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## Changes to the Immigration Rules for Skilled Workers

Home Office

**RPC rating: Not rated**

Although the IA provides some evidence and analysis of the impacts of the policy, the RPC has been unable to conclude whether it should be rated “fit for purpose” or “not fit for purpose”. The RPC advises the department that it should address the points raised below to assist both the scrutiny of the policy and in the validation of the equivalent annual net direct cost to business (EANDCB) analysis.

### Description of proposal

The Government is ending free movement of people from the European Economic Area (EEA) under EU law and is replacing it with a new points-based immigration system when the transition period for the UK’s exit from the EU ends on 31 December 2020.

The impact assessment (IA) states that the rationale for this policy intervention is that free movement of people has failed to meet the needs of the British people and failed skilled migrants from around the world who would like to come to work in the UK. The Government is aiming to make the new system simpler, fairer and faster.

The IA considers two policy options: the “do-nothing” option and the Government’s preferred option of adopting a new immigration route for skilled workers (described below). Under the “do nothing” option, the IA assumes current arrangements would remain in place and, as such, the “do nothing” option is equivalent to the current arrangements whereby EU rules on free movement are retained. Under the “do-nothing” option, EEA citizens and their family members not already resident in the UK would be able to move to the UK to live and work as currently.

In conjunction with the immigration route for skilled workers, the immigration rules for students will be changed so that, in future, students from the EEA will be subject to the same immigration restrictions as non-EEA students.

Under the new system for skilled workers, all applicants will need to score at least 70 points to be eligible, by meeting various criteria including: demonstrating that they have a job offer from a UK-based employer which is a Home Office-approved sponsor; that the job offer is at the required skill level; and that they speak English to at least an intermediate (B1) level (the “Skilled Worker route”). A new general salary threshold of £25,600 will replace the current £30,000 threshold for non-EEA workers (and a lower threshold will apply for jobs in the public sector and in certain designated shortage occupations).

Requirements for the new Skilled Worker route will apply uniformly across the nations of the UK.

### **Impacts of proposal**

The largest costs and benefits of this policy are due to changes in tax revenue and the costs of public services provision for non-EEA migrants.

The largest benefits quantified in the IA arise from the anticipated reduction of inflows of long-term EEA migrants, saving between £9.5 billion and £17.7 billion in public services provision. Increased migration from non-EEA countries is expected to increase tax revenue by between £8.1 billion and £11.4 billion over 10 years.

The largest costs quantified in the IA are the decrease in tax revenue collected from long-term EEA migrants, estimated to be between £16.8 billion and £31.2 billion and increased public services provision to non-EEA migrants of between £2.9 billion and £4.1 billion over 10 years.

The department estimates that the EANDCB lies in the range of £18 million to £35 million with a central estimate of £26 million. The components of these estimates are mainly new administrative burdens and familiarisation costs to employers and immigration services providers. Other costs include implementation costs of £0.2 billion and processing costs of £0.4 billion for the department.

The net present social value (NPSV) of the proposal is estimated to fall between -£1.0 billion and -£4.1 billion, while the business net present value (BNVP) is estimated as -£1.4 billion.

### **Quality of submission**

In general, the department has provided a relatively high-level overview of the impacts of this complex policy, which has large, far-reaching effects on the long-term UK economy. The RPC previously issued an Initial Review Notice (IRN) which raised a number of significant issues in relation to the initial IA, and suggested areas for

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improvement. The revised IA adequately addresses some of the issues raised in the IRN, but not others.

The RPC has therefore decided not to rate the revised IA as either “fit for purpose” or “not fit for purpose” to support ministerial decision-making, nor to offer an opinion on the department’s estimate of the EANDCB for this policy.

Nevertheless, in order to aid in further assessment of the proposals, the RPC suggests the following areas for improvement. We also note several areas where the department has improved the IA in response to issues raised in the IRN.

### **1. Areas for improvement**

The revised IA would benefit from addressing the following issues, which were raised in the IRN:

#### **1.1 Impacts on business arising from changes in labour supply**

In the IRN, the RPC stated that the IA should identify and analyse whether there would be direct impacts on businesses in sectors which employ low-skilled workers, or otherwise explain why it is not appropriate to undertake this analysis. The revised IA presents information on those lower skilled occupations which, in the Department’s view, could face adjustment difficulties (paragraph 164) and states that the ability to collect firm-level data is limited (paragraph 189). It provides some illustrative information, but it does not fully analyse whether there would be impacts on businesses which employ low skilled workers and does not attempt to quantify the costs to such businesses arising from the policy.

The RPC believes it would be proportionate and appropriate for the IA to include an analysis of the transitional impact of this policy on the overall labour supply in the UK, including the supply of low-skilled workers. As a result of implementing this policy, businesses will not have the same pool of people to recruit from to fill low-skilled jobs, compared to the status quo, because new EEA migrants will be restricted from entering the UK workforce. This may result in labour market effects such as increased wages for UK-based low skilled-workers, substitution of workers by automated systems or withdrawal of UK firms from markets. Based on RPC guidance<sup>1</sup>, this impact should be treated as direct and included in the EANDCB for the following reasons: (i) this impact is as a result of a restriction (i.e. business only being permitted to recruit EEA nationals to fill certain low skilled jobs); (ii) it is a first or near first round impact, and (iii) the impact is on businesses themselves rather than the wider economy.

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<sup>1</sup> <https://www.gov.uk/government/publications/rpc-case-histories-direct-and-indirect-impacts-march-2019>

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Therefore, the IA should have analysed and monetised any impact and included it in the EANDCB (or explained why it has not been included).

