

**WORK IMMIGRATION AND THE  
LABOUR MARKET**  
**Incorporating the role of the Migration  
Advisory Committee**

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# Foreword

The Migration Advisory Committee (MAC) has been operating for almost a decade and has seen two changes in government. Thus the MAC has operated under Labour, Coalition and Conservative governments. This is an appropriate time to record the MAC's role in migration policy. The MAC has moved from its initial role of advising on the make-up of the shortage occupation list to looking at specific policy issues on non-EU work migration such as its impact and limits on migration.

In Section 1, I set out the facts on immigration and emigration. Section 2 describes: the reasons the MAC was established; its nature as an institution; and its working process. Section 3 details how the system has evolved from a points-based system to a criteria or requirements-based system. Sections 4 to 6 analyse non-EU migration; tier 1 (section 4); tier 2 (section 5); limits, impact, settlement and family (section 6). The impact of migrants in low skilled jobs is investigated in section 7. Finally, I present brief conclusions in section 8.

This set of fact sheets thus sets out how and why the MAC was set up; it looks at how the MAC is constituted and how it operates; it looks in some detail at where the MAC has had an input into government policy and the impact of this; and sets out some of the headline data that has formed the backdrop to the MAC's work over the period of its existence.

What follows is not a complete analysis of the economics of immigration. Much of this analysis is set out in relevant reports referenced in the text. Neither is it a full history of immigration, since net migration became positive two decades ago. This report only examines the period 2007-16.

I acknowledge, with gratitude, the input of the Migration Advisory Committee (MAC) secretariat in preparing this report, especially Cordella Dawson, Stephen Earl, Paul Garner, Jessica Latchford, Kyle Magee and Christine Stone. I am writing this in a personal capacity, albeit as Chair of the MAC. This report does not necessarily represent the views or analytical position of other MAC members, the MAC secretariat or the Home Office.



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Note: Numbers shown in square brackets [ ] in slide headings refer to report number in Annex B bibliography

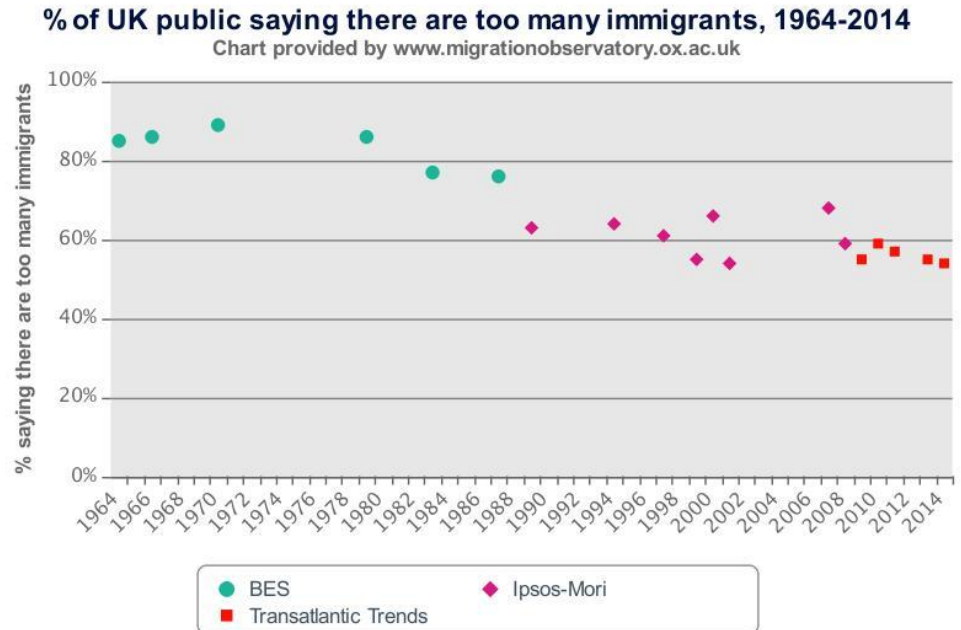
# 1. Context

We start with some background data on key immigration statistics that help explain the environment in which the MAC was created and in which it has had to operate.

# 1.1 Public concern over immigration

Immigration is a key concern of the UK population. Evidence from the Migration Observatory shows that, the majority of the public view immigration as too high and that since 1997 immigration has consistently been the number one or number two issue raised in opinion polls. The 2012 British Social Attitudes Survey found that, three out of four respondents advocated a reduction in immigration.

The UK has experienced major increases in inward migration over the last 15 years through three main routes: work; family; and study. These increases have not been matched by a similar increase in UK outward migration so overall the UK has experienced a rise in net migration. The next few slides set out the facts about this increase.



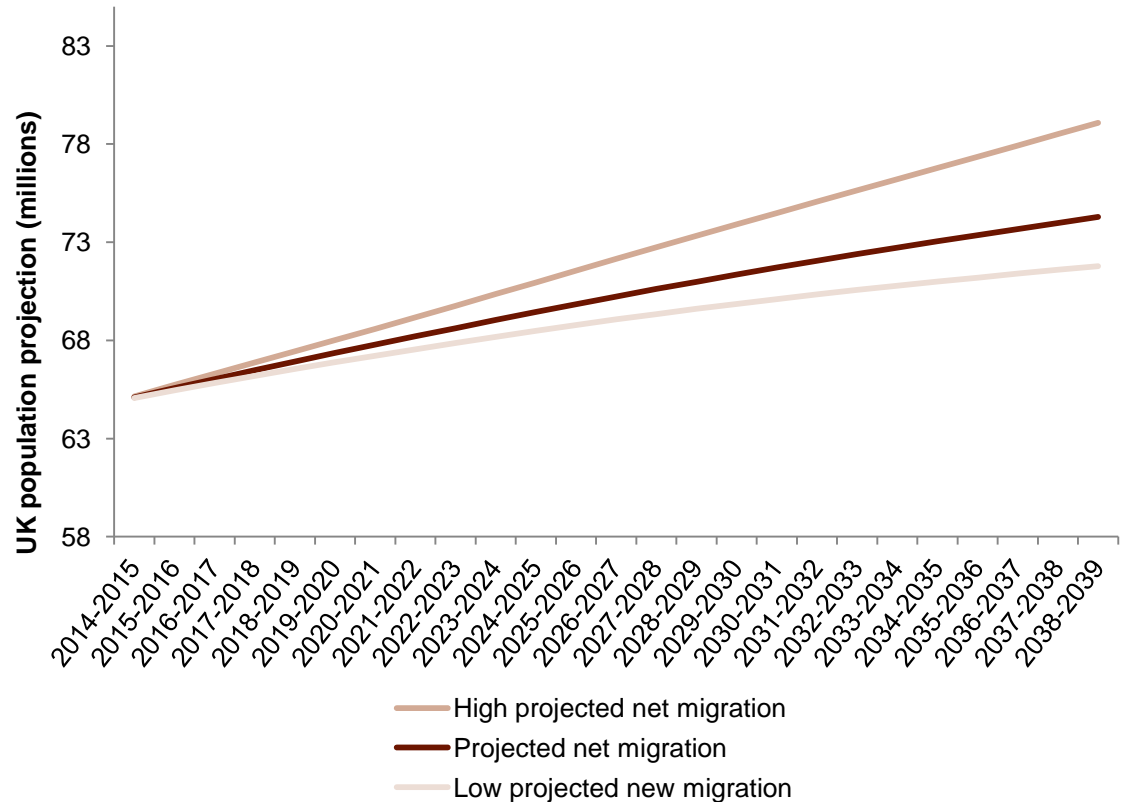
Source : Ipsos-MORI and Transatlantic Trends

# 1.2 Population change

Migration is an important part of population change in the UK. It is projected that the UK population will increase by 9.7 million between 2014 and 2039, 5 million or more than 50 per cent of which is expected to be attributable to migration.

An additional 1.7 million (17 per cent) of projected population growth in this period is expected to come from migrant contribution to natural change (births attributed to migration).

### Potential UK population change up to 2039



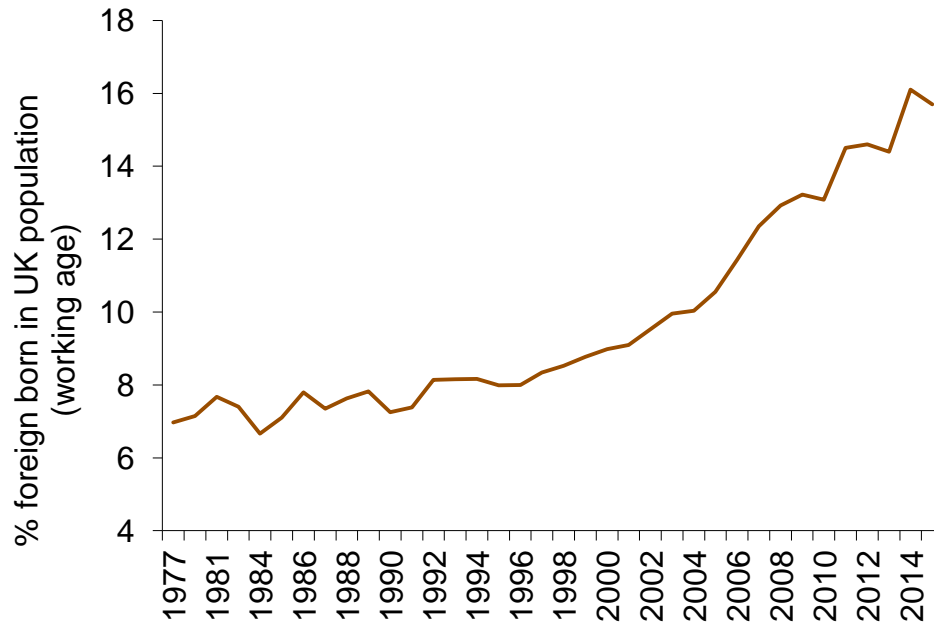
Source: Office for National Statistics, National Population Projections, 2014-based extra variants.

The figure above displays the population projection over the next 20 years based on the principal projection and upper and lower bound estimates for net migration.



# 1.3 Stock

## The proportion of the UK working-age population that were not born in the UK, 1977 – 2015



Nationality grouping and country of birth of working age population YE Sep 2015 (000s and %)

		Nationality grouping			
		UK	EEA	non-EEA	Total
Country of Birth	UK	41,140 84%	21 *	16 *	<b>41,177</b> <b>84%</b>
	EEA	335 *	2,962 6%	18 0%	<b>3,316</b> <b>7%</b>
	Non-EEA	2,489 5%	258 *	1,877 4%	<b>4,624</b> <b>9%</b>
	Total	<b>43,964</b> <b>90%</b>	<b>3,241</b> <b>7%</b>	<b>1,911</b> <b>4%</b>	<b>49,116</b> <b>100%</b>

Note: Rate describes the proportion of working-age immigrants in the working-age population. The data are the average of the four quarters in each calendar year. Working age is defined as 16-64 for men and 16-59 for women.

\* Less than 1 per cent.

