

Impact Assessment, The Home Office

Title: Impact Assessment for changes to the Immigration Rules for Skilled Workers

IA No: HO0376

RPC Reference No: RPC-HO-5010(1)

Other departments or agencies:

Date: 17/11/2020

Stage: Final

Intervention: Domestic

Measure: Secondary legislation

Enquiries: Borders, Immigration and Citizenship Policy, Home Office

RPC Opinion: Not Rated

Business Impact Target: Qualifying provision

Cost of Preferred (or more likely) Option (in 2020 prices)

Net Present Social Value NPSV (£billion)	-2.6	Business Net Present Value BNPV (£billion)	-1.4	Net cost to business per year EANDCB (£million)	26.2
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What is the problem under consideration? Why is government intervention necessary?

The Government considers over-reliance on free movement has failed to meet the needs of the British people (by demonstrating effective immigration controls and ensuring sufficient opportunities for the UK's domestic workforce) 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 ending of free movement provides an opportunity to create a global, single immigration system which works in the interests of the UK and prioritises the skills a person has, not where they come from. The Government needs to intervene to amend legislation to bring about these changes.

What are the policy objectives and the intended effects?

The policy objective is to introduce a fairer, simpler immigration system. The intended effect is the system should fit in with the Government's strategy to move to a high skill economy, focusing on the skills and contributions of individuals. Employers should be able to recruit the skilled workers they need while having incentives to invest in the resident workforce, and labour market pressures in key sectors managed effectively. Applicants and sponsors should benefit from a simpler, fairer and faster immigration system.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 0 – Do nothing. This does not meet the Government's objectives.

Option 1 - Lay changes to the Immigration Rules and implement the new Skilled Work route. This will link to the Immigration and Social Security Co-ordination (EU Withdrawal) Bill which will end freedom of movement and introduce a global points-based system for all migrants coming to the UK.

Main assumptions/sensitivities and economic/analytical risks

Discount rate (%)

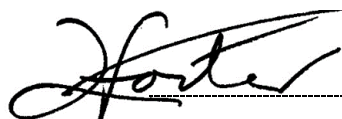
3.5

All estimates should be seen as indicative. Projecting migration flows is challenging due to the wide range of drivers which themselves can be inherently uncertain. Analysis should be considered in the context of the wider economy and the labour market being dynamic and continually adapting to an evolving environment. The impact in some areas is particularly uncertain, due to the reliance on behavioural assumptions. Main analysis does not include the impacts of Covid-19

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 10/2024

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:



Date:

16/11/2020

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Year(s):	Price Base	2019/20	PV Base	2019/20	Appraisal	10	Transition	1
Estimate of Net Present Social Value NPSV (£billion)						Estimate of BNPV (£bn)		
Low:	-1.0	High:	-4.1	Best:	-2.6	Best BNPV	-1.4	

COSTS, £bn	Transition Constant Price	Ongoing Present Value	Total Present Value	Average/year Constant Price	To Business Present Value
Low	0.2	20.3	20.5	2.5	0.9
High	0.2	36.2	36.4	4.5	1.8
Best Estimate	0.2	28.3	28.5	3.5	1.4

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

Home Office implementation and running costs of **£0.2 billion**.

Employers and Service Providers: administration and familiarisation costs of **£0.2 billion**.

Exchequer: potential loss in revenue of around **£24.0 billion** (fewer EEA workers), potential increase in spend of around £3.5 billion (more non-EEA workers). All over 10 years (PV)

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

Adjustment costs to employers associated with adjusting to changes in labour supply of EEA nationals are discussed in section G.1 but not quantified in the central analysis.

BENEFITS, £bn	Transition Constant Price	Ongoing Present Value	Total Present Value	Average/year Constant Price	To Business Present Value
Low	N/A	19.5	19.5	2.4	0.1
High	N/A	32.3	32.3	4.0	0.1
Best Estimate	N/A	25.9	25.9	3.2	0.1

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

Home Office: The increase in visa fee, Immigration Health Surcharge (IHS) and Immigration Skills Charge (ISC) revenue by around **£2.6 billion**. IHS and ISC revenue will be transferred to relevant departments and devolved departments.

Exchequer: Cost savings of around **£13.6 billion** (fewer EEA workers), potential increase in revenue of around **£9.7 billion** (more non-EEA workers). All over 10 years (PV).

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

The benefits of implementing a single global fairer migration system are not quantifiable. Employer benefits associated with increased access to non-EEA skilled labour, and suspension of the Tier 2 Cap are not quantified. Potential benefits from any employer actions to mitigate loss of EEA employment are discussed in section G.1

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:										
Cost, £million	26.6	Benefit, £million	0.3	Net, £million	26.2					
Score for Business Impact Target (qualifying provisions only) £million					131.2					
Is this measure likely to impact on trade and investment?					N/A					
Are any of these organisations in scope?			Micro	Y	Small	Y	Medium	Y	Large	Y
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)					Traded:	N/A	Non-Traded:	N/A		

PEOPLE AND SPECIFIC IMPACTS ASSESSMENT (Option 2)

Are all relevant Specific Impacts included?	Y	Are there any impacts on particular groups?	Y
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Evidence Base (for summary sheets)

A. Strategic Overview

A.1 Background

1. The Government is ending free movement under EU law and, as the vehicle to do this, has introduced an Immigration Bill to bring EEA nationals¹ within scope of UK immigration control, including them in the Immigration Rules, which currently apply to non-EEA nationals. The aim is to deliver a new Points-Based Immigration System which works in the interests of the whole of the UK and prioritises the skills a person has to offer, not where they come from.
2. The UK's Points-Based Immigration System is part of a wider multi-year programme of change, led by the Home Office, to take full control of and transform the operation of the border and immigration system. It will attract the skilled workers we need to contribute to the economy, communities, society and public services.
3. The Skilled Worker route will be the main immigration route for both EEA and non-EEA citizens to apply to work in the UK under the new points-based system. Its development has been informed through extensive engagement by the Home Office and by the independent Migration Advisory Committee (MAC). It will provide simple, effective and flexible arrangements for skilled workers from around the world to come to the UK through an employer-led system, replacing the Tier 2 (General) route in the existing immigration system.
4. All applicants will need to score 70 points to be eligible. Of those 70 points, 50 will be mandatory for all applicants – they will need to demonstrate they have a job offer from a Home Office approved sponsor, that the job offer is at the required skill level, and that they speak English to at least intermediate (B1) level. In addition to this, applicants must meet minimum salary requirements and standard checks relating to their immigration history and criminality.
5. The Government recognises the potential impacts on the labour market of ending free movement. The new Skilled Worker route will include lowering the minimum skill level to RQF level 3², equivalent to A-levels. This is a reduction from RQF level 6, equivalent to degree-level, under the current Tier 2 (General) route. The change will roughly double the number of eligible occupations under the new Skilled Worker route.
6. In addition to expanding the skills threshold, the existing cap on the number of skilled workers who can come to the UK to work will be suspended, and we will abolish the current requirement for UK employers and organisations to conduct a Resident Labour Market Test (RLMT). Both of these measures will increase the certainty employers and organisations have in terms of their ability to access the skills and talent needed to ensure the UK's labour market continues to prosper and will speed up the Skilled Worker visa processing by approximately eight weeks.
7. Applicants may score the remaining 20 points through tradeable elements. If their sponsor offers them a salary of at least £25,600 or the going rate for their occupation (whichever is higher), they will score the required 20 points. However, if they earn less than the required minimum salary threshold, but no less than £20,480 (the minimum salary floor), they may still be able to come if they can score other tradeable points. These are available if they have a job offer in a specific shortage occupation, as designated by the MAC, or if they have a PhD relevant to the job, or if they are a new entrant to the labour market (which includes those under 26 years old, those switching from the

¹ References to EEA nationals exclude Irish nationals and include Swiss nationals.

² The RQF applies in England and Northern Ireland. The equivalent levels are SCQF level 6 in Scotland and CQFW level 3 in Wales.

Student or Graduate routes, those sponsored in post-doctoral positions, and those working towards professional qualifications).

8. The new general salary threshold of £25,600 is lower than the £30,000 which currently applies for non-EEA workers. This reflects the lowering of the skills threshold and is based on UK earnings data for workers at RQF level 3 and above. The MAC's modelling suggests the new, lower threshold strikes a reasonable balance between controlling immigration and business access to labour. Additional benefits such as accommodation, and other allowances afforded to migrant workers, are not taken into account when determining if a particular job meets the £25,600 salary threshold or going rate (and the reduced threshold or going rate for certain workers).
9. The Government will retain the ability to widen the number of attributes which will score tradeable points to meet the needs of the economy. However, the mandatory requirements will not be tradeable.
10. There will be different arrangements for 24 occupations in healthcare and education, where the salary requirements will be based on published national pay scales. Applicants sponsored in these occupations will score the required 20 tradeable points if they are paid at least the going rate for their job.
11. As under the existing immigration system, skilled workers will be able to bring dependants (spouses/partners and dependent children under the age of 18 years) to the UK, and the route will lead to settlement after five years for those who meet the requirements.
12. Immigration will remain reserved across the whole of the UK. Requirements for the new Skilled Worker route will apply across the nations of the UK equally. This avoids complicated different immigration arrangements between regions and nations across the UK, and ensures flexibility and job mobility – beneficial for individual workers and UK employers and organisations.

A.2 Groups Affected

13. Groups affected include:
 - EEA nationals who come to the UK to work from 1 January 2021 (who are not covered by the EU Settlement Scheme).
 - Non-EEA nationals who would have applied under Tier 2 (General) and will now apply as Skilled Workers.
 - UK employers and organisations who wish to recruit either of the groups above.
 - Existing Tier 2 (General) migrants and sponsors, who wish to make or sponsor further applications under the new system.
 - British citizens and other resident workers, indirectly as a result of the impacts of these changes on the resident labour market.

B. Rationale for intervention

14. The ending of free movement provides an opportunity to create a global, single immigration system which works in the interests of the whole of the UK and prioritises the skills a person has to offer, not where they come from.
15. The Government considers over-reliance on free movement has failed to meet the needs of the British people, failed to deliver benefits across the UK and failed the skilled (RQF3 and RQF 5)

migrants from around the world who want to come to the UK and make a contribution to the economy and society.

16. The Government also recognises that ending free movement represents a significant change for some businesses and employers who will need to adapt and adjust. Reducing the skill and salary thresholds aims to strike a reasonable balance between controlling immigration and business access to labour. The Government will also remove some of the existing barriers to recruitment, by removing the RLMT and suspending the annual limit on numbers, removing up to eight weeks from the process of sponsoring a skilled worker.
17. However, the Government also considers that labour market issues should not be resolved through Government intervention alone. Immigration must be considered alongside investment in, and development of, the UK's domestic labour force. Employers need to invest in technology, innovation and their existing workforce, focusing on making jobs more attractive for UK workers. While there are many examples of good practice, employer investment in training has been declining for 20 years. This is especially relevant in light of the many UK workers who face an uncertain future given the current national emergency due to Covid-19.
18. The changes will apply to all sectors which make use of migrant labour. The smallest impacts will be felt by sectors mainly recruiting for roles at RQF level 6 and above (who can continue to recruit both EEA and non-EEA nationals as they do now, with some changes to requirements and processes). Medium impacts will be felt by those recruiting for roles at RQF levels 3-5 (who can continue to recruit EEA nationals and will now be able to recruit non-EEA nationals). The biggest impact will be felt by those recruiting for roles below RQF level 3 (who will no longer be able to recruit EEA nationals – although, due to the success of the EU Settlement Scheme, there will be a significant pool of EEA nationals and their family members in the UK, and other immigration routes – including youth mobility schemes and the Family route – which allow migrants to work).
19. The Home Office will keep labour market data under very careful scrutiny to monitor any pressures in key sectors, especially given recent events. In relation to the new Skilled Worker route, as outlined in the Government's February 2020 Policy Statement³, proposals are just the first stage in Government plans for a points-based immigration system. The Home Office will continue to refine the system in the light of experience and will consider adding further flexibility into the system – including additional attributes that can be 'traded' against a lower salary.

C. Policy objective

20. The policy objectives are to:
 - Introduce a fairer and simpler immigration system – one that applies equally to all nationalities and ends the current automatic preference for EEA nationals.
 - Fit in with wider government objective to create a high skill economy, focusing on the skills and contributions individuals can make.
 - Enable employers to recruit the skilled workers they need, and ensure labour market pressures in key sectors are managed effectively.
 - Ensure applicants and their sponsors benefit from a simpler, fairer and faster immigration system, which they are able to use with confidence.

³ Home Office 'The UK's points-based immigration system: policy statement' 19 February 2020.
<https://www.gov.uk/government/publications/the-uks-points-based-immigration-system-policy-statement/the-uks-points-based-immigration-system-policy-statement>

- Increase public confidence in the immigration system.

D. Options considered and implementation.

Option 0: Do nothing

21. Under the 'do nothing' option, the Impact Assessment (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. This means EEA citizens and their family members would be able to continue to live and work in the UK in accordance with free movement rights.
22. Under this option the Government would not be able to deliver the points-based system as set out in the Policy Statement and fulfil its aim to have full control over who comes to the UK in order to create a high skill economy.
23. Under this option the automatic preference for EEA nationals would continue, as would the existing discrimination against non-EEA nationals. For these reasons, the 'do nothing' option is not considered a viable option.

Option 1: Preferred option

24. Under the preferred option, the Skilled Worker route is implemented. EEA nationals are subject to UK immigration control and brought within the Immigration Rules. The system delivers benefits for the UK economy by reducing the skills and salary thresholds, introducing tradeable points and simpler, more flexible rules. Option 1 allows the Government to achieve its policy objectives, including balancing the need for the UK to retain the ability to attract skilled and talent individuals whilst controlling immigration fairly and increasing the public's confidence. As such this is the Government's preferred option.

Preferred option and implementation plan

25. The new Skilled Worker route will be introduced as part of the phased implementation of the UK's new Points-Based System.
26. The ending of free movement will be implemented through the Immigration and Social Security Co-ordination (EU Withdrawal) Bill⁴. The Bill is currently being considered by Parliament and is expected to complete its passage before the end of 2020.
27. Building on the February 2020 Policy Statement and July 2020 Further Details document⁵, we will confirm final details of the new system later this year, through guidance for applicants and updated Immigration Rules (secondary legislation).

⁴ <https://services.parliament.uk/bills/2019-21/immigrationandsocialsecuritycoordinationeuwithdrawal.html>

⁵ Home Office 'UK points-based immigration system further details statement' 4th August 2020.

<https://www.gov.uk/government/publications/uk-points-based-immigration-system-further-details-statement/uk-points-based-immigration-system-further-details-statement>

28. In publishing the Policy Statement, Further Details document, commissioning advice from the MAC and engaging extensively, the Government has raised awareness, ensuring those affected by the changes are fully aware of what it means for them and understand how the system will operate.
29. Whilst free movement will end on 31 December 2020, the new Skilled Worker route will open early for applications from 1 December 2020.
30. As with the current Immigration Rules, the Home Office will remain responsible for the policies with its operational commands such as UK Visas and Immigration processing applications and managing sponsors, Border Force (BF) checking people coming into the country have the appropriate permission and Immigration Enforcement checking people who have arrived in the country, and their sponsors, are complying with their obligations (migrant workers and employers).
31. The Home Office will keep labour market data under very careful scrutiny to monitor any pressures in key sectors, especially in light of recent events. The Home Office will continue to refine the system in the light of experience and will consider adding further flexibility into the system – including additional attributes that can be ‘traded’ against a lower salary.

E. Appraisal

32. This section discusses the analysis and results used to estimate the impact of the changes to the immigration system detailed above. Sections E.1 and E.2 set out a general framework for understanding the role of immigration in the British economy and explain how the Home Office has estimated the baseline volumes - the expected levels of immigration over the next 10 years if the UK was not to implement the policy changes. Section E.3 discusses analysis of short-term workers. Sections E.4 and E.5 set out assumptions underlying modelling of visa fees, including the Immigration Health Surcharge and the behavioural impact of visa fees.
33. Section E.6 estimates the effect of the policy changes on immigration volumes relative to the baselines outlined in section E.2, including discussion of the impact on smaller work routes such as Global Talent and Intra-Company Transfers. Summary tables for central estimates are presented in section E.6. In summary it is estimated that inflows of long-term migrants from outside the EEA will increase by around 30,000 per year (central estimate), while inflows of long-term migrants from the EEA are expected to fall by around 80,000 to 90,000 each year (central estimate). This means that at the end of a 10-year period the number of migrant workers in the UK is expected to have fallen by around 350,000.
34. Sections E.7 to E.9 analyse and explain the associated costs, benefits and transfers resulting from the policy changes. Sections E.10 and E.11 then summarise the results and discuss the impact on small and micro businesses. These sections estimate that the overall **Net Present Social Value (NPSV)** of the policy changes over 10 years is between **-£1.0 and -£4.1 billion**, with a central estimate of **-£2.6 billion**.
35. By far the most significant costs and benefits are changes in the fiscal costs of public provision and fiscal benefit of tax revenue. The biggest benefits occur due to reduced inflows of long-term EEA migrants, saving between £9.5 to £17.7 billion (central estimate £13.6 billion) in the cost of public provision, while increased migration from non-EEA countries is expected to increase tax revenue by between £8.1 and £11.4 billion (central estimate £9.7 billion) over 10 years. The biggest costs are the decrease in tax revenue collected from long term EEA migrants, estimated to be between £16.8

and £31.2 billion (central estimate £24.0 billion) and increased public provision to non-EEA migrants of between £2.9 and £4.1 billion (central estimate £3.5 billion) over 10 years.

