum Wales
Cogent
Community Cohesion Unit, Welsh Assembly
CwmTaf NHS Trust
e2e Linkers Ltd
Matchworkers
Panasonic
Periconsultancy
SRK Consulting
Trades Union Congress
UK Border Agency
University of Glamorgan (Prifysgol Morgannwg)
Uwch Swyddog Ymchwil
Valleys Race Equality Council
Velindre NHS Trust
Wales Strategic Migration Partnership
Welsh Assembly Government
Welsh Local Government Association

Abbreviations

A8	The eight eastern European countries that joined the European Union in 2004	LFS	Labour Force Survey
		LTR	Leave to remain
		MAC	Migration Advisory Committee
ARK	Analysis, Research and Knowledge Management Directorate	NARIC	National Recognition Information Centre
ASHE	Annual Survey of Hours and Earnings	NIESR	National Institute for Economic and Social Research
BIS	Department for Business, Innovation and Skills	NVQ	National Vocational Qualification
BMA	British Medical Association	OECD	Organisation for Economic Co-operation and Development
CBI	Confederation of British Industry		
CEF	Common European Framework	ONS	Office for National Statistics
CLG	Department for Communities and Local Government	PBS	Points Based System
		PhD	Doctor of Philosophy
EB	Employment Base	PPP	Purchasing Power Parity
EEA	European Economic Area	PSA	Public Service Agreements
EOI	Expression of Interest	PSWR	Post-Study Work Route
EU	European Union	RLMT	Resident Labour Market Test
FT:WISS	Fresh Talent: Working in Scotland Scheme	SEGS	Science and Engineering Graduates Scheme
GDP	Gross domestic product	SLC	Student Loans Company
HE	Higher education	SOC	Standard Occupational Classification
HEFCE	Higher Education Funding Council for England	TUC	Trades Union Congress
		UK	United Kingdom
HSI	Highly Skilled Immigration	UKBA	UK Border Agency
HSMP	Highly Skilled Migrant Programme	UKCES	UK Commission for Employment and Skills
IBM	International Business Machines		
IGS	International Graduates Scheme	UKTI	UK Trade & Investment
ILO	International Labour Organization	UNCTAD	United Nations Conference on Trade and Development
ILPA	Immigration Law Practitioners' Association		
		US	United States
IMF	International Monetary Fund	USP	Unique selling point
IPPR	Institute for Public Policy Research		
IPS	International Passenger Survey		
ITEM	Independent Treasury Economic Model		

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