Source: Labour Force Survey, 1977 Q1 to 2015 Q3

There is no single definition of migrant in the data. Migrants might be defined by their country of birth, by their nationality, or by their movement into a new country to stay temporarily (sometimes for as little

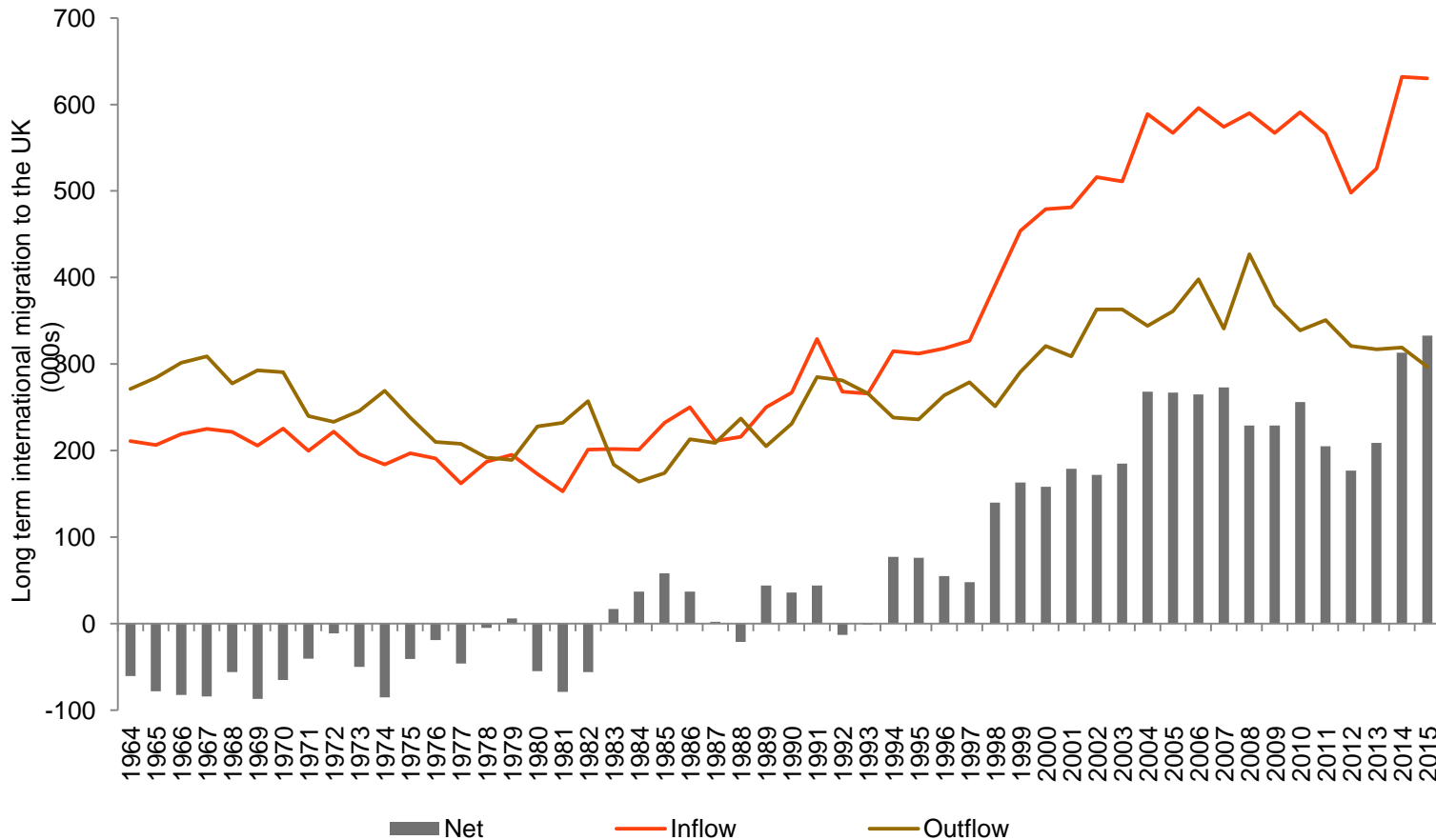
as a year) or to settle for the long-term. The normal definition of migrant status is by the individual's country of birth. This definition includes some individuals born abroad who were UK nationals or who have subsequently gained UK citizenship.

16 per cent of working age population of UK in 2015 were born outside the UK. In 1997 it was 8 per cent.

Three fifths of non-UK born working age population were born outside the EEA.

The employment rate for UK born workers in 2015 Q4 was 75 per cent. The corresponding rate for EU born is 79 per cent and non-EU born is 63 per cent.

# 1.4 Historic gross and net flows



Since the mid-1990s, inflows of long-term migrants have exceeded outflows, resulting in positive net migration to the UK.

**Inflows** of long-term migrants in 2015 were **630,000**.

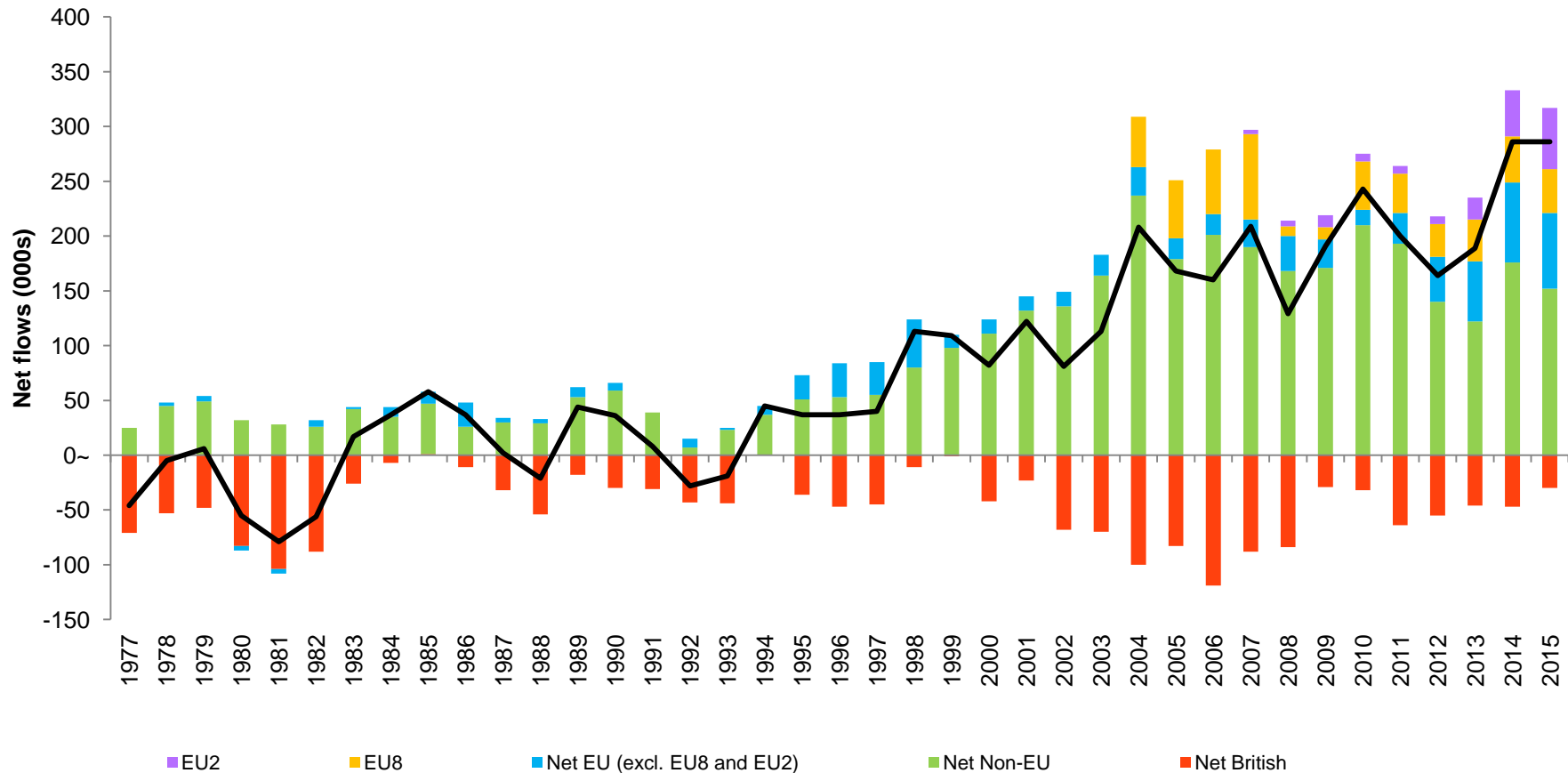
**Outflows** in the same period were **297,000**.

**Net Migration** over this period was **333,000**

Notes: Estimates from 1964 to 1990 are based on International Passenger Survey estimates of individuals who change their country of residence for a period of one year or more. Long Term International Migration (LTIM) estimates for 1991 to 2015 are based on the International Passenger Survey with adjustments made for flows to and from the Irish Republic, asylum seekers, and migrant and visitor switchers.

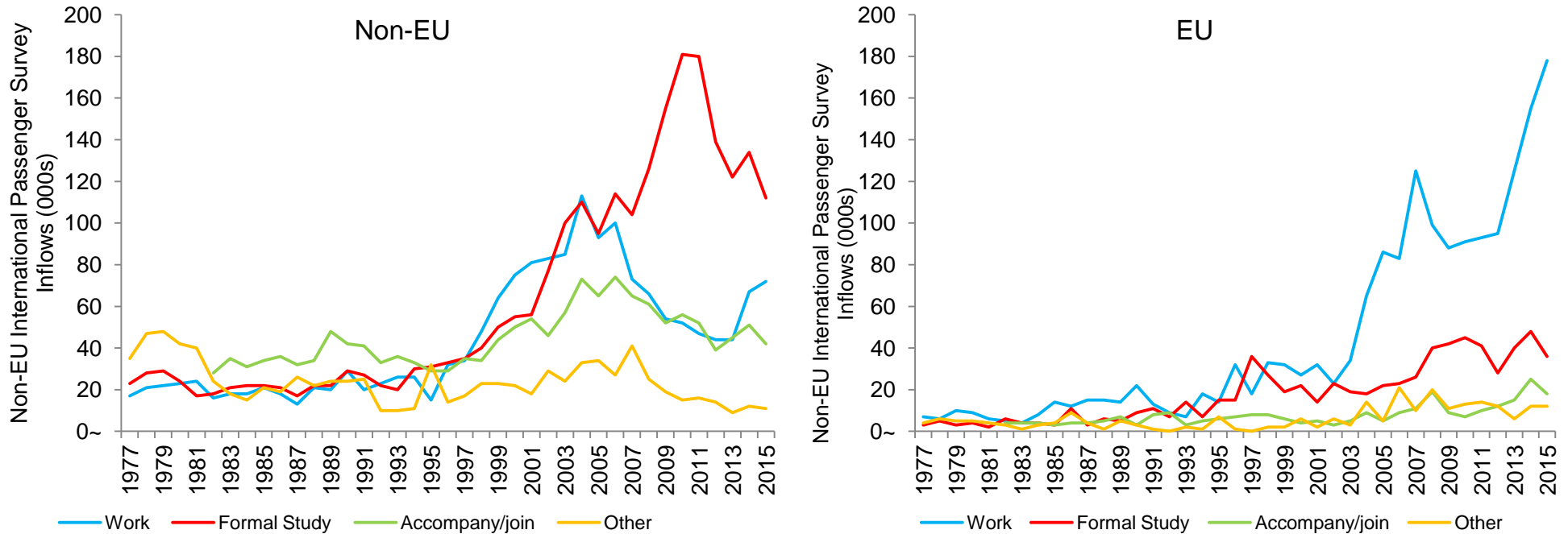
Source: Migration Statistics Quarterly Report, Office for National Statistics (UK), May 2016

# 1.5 Breakdown of annual net flows



\* The Non-International Passenger Survey component includes the adjustments made for the LTIM figures (i.e. flows to and from the Irish Republic, asylum seekers, and migrant and visitor switchers)  
 Source: Office for National Statistics (UK), 2016

# 1.6 EU and Non-EU inflows by main reason for migration, 1977 to 2015



In the early 1990s the most common reason for non-EU migration to the UK was family reunification but since 1997 work-related migration has been consistently larger than family-related migration. Between 2000 and 2010 the number of non-EU migrants entering for formal study trebled to 180,000.

In contrast, EU migration was relatively low up until the early 2000's with work migration and formal study interchangeably the two main reasons. However, since 2002, migration for work related reasons has drastically increased in comparison to other reasons, increasing by over five times between 2002 and 2015.

This highlights the main difference between recent EU and Non-EU migration, namely that EU migrants tend to come to the UK to work whilst the majority of non-EU migrants come to study

## 2. Institution and Processes

This section looks at some fundamental questions about the Migration Advisory Committee (MAC):

- Why was the MAC set up?
- Who is on the MAC and what does it do?
- How does the MAC go about its business?

## 2.1 The Migration Advisory Committee

During 2007 and 2008 the then government introduced a new Points Based System for managing migration stating the key outcomes of the new system would be:

- To better identify and attract migrants who have most to contribute to the UK;
- A more efficient, transparent and objective application process;
- To improve compliance and reduced scope for abuse\*

The government also decided that it wanted to receive independent, evidence-based advice on migration issues and established the Migration Advisory Committee (MAC) to provide this.

The MAC was set up as, and remains, a non-departmental, non-time limited public body comprised of economists and migration experts to provide transparent, independent and evidence-based advice to the government on migration issues.

Appointments to the MAC are made in line with guidance published by the Office of the Commissioner for Public Appointments (i.e. Nolan rules for public sector appointments).

The MAC is sponsored and funded by the Home Office.

The questions that the MAC consider are determined by the government and the MAC's advice is published.

**The MAC advises. It is Ministers who decide.**

\* Home Office , *A Points Based System: Making Migration Work for Britain*, 2006.

## 2.2 How was the MAC set up and what is its remit?

### How was the MAC set up?

A statement to the House of Commons by the then Minister for State for Nationality, Citizenship and Immigration, pointed out the potential benefits of independent advice in implementing the new Points Based System for managed migration.

A consultation on the potential new body to provide this was launched in November 2006.

89 per cent of the 142 respondents to the consultation were in favour of setting up the MAC.

Appointments were made to the new body following a fair and open competition in line with guidance published by the Office of the Commissioner for Public Appointments.

The MAC held its first meeting in December 2007.