36. Table 12 summarises these costs and benefits as well as the associated revenue from visa fees, and administration costs to the Home Office.
37. Table 12 in section E.10 shows the estimated overall impact on UK businesses (business net present value, BNPV), including transfers and direct costs. The **BNPV** is estimated to be between **-£0.9 and -£1.8 billion**, with a central estimate of **-£1.4 billion** over 10 years. While there is a small benefit to business due to the removal of the RLMT, the biggest cost occurs due to the application of the Immigration Skills Charge to long term migrants from the EEA. The **equivalent annual net direct cost to business (EANDCB)** estimates the annual direct cost, minus direct benefits to British businesses; this is estimated to be between **£18 and £35 million** with a central estimate of **£26 million**.
38. Costs stem from the objective of bringing EEA migrants into a single global fairer migration system. Focus on high skilled migrants means that the fiscal contribution from lower skilled migrants is forgone – which comprises the bulk of the overall impact of the measure. There will be costs to businesses in adapting to the new system, some of these are transitional. The benefits of having a single system are not quantified, while the costs are more measurable.
39. It should be noted that results presented above are very uncertain, due to difficulty in predicting future migration, and the behavioural impact of policy changes on migration. Moreover, the estimates above do not take into account the behavioural responses of businesses who currently employ EEA migrants, who may in many cases be able to mitigate or avoid these costs by adapting their employment or investment decisions, for example by employing more UK workers. The ability of firms to adapt to these changes will depend on the availability of alternative options such as appropriate capital or skilled domestic and migrant labour. To note that estimates do not take account of the impact of the Covid-19 pandemic on migration trends, nor on the ability of firms to respond.

E.1 Framework for assessing impact of migration policy

40. Migrants play an important role in the economy. The impact of arrangements which affect the number of migrants coming to or leaving the UK will be dependent on which migrants are in scope; their characteristics such as their age, income, health and wealth; and the nature of any proposal (for example, who may come to the UK and what they do whilst they are here). These factors combine to determine the size of the impact on the UK economy. The impacts on the resident population and UK economy are assessed under the following broad categories:
- Macroeconomic impacts (including the impact on the Exchequer).
 - Labour market outcomes (for example, the ability of firms to hire migrant workers).
 - Spill-over impacts on resident population (for example, cultural exchange or congestion/inflation impacts in local areas).
 - Policy design impacts on users of the system (individuals, businesses and the Government).
41. Some of these categories are interrelated, such as the link between labour market outcomes and macroeconomic impacts, while some are harder to quantify than others, for example, the spill-over impacts of ‘cultural exchange’.
42. An analytical framework is used to assess the impact of policy changes. This starts by considering a counterfactual (‘baseline’) against which policy options can be assessed – estimating potential future migrant flows in the absence of any policy intervention. Building on this ‘baseline’, policy

proposals are modelled to estimate how migrant flows may change as a result. These results are then compared to the counterfactual to assess the population impact, which is the basis for estimating the wider economic impacts. These principles apply both to where impacts can be, and cannot be, quantified.

43. Analysis assumes compliance from both migrants and employers. As such all discussion of flows and impacts do not consider illegal or irregular activity.
44. In line with previous Home Office analysis and following recommendations made by the Migration Advisory Committee (MAC)⁶, this IA considers the impact of the options on the welfare of the UK resident population. The NPSV calculation therefore includes a fiscal impact, based on contributions to direct and indirect taxes, the effect on consumption of public services, but excludes foregone migrant wages (net of taxes), and does not measure overall Gross Domestic Product (GDP) changes, as the impact is primarily attributable to migrants. There may be impacts on GDP per head of the resident population as a result of changes in migration, through dynamic effects on productivity and innovation, but these effects are highly uncertain and difficult to quantify. These effects are discussed more within section I.
45. More information on the analytical framework and modelling used to inform this IA is contained in the '*Technical Annex to accompany the Impact Assessment for changes to the Immigration Rules for Skilled Workers*' (referred to as 'the Technical Annex' in the remainder of this IA) published alongside this IA.

E.2 Baseline volumes

Drivers of migration

46. A person's decision on whether to and where to migrate can be influenced by a wide range of factors, with changes in migration policy being just one of these factors. It is important to take account of these external factors when assessing the impacts of migration policy.
47. A critical driver of migration is the relative economic performance and labour market opportunities in home countries compared to potential destination countries⁷. Other drivers of migration include cultural factors such as knowing people who have had migration experiences or who currently live abroad, being confident in languages, proximity, and views on what it is like to live in a specific place⁸. While the detail of migration policy can have an influence on the desire and ability of people to move to and from the UK, it is far from the only influencing factor.

Behavioural change

48. The modelling is not dynamic, meaning estimates of the potential impacts do not attempt to quantify adjustment by firms to changes in labour supply. For example, there is no attempt to estimate the extent to which employers may invest in automation as a response to changes in access to migrant

⁶ Migration advisory committee January 2012, 'Analysis of the Impact of Migration' <https://www.gov.uk/government/publications/analysis-of-the-impacts-of-migration>

⁷ For further detail see The Technical Annex.

⁸ See Belot and Hatton (2008), "Immigrant Selection in the OECD", Ortega and Peri (2009), "The Causes and Effects of International Migrations: Evidence from OECD Countries 1980-2005", Adserà and Pytliková (2015), "The Role of Language in Shaping International Migration", Beine et al (2010), "Diasporas", Bauer and Zimmermann (1999), "Assessment of Possible Migration Pressure and its Labour Market Impact Following EU Enlargement to Central and Eastern Europe", and Hatton and Williamson (2002), "What fundamentals drive world migration?" for discussion of the contribution of these factors to migration flows for example.

labour, nor to estimate the number of UK workers which might replace lost migrant workers. These elements are too uncertain and there is limited evidence on which to draw. An assessment of the potential behavioural response of migrants to the introduction of fee restrictions is included and other potential behavioural impacts are discussed and, where possible, the relevant empirical evidence included. When discussing the impact of proposals on workers, analysis of occupations where a change in behaviour may be more or less likely as a response to policy changes is also presented⁹.

49. The September 2018 MAC report¹⁰ on the impact of EEA migration in the UK sets out evidence of the impact on the UK labour market from migration. This evidence suggests migrants were found to have little or no impact on the overall employment outcomes of UK born workers and has more negative impacts for lower skilled workers and more beneficial impacts for higher skilled workers, though these findings are subject to uncertainty. The MAC also states “*there is a lot of uncertainty about the impact of immigration on productivity, although most studies conclude there is a positive impact*”¹¹.

Uncertainty

50. This analysis should be considered in the context of the wider economy and the labour market being dynamic and continually adapting to an evolving environment. Factors like staff availability and skills, the relative cost of capital and labour, tariffs and supply chains can all change over time and respond to market signals. The economy in which businesses operate is always subject to changes and shifts in trends, and the UK’s exit from the EU and changes to migration policy are part of this, alongside changes in the UK’s demography, or technical and wider societal changes. Any analysis of migration proposals will, therefore, be highly uncertain and there are several ways in which this uncertainty manifests itself:
- **Data sources** – imperfect data (such as the use of survey data) often mean confidence intervals can be large and estimates are subject to significant uncertainty.
 - **Assumptions** – any modelling requires the use of evidence-based assumptions and expert judgement and migration is no exception.
 - **Behavioural response and change** – predicting future trends and changes to behaviour can be highly uncertain.
51. Despite the uncertainty, it is still possible to draw conclusions but estimates of the potential impact should be considered taking this uncertainty into account and treated as orders of magnitude rather than precise estimates. Where quantified analysis is presented, an illustrative range has been used and assumptions are tested using sensitivity analysis. However, this does not capture all uncertainty around the estimates.

Covid-19

52. The estimates outlined in section E focus on central baseline volumes and do not account for the impact of Covid-19, which could have a sizeable impact on volumes, at least in the short-term, of workers coming to the UK as well as on UK employer’s demand for migrant labour. Section G below includes analysis of the potential impact on results under a number of purely illustrative scenarios for the impact of Covid-19 on baseline demand for the future immigration system.

⁹ For further detail see The Technical Annex.

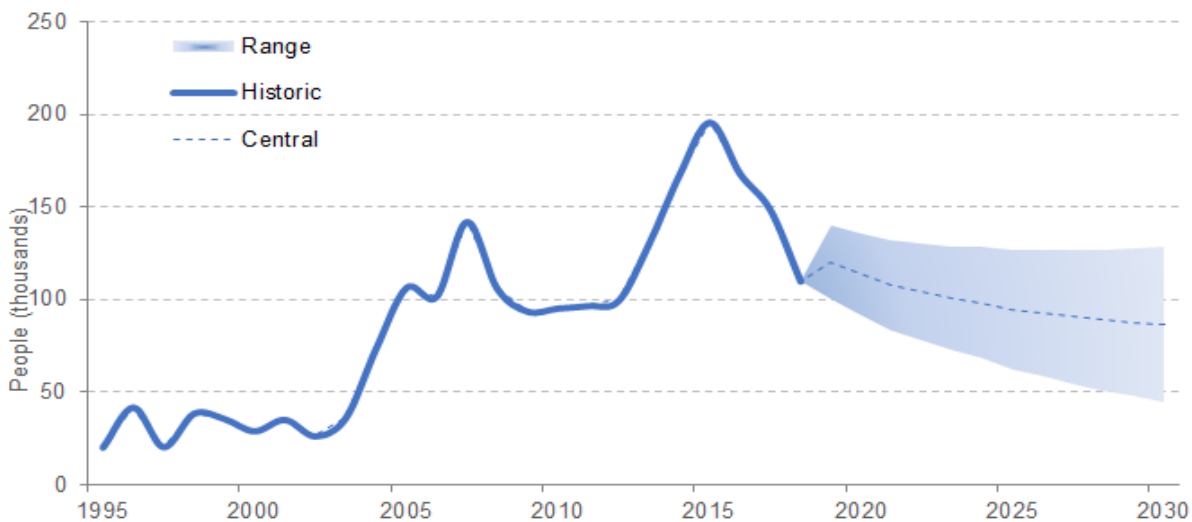
¹⁰ Migration Advisory Committee September 2018, ‘EEA migration in the UK: Final report’

¹¹ Migration Advisory Committee September 2018, ‘EEA migration in the UK: Final report’; P50

EEA long-term workers

53. Baseline long-term EEA work-related inflows are projected based on an econometric model that quantifies the relationship between inflows to the UK and demographic and economic factors over time. Based on forecasted demographics and relative income and unemployment rates between the UK and EU countries, this analysis suggests that EEA inflows could continue to fall in the absence of any policy change.
54. To illustrate the uncertainty around the central estimates average prediction error has been used to calculate a high and low scenario. Further detail of the modelling is provided in the Technical Annex published alongside this IA. Figure 1 shows baseline inflows of between 70,000 and 130,000 in the first five years.

Figure 1: Baseline projected long-term EEA work-related inflow



Source: Home Office Modelling based on International Passenger Survey data 2004-2015, see the Technical Annex for further details.

Tier 2 (General)

55. Whilst it is possible to use a historical relationship between EEA migration inflows and economic and demographic factors to project future EEA flows¹², it has not been possible to do the same when projecting non-EEA inflows as they are subject to immigration control. Instead, the baseline used for Tier 2 (General) inflows is based on Home Office workload projections, which fit time series models to historical data¹³. The baseline projection of Tier 2 (General) inflows includes three scenarios in order to capture the uncertainty with projecting migration flows: an upper, central and lower volume scenario¹⁴. Figure 2 shows that inflows of non-EEA workers increased by approximately 44 per cent between 2018 and 2019, predominantly due to the decision to exempt doctors and nurses from the Tier 2 (General) cap.
56. Baseline inflows are estimated to be between 30,000 and 40,000 workers per year in the steady state, as shown in Figure 2. Inflows under all scenarios are projected to remain constant from 2021 onwards. Of these inflows, it is estimated that approximately 20,000 workers are eligible for the Health and Care visa. Inflows of dependants are estimated to be between 20,000 and 30,000

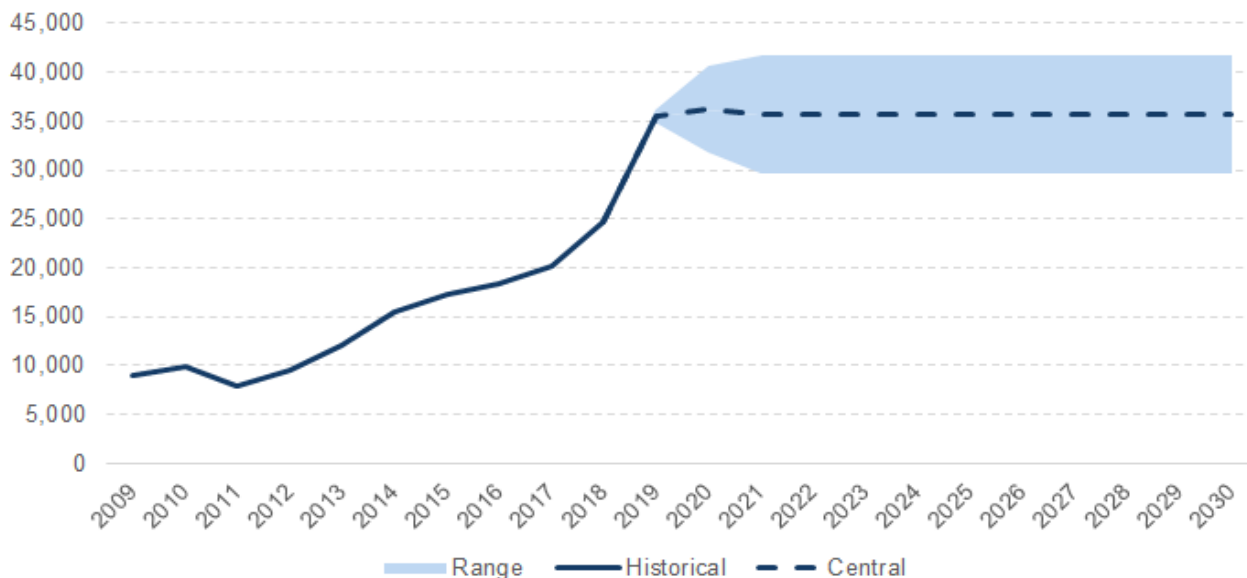
¹² See the Technical Annex for description of long-term EEA worker inflows baseline projection.

¹³ See the Technical Annex. All volumes in this section are rounded to the nearest 10,000.

¹⁴ Scenarios are based on errors in previous time series models. See the Technical Annex for further details

dependants per year in the steady state¹⁵. Of these inflows of dependants, it is estimated that between 10,000 and 20,000 are eligible for the Health and Care visa.

Figure 2: Baseline inflows of non-EEA Tier 2 (General) main applicants



Source: Home Office, based on Home Office workload projections and Tier 2 visa outcomes (Immigration Statistics Year ending December 2019 Table Vis_D02), see the Technical Annex for further details.

Summary of out-of-country baseline volumes

Table 1: Baseline volumes - central estimate, 2020 (000's).

	20/21	21/22	22/23	23/24	24/25	25/26 - 29/30
EEA long-term work-related migrants	30	110	100	100	100	90
EEA long-term dependant migrants	4	20	20	20	20	20
non-EEA Tier 2 (General) main applicants	10	40	40	40	40	40
non-EEA Tier 2 (General) dependants	10	20	20	20	20	20

Figures over 10,000 rounded to nearest 10,000. Figures under 10,000 rounded to nearest 1,000

E.3 Impacts on Short-Term EEA Citizen Workers

57. This IA focusses on the impact on long term work migration, which is the focus of the Skilled Worker route. Impacts on EEA citizens seeking to work for up to 12 months are not quantified in this appraisal. Some employers could choose to sponsor short-term workers under the Skilled Worker route where the relevant criteria are met, and following the ending of free movement some short-term work could be undertaken within Tier 5 routes, which are not affected by the legislation appraised in this IA.