## 1.2 Rationale for intervention

The IA states that that *“over-reliance on free movement has failed to meet the needs of the British people... and failed the skilled migrants from around the world who want to come to the UK and make a positive contribution to the UK”*. The IA also states that the policy objective is to introduce a fairer, simpler immigration system, to move the UK to a high-skill economy, focusing on the skills and contributions of individuals. The RPC considers that the IA would benefit from an evidence-based discussion of the rationale for the policy.

## 1.3 Consideration of options

The IA compares only one policy option, the Government’s preferred option, to the “do nothing” counterfactual. The Better Regulation Framework<sup>2</sup> states that departments should consider a range of policy options when developing a new policy. The IA would benefit greatly from considering other options.

## 1.4 Macroeconomic model

The IA acknowledges it makes *“no attempt to estimate the extent to which employers may invest in automation as a response to changes in access to migrant labour”* (paragraph 47). The RPC believes it would be proportionate to conduct this analysis because this policy is likely to result in a large change in the availability of new inflows of migrant labour, at least during the period of adjustment. Business decisions are affected by changing labour market conditions and a potential associated increase in production costs, which may lead to substitutions of capital for labour, realignment of skill levels employed and/or changes in make- or buy-patterns, with potentially large impacts on value chains, businesses, workers and society generally. Furthermore, the department could have used dynamic modelling to test how labour substitution may impact on the stated policy aim of ensuring sufficient job opportunities for the UK’s domestic workforce.

## 1.5 Wider impacts

- a) The IA should provide further discussion on the impacts of the policy on competition in affected sectors. For example, paragraph 198 in the IA states that *“9 per cent of small firms who employ staff above RQF3 said they would outsource work outside of the UK if they cannot recruit EU workers after the end*

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<sup>2</sup> <https://www.gov.uk/government/publications/better-regulation-framework>

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*of the transition period.*” The IA should analyse the potential wider impacts if larger businesses also took such an approach.

- b) The IA should include further discussion of regional disparities that may result from the policy. The IA would benefit from including a rural impact analysis, as rural businesses may be differently impacted by the salary thresholds in the policy (because jobs in rural areas generally have lower salaries than in London).
- c) The RPC welcomes the department’s consideration of Covid-19’s short-term impacts. This section could be improved by also considering possible longer-term effects such as possible labour shortages in low-paid sectors as the economy recovers over time. For example, such shortages could arise if UK workers who have lost their jobs as a result of Covid-19, and taken lower-paid jobs temporarily, seek to move back into higher-paid jobs when the job market improves.

## **1.6 Monitoring and evaluation plan**

The department should provide a more detailed explanation of how it plans to monitor and measure the impacts of these reforms, which represent the most significant part of the Government’s new immigration policy. The IA should include a clear statement of what the baseline for the evaluation will be and the data that will be collected to monitor and measure the impacts of the policy. The IA should also clarify whether or not the evaluation of the policy after five years will be a statutory commitment.

## **2. Issues addressed by the department**

In the revised IA, the department has adequately addressed a number of other issues raised in the IRN:

### **2.1 Cost-benefit analysis**

- a) The initial IA contained an unjustified assumption that only one person in each immigrant-sponsoring organisation would need to familiarise themselves with the new rules. The assumption has been updated to use a weighted average number of 3.5 employees per current sponsor and 1.5 employees per new sponsor who will need to read the guidance.
- b) The initial IA did not include costs for disseminating information to other employees or staff training. The IA now recognises these costs to business, but does not quantify them due to lack of available information. The RPC accepts that the IA’s lack of quantification in this area is proportionate.

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- c) The initial IA did not identify the impacts of the policy on businesses that provide services to help companies with immigration applications (e.g. law firms that provide immigration services, and immigration advisory businesses). These businesses are also likely to incur transition costs such as familiarisation, dissemination, and staff training, and may incur other ongoing costs. The RPC is pleased to see that, despite data limitations, paragraphs 132-139 have been updated to include more detailed analysis to calculate familiarisation costs that such companies are likely to incur.
- d) The initial IA did not take into account the non-wage costs of employment. The department has uplifted wage costs by 22 per cent to account for these costs.
- e) The department has also clarified its estimate for some transition costs within the narrative of the IA and explained why the range of uncertainty has been appropriately excluded from the quantitative analysis.

## 2.2 Small and micro business assessment

The initial IA described mitigation measures for small and micro businesses but failed to consider the possibility of exempting them from the policy. The revised IA notes that the Migration Advisory Committee (MAC) “...has stated that salary thresholds and the ISC [Immigration Skills Charge] are the best way to protect resident labour by increasing the cost of recruitment. Therefore, both should be applied universally.” The revised IA would benefit from including a more detailed discussion of the MAC’s analysis supporting its conclusion.

## 2.3 Assumptions and clarity

The IRN also raised some general points about the clarity of the assumptions, calculations and sources used in the cost-benefit analysis. These points have been adequately addressed in the revised IA and its technical annex.

### Department assessment

| Classification   | Qualifying regulatory provision |
|--|---------------------------------|
| Equivalent annual net direct cost to business (EANDCB) | £26.2 million                   |
| Business net present value                             | ‑£1.4 billion                   |
| Overall net present social value                       | ‑£2.6 billion                   |

### RPC assessment

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| Classification   | Under the framework rules for the 2017-19 parliament: Qualifying regulatory provision<br>To be determined – when the framework rules for the current parliament are set <sup>3</sup> . |
| Equivalent annual net direct cost to business (EANDCB) | Not validated  |
| Small and micro business assessment                    | Sufficient   |

## REGULATORY POLICY COMMITTEE

<sup>3</sup> The Government is yet to set the better regulation framework for the current parliament. This includes the setting of a business impact target (BIT), its scope and metric, and the appointment of an independent verification body. The RPC is, therefore, unable to confirm the BIT classification, or validate the estimated business impact figures, for any regulatory proposal at present.