### What is the MAC's remit?

The MAC provides independent and evidence-based advice to the government on matters relating to migration. Originally the MAC was asked to provide advice on the operation of non-EEA labour migration – such as the regular updating of the Shortage Occupation List or the Codes of Practice. But its role expanded to advise on other matters relating to migration where the government requires expert advice.

Reports are submitted to the government and the MAC publishes them on its website, and normally hold a press conference.

## 2.3 Current membership and structure of the MAC

MAC members take a very hands on approach to the MAC's work. The MAC meets at least 10 times a year and meetings are crucially marked by robust debate culminating in consensus. MAC members direct and assist with the analysis, meet with corporate partners and provide direct input to the final reports.

**Professor Sir  
David  
Metcalf CBE**

**Dr Jennifer  
Smith**

**Professor  
Alan  
Manning**

**Madeleine  
Sumption**

**Professor  
Jackline  
Wahba**

**Chair**  
(expected to work 2  
days a week)

**Four independent members**  
(expected to work up to 2 days a month)

One ex-officio representative  
from the Home Office and  
one from the UK  
Commission for Employment  
and Skills

**Secretariat**

The secretariat is comprised of some 12 civil servants, drawing on a mix of analysts, policy and administrative staff. The secretariat advises the MAC on its relationship with government, as well as arranging and minuting meetings; assembling and analysing evidence and data; and drafting MAC reports. The head of the secretariat is responsible for overseeing and safeguarding the expenditure of public funds allocated to the MAC.

**Previous members of the  
Committee from 2007 -  
2016:**

Dr Diane Coyle OBE  
Professor Robert Wilson  
Professor Jonathan Wadsworth  
Dr Martin Ruhs



## 2.4 The MAC and the MIF

The Migration Advisory Committee (MAC) and the Migration Impacts Forum (MIF) were both set up by the then Government in 2007 with different remits. The MAC's remit was to use an economic approach to determine how gaps in the labour market could be filled using migration, while the MIF was set up to consider the social implications of immigration.

### MAC

- Is **evidence**-based.
- Uses a mixture of quantitative and qualitative methods to respond to Government commissions.
- Always works within an economic framework, therefore places much emphasis on analysing data.
- Does take into account issues including integration and social cohesion, but gives consideration to social impacts by using economic tools.
- MAC's economic-based approach determines what commissions it can be given. Commissions are usually related to the UK labour market.
- MAC uses economic theory to determine how to respond to commissions.

### MIF

- Launched by then Government in June 2007.
- Considered the wider, more qualitative **social implications** of immigration in local communities.  
Tasks included:
  - Consideration of information from forum members about social benefits of migration and any transitional impacts and/or adjustment requirements which derived from migration.
  - Bringing together existing evidence about impacts of migration.
  - Suggesting areas for Government research on the impact of migration.
- MIF had very limited impact regarding social implications of migration.
- It was disbanded in 2010.
- MAC is now asked questions about social impact of migration.

## 2.5 Corporate partners and the MAC

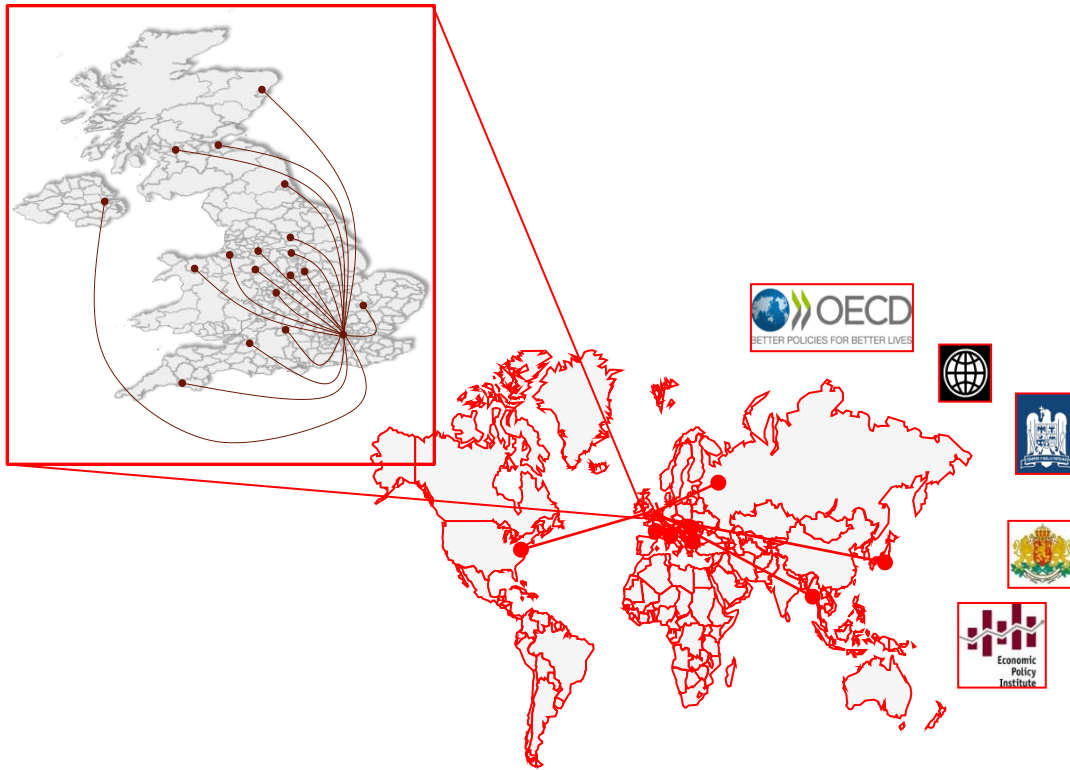
Consultation with its corporate partners is at the centre of the MAC's work processes. Whenever the MAC receives a commission from the Government one of the first things it does is put out a call for evidence. The MAC takes its exchanges with its partners extremely seriously and looks to reflect in its reports the views of partners. The MAC maintains a database of its partners and this currently runs to some 2000 contacts (mostly from the private sector).

### Who are the MAC's partners?

Depending on the question the MAC is asked, the range of partners can be vast. The MAC has consulted with bodies as diverse as the Rambert Dance Company, Rolls Royce, Microsoft, the Tata Group, the Tomato Working Party, Scottish Opera and the oil and gas industry. Most typically, the MAC's partners will come from one or more of the following groupings and some examples of relevant bodies are also given -

- **Formal partners:** MAC Stakeholder Panel (CBI, TUC, BCC, and NHS Employers); UK Commission for Employment and Skills; the Home Office; Parliament.
- **Public sector:** government departments; the devolved administrations; local authorities; sector skills councils; representatives from the health, care and education sectors; research councils.
- **Private sector:** individual employers; trade unions; representative bodies such as the FSB and various Institutes and Societies.
- **Academia:** leading economists and migration experts; consultancies and research bodies such as the Institute for Public Policy Research and the National Institute for Economic and Social Research.
- **Migration interest groups:** Migrants' Rights Network; Migration Watch.

## 2.6 Partner engagement



Representatives from the MAC and its secretariat have presented and promoted the Committee's methodologies and contributed to the international debate on migration in:

- The Organisation for Economic Cooperation and Development (Brussels, Paris and Tokyo);
- Events hosted by the Foreign Office (Bulgaria and Romania);
- The World Bank (Moscow);
- The Economic Policy Institute Conference (Washington);
- The Immigration Working Group of the Inter-Governmental Consultations on Migration, Asylum and Refugees (Switzerland); and
- A roundtable on labour migration hosted by ADBI, OECD and ILO (Thailand).

Representatives of the Committee also attend numerous workplace visits, including:

- The Royal Ballet rehearsal at Covent Garden and various visual effects companies in Soho;
- Aircraft component manufacturing base in Surrey, a Toyota car manufacturing plant in Derby and a major power distribution site in London;
- Frozen fish factory in Aberdeen; fish boats in Peterhead
- A meat processing plant in Belfast
- NHS hospital in Glasgow and stables in Newmarket;
- Celery growing in Suffolk, chick sexing in Norfolk and strawberry growing in Kent

The MAC also hosted an international conference in 2009 attended by academics, economists and policy officials and including speakers from the UK, Australia, Canada, Germany, Ireland, the OECD and the US.

## 2.7 MAC research

The MAC controls its own research budget and can commission external consultancies or academic bodies to carry out research. Research is procured according to Home Office Science guidelines and tenders are evaluated by a panel of labour market experts and economists, including MAC members and external experts (usually from HO or other government departments). The MAC research budget was initially quite large by academic standards, but is now £80k p.a. The MAC research enables the MAC to interact with and to consult with academics who have an expert knowledge of relevant issues.

### Rationale for MAC research

Commissioning of external research confirms the independence of the MAC from government. Projects have been commissioned to quality assure MAC methodologies and to feed into MAC reports as evidence.

The MAC chooses projects to meet at least one of the following criteria:

- **Relevance to MAC work:** Does the research have relevance to existing or anticipated commissions?
- **Improving the relevant knowledge base:** Would research fill gaps in the literature or obtain information that would not otherwise be available?

### Research projects commissioned by the MAC are published on the MAC website and include:

- Determinants of the composition of the labour force in low skilled sectors of the UK economy;
- Analysis of the economic and labour market impacts of Tier 1 (investor) and Tier 1 (entrepreneur) migrants ;
- Impacts of migration on crime and victimisation; transport and congestion; housing; the provision of public services; social cohesion and integration; education and health; and consumer prices;
- Understanding strategically important skill needs for the UK economy;
- Production technology, skills and migration;
- Refining the top down methodology to identify shortages in skilled occupations;
- Framework for economic CBA of various immigration policies;
- A review of labour shortages, skills shortages and skills gaps;
- Employer demand for migrant labour;
- Evaluation of existing migration forecasting methods and models; and
- The labour market for nurses in the UK and its relationship to the demand for, and supply of, foreign-born nurses in the NHS

## 2.8 The MAC way of working

MAC **reports** set out the MAC's findings. Each report:

- explains the methodology used to consider the question;
- describes the analysis carried out;
- explains what research MAC commissioned;
- gives an overview of the engagement MAC had with corporate partners; and
- sets out how the evidence from partners has been used to inform the MAC's views.

### Commission

- The MAC receives a letter from the Minister for Immigration or the Home Secretary commissioning it to answer a set of questions or offer advice and/or recommendations on a particular issue or issues.

### Consideration

- The MAC analyses the available national-level data and management information.
- The MAC consults with partners to gather bottom-up evidence.
- The MAC refers to existing research and the academic community for additional relevant information.

### Deliberation

- The MAC weighs up the available quantitative and qualitative evidence to draw conclusions in response to the government's questions.

### Submission

- MAC presents its report to the government a couple of weeks before publication in order to enable the government to consider its response to the report.
- HO will consult with other departments whether to accept the MAC's recommendations.
- HO will announce whether it accepts the MAC's recommendations.

### Publication

- MAC often publish reports before the government announces whether it will accept the MAC's recommendations.
- If early publication would have a harmful impact on external factors, publication can be delayed to occur simultaneously with the government's announcement of its decision.
- Publication is usually accompanied by a MAC press conference at which the MAC sets out the evidence and explains its conclusions. This has led to a better understanding across the media of the MAC's work.
- MAC reports are published on its website and a limited number of hard copies of each report are printed.
- Publication of MAC reports serves to guarantee the independence of the MAC by making the MAC's reasoning and evidence-based advice subject to scrutiny.

# 2.9 MAC Governance

## Home Office Framework Document for the MAC

- Describes how the MAC and the Home Office work together;
- Sets out the MAC's terms of reference;
- Provides a summary of the MAC's governance arrangements;
- Describes the roles and responsibilities of the MAC Chair, members and secretariat;
- Sets out the working arrangement for the MAC.

## Annual Report

- Provides an account of the work done by the MAC during the year and the resources used in doing this.

## Triennial Review

- Triennial Review (April, 2014) recommended MAC remain as constituted and praised MAC for its engagement with partners.

## MAC website

- The MAC has a website at <https://www.gov.uk/government/organisations/migration-advisory-committee>
- The MAC publishes on the website its reports, calls for evidence, agendas, minutes of meetings, Framework Document, research externally commissioned and Annual Report.

## Members' interests

- A register of MAC members' interests is available to the public on the MAC website.

# 3. Points Based System/Criteria Based System

This section looks at the development of the Points Based and subsequent systems, in particular:

- Increased use of selectivity in work-related migration
- Increased selectivity in other migration routes

It also looks at the role the MAC have played in the changes to the PBS to reflect these issues.