¹⁵ The Tier 2 (General) dependant ratio is estimated to be 0.70 (i.e. for every four main applicants coming to the UK there are almost three dependants), based on the ratio of main applicants to dependants observed in Tier 2 grant statistics in 2019. More detail can be found in the Technical Annex.

58. The available evidence on short-term EEA citizens migrating for work, and discussion of potential fiscal, labour market (and potential impacts for employers should additional employers seek to hold a Tier 5 sponsor license), administrative, and community, social and congestion impacts should volumes of EEA citizens providing short-term work change, was discussed in the IA for the Immigration and Social Security Co-ordination (EU Withdrawal) Bill 2020¹⁶. The IA set out volumes of short-term workers and potential fiscal impacts should those volumes be affected. Due to a lack of data and uncertainty of behavioural response, no quantified estimate of EEA citizens who may in future qualify under Tier 5 routes was possible in that assessment, and that remains the case.
59. Since publication of that IA, confirmation that current visa fees under Tier 5 will apply to EEA citizens has been received. Current visa fees and unit costs for Tier 5 routes suggest for applicants visa fees are set at £244, and unit costs borne by Home Office are estimated at around £115 for overseas applications and £317 for in-country applications¹⁷. Should the majority of potential EEA citizen applicants for these routes apply from overseas, this would lead to net revenue generation for the Home Office. The imposition of fees on EEA citizens could lead to behavioural impacts on potential applications of EEA citizens under Tier 5 routes as discussed in Section E.5.

E.4 Fee and Immigration Health Surcharge levels

Fees

60. The 1961 Council of Europe, European Social Charter (CESC) guarantees fundamental social and economic rights and a broad range of everyday human rights related to employment, housing, health, education, social protection and welfare. Article 18(2) of the CESC includes a commitment to simplify processes and “reduce or abolish chancery dues and other charges”. In effect, as a party to this agreement, the UK has implemented this commitment by offering reduced visa fees in respect of nationals of other countries that have ratified the Treaty seeking to come to the UK for the purposes of work.
61. Currently only citizens of Turkey and Northern Macedonia benefit from the concession as they are the only citizens of countries that have ratified the relevant part of the Treaty but do not benefit from free movement. However, once free movement ends in December 2020 and EEA citizens become subject to the points-based immigration system. The nationals of an additional 22 EU countries and 2 EEA countries (Iceland and Norway) will also qualify for the existing CESC fee concession.
62. The UK has reflected this commitment via a fee concession under the relevant work visa routes. For the purposes of this Impact assessment, the current concession amounts to a £55 reduction in application fees for main applicants of Global Talent and Skilled Worker visas; and an exemption from the £199 Certificate of Sponsorship (“CoS”) fee for Skilled Worker route employers.
63. The Immigration and Nationality (Fees) Regulations 2019 set out the level of visa fees to be charged from the financial year 2019/20. As the policy is scheduled to be implemented in December 2020, this IA applies the level of visa fees as set out in these Regulations, with the appropriate concession for CESC signatories, as the baseline for its analysis throughout the appraisal period. These are set

¹⁶ Home Office (2020) Impact Assessment HO0346 “Impact Assessment for Immigration and Social Security Co-ordination (EU Withdrawal) Bill 2020”. Please refer to paragraphs 110 – 136, and 154 of that document.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/885682/2020-05-18_IA_ImmSSC_Bill_v21_with_Signature.pdf

¹⁷ Home Office “Visa Fees Transparency Data” <https://www.gov.uk/government/publications/visa-fees-transparency-data>. Data is in £20/21 price year.

out in the Technical Annex. This should not however be interpreted as an indication of future visa fee levels beyond 2021, as visa fees will be set year-on-year in future Fee Regulations.

Immigration Health Surcharge

64. The Immigration (Health Charge) Order 2015 requires that non-EEA temporary migrants who make an immigration application to come to the UK for more than six months, or who apply to extend their stay in the UK, make a direct contribution to the NHS via payment of an immigration health charge (often referred to as the Immigration Health Surcharge or IHS) – unless specific exemptions apply. The total amount surcharge payers are liable for over the duration of their visa is paid upfront as part of the visa application, although unsuccessful and withdrawn applications receive a refund¹⁸. The analysis developed in this IA uses internal Home Office data on the average length of stay per visa category in 2018/19, and applies the costs associated with the surcharge to granted applications.
65. Since 2018, the rate has been set at £400 per person per year (£300 for students, their dependants and Youth Mobility Scheme applicants). On 21 July 2020, The Immigration (Health Charge) (Amendment) Order 2020 set out that the surcharge would increase to a level that broadly reflects the full cost of NHS services provided to those that pay it to ensure the long-term sustainability of the NHS. The IA for the Order sets out further detail about the rationale for the level of the increased surcharge¹⁹. An exemption will also be introduced for applicants eligible for the Health and Care visa and their dependants to reflect the contribution that health and care workers make to the NHS and the wellbeing of the UK population.
66. As the policy is scheduled to be implemented in January 2021, this IA models the increased surcharge level of £624 per person per year with a discounted rate of £470 for all children under the age of 18 years at the point of application and no surcharge for Health and Care visa applicants throughout the appraisal period.

E.5 Behavioural impact of fees on volumes

67. Charging visa fees (including the IHS) on future EEA inflows may deter some potential migrants from applying to enter or remain in the UK and therefore have an impact on the number of visa applications received each year.
68. While it is difficult to isolate the impact of any one factor driving visa demand, evidence from non-EEA visa applications over the last 10 years does not suggest any significant change in applications following a change in fees. The Home Office has developed a methodology to estimate the impact of changes in fees for non-EEA nationals on application volumes. This methodology has been used for previous IAs on the impact of changes in visa fees²⁰ and on the IHS.²¹ This methodology treats the total cost faced by a migrant as an increase in the cost of moving to the UK. It estimates the effect that this increase may have on volumes of visa applications by applying estimates of the responsiveness of demand for visas to changes in fees (price elasticity of demand for visa products).

¹⁸ <https://www.gov.uk/healthcare-immigration-application/refunds>

¹⁹ <https://www.legislation.gov.uk/ukdsi/2020/9780348210231/impacts>

²⁰ <http://www.legislation.gov.uk/ukdsi/2016/177/impacts> and <http://www.legislation.gov.uk/ukdsi/2018/330/impacts>

²¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/251972/Health_impact_assessment.pdf

69. For skilled workers, the reduction in visa applications and therefore volumes entering or remaining in the UK for work-related reasons as a result of immigration costs has been estimated by applying estimates of the wage elasticity of labour supply, which measures the responsiveness of the supply of labour to changes in wages, to the expected earnings over the duration of the visa. An increase in immigration costs is treated as equivalent to a reduction in the expected earnings over the duration of the visa period. The central scenario assumes a small reduction in the willingness to supply labour as a result of changes in immigration costs, applying an elasticity of -0.3. The low scenario assumes a zero response to the change in wage and the high scenario uses an elasticity of -0.6. The wide range used as sensitivity reflects the available evidence and the uncertainty around the central estimates
70. There are a number of reasons why EEA nationals may exhibit a different behavioural response to non-EEA nationals. For one, EEA nationals are making a trade-off coming to the UK and paying fees and the IHS as opposed to the option of free movement to another EU country. This is in contrast with non-EEA nationals who are more likely to have to pay a comparable fee to migrate elsewhere. Additionally, EEA nationals are facing the fee for the first time, rather than facing an increase in an existing fee.
71. The methodology developed for non-EEA nationals remains the best evidence for considering the impact of the imposition of fees on EEA nationals in this analysis, though a range of behavioural responses set out above has been considered as the best way to address the inherent uncertainty. However, in addition to the fee and the IHS, EEA nationals are modelled to face an additional new cost representing the time and effort necessary to complete a visa application. As a proxy for this in lieu of other evidence, the cost to the Home Office of processing a Skilled Worker visa (£127) has been used.
72. The Technical Annex provides a high-level summary of the available literature and elasticity estimates used. Further detail can be found in the publication “*A review of evidence relating to the elasticity of demand for visas in the UK*” published in March 2020.²²

E.6 Policy impact on volumes

E.6.1 Change in out-of-country inflows due to salary and skill threshold

Reduction in long-term EEA work migration

73. It is estimated that applying an RQF3 skill threshold and Skilled Worker route salary thresholds²³ – noting analysis uses the appropriate data and pay scales (see paragraph 10) in assessing salary thresholds - to long-term EEA worker inflows could result in a 70 per cent²⁴ reduction in EEA long-term worker inflows. Using the baseline projection of worker long-term migration, a 70 per cent reduction in inflows is estimated to reduce long-term EEA worker inflows to between 20,000 and 40,000²⁵ per year in the first five years of the proposed policy - this includes those eligible for the

²² <https://www.gov.uk/government/publications/a-review-of-evidence-relating-to-the-elasticity-of-demand-for-visas-in-the-uk>

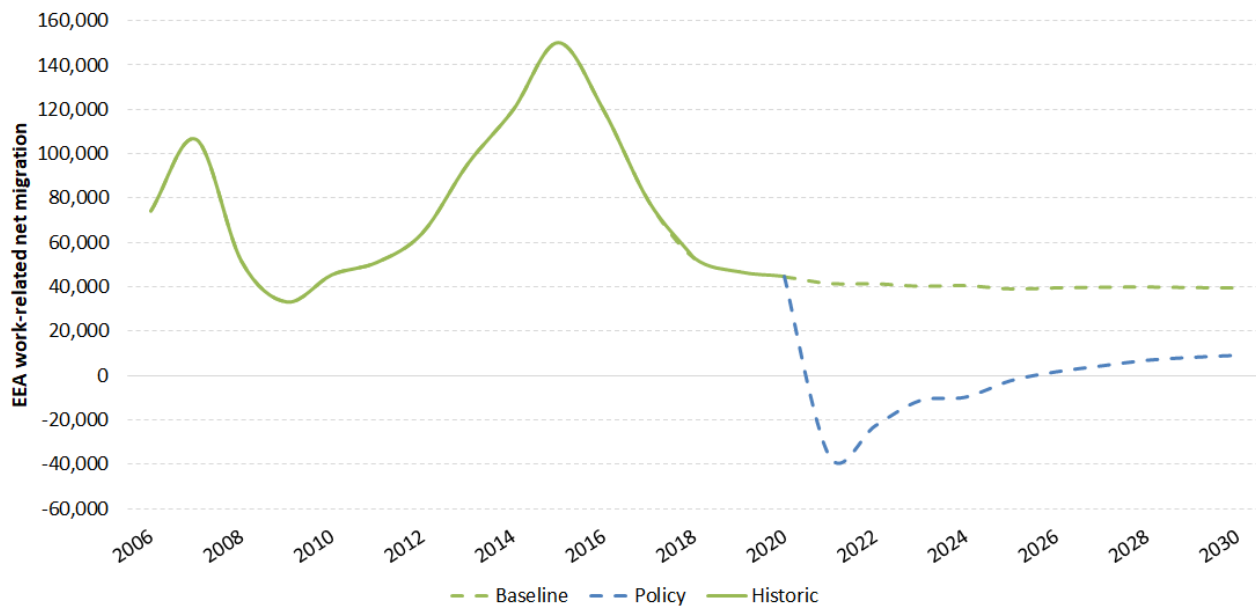
²³ As set out in Immigration Rules: <https://www.gov.uk/government/publications/statement-of-changes-to-the-immigration-rules-hc-813-22-october-2020>

²⁴ Home Office modelling of ONS Annual Population Survey 2016-18 and Annual Survey of Hours and Earnings 2019 modelling described in the Technical Annex. Figure rounded to nearest 10ppt.

²⁵ Range around projected inflows based on the average predicted error (Root Mean Square Error) of regression. This is a measure of how well the projection predicted historical data points but does not capture all uncertainty. For further detail see the Technical Annex. Rounded to the nearest 10,000.

Skilled Worker route and fewer than 5,000 eligible for either the Health and Social Care or Global Talent visas. Estimated net long-term EEA work-related migration flows are shown in Figure 3 and are calculated by combining inflow estimates with assumptions made on outflows²⁶.

Figure 3: Estimated long-term net EEA work-related migration, based on the central estimate.



Source: Home Office modelling based on International Passenger Survey 2004-2015 data, ONS Annual Population Survey 2016-18 and Annual Survey of Hours and Earnings 2019 modelling described in the Technical Annex.

74. Under the new system EEA migrants will be able to come to the country as a visitor for up to six months and may look for work in this time. However, they will need to return home in order to apply for a visa. Modelling has not been adjusted to account for workers needing a definite job offer to use this route. Currently, around 30 per cent of EEA migrants estimated to enter the UK for work-related reasons do not have a definite job²⁷. It is uncertain what proportion of this group would be deterred by this.

Impact on EEA Self-Employed and Part-Time Workers

75. Due to data limitations, modelling of impacts on the self-employed workforce is limited. Estimates of the number of workers eligible for the Skilled Worker route assumes that all worker inflows who meet the skills and salary threshold qualify for the route. However, as the Skilled Worker route requires all applicants to have a job offer from a Home Office approved sponsor, self-employed migrants will not be eligible. How much difference this makes to the estimates above will depend on the number, skills and salary of the self-employed migrants. This is difficult to determine. While it is estimated that around 16 per cent of the resident EEA population in employment are self-employed²⁸

²⁶ To model outflows, the analysis uses data from the International Passenger Survey to estimate how long EEA migrants tend to stay in the UK. The analysis assumes no change in the outflow rate under the new skilled workers route, therefore outflows do not immediately reduce as inflows fall, but decline more slowly overtime as fewer EEA migrants come to the UK. This could potentially result in a net outflow of long-term EEA migrants in the first few years of the policy.

²⁷ Office for National Statistics User Requested Data (16 Dec 2019) Reference Number 11023.

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/adhocs/11023internationalpassengersurveyestimatesoflongterminternationalmigrationtotheukbycitizenshipmainreasonformigrationandpreviousoccupatio>n2010to2018. Figure rounded to nearest 10ppt.

²⁸ Home Office analysis of ONS Annual Population Survey data 2017-2019 This data reflects survey respondents' view of their employment status – freelancers who may be paid as employees may either report as self-employed or employees in this data for example. Rounded to nearest 1 ppt.

there is limited information on earnings of self-employed workers; and it is not possible to estimate numbers which might meet skills and salary restrictions.

76. There are also unknown behavioural impacts, which could be important. For example, it is uncertain whether firms who previously hired self-employed individuals to undertake tasks will instead hire the individual as an employee, or if self-employed workers could affect potential employment opportunities in the UK if these migrants would have employed other workers.
77. Current rules for non-EEA migrants provide certain routes for self-employed migrants²⁹ providing they meet certain eligibility requirements. For example, the Innovator visa requires migrants to have access to at least £50,000 in investment funds, the Investor route requires an investment of £2 million or more to the UK and the Start-Up, Innovator and Global Talent visas require an endorsement by an authorised body. Most recent data suggest use of the existing non-EEA routes open to self-employed non-EEA workers is small, with a total of around 5,000 entry clearance visas issued to main applicants in these routes in the year ending March 2020³⁰.
78. While data on wages of self-employed workers are not available to estimate quantified impacts, data on sectors and occupations of self-employed workers can show where restrictions are likely to have the greatest impact. Around 36 per cent³¹ of self-employed EEA workers can be found in just two sectors: construction and building services. EEA self-employed labour makes up around five per cent of the total employment respectively in both sectors. Impacts on these sectors may vary; Home Office modelling suggests a large proportion of workers in the building services sector would be ineligible for the Skilled Worker route primarily due to the skill requirement (10³² per cent of the baseline inflow meet the skills threshold). In the construction sector around 70³³ per cent of workers meet the skill requirement. Therefore, workers in this sector may meet skill and salary requirements but be disproportionately affected by the need for sponsorship. It is unknown how easily the sector will be able to adjust to these changes, for example by changing employment practices.
79. Around one half of EEA self-employed workers are concentrated in just five sectors (construction; land transport; professional technical services; building services; and personal and domestic services). Of these five sectors, personal technical services, land transport and building services all have below 20³⁴ per cent of baseline inflows that would meet the skills threshold, demonstrating the potential difficulty faced by self-employed EEA nationals under the new system.
80. Lower paid part-time workers may also be disproportionately affected by the policy, as the general salary threshold is not prorated. However, the going rates for occupations are pro-rated for part-time workers – as long as the individual still earns a gross annual salary of £25,600 or discounted salary threshold (for new entrants or those using tradable points), this gives higher paid part-time workers the ability to work part-time provided they meet the hourly going rates and earn above the general threshold annually. However, analysis undertaken by the MAC (2020) suggests part-time workers are concentrated in lower skilled roles³⁵. Therefore, employment effects would be felt primarily due to the skills threshold in these occupations.