## 3.1 The 3 x 3 matrix

UK immigration has 3 geographic sources: non-EU, EU, UK; and 3 main routes: study, family, work. Thus there is a 3 x 3 matrix with 9 cells, each with an inflow and outflow. The UK can currently only directly control the non-EU inflows (i.e. 3 out of the 18 flows). In addition there were transitional arrangements for EU8 countries 2004-2011 and for Bulgaria and Romania 2007-2014. The majority of MAC work has been focussed on the non-EU inflows. Since 2010 the PBS has evolved into a criteria-based system.

Migration by citizenship and reason for migration			
	Study	Family	Work
British		The MAC recommended the income threshold for persons sponsoring a spouse, partner and dependants.	
EU			EU work migration is not currently under the direct control of the government. The MAC reported on the low-skilled jobs aspect of such migration flows in 2014.
Non-EU	Study is the major migration inflow now. The MAC has not been asked to analyse such migration.	See above.	Most MAC work has focussed on the non-EU work cell. Immigration under this cell is now tightly controlled.



## 3.2 Context

### Pre-2008: Work Permit System

A system of work permits operated in the UK from 1920 to 2008 to control labour-related migration. There were four main elements: the Work Permit Scheme; the Seasonal Agricultural Workers Scheme (SAWS); the Sectors Based Scheme (SBS); and the Highly Skilled Migrant Programme (HSMP). The Work Permit System was aimed at filling shortages in the labour market, with the presumption that migrant labour was either temporary or a short term solution for chronic labour shortage.

### Post-2008: Points Based System (PBS): Economic migration – work and study

Key features of the PBS:

- work-related migrants and students must have a sponsor;
- sponsor requires a licence;
- migrants must obtain a Certificate of Sponsorship (CoS - a form of work permit);
- initially points were awarded on the basis of the characteristics of the applicants e.g. qualifications, age, pay etc. More desirable migrants were awarded more points.
- system has evolved away from points towards **requirements** e.g. graduate job, minimum pay threshold.

#### Tier 1

- Supply side: Highly-skilled individuals to contribute to growth and productivity. Do not need job offer. Aim to improve matching. Severely restricted since 2011.

#### Tier 2

- Demand side: skilled workers with a job offer from a sponsor to fill gaps in UK labour force

#### Tier 3

- Low-skilled workers to fill specific labour shortages. Never implemented i.e. all non-UK low-skilled labour requirements to be met from EU

#### Tier 4

- Students

#### Tier 5

- Youth and temporary: people coming to UK to satisfy primarily non-economic objectives

## 3.3 Home Office changes to the PBS 2010-2017

Category		Route	Policy
Non-EU	Work	Tier 1	Tier 1 (General) closed to new applicants from December 2010, except for Exceptional Talent visas. Post-Study Work Route closed from April 2012. Tightening of Investor (2015) and Entrepreneur (2016) routes.
		Tier 2	Annual limit to the year-ending March 2014 of 20,700 (Tier 2 General). Limit retained till 2020 Skill level raised from NQF3 to NQF6 Pay thresholds raised English language requirements ratcheted up Shortage route: in 2015 only covered 0.2m jobs (compared with 1.0m in 2008) Settlement (from 2016) only if earning more than £35,000. Introduction of Immigration Skills Charge 2017 Major change to intra-company transfers set for introduction in 2017
		Tier 5	Entry for domestic servants limited to six months for private households (no possibility of extension) and 24 months for diplomatic households (possible extension up to five years). 2016
	Study	Tier 4	Sponsors must achieve Highly Trusted Status (tackling bogus colleges) English language requirement increased Removal of some work rights for students not at universities or publicly funded Further Education colleges Only postgraduate and Government funded students permitted to bring dependants.
	Family		Minimum income threshold raised to minimise the burden on the state

Note: most changes to the Work and Family routes were based on MAC recommendations

# 3.4 Reducing net migration

## Work Route

In 2010 the Coalition Government committed to a target to reduce total net migration to the tens of thousands by 2015. In order to reach this target, the PBS was made more selective.

In 2011, an upper limit was imposed on the number of skilled workers coming from outside the EEA. This was based on MAC report 12:

- For skilled workers taking up long-term employment, a numerical limit was set at 20,700 per annum.
- For workers transferred to the UK as part of their employment, numbers were controlled by price, by raising the minimum pay threshold.
- The 'tens of thousands' target by 2015 was not met. The most recent net migration figure is 333,000. Nevertheless, the government has promised to retain its ambition of annual net migration in the tens of thousands but has not set a time by when it wishes to achieve this. It is difficult to meet the target because only 3 of the 18 flows (slide 29) are under the direct control of the government.

## Numbers, selection, and rights

The system has moved from points-based to requirement-based, involving:

- **numbers** or scale – the former highly-skilled route and the skilled with a job offer route were subject to limits from April 2011, while unskilled workers from outside the EEA have no work-related routes of entry;
- **selection** or composition – there has been a focus on skilled workers, except for some of Tier 5
- **rights**, e.g. extensions, Indefinite Leave to Remain - migrant initially admitted temporarily

The stock of migrants is, importantly, determined by both the inflow and the duration of stay.

### **Family income**

The MAC was asked: “*What should the minimum income threshold be for sponsoring a spouse to ensure sponsor can support the spouse without then becoming a burden on the state?*”

The MAC suggested a range between:

- £18,600 (income at which income-related benefit is fully withdrawn assuming a rent of £100 a week); and
- £25,700 (a fiscally neutral mean family income).

The Government opted for the lower £18,600 threshold. This excludes 45% of potential sponsors.

### **Study route**

The MAC has not been directly involved in migration for the purpose of study, but there has been increased selectivity via:

- more stringent sponsorship regulations;
- tighter English language requirements;
- restrictions on dependants;
- more stringent regulations concerning work rights;
- abolishing (for most students) the post-study work route; and
- impact assessments that now emphasise gains for UK residents, not simply output.

## 4. Non-EU Migration: Tier 1

When introduced in 2008, Tier 1 was a supply-driven route to permit highly skilled non-EEA workers to come to, or to remain in, the UK for a job or to search for job. There were two main parts:

- Tier 1 (General) based on points awarded for previous pay, age and qualifications
- Post-study work (PSW) permitting a job search for up to two years

These two routes were abolished in 2012, partly because many Tier 1 workers were not in skilled jobs. They were replaced by the Exceptional Talent route.

Tier 1 also covers:

- Investors, high net worth individuals who invest in UK
- Entrepreneurs

The purpose of these routes, and what UK residents gain from them, is unclear.

# 4.1 Tier 1

## MAC Report 12 - Limits on migration

The MAC was asked in 2010 to calculate a numerical limit on migration under Tiers 1 and 2. The MAC recommended that Tier 1 should remain open but take a larger proportionate reduction than Tier 2.

The MAC also re-emphasised its view that PSW route should become more selective.

The Government **accepted** the MAC's recommendation for the aggregate quota **but** abolished Tier 1 (General) and PSW.

## Tier 1 in 2016

Tier 1 presently consists of four routes into the UK:

- Exceptional Talent - for people who are internationally recognised as world leaders, or potential world-leading talent, in the fields of science and the arts. Quota of 1,000 places for individuals endorsed by Royal Society, Arts Council England, British Academy, Royal Academy of Engineering, and Tech City UK.
- Investors - for high net-worth individuals who wish to make a substantial financial investment of at least £2 million in the UK.
- Entrepreneurs –for individuals who wish to invest in the UK by establishing or taking over, and being actively involved in the running of, a business or businesses in the UK.
- Graduate Entrepreneur - allows non-European MBA and other graduates to extend their stay after graduation to establish one or more businesses in the UK. Quota of 2,000 places per year.

There is no limit on the number of applicants that can enter via the investors and entrepreneurs routes.

## 4.2 Tier 1: Investors [24]

### System 1994-2014

- Provided indefinite leave to remain (ILR) for high net worth individuals and their families
- Migrants who invested £1 million in gilts or in UK registered companies could apply for permanent residence (ILR) after 5 years. An investment of £5 million reduced waiting time to 3 years and £10 million to 2 years. Migrants need not speak English and can bring their families
- Investor numbers increased rapidly 2008-2013. In that 5-year period 1,647 out of country applications were granted, with 560 in 2013 alone. Half went to Russian and Chinese nationals

### 2014 MAC Review. System unsatisfactory:

- Investment is a loan not a gift. Indeed, UK residents pay the migrant interest for investing in gilts
- Base £1 million threshold had remained unchanged for 20 years
- Main gains go to the migrant not to UK residents. Investor gets rule of law, property rights, access to efficient capital markets and an excellent education system for their children. What do UK residents get?

### MAC Recommendations

- Minimum investment threshold (£1 million) be raised to £2 million
- Other investment instruments – venture capital or infrastructure bonds for example – be encouraged instead of gilts
- Limited number of slots to be auctioned, say 100, with a reserve price above (say £2,5 million) the proposed threshold. The Treasury to receive the excess over £2 million to go to a “Good Causes Fund” similar to National Lottery spending. Investors who gain an auction slot to receive accelerated settlement after 2 years

## Auctions are controversial

- Proposals to auction some investor visas – NOT passports or citizenship – proved highly controversial. By and large, economists were supportive and other commentators hostile
- The MACs proposed method – a sealed bid auction – was endorsed by Professor Klemperer, the Oxford University auction theorist, and by The Economist
- Four main objections were advanced against auctions: selling settlement; lack of due diligence; administrative complexity; need for ‘certainty’:
  - selling settlement: auctioning visas does involve selling settlement. But what is the alternative – giving away settlement. Why is it better to pay a Russian oligarch to come to UK than achieve funding for good causes?
  - due diligence: some commentators assumed the highest bidders would automatically achieve settlement. This is not so. As the MAC report said, there will always be due diligence.
  - administrative complexity: the reverse is so. The bids would be ranked and the highest bids achieve settlement up to the number of slots
  - certainty: wealth managers argued their clients want ‘certainty’ but no one knows the optimal ‘certain’ price for a UK investor visa. One possibility would be to set a threshold – say £5 million (£2 million loan, £3 million gift to good causes) – and vary this threshold for future auctions based on the number of applicants

## Government Response 2015

- Raised minimum threshold to £2 million;
- Requirement that applicant had opened a UK bank account before making an application;
- Removal of the topping –up rule;
- Removal of the provision to source the investment sum as a loan;
- Rejected auction proposals
- Permitted alternative investment to gilts

## Numbers

- In the 5 year period 2008-2013, 1,647 out of country applications were granted. Half went to Russian and Chinese nationals. In 2015 that figure fell to 192.



# 4.3 Tier 1: Entrepreneurs [28]

## Context

- Entrepreneur route has existed for over two decades
- Its purpose is nowhere set out. What is an entrepreneur? What should UK residents – as distinct from potential entrepreneurs – expect to gain from the existence of the route? How does it fit with the related Tier 1 Investor route (see slide 4.2)?

## System in 2015, main features

- a. Main entrepreneur route
  - required £200,000 of personal funding or £50,000 available from an approved source
  - business plan was subject to a “genuineness test” undertaken by civil servants. If approved, the applicant received a three year visa. At the extension stage the entrepreneur must demonstrate that she/he was employing at least two full-time equivalent workers
  - three quarters of those initially successful in being granted an entrepreneur visa did not go on to apply for an extension. This is evidence of a serious abuse of the Entrepreneur route
- b. Graduate entrepreneur route
  - Individual must be a graduate from a UK university and receive endorsement from a Higher Education Institution for the proposal . Then granted a one-year visa, normally extended for one extra year
- c. Volumes 2014
  - Increased markedly in recent years
  - 5,488 visas issued under main route, of which 80% issued to migrants switching from other routes (mainly Tier 1 Post Study Work)
  - 564 visas issued to Graduate entrepreneurs, predominantly in-country
  - 5,168 dependant visas issued. For those applying out of country via the main route there was an average of 2 dependants for every main applicant – the highest ratio across all economic visa routes

## MAC 2015 Proposals

### a. Main route

Long tail of low quality projects which contribute little or nothing to UK plc

- potential entrepreneurs with £50,000 funding endorsed by a suitable third party – for example approved angel investor syndicates or a government department – should no longer have to pass the genuineness test
- the business plan of those on the £200,000 stream should be assessed by industry experts rather than civil servants. The assessment to cover viability, scalability and innovation potential as well as the skills and aptitude of the individual to execute their business plan
- to improve compliance there should be better monitoring of business progress during the initial three year period
- the decision to extend might be widened from a consideration of jobs created to also include factors such as turnover or having secured further investment. There should also be evidence that the individual is involved in the day to day running of the business,

Such reforms will make the route more selective – attracting fewer high quality applicants – thus benefitting UK residents. There will be more innovative projects e.g. electric motor cycle manufacture and health technology and fewer low quality projects in retail, hospitality and business consultancy

### b. Graduate entrepreneur

Scheme works well: limited numbers and high quality people; suggested reforms:

- evolve to start-up scheme and try to expand numbers to the cap of 2,000 per year
- retain Higher Education Institution endorsement stream but add a stream where the entrepreneur is offered a place on a UKTI approved accelerator programme where their own money - £20,000 £30,000 - is at risk
- initial visa should be for two years then switch to the main entrepreneur route subject to satisfactory progress

# 5. Non-EU Migration: Tier 2

Tier 2 is an employer demand-led route for work-related migration from outside the EU

Tier 2 has become much more selective since its introduction in 2008

- Skill requirements have been ratcheted up
- Minimum pay thresholds increased

Tier 2 has 3 main sub routes:

- Shortage occupation list (SOL)
- Resident labour market test (RLMT)
- Intra-company transfers

SOL and RLMT comprise Tier 2 (General), which has an annual limit 20,700

From 2017, on the basis of MAC advice, employers will pay an Immigration Skills Charge (ISC) for each Tier 2 worker hired. The ISC is £1,000 per migrant per year paid up front (there is also a reduced rate of £364 for small or charitable organisations). This will raise over £200 million per year, to be distributed to firms training UK workers.

# 5.1 Context [6 and 29]

## Background of the route – MAC Report 6 (August 2009)

- When the PBS was introduced, Tier 2 was the demand-led component for work related migration from outside the EU.
- An applicant under Tier 2 must have a Certificate of Sponsorship (CoS) from a licensed sponsor (i.e. an employer). This is similar to the previous work permit system.
- Points were awarded on the basis of qualifications and pay, plus mandatory maintenance and English language requirements. The MAC recalibrated these points in Report 6.
- The minimum skill level for jobs was initially set at NQF level 3, but was subsequently ratcheted up to NQF level 4 and then, when limits were imposed on Tier 2 immigration in 2011 and Tier 2 became criteria-based, the skill level was raised again to NQF level 6.

## Report 29 (December 2015)

- The minimum earnings threshold for Tier 2 General was raised to £30,000 (25<sup>th</sup> percentile of pay in graduate occupations). The pay threshold for intra-company transfers was raised to £41,500. An Immigration Skills Charge was introduced (previous slide)
- Thus the route has, since 2007, become more selective by skill level – graduate jobs only now – and minimum pay required.

## Summary

There are two main routes within Tier 2:

- **Tier 2 (General)**
  - Shortage occupation list (SOL) – the list is updated by the MAC
  - Resident labour market test (RLMT) – requiring a vacancy to be advertised to the resident labour market before a migrant worker can be hired to fill the vacancy.

Successful Tier 2 applicants under Tier 2 (General) (i.e. SOL and RLMT) are given three years leave to enter followed by a two-year extension. Once they have lived in the UK continuously for five years, they can apply for permanent residence.

- **Intra-company transfer (ICT)** (see section 5.7)

## Limits (see section 61)

In 2011 a limit was imposed on Tier 2 (General) of 20,700 CoS per year.

Intra-company transfers are limited by price rather than volume.

## Skills policy

MAC has consistently emphasised the need to raise British human capital and thereby lessen employer dependence on immigration. The IT, engineering and health sectors invest insufficiently in UK residents.

## Dependants

The MAC was asked in 2009 to consider the work rights of Tier 2 main applicants and their dependants. The MAC concluded that there was not sufficient evidence to demonstrate that increased restrictions on the work rights of dependants would lead to improved outcomes for resident workers or the UK economy. This was confirmed in 2015 (Report 29). Thus dependants retain their automatic work rights.

# Numbers of migrants coming to UK under Tier 2, 2009 - 2015

Tier 2 (General) and intra-company transfer entry clearance and extension visas for main applicants and dependants, in 2009, 2012 and 2015.				
Category		2009	2012	2015
<b>Out-of-country</b>				
<b>Main applicant</b>	Tier 2 - General (Resident Labour Market Test and Shortage Occupation List)	8,556	9,420	17,375
	Tier 2 - Intra Company Transfers	22,029	2,415	2,183
	Tier 2 - Intra Company Transfers Short Term	-	16,113	21,229
	Tier 2 - Intra Company Transfers Long Term	-	10,727	13,009
	Tier 2 - Remaining sub-routes	637	468	536
	Other (including WPH and permit-free employment)	5,065	28	51
	<i>Total main applicants</i>	<i>36,287</i>	<i>39,171</i>	<i>54,383</i>
<b>Dependant</b>	<i>Total dependants</i>	<i>26,982</i>	<i>28,933</i>	<i>37,679</i>
<b>Total Out-of country</b>		<b>63,269</b>	<b>68,104</b>	<b>92,062</b>
<b>In-country</b>				
<b>Main applicant</b>	Tier 2 - General	12,900	20,185	24,463
	Tier 2 - Intra Company Transfers	6,624	8,656	8,249
	<i>Total main applicants</i>	<i>27,851</i>	<i>29,524</i>	<i>33,213</i>
<b>Dependant</b>	<i>Total dependants</i>	<i>23,007</i>	<i>20,668</i>	<i>26,067</i>
<b>Total In-country</b>		<b>50,858</b>	<b>50,192</b>	<b>59,280</b>
<b>Total</b>		<b>114,127</b>	<b>118,296</b>	<b>151,342</b>

## 5.2 Skill level [1, 2, 13, 21]

This shows how the various thresholds changed and the impacts on occupations and the percentage of UK workers employed in these occupations as determined by the relevant MAC report.

MAC Report	Skill threshold NQF	Pay threshold £ per hour	Qualification threshold	ONS SOC classification	SOC 2000 353 4-digit occupations. No. passing skill threshold	% of UK workers employed in these occupations
2008	3+ 2 'A' Levels	10.00	50% at NQF3+	3 or 4	192	49
2011	4+ Foundation degree	13.40	41% at NQF4+	4	121	39
2013	6+ Degree	14.75	36% at NQF6+	4	89*	32

Note: 2008 data refer to all employees, 2011 and 2013 to full-time employees \*Equivalent to 96 SOC 2010 occupations

As the skill level was raised, the percentage of UK workers as a proportion of total UK workers employed in occupations defined as skilled fell from around half in 2008 to under a third in 2013. Examples of occupations which were previously included as skilled but were excluded when the skill level increased:

2008	General office assistants/clerks, credit controllers, typists and receptionists.
2011	Butchers and meat cutters, care assistants and home carers.
2013	buyers and purchasing officers, IT operations technicians and paramedics.

## 5.3 Pay thresholds [27 and 29]

### Context

After the May 2015 General Election the Prime Minister asked the MAC to advise on “significantly reducing the level of economic migration from outside the EU” taking into account the impact on productivity and competitiveness.

Given skilled workers are important for productivity and competitiveness the MAC had to perform a delicate balancing act.

The effective flow through Tier 2 was 151,000 in 2015 so it is not surprising the Prime Minister requested the MAC to review it.

The MAC made 3 main recommendations covering: pay thresholds; immigration skills charge, intra-company transfers. The Government accepted each MAC recommendation.

It is estimated that, other things equal, the Tier 2 inflow might be cut by around one fifth (25,000).



Recommended that the Tier 2 General minimum pay threshold be raised from £20,800 to £30,000.

The £20,800 figure was seriously outdated. It referred to a time when the minimum skill level was NQF 3 (2 'A levels'). The £30,000 figure is the 25<sup>th</sup> percentile of the graduate pay distribution.

In the commission for the July 2015 report the MAC was invited to set a higher pay threshold e.g. the median of the graduate distribution (£39,000) or even the 75<sup>th</sup> percentile (£51,000). This suggestion was rejected on competitiveness and productivity grounds.

The MAC recognized that pay is not a perfect measure of skill and therefore suggested some exemptions (e.g. teachers, nurses) and phasing.

But using price (pay) to limit migration is better than providing a list of speciality jobs, high value jobs and niche public sector jobs. Any such "picking winners" would involve selecting, say 1,000 job titles out of 4,000 total graduate level jobs and effectively closing the route to the other 3,000.

Occupations affected by the higher pay threshold include nurses, teachers, social work, management consulting, IT jobs and design and development engineers.

## Immigration Skills Charge (ISC)

In May 2015, immediately after the election, the Prime Minister floated the idea of an Immigration Skills Charge. Under such a system the employer would pay a levy for employing a non-EU migrant, the money would go into a fund to be distributed to those firms training resident workers. The Prime Minister asked the MAC to review this idea.

The MAC strongly supported the Prime Minister's initiative. The proposed levy-grant system is similar to the Chancellor's proposed apprenticeship levy of 0.5% of the payroll to be distributed to firms providing apprenticeships.

The case for the ISC is:

- migrant labour costs rise so immigration numbers will fall
- the charge helps offset possible negative externalities on congestion and in health and education
- the fund will boost money available for raising resident human capital.

The MAC recognized that, strictly, tax and spending are Treasury matters. Nevertheless the MAC had a view.

MAC suggested a levy of £1000 per migrant per year paid up front. Thus a 3-year CoS would cost £3,000. We calculated this would raise over £200 million per year – for distribution to employers doing training.

The MAC recommendation was accepted. Small firms and charities will pay a lower annual charge of £364.

# 5.4 Shortage route

## [1, 2, 5, 7, 10, 14, 15, 21, 22, 26, 30]

### Priority

Migrants filling jobs on the SOL have priority over those coming via RLMT route.

### Method

For an occupation or job title to be included on the SOL, it must be:

- skilled to the required level for Tier 2 (currently NQF level 6 or above);
- experiencing a national shortage of labour;
- demonstrably sensible to fill the shortage using labour from outside the EEA.

The MAC dovetails top-down evidence from national data sources with bottom-up evidence from employers and other partners.

### Shortage indicators

MAC uses 12 top-down indicators of shortage, in the 97 NQF level 6 and above SOC occupations:

- change in real pay (2 indicators);
- economic return to occupation (1 indicator);
- change in median vacancy duration (1 indicator);
- vacancies/claimant count (1 indicator);
- change in claimant count, new hires, employment and median hours worked (4 indicators);
- skill shortage vacancies compared with total vacancies, hard to fill vacancies, employment (3 indicators).

In most instances, shortage occupations must demonstrate shortage in at least half of the indicators.

Among the sources used to analyse skills shortages are the UK Commission Employers Skills Survey and the Labour Force Survey. Since 2012 official DWP vacancy data by occupation are no longer published. MAC are presently investigating alternative sources.

### Sensible

Before a job or occupation is included on the SOL, the MAC also considers whether it is sensible to do so. This is determined on a case-by-case basis with reference to four broad and inter-related lines of inquiry:

- What are the alternatives to employing immigrants in response to perceived staff shortages?
- How would bringing in immigrants relate to skills acquisition of the UK workforce?
- How will the employment of immigrants affect investment, innovation and productivity growth?
- How will our decision affect the wider UK labour market and economy?

## Numbers

In 2015, SOL applications accounted for 9 per cent of Tier 2 (General).

The top 5 occupations using the SOL, in 2015, accounted for over 50 per cent of the applications:

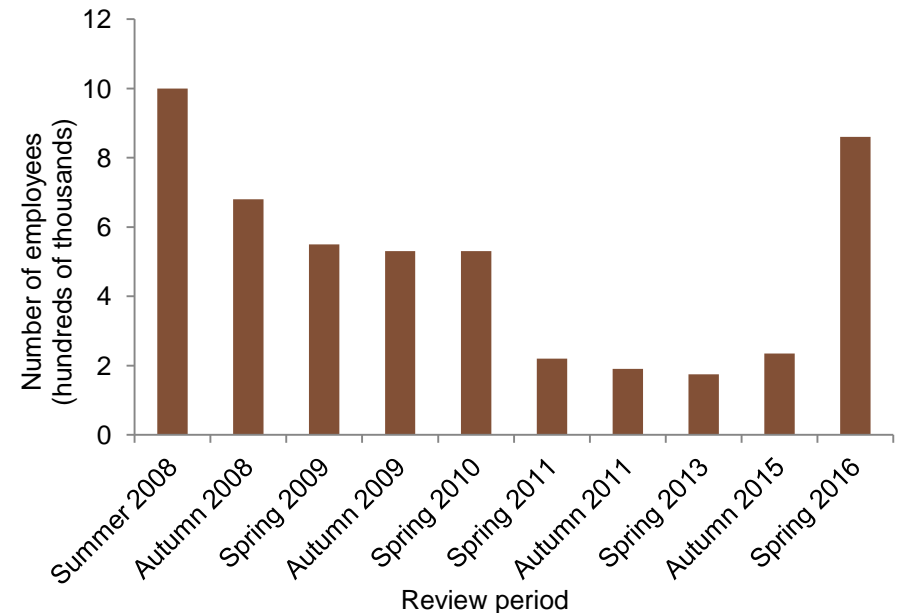
- Medical practitioners 19%
- Design and development engineers 12%
- Secondary education teaching professionals 10%
- Chefs 8%
- Civil engineers 6%

## Numbers of employees in occupations included on the SOL

The numbers entering via the SOL have declined substantially over time. This reflects:

- the raising of the skill level
- The lack of economic growth in the UK 2008-12
- the rigorous approach adopted by the MAC.