²⁹ <https://www.gov.uk/browse/visas-immigration/work-visas>

³⁰ Home Office 'Immigration statistics data, Year ending March 2020': Table Vis_02

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/885523/visas-summary-mar-2020-tables.xlsx Figure rounded to nearest 1,000.

³¹ Home Office analysis of the ONS Annual Population Survey 2017-2019. Figure rounded to nearest 1ppt.

³² Home Office modelling using ONS Annual Population Survey 2016-18 and Annual Survey of Hours and Earnings 2019 modelling described in the Technical Annex. Figure rounded to nearest 10ppt.

³³ See footnote above

³⁴ See footnote above.

³⁵ Migration Advisory Committee January 2020, "A Points-Based System and Salary Thresholds for Immigration" pg. 147

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/860669/PBS_and_Salary_Thresholds_Report_MAC.pdf.

81. Those working in the gig economy³⁶ may be disproportionately affected by the ending of free movement as they may be less likely to qualify for the Skilled Worker route - either due to the structure of their employment or relatively low earnings. In 2018, 87 per cent of individuals surveyed earned less than £10,000³⁷. Future inflows working within the gig economy are therefore unlikely to meet the salary threshold if the outcome of the study is representative of the characteristics of future EEA inflows working in the gig economy.
82. Data limitations, inaccuracy in earning reporting and uncertainty in employer response regarding the structural shift of self-employed to employed workers in heavily reliant sectors has meant we are unable to quantify this impact. Given the inability to accurately predict the impact of the Skilled Worker route on the self-employed EEA nationals it is likely that the above estimates underestimate the impact on these individuals. The underestimate is likely to be greatest in the sectors, outlined above, who have the highest reliance on self-employed EEA national labour.

Increase in non-EEA Skilled Worker route inflows

83. Predicting the impact of changes to salary thresholds and a lowering of the skills threshold is highly uncertain because it is dependent on (1) employers' behaviour and (2) the potential supply (or pool) of eligible non-EEA labour, which are unknown. Given this uncertainty, two illustrative scenarios for a potential increase in non-EEA worker migration are modelled:
- **EEA scenario – estimates a ~70 per cent increase:** This scenario uses modelled changes in EEA inflows under different policy scenarios to consider the potential scale of a non-EEA response. The modelling framework described above, utilising ONS Annual Population Survey 2016-2018 and Annual Survey of Hours and Earnings 2019 data, estimates the number of EEA citizens eligible under current immigration system rules (i.e. an RQF6 skill threshold and existing salary rules) and compares against the number of EEA citizens estimated to be eligible under the future policy (that is, an RQF3 skill threshold and salary thresholds outlined in the rules³⁸). Applying these two scenarios to the projected EEA baseline, implies an increase in eligible EEA inflows of around 60 per cent when moving from current arrangements to the future policy arrangements. This percentage change in EEA inflows gives a rough approximation of the elasticity of labour supply to a change in skills and salary thresholds, and this scenario considers the impact on non-EEA skilled workers if a similar percentage increase in eligibility was observed. There are some limitations with this approach:
 - The approach relies on applying policy scenarios to a highly uncertain modelled baseline of long-term EEA inflows under free movement – further detail of the underlying uncertainty within this baseline and EEA policy modelling is provided in the Technical Annex published alongside this document. The approach relies on applying policy scenarios to a highly uncertain modelled baseline of long-term EEA inflows under free movement – further detail of the underlying uncertainty within this baseline and EEA policy modelling is provided in the Technical Annex published alongside this document.
 - The increase in non-EEA skilled workers is assumed to have the same occupation and wage distributions as eligible EEA citizens. This may be an unrealistic assumption and further detail is provided in the Technical Annex published alongside this document.
 - This scenario assumes there are no behavioural responses from employers or migrants, which may overstate the overall increase in non-EEA migration flows as it fails to capture

³⁶ The gig economy involves the exchange of labour for money between individuals or companies via digital platforms that actively facilitate matching between providers and customers, on a short-term and payment by task basis. NetCen panel definition used in BEIS report “The characteristics of those in the gig economy”.

³⁷ BEIS report “The characteristics of those in the gig economy”.

³⁸ <https://www.gov.uk/government/publications/statement-of-changes-to-the-immigration-rules-hc-813-22-october-2020>

potential changes in labour demand from employers. This is therefore treated as the upper scenario.

- **Historical scenario – estimates a ~30 per cent increase:** In its report on the Points-Based System and salary thresholds for immigration³⁹, the MAC provided an overview of the historical use of Tier 2 (General) over time and scenarios assumed in other external research papers⁴⁰. It found that when Tier 2 (General) was open to medium-skilled occupations they made up between 24 per cent and 35 per cent of all Certificates of Sponsorship (CoS) used. This implies a medium to high-skilled ratio of between 1:3 and 1:2. Applying the lower ratio (around 1:3) to the current Tier 2 (General) baseline would result in an increase in current Tier 2 (General) high-skilled inflows of around 30 per cent. This estimate is used as a lower scenario for the potential increase in non-EEA skilled worker inflows. There are also limitations with this approach:
 - This scenario does not take into account of differences in policy between the period considered and under the modelled arrangements – it looks solely at the historical medium to high-skilled ratio of CoS used and the impacts if this was the case in future. It also does not consider any differences in salary thresholds between the two periods.
 - The scenario assumes historical work migration patterns are representative of future patterns.
 - As above, it assumes the increase in skilled non-EEA workers have the same occupation and wage distributions as eligible EEA citizens. This is highly uncertain.

84. The central scenario used in this IA is halfway between the uplift in the EEA scenario and the historical scenario. This accounts for limitations of both approaches and attempts to account for the two unknown factors described above – employers' behaviour and the potential supply of non-EEA eligible labour.

85. The historical approach captures employers' behaviour by looking at the skill mix of Tier 2 (General) when it was last open to RQF 3 occupations. The EEA proxy approach, by looking at the proportion of EEA citizens eligible under current rules compared to the new rules, accounts for the potential supply of non-EEA labour. It is unclear which effect will dominate and it is therefore assumed the increase in non-EEA workers under the central scenario will be the midpoint between the two values. This means that the midpoint volume is no more likely to occur than any other value between the upper and lower estimates.

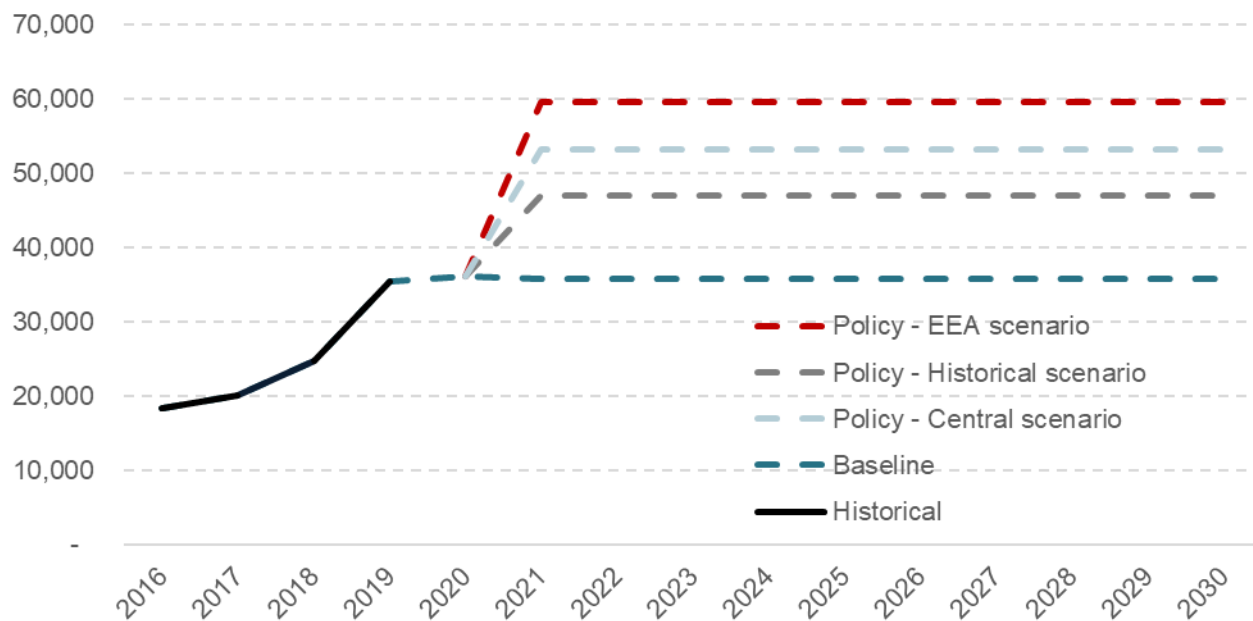
86. Volumes of skilled workers in all scenarios are shown in Figure 4. Occupations eligible for the Health and Care visa are high-skilled occupations and will therefore not benefit from a lowering of the skills threshold⁴¹. However, public sector workers will only face a floor of £20,480 under the policy, as opposed to facing the general threshold. Volumes of workers eligible for the Health and Care visa are expected to increase as a result of policy proposals, although the increase in workers in all scenarios is expected to be fewer than 5,000 additional workers annually.

³⁹ Migration Advisory Committee January 2020, "A Points-Based System and Salary Thresholds for Immigration" pg. 186 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/860669/PBS_and_Salary_Thresholds_Report_MAC.pdf.

⁴⁰ Migration Advisory Committee January 2020, "A Points-Based System and Salary Thresholds for Immigration" pg. 189 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/860669/PBS_and_Salary_Thresholds_Report_MAC.pdf.

⁴¹ When the skills threshold is expanded, the list of eligible occupations for the Health and Care visa will be reviewed. Impacts set out below do not capture the review and potential changes to the list of eligible occupations for the Health and Care visa.

Figure 4: Inflows of non-EEA Tier 2 (General) main applicants under the baseline, EEA, historical and central policy scenarios (based on central baseline volume estimate)



Source: Home Office estimates based on approach and data as described in paragraphs 83 to 86 above. For further details please refer to the Technical Annex

87. The above analysis is highly uncertain. Some of the main caveats identified include the following:

- Migration flows are extremely challenging to project due to a wide range of potential drivers, which themselves carry inherent uncertainty. The analysis provides an indicative range but does not capture all the uncertainty. More detail is provided in the Technical Annex published alongside this document.
- It has not been possible to model all the elements of the final policy, such as a reduction in salary thresholds for occupations on the Shortage Occupations List (SOL). Other elements not modelled include the impact of English language requirements and potential deterrent effects of sponsorship requirements.
- It has not been possible to fully assess the impact of the arrangements for tradable points. The MAC will report in September 2020 on its commission to produce a shortage occupation list covering all jobs encompassed by the Skilled Worker route and to keep the list under regular review. Data limitations mean it is not possible to reliably estimate the number of inflows who have a PhD. However, given the relatively small proportion of the labour market who have a PhD, awarding points for this attribute is not expected to have a large impact. Using the data available⁴², around 1.2 per cent of UK and Irish national residents are estimated to have a PhD gained within the UK and these individuals are concentrated in a small number (21 of 369) of occupations.

Sponsors

88. Under the current system for Tier 2 and Tier 5 routes, organisations are required to hold a sponsor licence if they wish to recruit a non-EEA migrant worker. At the year ending March 2020, there were 31,202 registered sponsors in total.⁴³ The new system will require that all migrants entering the Skilled Worker route be sponsored when coming to work in the UK. Therefore, if not already in

⁴² Home Office analysis of ONS Annual Population Survey data 2016-18.

⁴³ Immigration Statistics (21 May 2020). Register of Licenced Sponsors: Workers. Section 1: Table CoS_01. <https://www.gov.uk/government/publications/immigration-statistics-year-ending-march-2020/list-of-tables>

possession of a sponsor licence, organisations who would have recruited EEA migrants under freedom of movement will in future need to register as new sponsors. There will also be additional non-EEA migrants entering the UK following a lowering of the salary and skills thresholds from current Tier 2 levels, which could also lead to an increase in the number of registered sponsors.

- 89. To estimate the number of additional sponsors under the new system associated with the projected inflows, estimates are required for: the proportion of additional worker inflows employed by a new sponsor, and the number of employees per new sponsor.
- 90. The proportion of new inflows that will be employed by a new sponsor is highly uncertain. Currently around 80 per cent of CoS used are used by large employers and the rest by micro, small and medium sized employers.⁴⁴ In making an estimate of additional sponsor numbers, this proportion is assumed to stay constant in future under the new system.
- 91. At 18 March 2020⁴⁵, there were around 4,000 large, 6,000 medium and 20,000 small and micro organisations that have a sponsor licence. Based on the estimated number of large employers in 2019 (see Table 2) we estimate a relatively high proportion of large employers in the UK already have a sponsor licence. Therefore, under the new system it is assumed all inflows to large employers are going to organisations which already have a licence. Conversely, it is thereby assumed that around 20 per cent of new inflows are to be employed by a micro, small, or medium sized employer who currently does not have a sponsor licence.⁴⁶ This is highly uncertain and should be seen as an illustrative estimate only.

Table 2: Breakdown of employers in UK private sector, 2019.⁴⁷

All employers	1,409,950
of which:	
1-9 employees	1,155,385
10-49 employees	211,295
50-249 employees	35,585
250 or more employees	7,685

Source: Department for Business, Energy and Industrial Strategy 'Business population estimates for the UK and regions: 2019 statistical release'

- 92. To estimate the number of migrants each sponsor recruits, internal Home Office analysis of Tier 2 certificate of sponsorship usage by size of organisation is used. This shows a ratio of on average nine migrants per sponsor – but this varies substantially, with large employers employing around 23 migrants each and other employers recruiting around three migrants each. Given that it is assumed that all new sponsors are micro, small or medium sized employers, it is assumed that three migrants are employed for each new sponsor.
- 93. Since the estimated number of new sponsors is based on inflows being recruited by employers, an adjustment is needed to account for the possibility that there could be a significant number of additional new sponsors who may not necessarily recruit a migrant in the first year of the new system. Through comparing the number of registered sponsors with the number of active sponsors, it is estimated that around half of registered sponsors are inactive in a given year.⁴⁸ Therefore, the

⁴⁴ HO internal analysis of Tier 2 (General) and Tier 2 (ICT) certificate of sponsorship usage by size of organisation across 2016-2018.

⁴⁵ HO internal data on Tiers 2 and 5 register of sponsors.

⁴⁶ HO internal analysis of Tier 2 (General) and Tier 2 (ICT) certificate of sponsorship usage by size of organisation.

⁴⁷ Department for Business, Energy and Industrial Strategy 'Business population estimates for the UK and regions: 2019 statistical release', Table A. <https://www.gov.uk/government/publications/business-population-estimates-2019/business-population-estimates-for-the-uk-and-regions-2019-statistical-release-html>

⁴⁸ Estimates are based on the ratio of registered Tier 2/5 sponsors to active Tier 2/5 sponsors between 2016-2018. The number of active sponsors is from internal Home Office sponsorship data and the number of registered sponsors is based on the

estimated number of new active sponsors is inflated by a factor of two in order to include the estimated number of inactive sponsors who register but do not recruit a migrant in the first year.

94. This approach results in a central estimate of 7,000 (and a range of 5,000 – 9,000) additional sponsors per year. This is based on central estimates of additional EEA and non-EEA skilled workers (shown in Table 4). The range around this estimate is based on changing assumptions around baseline volumes and fee elasticity responses of EEA migrants⁴⁹, but does not capture all the uncertainty around the estimates. Further discussion around the sensitivity of results to assumptions for new sponsors is provided in the Risk section below.