In 2007, before the MAC was established, over 1 million workers (not migrants) were employed in occupations covered by the SOL. In 2013, fewer than 0.2 million were employed in SOL occupations and jobs. The 2016 addition of nurses to the SOL has boosted this figure to 0.8 million.



## Examples of jobs on 2015 SOL

- Managing director, programme director, site director within the decommissioning and waste management areas of nuclear industry
- Many engineering jobs in the oil and gas industry
- Some jobs in computer animation for film, TV or video games
- Secondary education teaching professionals in maths, physics, chemistry

## Sunset clause [22 and 29]

The MAC was asked to advise on the automatic removal of an occupation or job from the SOL after a specified period (the government suggested two years).

The MAC advised against an automatic sunset clause because:

- the present system works well, over 100 job titles removed 2008 – 2013;
- automatic removal would be disproportionate given the low numbers using the SOL;
- it would take insufficient account of specific needs of occupations and the time required to train domestic workers;
- requiring employers to recruit migrants using the RLMT route would add time, effort and expense to recruitment where there is an acknowledged shortage of skills;
- it would fail to reflect complexity of economic conditions. Shortages arise in different occupations for different reasons, for example:
  - cyclical shortage - occupation will be removed from the SOL automatically when fewer vacancies;
  - structural shortage - it may take a long time to train UK workers;
  - public sector shortage - it may be difficult to increase public sector pay sufficiently to alleviate shortages;
  - global talent shortage - there may be a world-wide shortage of some skills. For example, in the arts, with ramifications for both UK culture and UK plc.

The government accepted MAC recommendation not to introduce a sunset clause. The MAC re-confirmed its opposition to automatic sunseting in Report 29 2015 and, again, its recommendation was accepted by the government.

# 5.5 Case study, Nurses [30]

## Context

In early 2015 the Department of Health (DH) did not request nurses be placed on the SOL. During 2015 DH altered its view. In October 2015 the Home Secretary exceptionally put nurses on the SOL pending a MAC Review (Report 30)

## Skill

Nurses (standard occupation code 2231) are skilled to NQF 6+ (i.e. graduate level)

## Shortage

### a. Evidence

- nurses pass 5 of 7 relevant national shortage indicators
- vacancy rate is almost double the safe level recommended by NICE
- spending on agency nurses rising rapidly 2011-2015
- why is there a shortage?

### b. Demand

Demand rising for 4 reasons. First 3 should have been anticipated by those responsible for workforce planning.

- total population rising and, on average, living longer
- reform to integrate NHS and social care plus emphasis on 7-day working
- Nurses have taken on more responsibilities including some duties previously carried out by doctors
- Trusts sought to increase nurse-to-patient ratios in response to 2013 Francis report into events at Mid-Staffordshire NHS Trust

### c. Supply

Supply is influenced by workforce planning, training places and retention efforts. These are matters within the control of DH or individual employers.

- Workforce planning involves aggregating local workforce plans into a national plan. A more co-ordinated and proactive approach would improve NHS efficiency
- the number of training places fell by one fifth 2010-2013
- retention worsened 2009-2015

### d. Pay

If pay is not used the tension in policy objectives between restraining public spending and cutting immigration comes to the fore

- median pay for nurses is £31,500. This is £7,500 below the median pay for other graduate occupations;
- there was a severe shortage of nurses in late 1990s and early 2000s. The Pay Review Body responded with substantial real pay increases. DH has not requested such action presently
- available pay flexibility – e.g. recruitment and retention premia – are insufficiently used

## Sensible

Over the next decade, the shortage of nurses can be addressed by more training places, reduced attrition among trainees, greater efforts at return to practice, more innovative use of pay flexibility and attention to working conditions. But in the meantime it is sensible to add nurses to the SOL. Employers have stated they will require some 14,000 non-EEA nurses 2016-2020. Thus there is a danger they may crowd out some occupations not on the shortage list. MAC suggested an annual cap around 3,000-5,000.

## Conclusions

MAC recommended placing nurses on the SOL with considerable reluctance. The shortage is almost entirely down to factors which could and should have been anticipated by DH. There is a presumption that non-EEA skilled migration provides the sector with a “Get Out Of Jail, Free” card.

- workforce planning: till recently took no account of demand for nurses in the care and independent sectors which themselves mainly free ride on the back of the government paying for training;
- training commissions: cut by nearly one fifth 2010-2013, largely driven by financial issues;
- pay: insufficient curiosity across both the health and care sector about the extent to which pay might be responsible for, and might help alleviate, present recruitment difficulties;
- who is in charge? There is a proliferation of bodies overseeing the administration of health and care services. The sector required a single authoritative voice to speak on workforce planning issues.

# 5.6 Resident Labour Market Test route [6, 21, 27, 29]

## What is the Resident Labour Market Test (RLMT)?

The aim of this route is to ensure that employers have checked that no suitably qualified worker exists within the resident labour market that could fill a vacancy. Before hiring a non-EEA migrant, the job must be advertised in accordance with the code of practice specific to the occupation.

There are 97 4-digit 2010 SOC occupations which are skilled to NQF level 6 or above and therefore eligible under the RLMT.

## Minimum pay thresholds under the RLMT

- Default minimum salary threshold of £30,000 (Report 29)
- Jobs paying above £152,100 are exempt from satisfying the RLMT.
- The MAC recommended, in report 21, that the minimum pay threshold for experienced workers in most private sector occupations be set at the 25<sup>th</sup> percentile of the pay distribution for that occupation. For new entrants, the corresponding point is the 10<sup>th</sup> percentile. These thresholds prevent migrants undercutting the pay of resident workers.
- Pay thresholds for occupations dominated by public sector employers – mainly health and education – are set using nationally-recognised pay scales.

## Advertising

- Adverts under the RLMT must include: job title; duties and responsibilities; skills and qualifications required; indication of salary on offer; location; closing date; and must be written in English.
- Adverts must be placed in appropriate media:
  - Jobcentre Plus for most vacancies, plus one of -
    - milk round, new graduates and interns only;
    - national newspaper;
    - professional journal;
    - Website such as company's own site if they are a multinational or an online newspaper site.
- Duration: minimum period of 28 days between initial advertisement and closing date.



## Numbers

In 2015 the RLMT accounted for 90% of the Tier 2 (General) applications.

In 2015, the top 5 occupations using the RLMT made up 39% of RLMT CoS issued and included:

– Natural and social science professionals n.e.c.	10%
– Medical practitioners	8%
– Programmers and software development professionals	8%
– Management consultants and business analysts	7%
– Nurses	6%

## Issues

- Limit - given that there is a limit of 20,700 CoS on Tier 2 (General) immigration, why is a RLMT required?
- Use of Jobcentre Plus (JCP) for advertising - the MAC recommended this in 2009 to provide a possible method to certify that the employer had conducted the RLMT. In the event this could not be done. Is JCP an appropriate medium for matching skilled workers and jobs?

# 5.7 Intra-Company Transfers (ICT) [6, 20, 29]

## Types of intra-company transfer (ICT)

- Conventional
  - e.g. Japanese auto engineer employed by (say) Toyota who is sent from Japan to organise the installation of a new assembly line at the Toyota plant in Derby
  - such immigration vital to UK plc. It leverages much inward investment and many jobs
- Third party contracting
  - e.g. IT worker from India sent by consultancy firm to UK, immediately farmed out to a third party e.g. bank, airline, government department
  - lowers client IT costs (why else use the consultant?)
  - but consultancy firm has no incentive to train UK residents – it has a ready supply of Indian graduates
- Numbers
  - out of country ICTs have grown rapidly recently, from 22,000 in 2009 to 37,000 in 2015. This growth is almost all attributed to the third party contracting stream

## GATS Rules

Under international law (GATS) the ICT route is designed for specialists and senior managers. Much of the third party contracting work is, by contrast, routine

## Limits and pay threshold

When limits on Tier 2 migrants were introduced in 2011, intra-company transfers were excluded from the limit. Instead, the MAC was asked to recommend higher minimum pay thresholds (i.e. limit by price, not quantity). The MAC recommended:

<u>Duration of stay</u>	<u>Minimum pay threshold</u>
under 1 year	£24,000
over 1 year	£40,000

In Report 29 (December 2015) the MAC expressed concern about aspects of third party contracting:

- nature of the work: much of it is non-specialist;
- evidence of undercutting UK resident workers;
- insufficient effort by consultant employers to invest in British human capital.

MAC recommend all ICTs have a minimum pay threshold of £41,500. This is the appropriate rate for specialists and senior managers. The recommendation was accepted.

## Growth in the number and proportion of visas issued as intra-company transfers, 1992 to 2015

Work permit system				
	In-country and out-of-country intra-company visas issued			Proportion of work permits/Tier 2 inflows
1992	7,185			27%
1997	15,428			39%
2007	46,770			48%
2008	45,766			52%
Points based system				
	Out of Country	In-Country	Total	Proportion of ICT visas/Tier 2 inflows
2009	22,029	6,624	28,653	44%
2010	28,508	6,149	34,657	57%
2011	29,783	6,377	36,160	64%
2012	29,180	8,656	37,836	55%
2013	32,252	8,546	40,798	49%
2014	35,428	8,045	43,473	50%
2015	36,706	8,249	44,955	51%

Notes: Data include out-of-country and in-country permits and visas. Data for the Work Permit System exclude technical changes and changes of employment. Source: For 1992–2008, Migration Advisory Committee (2009). For 2009-2015, Home Office Immigration Statistics (Feb 2016)

## Further issues

**Allowances:** Employers seeking to employ a migrant through the intra-company transfer route may include allowances in the minimum earnings threshold for the route, leading to concerns that the earnings, as a proxy test of skill, could be undermined. On the basis of evidence collected in 2011, the MAC concluded that there was no evidence that this was the case. In 2015 MAC recommends that Home Office and HMRC examine use of allowances to ensure a level playing field.

**Enforcement:** Although the MAC found no evidence of abuse of the use of allowances, they are aware that the potential for misuse remains. In 2009, the MAC recommended that allowances be scaled down when calculating points for earnings.

**Displacement and undercutting:** Pay in accordance with the codes of practice should help minimise displacement and undercutting. But IT workers and trade unions regularly state displacement continues to occur. This raises a difficult issue whereby a UK worker at (say) an airline or financial institution could be displaced by a project-based, Indian IT worker. But this may yield, in aggregate, more jobs than otherwise because the cost base is lowered.

**Inward investment and offshoring:** Traditional intra-company transfers (e.g. the Japanese auto engineer) are vital to encourage foreign direct investment. Newer project-based intra-company transfers, by contrast, may cause some displacement. But without such project-based transfers it is possible that airlines, banks etc would move their complete IT operation offshore.

**Graduates:** The MAC recommended in 2009 that a separate scheme be created for graduates only, with a requirement of three months' prior experience with the company before entry to the UK, but with a maximum stay in the UK of 12 months. In 2015, the MAC recommended increasing the available number of places available to each institution under this route from 5 to 20 which was accepted by Government.

## 6. Non–EU migration

### Limits, impact, settlement, family

The MAC has advised on a number of other strands of non-EU migration. These include:

- limits, based on a trajectory to cut net migration to tens of thousands;
- impact: MAC emphasised that the impact of migration should be analysed via the gains and losses to UK residents and should not, as previously, be based on the change in GDP;
- case for and against regional pay thresholds;
- settlement: pay (skill) level migrant should normally be required to reach when applying for indefinite leave to remain (settlement);
- family income: the income threshold required for a sponsor to bring a spouse to the UK such that the new family unit will not be a burden on the state.

# 6.1 Limits on Tier 1 and Tier 2 [12 and 20]

## Context

The MAC was asked to recommend a limit on Tier 1 and Tier 2 migration for 2011-12 to contribute to the Home Office target of reducing net migration to the tens of thousands by 2015 .

Importantly, the MAC was not asked to comment on the desirability of a limit.

It should be noted that non-EU work migration had already halved between 2004 and 2009, partly because of A8 accession.

## MAC Report 12 (November, 2010) – Outline of the calculation

Total reduction in LTIM required = 146,000 over 4 years  
= 36,500 per year

Tier 1 and Tier 2 bear their proportionate share (10%) of the required reduction = 3,600 per year

Convert the 3,600 figure into visas for out-of-country main applicants (divide by 0.58).

Reduction in out-of-country visas = 6,300  
Yields **2011-12 limit on out-of-country visas**  
**=43,700**

## Government response

The Government accepted the 43,700 figure but decided to exclude intra-company transfers from the cap. It assumed that intra-company transfers would remain at their 2009 figure of 22,000.

Tier 1 exceptional talent was limited to 1,000 places.

Tier 2 (General), i.e. the SOL and RLMT routes, was limited to 20,700 places.

Rather than a numerical limit, intra-company transfers were limited by price. The 2011 minimum earnings thresholds for short term transfers (less than 1 year) was £24,000, and for long term transfers was £40,000 per annum; both as per the MAC recommendations.

If, in a given month, the monthly quota is reached, priority is given to those migrants entering under the SOL route, those coming to take-up PhD level jobs and those in receipt of higher pay.

## **Outturn in 2014-2015**

In 2014-15, just under 20,500 of the available 20,700 restricted certificates of sponsorship were issued, up from 14,200 in 2013-14. The monthly cap was over-subscribed for the first time in 2015 in June, and again in July and August, which resulted in over 3,000 applications being refused.

## **MAC Report 20 (February, 2010) – Limit 2012-13 (and subsequent years)**

The MAC noted that Tier 2 (General) accounted for only 2% of the LTIM inflow.

These workers are highly skilled and likely to provide dynamic benefits, e.g. knowledge transfers and make a positive contribution to the public finances.

Therefore, the MAC recommended retaining the limit at 20,700 for 2012-13.

The Government accepted this recommendation and in April 2013 the Government announced that the 20,700 annual limit would also apply for 2013-14 and 2014-15.

The 2015 Conservative election manifesto promised that the cap of 20,700 per year would remain for the duration of the Parliament. This was confirmed by the Prime Minister in May 2015.

# 6.2 Impacts of migration

## Whose economic welfare should be taken into account when considering the impacts of migration?

When a new motorway is being evaluated, the impact assessment is relatively straightforward because the UK population is assumed constant. By contrast, changes in migration policy alter the size of the population.

Before 2012, government Impact Assessments did not consider this issue. They simply calculated gross domestic product (GDP) lost or gained because of less or more immigration. Such an approach was not sustainable as it led to the conclusion that more immigration is automatically good because it raises GDP.

## GDP per head?

One solution often proposed is to consider GDP per head of the population. But this is not appropriate. For example, Tier 2 migrants raise GDP per head because they have higher relative pay and higher levels of employment than UK workers. Essentially GDP per head is given a boost via a batting average effect. But it is the migrants themselves rather than the residents that are the main beneficiaries.

## Government response

The Government accepted the MAC's recommendations. In particular the focus in any impact assessment is now **welfare of resident population**, not GDP. Attempts to incorporate dynamic, fiscal, congestion, displacement and distribution impacts recognise the real difficulties in monetising such effects when conducting impact assessments.

## Welfare of resident population

Therefore, the MAC suggested that the economic welfare of the resident population should be the focus of any impact assessment. It is for the government to define the resident population. The following factors determine the economic impact of work migration on the resident population (+ or – indicate whether this is a mostly positive or mostly negative impact):

- **Dynamic** impact (+), elusive to define, let alone measure, for example:
  - specialisation;
  - knowledge transfer and innovation;
  - FDI and trade;
  - productivity; and
  - British employment.
- **Public finances** (+), the approach taken prior to the MAC's consideration is automatically pro-immigration. Public spending is fixed for over the review period; however tax revenue varies - more immigration improves the public finances. Even putting this to one side, Tier 2 and Tier 4 are probably, on average, net contributors to the public finances.
- **Congestion**, widely defined (-), for example: access to, and quality of, public services e.g. GPs, schools, transport; and impact on rents and house prices.
- Some impacts are very difficult to monetise e.g. **cohesion** and **integration**.
- **Displacement** of British workers (-)
- **Distribution** of impacts, this is a neglected topic, but is fundamental to any impact evaluation, for example:
  - gains/losses to capital (firms) relative to labour (workers); and ---
  - gains/losses along the pay distribution.
- **Skilled** migrants score more highly on the above criteria than less skilled migrants
  - positive dynamic effects
  - stronger net fiscal contribution



## Displacement of British workers (Annex to Report 19)

### Method

The MAC used a spatial correlation approach to estimate the association between migrants and native employment rates. Annual data from 1975 to 2010 across 11 regions in the Labour Force Survey were used. Migrants were defined as foreign-born and Non-EU and EU migrants were defined as non-EU born and EU born. Short-term migrants were defined as those who had resided in UK for less than 5 years and long-term migrants as those who had resided in UK for 5 or more years.

### Displacement?

- Probably not: 1975 - 1994; EU migrants; in buoyant economic times
- Probably: 1995 – 2010; non-EU migrants; in depressed economic times

### Possible magnitude

- The headline was: 100 extra non-EU migrants (1995-2010) displaced 23 UK-born workers. But such displacement does not last forever and needs context:
- 1995-2010 total working age non-British employment rose by 2.1m
- Migrants were associated with displacement of 160,000 British workers (1-in-13) derived as follows:
  - Displacement associated only with migrants here for less than 5 years, 2005-2010 (i.e. < 5 years)
  - Change in the stock of non-EU working age population in this period      700,000
  - The associated displacement rate      0.23
  - Implied associated displacement of British workers      160,000
- Possible sectors where displacement occurs
  - Those sectors where the share of immigrant workers is greater than the share of UK workers: for example, information and communications; human health and social work; professional, scientific and technical; finance and insurance.

## 6.3 Regional pay thresholds [10 and 21]

Partners often argue that the pay threshold for Tier 2 should be higher for London than the rest of the UK. The MAC has consistently rejected such arguments for the following reasons.

### There is a rationale for why pay is sometimes higher in London

- **Compensating** wage differential for higher living costs and any disamenity of working in London;
- **Composition** effects where, even within a given occupation, the average London job may be more skilled, or senior, than an equivalent job elsewhere in UK;
- Relative **scarcity** of labour in London; or
- **Agglomeration effects**, which potentially increase the productivity of the individual worker and the firm in large cities.

Thus, higher London pay is not solely to compensate for the more expensive cost of living in London. It follows that there is no case for a higher London pay threshold.

### Codes of practice

Codes set minimum pay rates for each occupation at the 25<sup>th</sup> percentile of the pay distribution. Such a benchmark will normally be drawn from a region where pay is relatively low.

### Administration

Would a migrant initially employed outside London - at a lower pay threshold – be permitted to switch to a London workplace unless paid the requisite London rate?

### Regional pay

Some partners even argue for pay thresholds to vary by region. The MAC has consistently rejected such arguments for all the above reasons. Further, pay varies much more within a region than across regions.

## 6.4 Settlement [6 and 16]

### Flows

Net migration is influenced by outflow rate as well as inflow rate. If numbers granted settlement fall, outflow rises and net migration falls.

### MAC Report 6 - intra-company transfers

When the MAC analysed Tier 2 in 2009, partners argued that users of the intra-company transfer route were not migrants.

Prior to 2009 users of the intra-company transfer route were eligible for settlement.

The MAC recommended abolishing this eligibility, given views of partners that such persons were not intending to remain in the UK.

Government accepted MAC recommendation.

### MAC Report 16 (November, 2011)

In 2011, Tier 1 and Tier 2 settlement grants (main applicant plus dependants) = 60,000 (29% of total).

This number reflected inflows some 5/6 years earlier and would have fallen in line with reduced inflows, probably to around 20,000 – 30,000.

MAC was asked to recommend the appropriate pay threshold for the 2011 cohort who wish to apply for settlement from 2016.

MAC suggested a range between £31,000 and £49,000.

Government chose £35,000 (in 2011 prices), the median pay of all full-time workers employed in occupations skilled to NQF4+. This threshold would have excluded around one-third of the 2011 Tier 1 and Tier 2 inflow from achieving settlement on the assumption that their real pay remains at its 2011 level.

The £35,000 requirement came into force in 2016. Any occupation which has been on the shortage list between 2011-16 is not required to meet the threshold. This is important for e.g. nurses, science and maths teachers and those in the creative occupations.

# 6.5 Family route [18]

## The question

The MAC was asked in 2011 what the minimum income threshold should be for sponsoring spouses/partners and dependants to ensure the sponsor can support family members independently without them becoming a burden on the state. The MAC recognised that family migration has legal, social, moral and political dimensions but that this question was one of narrow economics.

## Flows

In the year to 2011 Q2, there were 37,600 visas issued to spouse/partner migrants under the family route.

A further 5,400 visas were issued to main applicant children over the same period.

95% of family visas were for lone main applicants joining a sponsor.

More than one-third were from India, Pakistan, Bangladesh, Nepal.

There were also 17,000 in-country switchers from study and work into the family route.

## Characteristics of sponsors

Housing

	<u>%</u>
rented	39
owner-occupied	22
living with friends/relatives	37

Pay: 94% in paid employment

<u>%</u>		<u>Gross pay £</u>
25	<	14,200
50	<	20,100
75	<	30,500

## Measuring income

The MAC recommended that:

- the threshold be based on gross income, not net income;
- the threshold be based on earnings but not return on assets or wealth.

With regards to the income of sponsored migrant, the MAC recommended that:

- it is too complicated to use salary multipliers (e.g. Rupees → £); but
- it is worth considering if the applicant has a definite job offer in UK.

## Income threshold 2010

Derived from a judgment in an immigration appeal:

- £106 a week net, 2 adult family, after housing cost equivalent to:

	<u>£ gross pa</u>
○ if housing cost 0	5,500
○ if housing cost £119 (£100 rent + £19 council tax)	13,700

## The MAC approach to the question

### Pay

e.g. earnings from working full week at NMW £12,600

Median pay, UK workforce £25,900

The MAC did not favour this approach because it is not relevant to the question.

### Benefits

Income at which income-related benefit (housing benefit and working tax credit) for 2 adult family is fully withdrawn assuming rent of £100 a week = £18,600

### Net fiscal contribution

Assumed a 1-adult household because the income of the spouse is not included in the calculation of sponsor's family income.

Mean (i.e. fiscally neutral) family income = £25,700

## Impact

The MAC recommended income range of £18,600 to £25,700.

Income threshold	% of sponsors who would not meet it*	% of UK workforce who would not meet it
£18,600	45	25
£25,700	64	50

\*Includes in-country switchers

The Migration Observatory estimated that of British citizens in employment, 61% of women and 32% of men would not qualify to bring in a family member if the annual income threshold were set at £18,600.

## Government implementation 2012

Minimum income threshold of £18,600 for sponsoring spouse/partner to settle in UK

Dependants (on MAC recommendation):

- threshold of £22,400 for one-child family;
- £2,400 for each additional child

# 7. Migrants in Low Skilled Work

Low skilled work accounts for 13 million jobs, two million of which (16%) are held by migrants.

The main benefits go to:

- labour-intensive employers who often cannot get an adequate supply of UK-born labour;
- migrants, with a higher UK income than that in home country.

Costs, often focussed in particular locations and sectors, include:

- rapidly changing populations with possible implications for cohesion and integration;
- congestion – extra pressure on housing, education, health and transport services;
- small negative impact on wages of low paid workers.

Neutral impacts include:

- employment risk;
- fiscal contributions;
- impact on GDP per head, productivity and relative prices of non-traded services.

The MAC has analysed:

- Overall impact of low skilled migrants (7.1)
- EU low skilled migration
  - A8 Worker Registration Scheme (7.2)
  - Romania and Bulgaria: transition restrictions and the seasonal agricultural workers scheme (7.3)

# 7.1 Migration into low-skilled jobs [25]

## **NUMBERS**

Low skilled work accounts for 13 million jobs, two million of which (16%) are held by migrants. Those jobs held by migrants are split 60:40 non EEA : EEA. A million migrants in low-skilled jobs have come to the UK in the last decade. Half of them were from Central and Eastern Europe following enlargement. The MAC reported on this issue in 2014.

## **BENEFITS**

Benefits owners of capital e.g. important for firms in labour intensive sectors such as food manufacturing, agriculture and restaurants, who often cannot get an adequate supply of UK-born labour.

May complement UK-born skilled workers and some unskilled local workers, enabling them to specialise in more highly paid jobs.

Migrants are more mobile and flexible than UK-born e.g. prepared to change location, live at the workplace and do shift work. This helps grease the wheels of our flexible labour market.

The biggest gains go to the migrants themselves. Their income in the UK is much higher than in their home country and their extended family might benefit from any remittances.

## **COSTS, particularly in some local areas and some sectors**

There needs to be greater recognition of, and support for, the local impact of immigration. The non-UK born population of England and Wales grew by 2.9 million between 2001 and 2011. Three quarters of this rise was in just a quarter of local authorities. Although the study showed that, nationally, the economic impact of immigration on GDP per head, productivity and prices is very modest, the economic and social impact on particular local authorities is much stronger. This includes pressure on education and health services and on the housing market and potential problems around cohesion, integration and wellbeing.