Global Talent

95. From January 2021, the EEA cohort will be eligible for the Global Talent Route. EEA migrants will be subject to the same rules and conditions as non-EEA migrants. Highly-skilled migrants working across different professions, including newly eligible top EEA scientists, researchers and mathematicians entering the UK through the Global Talent route will be able to benefit from not being required to have a job before applying for this visa, not being required to meet a salary threshold, in some circumstances being able to apply for settlement after three years and be able to move freely between organisations, locations, jobs and roles.
96. Overall estimates of eligibility for the Skilled Worker route are based on salary and skills thresholds. While many migrants eligible for the Skilled Worker route will also be eligible for Global Talent these thresholds are not applied in the Global Talent route where eligibility is determined by endorsing bodies. This makes it very difficult to estimate the change in volumes following the expansion of the route to include EEA migrants. Home Office analysts have, however, been able to work with the Department of Business, Energy and Industrial Strategy (BEIS) and UK Research and Innovation (UKRI) to produce a suitable methodology for estimating applications to the Global Talent route from scientists and researchers from the EEA.⁵⁰ Although EEA leaders from other areas such as digital technology and arts will be eligible for this route, this IA focuses on the EEA demand from researchers and scientists only.
97. The Global Talent Route will support the UK in becoming a top destination for international talent; expanding the route out to EEA researchers and scientists will further support this. Research collaboration between the UK and the EU has been strong in the past: 13 of the top 20 countries the UK collaborates with on co-authored publications are in Europe and it is expected that this will continue.⁵¹
98. The assessment of the impact of these new changes on non-EEA citizens can be found in the IA accompanying those changes in legislation and rules.⁵²
99. The EEA long-term work-related inflows will include some EEA migrant researchers who would be eligible for the Global Talent route, however, the criteria for the Global Talent route mean that this

Register of Licenced Sponsors: Workers. Section 1: Table CoS_01. <https://www.gov.uk/government/publications/immigration-statistics-year-ending-march-2020/list-of-tables>.

⁴⁹ The low estimate uses low baseline volumes (with a high behavioural response to fees applied) and the high estimate uses high baseline volumes (with no behavioural response to fees applied).

⁵⁰ These volume estimates represent the estimated inflows entering the UKRI endorsed funders route. It is expected that most researchers and scientists entering the UK will select this route.

⁵¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/801513/International-research-innovation-strategy-single-page.pdf

⁵² http://www.legislation.gov.uk/ukia/2020/8/pdfs/ukia_20200008_en.pdf

route should attract some additional EEA migrants, which will mean fewer workers will be excluded from the baseline in the volumes and Net Present Social Value (NPSV) calculations.⁵³

100. To estimate these inflows, EEA long-term work-related inflows⁵⁴ are filtered to include those assumed to be working in higher education and in research-related occupations⁵⁵. The Annual Population Survey (APS) shows that in 2019, 33 per cent of EEA researchers worked for universities. 33 per cent is applied across all researcher occupations to give an estimate of those EEA researchers working for universities⁵⁶.
101. UKRI analysis of Higher Education Statistics Agency (HESA) 2017/18 data shows that around 85 per cent of higher education EEA researchers in the UK were with endorsed funders in 2017/18. This proportion can be applied to those researchers working in higher education to observe those eligible from the EEA cohort for the Global Talent route. Having applied these assumptions to EEA long-term work-related inflows, the number of migrants eligible for the Global Talent route can be estimated.
102. It is estimated that most of the EEA demand for this route will come from researchers and scientists that are eligible for both the Skilled Worker route and the Global Talent route but will choose the Global Talent Route as it offers more favourable conditions to migrants. HESA analysis conducted by UKRI shows that 72 per cent of EEA researchers working in higher education earn above the salary thresholds associated with the Skilled Worker route, applying this to the number of migrants eligible for Global Talent, this equates to 600 to 1000 EEA researchers choosing to come through the Global Talent route rather than the Skilled Worker route.⁵⁷
103. In addition to this, there will also be demand from EEA researchers that will not be eligible for the Skilled Worker route (due to not meeting the associated salary thresholds). The analysis by UKRI of HESA data estimates that around 28 per cent of people working in research-related occupations earn below the salary threshold. Applying this to the number of migrants eligible for Global Talent, this equates to an additional 200 to 400 EEA researchers coming to the UK through the Global Talent route each year.⁵⁸ These workers are not included in the overall reduction in skilled work relative to the freedom of movement baseline. The estimated change in volumes does not include increase in applications from non-researcher and non-scientist EEA Global Talent migrants, this means that this is likely to underestimate the impact of expanding the Global Talent route to EEA migrants. However, Global Talent volumes are substantially smaller than the Skilled Worker route, so we do not expect this to have a significant impact on overall volume, cost, or benefit estimates.

Intra-Company Transfers

104. It is expected that some inflows of EEA long-term skilled workers as well as short-term workers will enter the UK under the Intra-Company Transfer Route. This route will accommodate temporary moves by key business personnel, enabling multi-national companies to move their workers between subsidiary branches. This route supports inward trade and investment to the UK from multi-national companies. Volumes, however, are uncertain because workers that are the subject of an intra-

⁵³ These estimations are for the first phase of the Global Talent route reforms. Phase two reforms have not been considered in this IA.

⁵⁴ Please refer to The Technical Annex accompanying this IAA for a breakdown of how these projections are calculated.

⁵⁵ Here, a researcher is defined as someone working in a research-related occupation.

⁵⁶ These estimates do not include EEA researchers working in Independent Research Organisations and Public Sector Research Establishments.

⁵⁷ It is assumed that the fiscal impacts of these migrants are captured already in the EEA Skilled Worker Impact Analysis section.

⁵⁸ It is assumed that the fiscal impacts of these migrants have not been captured in the EEA skilled worker Impact Analysis section hence these will be included separately in subsequent sections.

company transfer will not be prevented from accessing the Skilled Worker route, given that the numerical caps and labour market testing requirements will not apply to the latter.

105. EEA migrants will be able to apply for the Intra-Company Transfer route or the Intra-Company Graduate Trainees route subject to meeting the relevant criteria of the routes and meeting sponsorship requirements. However, migrants will be restricted to the role specified on their Certificate of Sponsorship.
106. This route is a temporary route as it does not offer an avenue to settlement. However, restrictions on switching for the Intra-Company Transfer route have been lifted enabling migrants to switch to the Skilled Worker route whilst in the UK if they meet the qualifying requirements for the route. Additionally, the existing “cooling off” rules will be adjusted for more flexible provisions for shorter-term assignments.
107. Estimates of inflows to this route from EEA migrants are subject to high levels of uncertainty and have therefore not been included in this IA, however, it is expected that there will be demand from long-term migrants as well as workers that would have previously been posted to the UK for a limited period of time, where the sending business has a presence in the UK, or chooses to establish one in the future.

E.6.2 Change in out-of-country inflows due to imposition of fees

108. Taking the volumes of EEA nationals after the imposition of the policy in E.6.1, the methodology in E.5 is used to calculate the impact of imposing fees and the IHS on the EEA cohort. As the non-EEA cohort does not face any change to either fees or the IHS as a result of this policy, no further behavioural response is estimated.
109. As can be inferred from Table 3, the proposed imposition of fees and IHS on the EEA cohort are expected to have relatively small impacts on visas granted. This is largely because the costs are a relatively small proportion of the expected value of coming to the UK.

Table 3: Estimated change in EEA applications due to the fee and surcharge behavioural response

	20/21	21/22	22/23	23/24	24/25	25/26-29/30
Main applicants						
Skilled Worker (incl. NHS)	-40	-170	-170	-160	-160	-150
Global Talent	*	-10	-10	-10	-10	-10
Dependants						
Skilled Worker (incl. NHS)	-10	-30	-20	-20	-20	-20
Global Talent	*	*	*	*	*	*

Rounded to the nearest 10. * Indicates a figure that rounds to 0

E.6.3 In-country applications

110. Migrant Journey Analysis (MJA) data is used to track migrants over time to look at how a migrants’ immigration status changes for each of the four main categories of entry to the UK (family, work, study and dependants).

111. The MJA data allows modelling, for those applicants who make extensions, of the number of extensions Tier 2 (General) main applicants make during their stay in the UK. The MJA data examines the cohort of migrants who started their journey between 2010 and 2013. For each individual completed journey, it is estimated (1) the number of applications a person makes and (2) how long after their initial visa application the extension was made. This allows an estimate of the extensions made by migrants and when, after the initial application this extension was made. The MJA data allows for an estimate of the proportion of migrants who end up being granted settlement and who came into the UK on the Tier 2 (General) route. Further details of how MJA is used to produce estimates of future settlement/extension applications and the distribution of when they are likely to occur can be found in the technical annex.
112. The salary requirement for settlement under the Skilled Worker route will be revised from a flat £36,200 to match the going rate of the role being undertaken at the time a settlement application is made. The basic salary threshold of £25,600 will also have to be met (this will be £20,480 for shortage occupation and those on public sector salary scales). The MJA shows that typically only a very small proportion of those in the Skilled Worker route stay in the route for six years without moving to settlement under the current rules, so we expect any impact on settlement volumes to be small. It is uncertain whether this pattern will continue following the end of free movement with the EEA and planned reductions in the Tier 2 general skills and earnings thresholds, however.
113. The extension and settlement profiles are applied to out-of-country inflows of non-EEA and EEA skilled workers to estimate in-country volumes. This assumes non-EEA and EEA skilled workers have a similar behaviour with regards to making extensions and applying for settlement. There is uncertainty as to how far this may hold. Using the MJA data, and therefore the actual data on Tier 2 (General) extensions, and applications for settlement captures the decisions of Tier 2 migrants within country – including responses to fees imposed in-country. As a result, no further assumption is applied around behavioural response of EEA migrants for in country applicants.

Global Talent

114. Following the expansion of the Global Talent visa to EEA researchers and scientists, it is anticipated that there will be demand from students reaching the end of the student visa to the Global Talent route, but also potential future government policy including the Graduate Route may enable more migrants to use the Global Talent route.
115. Producing estimates on how many EU students are expected to switch to the Global Talent route in-country is difficult due to limited data and uncertainties around migrant decision making, therefore estimates have not been provided here, however these volumes are expected to be small.

Intra-Company Transfers

116. Intra-Company Transfers will be permitted to switch into the Skilled Worker route whilst still in the UK subject to meeting the qualifying requirements for the route. It is therefore anticipated that there may be additional in-country demand for the Skilled Worker route from migrants previously on the Intra-Company Transfer route. However, due to data limitations and uncertainties around migrant decision making, these volumes have not been estimated in this IA.

E.6.4 Option 1 volume summary

Table 4: Summary of out of country inflows under option 1- central estimates (000s)

	20/21	21/22	22/23	23/24	24/25	25/26-29/30
Main applicants						
EEA skilled work inflows	10	30	30	30	30	30
Non-EEA skilled work inflows	10	50	50	50	50	50
Total skilled work inflows	20	80	80	80	80	80
Of which: Health and Care visa inflows	10	20	20	20	20	20
Global talent inflows	<1000	<1000	<1000	<1000	<1000	<1000
Dependants						
Skilled worker (incl. Health and Care)	10	40	40	40	40	40
Global talent	<1000	<1000	<1000	<1000	<1000	<1000

Rounded to the nearest 10,000 – unless otherwise indicated

Table 5: Summary of in country inflows under option 1- central estimates (000s)

	20/21	21/22	22/23	23/24	24/25	25/26-29/30
Main applicants						
EEA skilled work inflows	1	4	30	30	30	30
Non-EEA skilled work inflows	10	40	50	60	70	70
Total skilled work inflows	10	40	80	80	90	100
Of which: Health and Care visa inflows	10	20	20	30	30	30
Global talent inflows	-	-	-	-	-	-
Dependants						
Skilled worker (incl. Health and Care)	10	30	40	40	50	50
Global talent	-	-	-	-	-	-

Figures over 10,000 rounded to nearest 10,000. Figures under 10,000 rounded to nearest 1,000

Table 6: Summary change in out of country inflows against baseline – central estimates (000s)

	20/21	21/22	22/23	23/24	24/25	25/26-29/30
Change in EEA long-term work inflows	-20	-80	-80	-70	-70	-70
Change in EEA dependants	-3	-10	-10	-10	-10	-10
Change in non-EEA work inflows	4	20	20	20	20	20
Change in non-EEA Dependants	3	10	10	10	10	10

Figures over 10,000 rounded to nearest 10,000. Figures under 10,000 rounded to nearest 1,000

Table 7: Change in cumulative stock of workers against baseline – central estimates (000s)

	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30
Change in cumulative stock of EEA workers	-20	-80	-150	-210	-260	-300	-340	-380	-420	-450
Change in cumulative stock of non-EEA workers	4	20	30	50	60	70	70	80	90	100

Figures over 10,000 rounded to nearest 10,000. Figures under 10,000 rounded to nearest 1,000.

Table 8: Additional sponsors under option 1 – central estimates (000s)

	20/21	21/22	22/23	23/24	24/25	25/26-29/30
New sponsors	2	7	7	7	7	7

Rounded to the nearest 1,000.

E.7 COSTS

117. The main direct costs within the IA are costs for the set-up and running of the Skilled Worker route and the costs of administrative burdens imposed on employers not currently using the sponsorship system, but who may want to employ skilled non-UK citizens in the future. The value of costs and benefits described in the following paragraphs are based on central assumptions on baseline volumes and price elasticity demand for visas.

E.7.1 SET-UP COSTS

Home Office Implementation costs

118. The Home Office will incur the additional resource and capital implementation costs of setting up the new IT systems. **Implementation costs are estimated to be £0.2 billion** (PV, 2020/21 prices). The Skilled Worker route is being delivered as part of a wider package of policy changes delivered in 2021, including a range of IT improvements and the opening up of current immigration routes to EEA nationals. As a result, it is difficult to identify exact resource and capital implementation costs relating to the Skilled Work route alone, as such the implementation costs above are likely to overestimate the costs. This is believed to be a proportionate approach for this IA. These costs are not dependant on volumes, they are based on budgeted spend estimates and are therefore not expected to vary to a great extent, as a result no range has been provided. Applying generic Green Book optimism bias factors⁵⁹ would suggest an illustrative upper limit of £0.6 billion would be estimated if applying a 200 per cent adjustment as set out in the Green Book, but it is unclear how appropriate it is to apply such a factor to these estimates.

Familiarisation costs for sponsors

119. Under the new Skilled Worker route, there will be new guidance available for employers about how to sponsor a migrant worker in the UK. Existing and future sponsors will both incur familiarisation costs becoming acquainted with the guidance⁶⁰. This section provides an indicative estimate for the length of guidance and of the familiarisation cost to businesses, based on existing sponsorship guidance, volumes of current sponsors in the UK and estimated additional sponsors under the new system.

120. Although it is accepted that the familiarisation burden could fall upon many different occupations within an organisation, it is assumed that 'human resource and industrial relations officers' are the occupation within organisations who would be most likely to familiarise themselves with the new guidance. 2019 ONS data⁶¹ estimates their hourly wage was £14.78, uplifted to current prices and real productivity growth⁶². To include additional non-wage costs (e.g. NICs and pension contributions), this estimate is then uplifted by 22 per cent, which results in a total cost of £18.02 per hour.⁶³ This total cost in current prices is then uplifted in line with real productivity growth over the appraisal period. It is likely that individuals within this occupation will have a range of different reading speeds and levels of comprehension. Table 9 illustrates the estimated range of reading speed and

⁵⁹ Table 7, HMT (2018) 'Green Book Central Government Guidance on Appraisal and Evaluation'

⁶⁰ <https://www.gov.uk/government/collections/sponsorship-information-for-employers-and-educators>

⁶¹ ONS (2019) 'Earnings and hours worked, occupation by four-digit SOC: ASHE Table 14', Table 14a.

⁶² 2020/21 is the current price and real productivity growth level, inflating from 2019/20.

⁶³ Eurostat. Labour cost levels by NACE Rev. 2 activity 2000-2019. Last data update: 31/03/20.

https://ec.europa.eu/eurostat/web/products-datasets/-/lci_lci_lev

comprehension for the new sponsorship guidance based on the length of the existing guidance⁶⁴. It is assumed all individuals will be reading the guidance on a screen.

Table 9: Estimated reading speed for sponsorship guidance⁶⁵

Reader category	Guidance length (words)	Words per minute (screen reading)	Comprehension rate	Words per minute achieving 100% comprehension	Time taken to familiarise with guidance (minutes)
Average reader	80,000	200	60%	120	645
Good reader	80,000	300	80%	240	320
Excellent reader	80,000	700	85%	595	130

121. Based on guidance with a word count of around 80,000 words, and a good reading speed of 240 words per minute at £18.02 per hour in 2020/21, the average familiarisation costs per employee in 2020/21 is estimated to be £97⁶⁶.

122. As shown in Table 10, combining data from the Department for Business, Energy and Industrial Strategy on the number of employees in organisations of different sizes⁶⁷ with data on the ratio of HR employees per 100 workers⁶⁸, the average number of HR employees can be estimated for each organisation size. It is assumed that all HR employees read the guidance (with a minimum of one employee per organisation), which may lead to an overestimate.

Table 10: Estimated number of HR employees reading the guidance per organisation

Organisation size	Employees per organisation	HR employees per 100 workers	HR employees reading the guidance per organisation
Micro	4	3	1
Small	20	3	1
Medium	98	3	3
Large	1414	1	17

Source: Department for Business, Energy and Industrial Strategy 'Business population estimates for the UK and regions: 2019 statistical release' and Society for Human Resource Management 'How Organizational Staff Size Influences HR Metrics' 2015. Figures rounded to the nearest whole number.

123. The current organisation size distribution for sponsors (described in paragraph 91) can be used to create a weighted average number of HR employees reading the guidance per current sponsor. For new sponsors, it is assumed that the current organisation size distribution will continue and a weighted average is calculated using the same methodology but excludes large organisations, since it is also assumed that 100 per cent of new sponsors are micro, small, or medium sized organisations (refer to paragraphs 88 to 94).

124. As a result, this analysis assumes that on average there will be 3.5 employees reading the guidance for each current sponsor and 1.5 employees for each new sponsor, although these are illustrative estimates based on a weighted average, and some organisations may differ in the number of employees who need to read the guidance. This, combined with the estimated £97 per employee

⁶⁴ Guidance length.

⁶⁵ Reading speed calculated from <http://www.readingsoft.com/>.

⁶⁶ Rounded to the nearest £ - this cost is assumed to go up in line with real productivity growth as a proxy for real wage increase.

⁶⁷ Department for Business, Energy and Industrial Strategy 'Business population estimates for the UK and regions: 2019 statistical release', Table A. <https://www.gov.uk/government/publications/business-population-estimates-2019/business-population-estimates-for-the-uk-and-regions-2019-statistical-release-html>

⁶⁸ Society for Human Resource Management 'How Organizational Staff Size Influences HR Metrics', 2015, Figure 1. <https://www.shrm.org/ResourcesAndTools/business-solutions/Documents/Organizational%20Staff%20Size.pdf>

familiarisation cost as set out in paragraph 121 suggests a cost of familiarisation per employer of £343 (£97 x 3.5) per current sponsor, and £148 (£97 x 1.5) per new sponsor.

125. Familiarisation costs calculations are split into two, those for existing sponsors which will be incurred in 2020/21, and those incurred in future years as additional employers choose to engage with the sponsorship system. Home Office data outlines that in March 2020 there were 31,200 organisations who are registered sponsors for work⁶⁹, this is therefore the existing volume of current sponsors who incur costs in 2020/21. Internal Home Office analysis is used to predict the volume of additional, new sponsors under the future system both of EEA and non-EEA workers – these volumes are discussed in paragraphs 88 to 94 and drive estimates of familiarisation costs over the next 10 years.

126. Familiarisation for current sponsors is estimated as:

- *Familiarisation cost to an employer x total volume of current sponsors in 2020/21.*

127. Familiarisation for additional sponsors in the new system is estimated as:

- *Familiarisation cost to an employer x annual volume of additional sponsors.*

128. **Therefore, total familiarisation costs for sponsors lie within the range of £17 to £22 million, with a central estimate of £20 million (2020/21 prices, PV)⁷⁰ over the 10-year appraisal period.** £11 million of this cost is incurred by existing sponsors in 2020/21. This range is driven by changes in baseline and fee elasticity of demand assumptions.

129. This approach assumes the costs for both current sponsors and additional, new sponsors is the same. This, however, could overestimate the costs for employers who already use the system as many of the duties falling on sponsors will be ones they already undertake.

130. There are several potential familiarisation costs for sponsors that the above estimates do not capture. There may be other internal costs to employers such as, the costs of disseminating information across a business or staff training, which may be required by some larger organisations. These costs have not been quantified due to lack of available information in research on how different employers choose to disseminate information across the business or train staff. As such there is a risk estimates provided may underestimate the full extent of familiarisation costs, but data has not been identified to understand the scale of this risk.

131. There may also be external costs to sponsors of familiarisation such as, the costs of obtaining legal, accounting or external advice or training to understand regulation. These costs have also not been included in the estimates above, as no available information has been identified through research on what proportion of employers choose to outsource this support or the average services tendered. As such there is a risk estimates provided may underestimate the full extent of familiarisation costs, but data has not been identified to understand the scale of this risk.

132. Results have been tested for different assumptions relating to reading speed and the impact on overall NPV and BNPV is minimal.

⁶⁹ Home Office 'Immigration Statistics: Year Ending March 2020', Table CoS_01. Data rounded to nearest 100.

⁷⁰ Rounded to the nearest £m.

Familiarisation costs for law firms and immigration advisors

133. Law firms and immigration advisory firms are likely to incur transitional costs such as familiarisation and staff training. This section provides estimates for the familiarisation costs imposed on these firms based on an indicative estimate for the length of the guidance and immigration rules, which it is assumed they will need to read. Data limitations, for example in terms of the propensity and costs to these businesses in organising training events to familiarise with policy changes, means that reading the guidance/rules is the only transitional cost estimated in this section. However, it is noted that costs may vary, should firms choose alternative or additional methods of familiarisation and dissemination.
134. It has been assumed that familiarisation falls on immigration lawyers⁷¹ and immigration advisors. Immigration lawyers have an associated hourly wage of £23.09 according to 2019 ONS data⁷². For immigration advisors the granularity of the ONS data is not thought to be sufficient to offer insight into earnings of the profession, therefore National Careers Services data is used here instead.⁷³ Using the annual earnings of £40,000 at 37 hours per week results in an hourly wage of £20.79.⁷⁴ Both of these hourly wages are uplifted to current prices and in line with real productivity growth. This estimate is then uplifted by 22 per cent to include additional non-wage costs (e.g. NICs and pension contributions).⁷⁵
135. It is conceivable that individuals within these occupations will have a different reading speed and level of comprehension, however for simplicity, it has been assumed that those in these occupations are good readers. As in Table 9 above, reading the guidance (which is estimated to be 80,000 words) at a good reading speed is estimated to take 320 minutes. This cost is incurred by both immigration lawyers and advisors. In addition to the guidance, it assumed immigration lawyers and advisors will face additional familiarisation costs from reading the relevant Immigration Rules. An illustrative estimate of 10,000 words is used to for this. This suggests that it would take approximately 40 minutes to read the rules at a good reading speed.⁷⁶
136. For immigration lawyers, as there is uncertainty around the number of lawyers per firm working on immigration-related cases, illustrative scenarios of one, five and ten lawyers per firm have been used to estimate the familiarisation cost. It is uncertain how these assumptions may reflect outcomes for 'the average' law firm covering immigration issues. Various data sources⁷⁷ have been used to estimate that there are approximately 2,800 law firms in the United Kingdom that cover immigration law. The familiarisation cost is first calculated by multiplying the hourly wage by the number of hours taken to read guidance and rules. This is then multiplied by the total number of firms and number of lawyers per firm.
137. For immigration advisors, the Office of Immigration Services Commissioner Annual Report has been used to estimate the number of regulated immigration advisors, which is estimated at 3,167.⁷⁸ The familiarisation cost is first calculated by multiplying the hourly wage by the number of hours

⁷¹ Identified as occupation 'Solicitors' in line with ONS Standardised Occupation Classification (SOC).

⁷² ONS (2019) 'Earnings and hours worked, occupation by four-digit SOC: ASHE Table 14', Table 14a.

⁷³ [https://nationalcareers.service.gov.uk/job-profiles/immigration-adviser-\(non-government\)](https://nationalcareers.service.gov.uk/job-profiles/immigration-adviser-(non-government))

⁷⁴ The upper bound of earnings for immigration advisors have been used to help illustrate the potential high end of familiarisation costs for relevant businesses.

⁷⁵ Eurostat. Labour cost levels by NACE Rev. 2 activity 2000-2019. Last data update: 31/03/20.

https://ec.europa.eu/eurostat/web/products-datasets/-/lci_lci_lev

⁷⁶ There may be other areas required for familiarisation including any accompanying appendices, however it is not known the extent to which immigration lawyers and advisors familiarise themselves with these initially. Where such familiarisation is required, estimates provided may underestimate these familiarisation costs.

⁷⁷ Including data from The Law Society (in the area of 'Immigration and changing countries' who cover 'Immigration and Visas'), The Law Society of Northern Ireland (in the area of 'Immigration') and The Law Society of Scotland (in the area of 'Immigration')

⁷⁸

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/901104/OISC_Annual_Report_and_Accounts_2019-20_WEB.pdf Table 4.

taken to read guidance and rules. This is then multiplied by the total number of regulated immigration advisors.

138. Combining the data elements calculated in paragraphs 136 and 137, the cost of familiarisation for immigration lawyers and advisors is estimated to be between £1 and £5 million, **with a central estimate of £3 million (2020/21 prices, PV) over the 10-year appraisal period.** The range is driven by uncertainty in the number of lawyers per firm working on immigration-related cases.
139. As noted in paragraph 133 data limitations prevent estimating alternative methods for familiarisation and dissemination of information aside from reading rules and guidance and the analysis only accounts for the initial transition costs for current immigration lawyers and advisors and no new firms have been accounted for here, potentially underestimating the costs - although noting familiarisation under previous policy would have been required for new entrants as well.
140. In addition, businesses that provide services to help companies with immigration applications (e.g. Third party HR providers, law firms which provide immigration services, and immigration advisory businesses) However, it is possible that these businesses may also benefit from any increased demand for services as a result of ending free movement and the introduction of the Skilled Worker route which may offset any increase in familiarisation costs. In addition, future changes to streamline the sponsorship system, as signposted in 'The UK's Points-Based Immigration System: Further Details'⁷⁹, intending to streamline and simplify the system, lower transactional costs and may reduce demand for third party services from sponsors.

E.7.2 ONGOING COSTS

Increase in Home Office processing costs

141. An increase in visa applications is expected to result in administrative costs to the Home Office. This cost is estimated by multiplying the additional number of visa applications forecasted for each year of the appraisal period by the unit cost of processing a visa. Unit costs of processing a visa application for 2019/20 are outlined in the Technical Annex. Unit costs are assumed to stay flat in nominal terms over the appraisal period as these costs are reviewed year-on-year and do not necessarily grow in line with inflation.
142. The cost to the Home Office is estimated to be in the range of £0.3 to £0.6 billion with a central estimate of £0.4 billion (PV, 2020/21 prices) over the 10-year appraisal period.
143. Of this, for the central estimate, £0.1 billion (PV, 2020/21 prices) is from processing additional non-EEA applications, £0.1 billion (PV, 2020/21 prices) is from processing new EEA applications and £0.2 billion is from processing new sponsorship related applications, including sponsorship licenses and CoS for both EEA and non-EEA nationals, over the 10-year appraisal period.
144. The above estimates include the additional cost of processing the additional sponsorship applications set out in section E9.

Third-party payment processing costs

145. The ISC and IHS are both collected via a third-party private company which charges a percentage of the value of surcharge income handled. The revenue transferred from the Home Office to the third-party is expected to cover the cost to the third-party private company in collecting this revenue.

⁷⁹ Home Office 'UK points-based immigration system further details statement' 4th August 2020.
<https://www.gov.uk/government/publications/uk-points-based-immigration-system-further-details-statement/uk-points-based-immigration-system-further-details-statement>

As such, this is considered as the Home Office indirectly covering the cost of processing the payments, and so is included in the NPSV of this policy.

146. The increase in both IHS and ISC eligible applications is expected to result in an increase in the volume of surcharge revenue collected on which a fee is levied. This is expected to **cost the Home Office between £50 and £85 million, with a central estimate of £67 million (10-year PV, 2020/21 prices).**

Ongoing costs to UKRI

147. UK Research and Innovation (UKRI) is responsible for the oversight and management of the new 'Endorsed Funders' scheme within the reformed Global Talent route, which will enable fast-track endorsement for qualifying individuals. This means UKRI will now be responsible for assessing endorsement applications. These costs were previously accounted for in the Global Talent IA which considered impacts of non-EEA demand. It is not expected that there will be further costs to UKRI following the expansion of this route to EEA researchers and scientists.

Administrative costs for sponsors

148. There will be transactional costs imposed on employers not currently using the sponsorship system, but who may want to employ skilled EEA citizens in the future. These costs will include administrative costs of applying for a licence, allocating CoS to migrants and ongoing governance and compliance costs – such as liaising with UK Visas and Immigration or conducting a basic compliance assessment.
149. **The costs of this increased administrative burden for businesses employing EEA citizens in future is estimated to be between £0.1 and £0.3 billion (PV 2020/21 prices) over the 10-year appraisal period, with a central estimate of £0.2 billion.** The central estimate is based on the estimated additional inflow of EEA main applicants to the Skilled Worker route (shown in Table 4) and the range is driven by changing assumptions around baseline and fee demand elasticity response.
150. Costs per main applicant of £1018⁸⁰ and is estimated based on the average between two studies: a study of universities which indicated the additional administrative burden associated with a Tier 2 sponsorship application currently could range from £189 to £1,750 per application, depending on frequency of use⁸¹, and research undertaken by Our Global Future⁸² which found an average cost to employers per application of £1,000 with an additional £450 for subsequent notifications to the Home Office.

Administrative costs for other businesses

151. Businesses that provide services to help companies with immigration applications may incur ongoing costs in supporting employers with immigration applications under the Skilled Worker route. These costs have not been quantified due to lack of information about the number of companies providing such services. However, it is possible that these businesses may also benefit from any increased

⁸⁰ In 2021/21 prices.

⁸¹ EY March 2019 "Challenges and costs of the UK immigration system for Russell Group universities".

<https://russellgroup.ac.uk/media/5750/challenges-and-costs-of-the-uk-immigration-system-for-russell-group-universities.pdf>

⁸² Global future 2019 "Closing the door – the true cost of the immigration white paper"

<https://ourglobalfuture.com/reports/closing-the-door-the-true-cost-of-the-immigration-white-paper/>

demand for services as a result of ending free movement and the introduction of the Skilled Worker route which may offset any increase in ongoing costs of providing services, but this is uncertain given the lack of data on these issues. In addition, future changes to streamline the sponsorship system, as signposted in 'The UK's Points-Based Immigration System: Further Details'⁸³, intending to streamline and simplify the system, lower transactional costs and may reduce demand for third party services from sponsors.

E.7.3 INDIRECT COSTS

Loss to the Exchequer,

152.

153. Table 7), is expected to result in a reduction in tax revenue. The reduction **in tax revenue to the Exchequer is estimated to lie in the range of £16.8 to £31.2 billion, with a central estimate of £24 billion** (PV, 2020/21 prices) over the 10-year appraisal period. The Technical Annex provides further details on the methodology and assumptions used to estimate the per head contributions of migrants.

Increase in public expenditure

154.

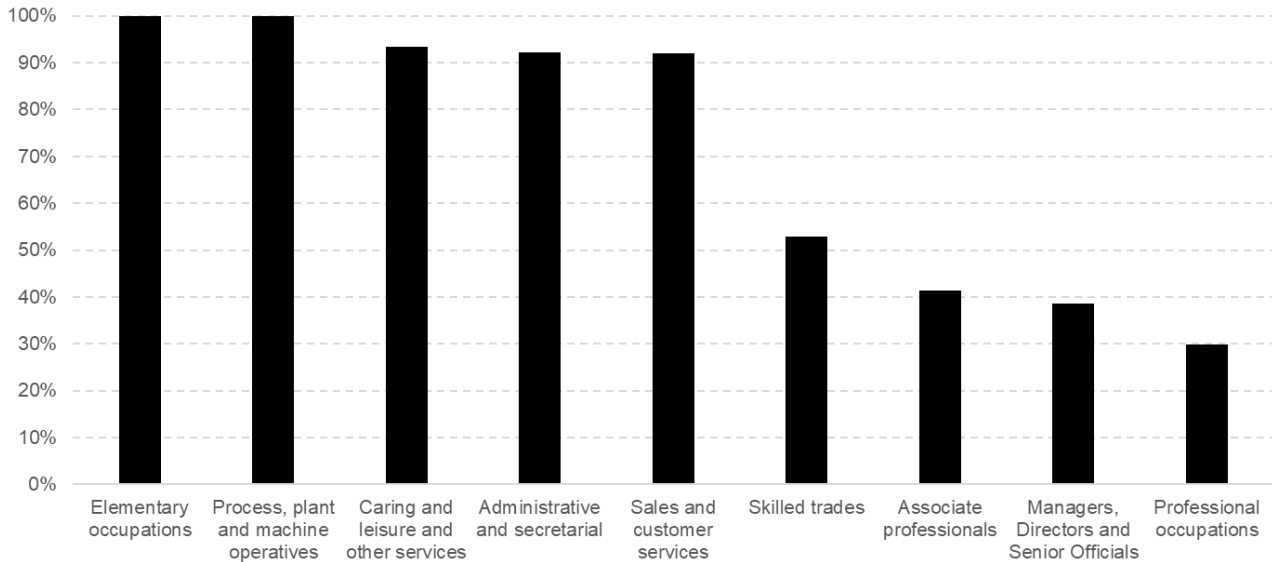
155. Table 7), is expected to result in an increase in public expenditure on public services as more people would use such services. **The increase in expenditure on public services in the central scenario is estimated to lie in the range of between £2.9 and £4.1 billion (PV, 2020/21 prices) over the 10-year appraisal period, with a central estimate of £3.5 billion.** The Technical Annex provides further details on the methodology and assumptions used to estimate the per head contributions of migrants.