Impact on housing market: puts pressure on private rented market; locally problems with houses of multiple occupation; modestly reduces the probability of a native getting social housing – but the main problem here is not more migrants, rather a smaller stock of social housing.

Our flexible labour market has served us well. But vulnerable low skilled workers – natives and migrants – need protection. Less skilled migration has had a small negative impact on the wages of the low paid. There are insufficient resources devoted to key regulatory bodies such as HMRC which enforces the national minimum (now living) wage (NMW) and the Gangmasters Licensing Authority. Similarly, the penalties for breaching the regulations are not severe enough. Consider NMW enforcement: an employer can expect an inspection visit once-in-260 years and a prosecution once in a million years. This hardly incentivises compliance!



## **NEUTRAL OR VERY SMALL IMPACTS**

The employment rate of UK-born working-age population was practically unchanged by the substantial inflow of EU8 migrants after 2004.

The youth labour market is a cause for concern. MAC did not find strong evidence that this is a consequence of the expansion of the EU in 2004. Schools had an incentive to boost the number of A\* - C grade in GCSE exams. This may imply insufficient attention is given to those towards the bottom of the ability range. Many apprenticeships do not stretch the individual sufficiently and have too little employer input.

Over the period 2000-2011, migrants and natives made very similar contributions to our fiscal position, around minus £1000 per person per year. This partly reflects the post 2008 recession. Recent migrants who arrived post 2000 made a positive contribution, but pre-2000 non-EEA migrants made a large negative contribution, reflecting differences in relative age and employment rate.

The impact on GDP per head, productivity and the price of non-tradable services like dry cleaning, hair dressing, and gardening is tiny.

## **LINKS WITH OTHER POLICIES**

Demand for migrant labour is strongly influenced by institutions and public policies not directly related to immigration. These include, for example, labour market regulation, investment in education and training, and pay levels in some publicly funded low wage jobs. There is a trade-off between immigration levels and greater or lower investment in these areas.

## **GOVERNMENT RESPONSE**, Immigration Act 2016

- new Director of Labour Market Enforcement to provide strategic leadership and coordination of HMRC (national living wage), Gangmasters Licencing Authority and the Employment Agency Standards Inspectorate
- new offence – aggravated labour law breach – carrying a custodial sentence

## 7.2 A8: Worker Registration Scheme [4]

### Context

The then A8 (now EU8) countries: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia, acceded to the EU on 1 May 2004.

UK government permitted free movement of labour but imposed transitional measures on A8 nationals in the form of a Worker Registration Scheme (WRS). A8 nationals (with some exceptions) working in the UK were required to register their employment under the WRS when they worked for an employer for longer than one month.

The 2004 Treaty of Accession allowed existing EU member states to impose transitional restrictions on the free movement of labour from the new member states for a maximum of seven years. These measures can only be maintained for the final two years of this period if there are serious disturbances (or a threat thereof) to the labour market.

MAC reviewed restrictions in report 4 (April, 2009).

### Review questions

Is there a serious disturbance, or threat thereof, to the UK labour market? Would maintaining the existing restrictions on A8 nationals' access to the labour market assist in addressing any such disturbance or threat?

A labour market disturbance could result either from a demand shock in the macro-economic environment or a shock to labour supply which could occur as a result of a sudden change in the inflow of labour and reflected in significant adverse changes to labour market indicators such as employment or unemployment rates.

### Evidence

Labour market seriously disturbed in 2009.

A8 immigration increased rapidly since the date of accession. Removing the WRS would probably result in a small positive impact on immigration flows relative to what would happen otherwise. These additional flows would have a small negative impact on the labour market and exacerbate the serious labour market disturbance already occurring.

Sensible, therefore, to retain the WRS for two more years due to the possibility of small but adverse labour market impacts.

# 7.3 Bulgaria and Romania

## 1. Transitional controls [3 and 17]

### Context

Bulgaria and Romania (A2) acceded to the EU on 1 January 2007.

UK government restricted A2 nationals' access to the labour market.

These restrictions were reviewed (as required by EU law) according to the 2-3-2 formula, i.e. reviewed after two years and, if retained, reviewed again in the fifth year. All restrictions end after seven years.

MAC reviewed restrictions in report 3 (December, 2008) and report 17 (November, 2011).

### Review questions

Is there a serious disturbance, or threat thereof, to the UK labour market?

Would maintaining the existing restrictions on A2 nationals' access to the labour market assist in addressing any such disturbance or threat?

MAC defined a serious disturbance in terms of rapid adverse changes to leading labour market indicators including employment, unemployment, vacancies, redundancies and growth of real pay.

### Evidence

Labour market seriously disturbed in both 2008 and 2011.

Lifting restrictions would raise the inflow of migrants from A2 and the composition of such migrants would be unskilled intensive.

Also uncertainty whether other EU countries would retain restrictions.

Therefore, retain restrictions to avoid any negative impact on UK labour market.

Restriction lifted at the end of 2013.

## 2. Seasonal Agricultural Workers Scheme (SAWS) [23]

In place for over 60 years. 2008-13 only open to workers from Bulgaria and Romania. Quota 21,250 out of a total estimated number of seasonal and casual workers in agriculture of 67,000.

Well-managed by UK Border Agency. 9 operators (5 sole, 4 multiple) supply over 500 growers. Concentrated in Hereford, East Anglia, Kent and east coast of Scotland.

Most parties gained from SAWS:

- growers got a supply of efficient labour tied to the farm and not allowed to work in other sectors
- supermarkets received a reliable supply of British produce
- consumers gain via prices for British goods which are lower than they would otherwise be
- migrants earn a good wage – normally over £300 a week
- UK workers not displaced and no real integration issues because SAWS workers normally live on the farm.

Impact on immigration:

- work is seasonal, maximum duration six months with very high return rate to Bulgaria and Romania;
- SAWS workers did not count in IPS figures which measure those coming to the UK for over a year;
- possible IPS inflow would be higher without a SAWS because permanent migrants (e.g. from other recent EU accession countries) might replace temporary SAWS migrants.

Many other countries have their own schemes for seasonal workers.

## **What might have happened to the seasonal work labour supply from 2014 onwards?**

From 2014 A2 (now EU2) nationals were free to work anywhere in the EU. Growers, operators and workers concur that this source of labour for the horticulture sector will not immediately dry up.

EU8 and other EU labour (e.g. from Portugal) is a key source of seasonal labour to horticulture.

Gangmasters supply a third source. But concerns over: quality, exploitation, payment of tax and national insurance contributions and living conditions.

UK workers are fourth source, but:

- operators and growers have tried to recruit and retain UK workers, but farms not normally in high unemployment areas
- UK workers reluctant to live on the farm
- some cannot work at intensity required to earn the minimum wage
- little incentive to come off social security for seasonal work.

## **Supermarkets – a pivotal role**

If labour supply from the EU (including UK) dwindles, pay will be bid up. Will supermarkets pay a premium for British produce?

SAWS labour costs account for around a quarter of the retail price. Therefore, if pay rose 20% this could raise the supermarket price by 5%, perhaps 10p-15p on a punnet of strawberries. At what point would consumers and supermarkets switch to imports?

## **Alternatives**

If EU labour supply is inadequate or too costly to stop the potential switch to imports, then the following may occur:

- Horticulture contracts with the loss of some permanent jobs.
- Technical change such that capital substitutes for SAWS labour:
  - Many recent examples: table top strawberry, concept orchards, rigs
  - But unlikely many innovations are ready to be implemented and, anyway, they may be costly e.g. robotic fruit pickers.
- Replacement SAWS scheme: implies horticulture is a favoured sector – it gets preferential access to reliable, tied and relatively cheap labour

## 7. Conclusions

Immigration (630,000) is presently over double emigration (297,000). And half of the immigration inflow – 308,000 – is work-related, a record figure. Analysis of this work-related migration since 2008 by the MAC suggests three main conclusions: migration flows are heavily influenced by other policies; skilled migrants yield positive benefits; and enforcement of minimum standards is vital to ensure our flexible labour market boosts the welfare of British residents.

First, immigration does not occur in a vacuum. Numbers are heavily influenced by other public and employer policies. Consider two examples. In the private sector employers have invested too little in the STEM and IT skills of UK residents. Hence the constant pleas for such jobs to be given priority in immigration. It is to be hoped that higher migrant pay thresholds and the Immigration Skills Charge will encourage much greater investment in British workers' human capital.

In the public sector there is a potential trade-off between spending levels and immigration. Constraints on public spending often generate greater immigration. Examples include nurses, paramedics, care sector and science and maths teachers.

Next, as compared with less skilled workers, skilled migrants are much more likely to be complementary to British labour and capital. They contribute, net, to productivity, the public finances and the employment prospects of local labour.

Finally, low skilled migration benefits labour intensive UK employers and most such migrants. But there is also evidence of downward pressure on the pay of low skilled workers and – in the worst examples – serious exploitation of migrant, and possibly UK, labour. Therefore it is crucial that minimum labour standards are enforced. Alas, evidence suggests that in pursuing our flexible labour market – which has mostly served us well – such enforcement is inadequate. Incomplete supervision holds for the national minimum wage, labour gangs (particularly in horticulture) and employment agencies for migrants. It is to be hoped that the new Director of Labour Market Enforcement – established by the 2016 Immigration Act – enhances fuller compliance via both its regulation effort and stronger penalties.

# Annex A Sources of Immigration Data

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

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

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

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

**Immigration Statistics** (previously published as Control of Immigration Statistics) include the number of entry clearance visas granted by category to non-EEA nationals, the number of extensions of leave to remain in the UK, grants of settlement and citizenship and estimates of passengers admitted to the UK. It is now possible to distinguish between those granted leave under different tiers of the PBS and between main applicants and their dependants. Entry clearance visas can be used to proxy inflows of migrants, although not all individuals who are issued visas will actually come to the UK.

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

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

# Annex B Complete list of published MAC reports

1. Identifying skilled occupations where migration can sensibly help to fill labour shortages (February 2008)
2. First recommended shortage occupation lists for the UK and Scotland (September 2008)
3. The labour market impact of relaxing restrictions on employment of A2 nationals (December 2008)
4. Review of transitional measures for A8 nationals (April 2008)
5. First review of recommended shortage occupation lists for the UK and Scotland (April 2009)
6. Analysis of the Points Based System: Tier 2 and dependants (August 2009)
7. Second review of the recommended shortage occupation lists for the UK and Scotland (October 2009)
8. Analysis of the Points Based System: Tier 1 (December 2009)
9. Skilled, Shortage, Sensible: Review of the Methodology (March 2010)
10. Third review of the recommended shortage occupation lists for the UK and Scotland (March 2010)
11. Analysis of the Points Based System: London weighting (August 2010)
12. Limits for Tier 1 and Tier 2 for 2011/12 and supporting policies (November 2010)
13. Analysis of the Points Based System: list of occupations skilled to NQF level 4 and above for Tier 2 (February 2011)
14. Analysis of the Points Based System: revised UK shortage occupation list for Tier 2 comprising jobs skilled to NQF level 4 and above (March 2011)
15. Fourth review of the recommended shortage occupation lists for the UK and Scotland (September 2011)
16. Analysis of the Points Based System: settlement rights of migrants in Tier 1 and Tier 2 (November 2011)
17. Review of the transitional restrictions on access of Bulgarian and Romanian nationals to the UK labour market (November 2011)



18. Review of the minimum income requirement for sponsorship under the family migration route (November 2011)
19. Analysis of the impacts of migration (January 2012)
20. Limits on migration: Limit on Tier 2 (General) for 2012/13 and associated policies (February 2012)
21. Analysis of the Points Based System: list of occupations skilled at NQF level 6 and above and review of the Tier 2 codes of practice (October 2012)
22. Full review of the recommended shortage occupation lists for the UK and Scotland, a sunset clause and the creative occupations (February 2013)
23. Migrant Seasonal Workers: The impact on the horticulture and food processing sectors of closing the Seasonal Agricultural Workers Scheme and the Sectors Based Scheme (May 2013)
24. Tier 1 (Investor) route: investment thresholds and economic benefits (February 2014)
25. Migrants in low-skilled work: the growth of EU and non-EU labour in low skilled jobs and its impact on the UK (July 2014)
  - a) Summary report
  - b) Full report
26. Partial review of the shortage occupation lists for the UK and for Scotland (February 2015)
27. Review of Tier 2: analysis of salary thresholds (August 2015)
28. Tier 1 Entrepreneurs (September 2015)
29. Review of Tier 2 report: balancing migrant selectivity, investment in skills and impacts on UK productivity and competitiveness (January 2015)
30. Partial review of the shortage occupation list: nursing (March 2016)