Adjustment costs to employers due to a reduction in EEA work-related inflows

156. The impact of the Skilled Worker route will differ by occupations and sectors. The skills threshold will initially affect all long-term EEA inflows to occupations under RQF3, such as elementary occupations and process, plants and machine operatives. Some higher skilled occupations are also affected through the introduction of the salary threshold.

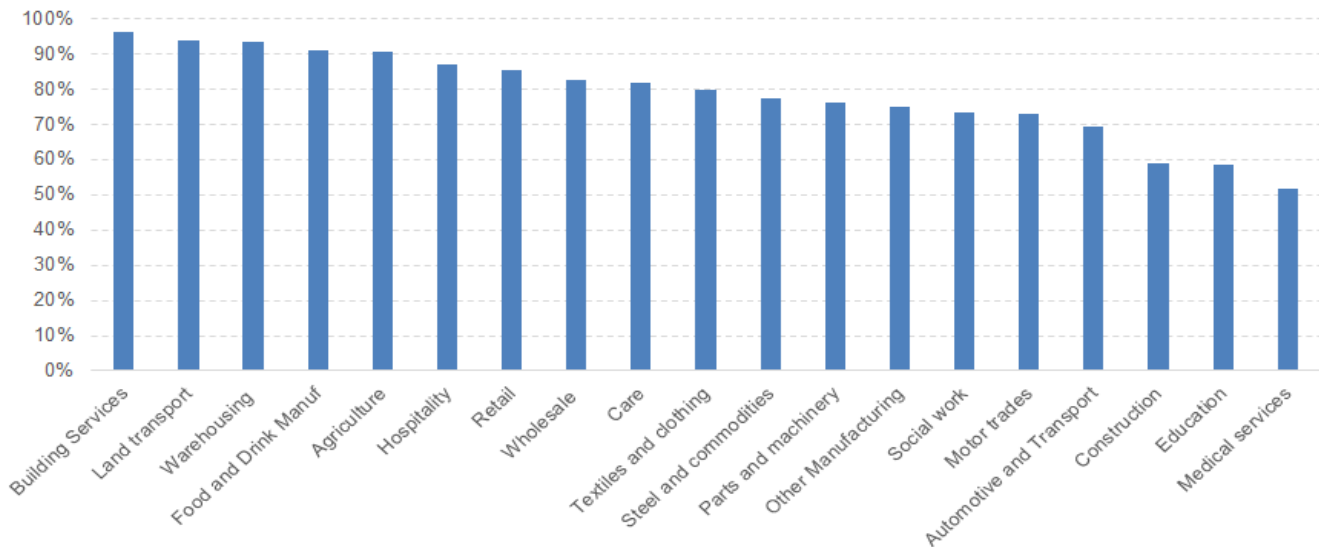
⁸³ Home Office 'UK points-based immigration system further details statement' 4th August 2020.
<https://www.gov.uk/government/publications/uk-points-based-immigration-system-further-details-statement/uk-points-based-immigration-system-further-details-statement>

Figure 5: Proportion of projected long-term worker EEA inflows to occupations no longer eligible under Option 1 in the central baseline and behavioural response scenario



Source: Home Office Modelling based on ONS Annual Population Survey 2016-18 and Annual Survey of Hours and Earnings 2019, modelling described in the Technical Annex.

Figure 6: Proportion of projected long-term worker EEA inflows to sectors no longer eligible under Option 1 in the central baseline and behavioural response scenario



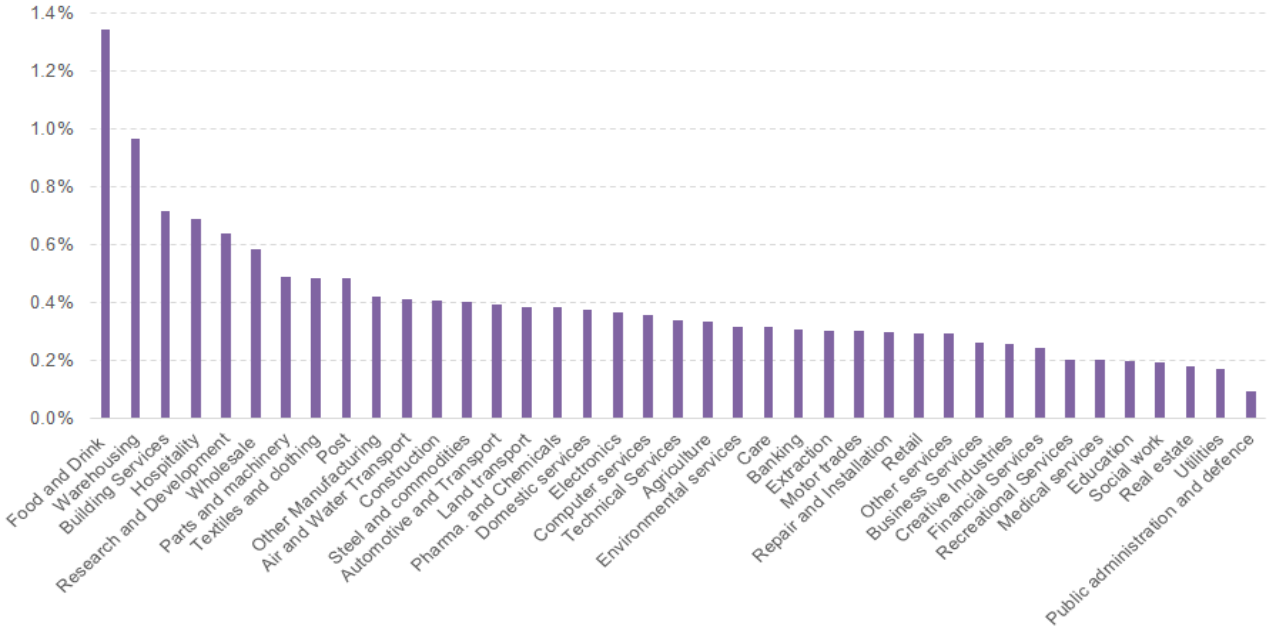
Source: Home Office modelling using ONS Annual Population Survey 2016-18 and Annual Survey of Hours and Earnings 2019, modelling described in the Technical Annex.

157. While the modelled impact on long-term EEA work-related inflows is expected to be substantial, baseline EEA inflows represent a relatively small proportion of the total resident workforce. Shares range from around 0.1 to 1.4 per cent of overall sector workforce depending on the sector considered, as shown in Figure 7, with the highest figure being in the food and drink sector (in all other sectors shares are less than 1 per cent, and in a majority of sectors less than 0.5 percent).

158. There are also sectors which have seen a high proportion of their recent employment growth come from EEA migration. Figure 8 presents the composition of recent employment growth within sectors, illustrating the EEA contribution to total sector employment growth. This focus is on sectors which have seen the most EEA employment growth between 2014 and 2018. The retail, construction and warehousing sectors have seen large absolute employment growth of EEA citizens, and in the retail

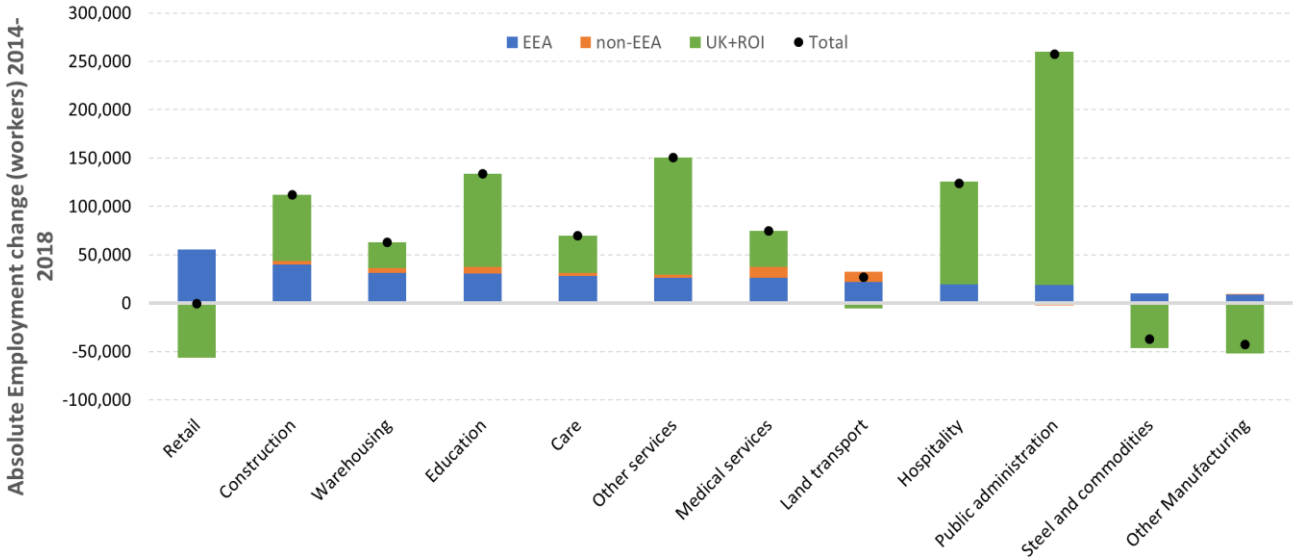
sector over these years the growth in EEA employment has been concurrent with a reduction in employment from UK citizens and others from outside the EEA. In other sectors such as motor trades, land transport and parts and machinery, EEA citizens have made up a large proportion of overall employment growth. These sectors are also those identified in Figure 6 as most affected by this policy.

Figure 7: Baseline projected long-term worker EEA inflows as a percentage of total resident workforce⁸⁴



Source: Home Office Modelling based on analysis of ONS Annual Population Survey 2016-18.

Figure 8: Top sectors for long-term EEA employment growth (2014-2018)⁸⁵



Source: Home Office analysis of ONS Annual Population Survey 2014 and 2018.

⁸⁴ Total workforce based on Home Office analysis of ONS Annual Population Survey 2016-18. Note that percentages here also mask any regional variation.

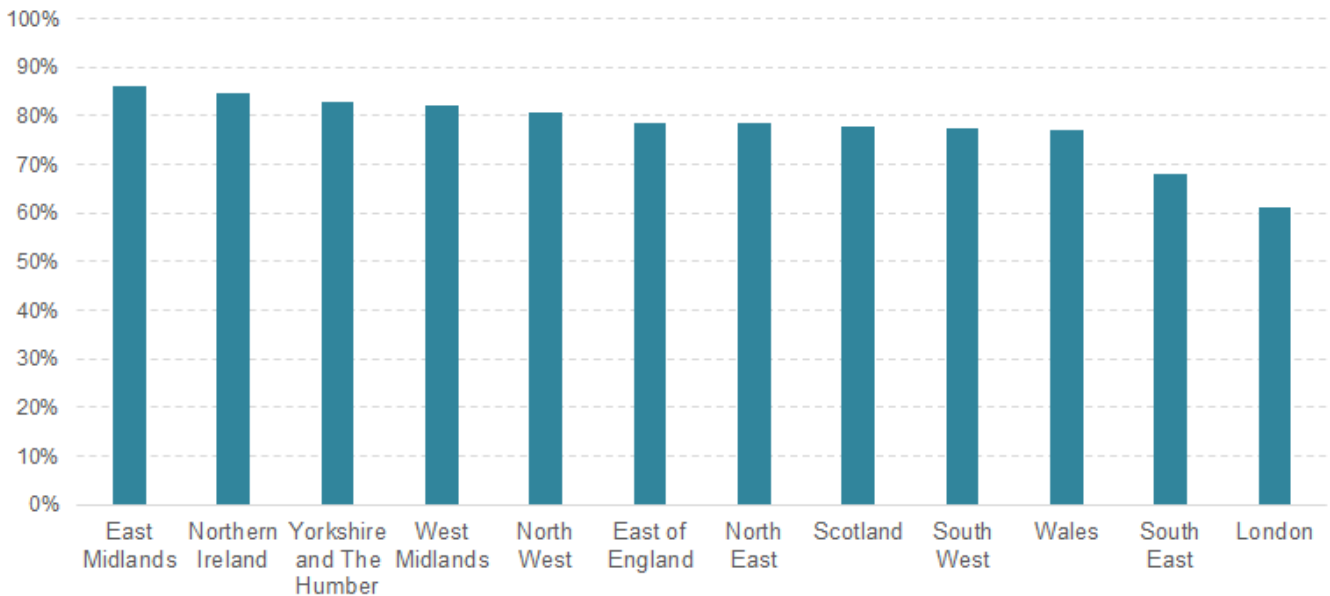
⁸⁵ Home Office analysis of ONS Annual Population Survey 2014 and 2018. Other Manufacturing includes manufacturing of wood and paper products and printing and recorded media.

Regional Impact of Skills and Salary Threshold for Long-Term EEA Workers

159. There may be geographical variation in the impacts of the policy arrangements.

160. Figure 9 illustrates the estimated impact of changes to EEA long-term worker inflows for different English regions and Scotland, Wales and Northern Ireland. London is the region in which most EEA residents in employment work. As a result, it is the region most affected in terms of the volume of EEA workers restricted – around 30⁸⁶ per cent of inflows affected are estimated to work in London. However, higher wages within this area mean a smaller proportion of the inflows are affected compared to other parts of England and other nations with lower average earnings, resulting in London being the least affected area.

Figure 9: Proportion of projected long-term EEA worker inflows to English regions and other nations of the UK no longer eligible under Option 1 in the central baseline and behavioural response scenario



Source: Home Office modelling using ONS Annual Population Survey 2016-18 and Annual Survey of Hours and Earnings 2019 modelling described in the Technical Annex.

161. The analysis presented above makes no assumption for the potential behavioural responses of employers and market adjustment. The labour market is dynamic and, as with any change in environment, markets are expected to adjust and reallocate resources to their most productive use – at least in sectors where output and wages are primarily influenced by market forces. How employers choose to adjust, the relative ease and length of time taken to do so will depend on the specific characteristics of an occupation and firms (in particular, whether they are influenced predominately by market forces) as well as wider factors. Adjustment could happen in various ways including: altering the composition of the workforce, for example, switching from migrant worker inflows to domestic labour, increasing hours of current staff, or outsourcing:

- Altering the ratio of labour to capital within the firm’s production, such as automating the production line where possible, and substituting capital for labour,
- Freezing recruitment, or reducing migrant worker inflows into the workforce,
- Continuing to employ skilled migrant workers by increasing wages to meet the threshold,

⁸⁶ Home Office modelling using ONS Annual Population Survey 2016-18 and Annual Survey of Hours and Earnings 2019 modelling described in the Technical Annex. Figure rounded to nearest 10 per cent.

- Changing production levels.

162. The ability of an employer to respond through each of these avenues is highly firm-specific. For example, if a firm's production process is more labour-intensive, it may struggle to substitute to capital and would be left with fewer adjustment options. The potential scope for employers to raise wages to meet the required skilled worker salary threshold may depend on the increase in wages needed to meet salary thresholds. The response of small and medium size businesses may differ from responses of large firms.

163. In the risks section (see section G), the potential costs to employers of migrant labour meeting the skills, but not the salary threshold from one potential type of adjustment is considered as a purely illustrative scenario; and an additional purely illustrative scenario is considered for potential costs to employers in replacement of labour below RQF 3 level. These scenarios are purely illustrative, and as highlighted in the previous two paragraphs above, the choices made will likely be at a firm-specific level. The ability to understand the relative availability and costs of potential choices at the firm-specific level is limited, and as such scenarios presented in section G are highly uncertain.

164. To provide an assessment of occupations which may face challenges adjusting to new policy arrangements and a sense of the importance of impacts, several metrics have been produced to assess occupations. These are classified based on three indicators:

- **Potential scope for adjustment**, which measures the ability of occupations to adjust to unexpected changes in the labour market, either by substituting labour for labour or by substituting capital for labour in the form of automation. This can provide an indication of occupations potentially facing challenges adjusting to changes based on the chosen criteria. However, it does not capture all the ways employers may adjust to the Skilled Worker route.
- **High wage or high contribution to public services**, highlights occupations of high economic importance based on average wages as well as those occupations within sectors which are key to the delivery of public services (that is, health, education, social work, care and public administration)⁸⁷.
- **Recent reliance on EEA migrant labour**, which looks at the absolute and proportional EEA employment growth in each occupation between 2014 and 2018

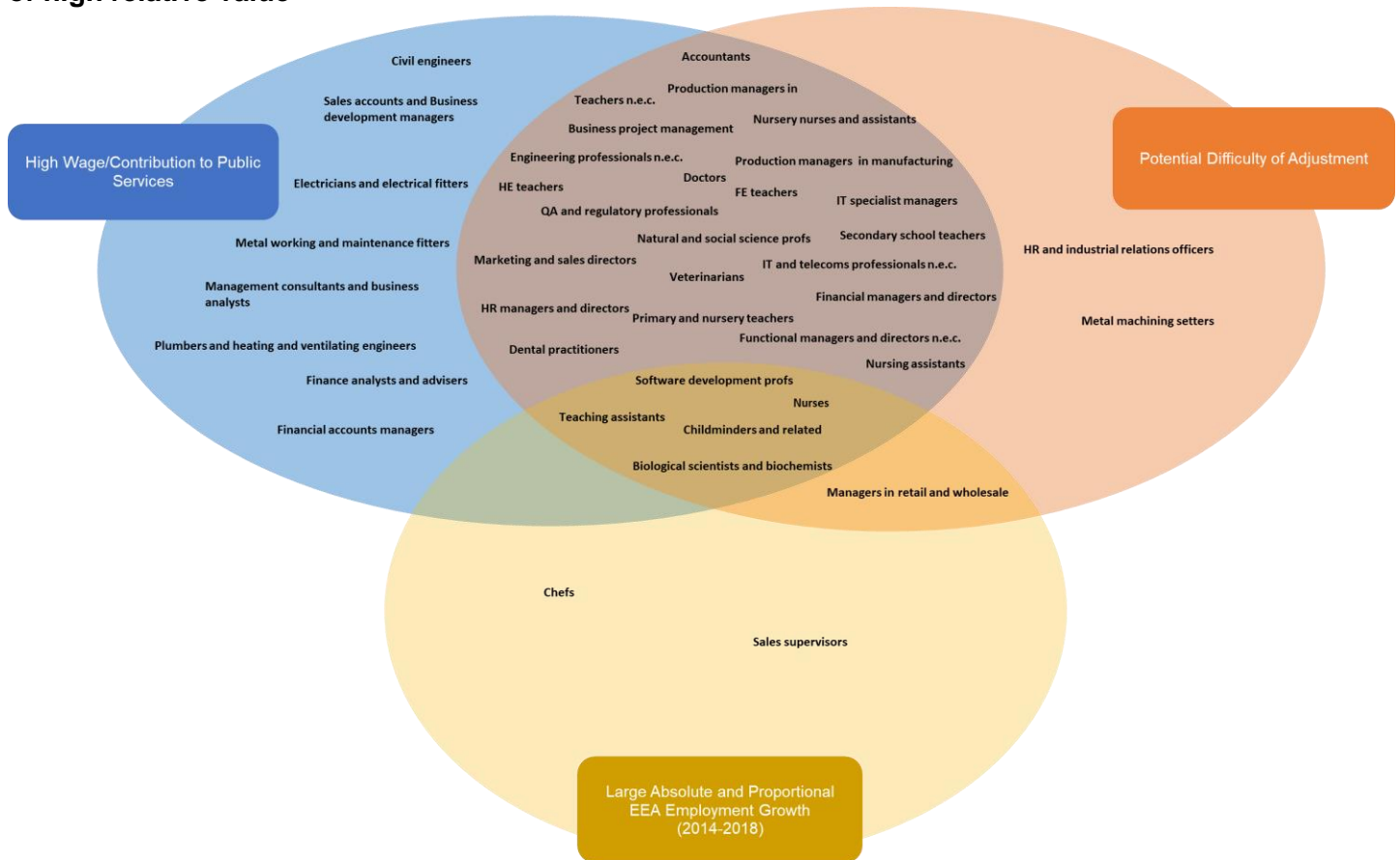
165. There are 249 occupations with a skill level of RQF3 and above. However, only 65 have Annual Population Survey (2016-18) data with sufficient sample size to reliably estimate EEA citizen employees. Of the 65 skilled occupations where EEA citizens are found to work, 31 may face potential labour market adjustment difficulties, based on a combination of the factors discussed above. Occupations which may face adjustment issues can be categorised into three broad categories:

- High wage and public services contribution and hard to adjust – 23 occupations were identified as potentially facing adjustment difficulties and being of high economic and public value (either due to their contribution to key public services or high relative wages). However, analysis indicates they have not been heavily reliant on long-term EEA migrant labour in recent years. Examples include doctors, teachers, vets and nursing assistants.
- Heavy reliance on long-term EEA migrant labour and hard to adjust – One occupation (managers in retail and wholesale) was identified as potentially facing adjustment difficulty and as heavily reliant on long-term EEA migrant labour in recent years.
- High wage and public-sector contribution, heavy reliance on long-term EEA migrant labour and hard to adjust – Five occupations were identified as having high economic or public value, reliant on long-term EEA migrant labour and potentially facing adjustment difficulties.

⁸⁷ This is just one measure of economic and public value. It is judged those occupations with high public value-based on whether they contribute directly to key public services across five sectors. There are, however, other sectors with positive spillovers or important to fulfilling government objectives.

Examples include nurses, teaching assistants and childminders.

Figure 10: High and medium-skilled occupations facing labour market adjustment difficulties and of high relative value⁸⁸



RQF3+ occupations illustrated rank highly for the relevant criteria

166. Additionally, as there is no dedicated route for self-employed workers in the future system, sectors which are heavily reliant on self-employed labour may face further adjustment costs if they wish to continue to employ skilled non-UK self-employed labour in future. Sectors such as agriculture, construction, building services and creative industries and broadcasting all identify as being heavily reliant on self-employed workers⁸⁹. Some of the adjustment options available to these sectors are outlined in paragraphs 161 and 162, alternatively firms may choose to change employment practises – employing previously self-employed EEA workers as an employee thus requiring a sponsorship licence.

167. So far, the analysis has considered occupations at or above the RQF3 skill level. However, it is estimated around 50 per cent⁹⁰ of resident EEA migrants work within occupations with a skill level below RQF3. Long-term inflows to these occupations would not be eligible for the Skilled Worker route. Using the same three indicators as above, lower skilled occupations of particular importance have been identified, either due to recent reliance on long-term EEA employment, high wages or contributions to public services and those which may face adjustment difficulties.

168. Of the 47 (out of 115) low skilled occupations where EEA citizens in employment could be reliably estimated, 10 occupations have been identified as potentially facing difficulties adjusting to policy

⁸⁸ Occupations are presented at a 4-digit standard occupation classification (SOC) level. Further details are provided within the Technical Annex.

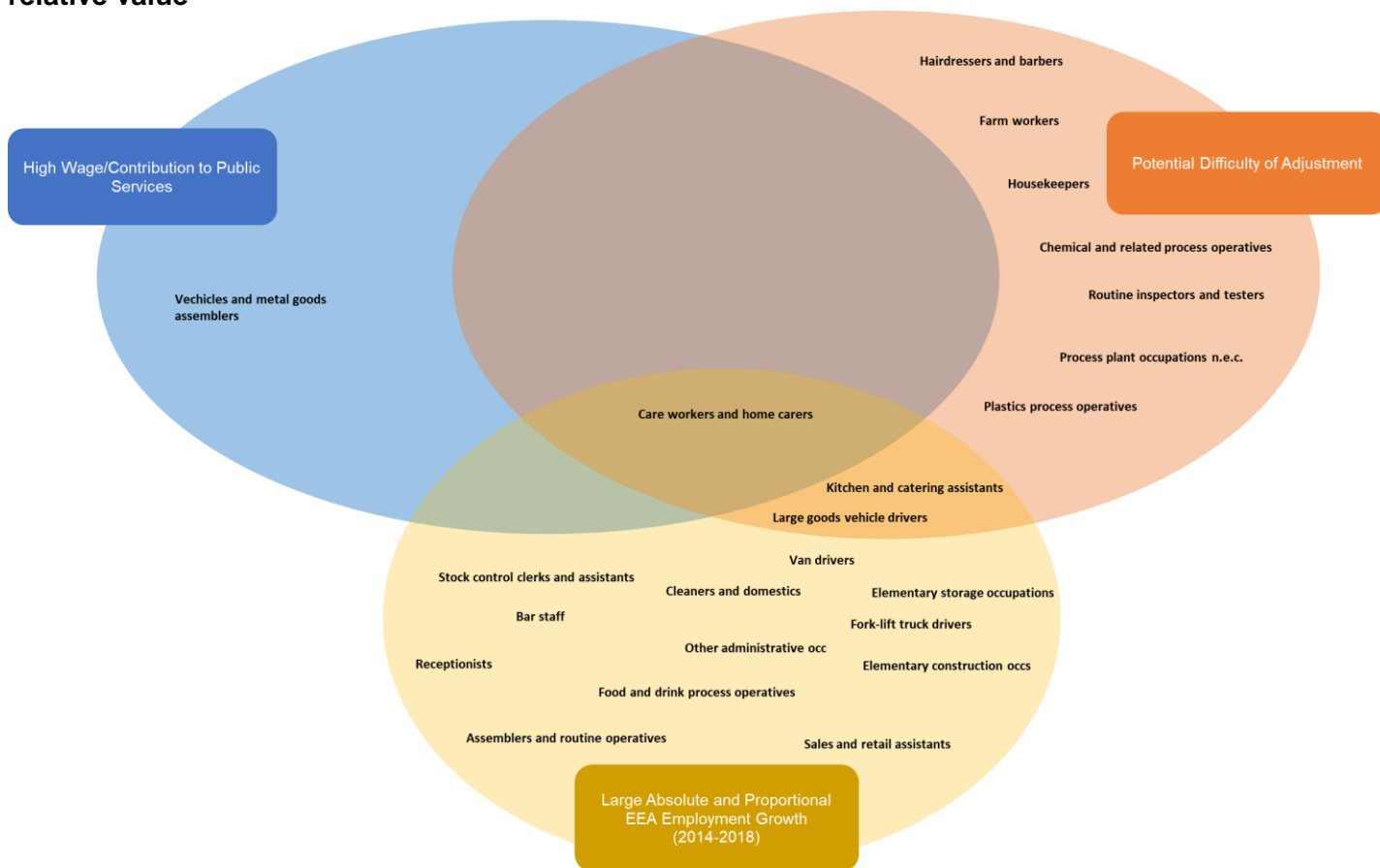
⁸⁹ Internal Home Office analysis of Annual population survey 2017-19, sectors identified as having high proportion of self-employed workers out of total workers in the sector.

⁹⁰ Home Office analysis of ONS Annual Population Survey 2016-18.

changes. Of these 10 occupations, care workers and home carers were the only one identified as having a high public-sector contribution, heavy reliance on long-term EEA migrant labour and potentially facing difficulty in adjusting. Two occupations (kitchen and catering assistants and large goods vehicle drivers) were identified as being particularly reliant on long-term EEA labour over recent years and potentially facing adjustment difficulties.

169. In its January 2020 report the MAC highlighted that continued reliance on migrant labour may not address underlying issues in sectors and said that addressing those issues may help sectors adapt to change. For example, they state for social care “*the root cause of the problems there is the failure to offer competitive terms and conditions*”⁹¹.

Figure 11: Lower skilled occupations facing labour market adjustment difficulties and of high relative value



Below RQF3 occupations illustrated rank highly for the relevant criteria

170. The impact of Covid-19 has not been considered in the analysis of these potential adjustment metrics. The pandemic has caused unprecedented uncertainty for the economy and had a large impact on the UK and world-wide labour market. Given the increase in UK unemployment, domestic labour is likely to be more available to meet potential labour demand created by the new requirements of the Skilled Worker route.

171. The labour market has thus changed due to Covid-19, as a result, the analysis illustrative above may not be an accurate representation of future labour market.

⁹¹ Migration Advisory Committee January 2020 “A Points-Based System and Salary Thresholds for Immigration” pg. 10 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/860669/PBS_and_Salary_Thresholds_Report_MAC.pdf.

E.8 BENEFITS

Increase in fee revenue

172. The increase in numbers of migrants using the migration system is expected to generate an increase in fee revenue (see the Technical Annex for assumed fee levels). **The increase in revenue is estimated to be between £0.8 and £1.3 billion with a central estimate of £1.1 billion (PV, 2020/21 prices)** over the 10-year appraisal period.
173. Of this, £0.5 billion (PV, 2020/21 prices) is generated from additional non-EEA applications and £0.5 billion (PV, 2020/21 prices) is generated from new EEA applications over the 10-year appraisal period.

Increase in IHS revenue

174. The increase in numbers of migrants using the migration system is expected to generate an increase in IHS revenue. **The increase revenue is estimated to be between £1.1 and £1.9 billion with a central estimate of £1.5 billion (PV, 2020/21 prices) over the 10-year appraisal period.**
175. Of this, £0.7 billion (PV, 2020/21 prices) is generated from additional non-EEA applications and £0.8 billion (PV, 2020/21 prices) is generated from new EEA applications over the 10-year appraisal period.

Benefit to employers of removing the RLMT and suspending the Cap

176. Currently, employers must undertake a Resident Labour Market Test (RLMT) by advertising job vacancies in the UK for 28 days before they can offer them to non-EEA citizens under a number of visa categories⁹². Under the new Skilled Worker route, the RLMT will be removed and the cap on Tier 2 General visas (the current route for skilled workers) will also be suspended. Both these changes will lead to a reduction in the end-to-end process of sponsoring skilled workers by up to eight weeks.
177. Removing the RLMT is also expected to reduce the administrative burden for current sponsors planning to employ Tier 2 General migrants in future under the Skilled Worker route. It is still expected that employers will advertise vacancies within the RLMT as part of the recruitment process but the requirement to provide evidence of this to the Home Office will be removed. Whilst difficult to quantify the monetary impact of this administrative burden on all employers, one study of Russell Group universities estimates removal of the RLMT could save universities £9.84 per RLMT performed to sponsor a non-EEA Tier 2 migrant⁹³. Applying this saving to baseline projected Tier 2 General migrants results in **an estimated saving for sponsors of between £2.5 and £3.6 million with a central estimate of £3.1 million** (PV, 2020/21 prices) over the 10-year appraisal period. This estimate only considers a subset of current Tier 2 employers and may not be representative of the administrative burden related to the RLMT for all Tier 2 employers.

⁹² <https://www.gov.uk/uk-visa-sponsorship-employers/job-suitability>

⁹³ EY March 2019 "Challenges and costs of the UK immigration system for Russell Group universities" pg. 17.

<https://russellgroup.ac.uk/media/5750/challenges-and-costs-of-the-uk-immigration-system-for-russell-group-universities.pdf>.

E.8.1 INDIRECT BENEFITS

Benefit to Exchequer

178. **The net increase in the volume of non-EEA workers is estimated to result in a fiscal benefit in terms of increased tax revenue of between £8.1 and £11.4 billion, with a central estimate of £9.7 billion** (PV, 2020/21 prices). The Technical Annex provides further details on the methodology used to apportion fiscal revenue components.

Reduction in public expenditure

179. The net reduction in the volume of EEA long-term work-related migrants entering the UK as a result of not being eligible for the Skilled Worker route or Global Talent route and the elasticity effect of imposing visa costs is expected to result in a reduction in public expenditure on public services as fewer people would use such services. **The savings in expenditure on public services are estimated to be in the range of £9.5 to £17.7 billion, with a central fiscal expenditure saving estimate of £13.6 billion** (PV, 2020/21 prices) over the 10-year appraisal period. The Technical Annex provides further details on the methodology and assumptions used to estimate public expenditure costs per head.

Access to increased non-EEA medium skilled labour

180. The lowering of the skills threshold is likely to offer employers' increased access to non-EEA skilled labour while putting all migrants on an equal footing. As the UK leaves the EU and ends free movement, lowering the skills thresholds means that British businesses will be able to employ skilled workers from anywhere in the world, giving businesses a far wider pool of talent from which to recruit and offering some protection from shortages of skilled labour.

181. The lowering of the skills threshold is estimated to result in an increase of between 10,000 and 20,000⁹⁴ additional non-EEA medium-skilled workers annually (steady state figures).

E.9 TRANSFERS

Immigration Skills Charge

182. The ISC was implemented in April 2017 and is designed to ensure that employers invest in skills training for the domestic workforce. The obligation to pay the ISC sits with the migrant's sponsor, an employer operating in the UK. The ISC is collected by the Home Office as part of the visa sponsorship process and the income is transferred by the Home Office to HM Treasury Consolidated Fund, less an amount to cover collection and administrative costs. The population percentages underlying the Barnett formula are used by HM Treasury to determine the split of funding between the Department for Education and each of the devolved administrations.

⁹⁴ Rounded to the nearest 5,000.

183. As a consequence of the increase in the volume of non-EEA applicants and extending the ISC to the EEA cohort, there is expected to be an increase in the number of applications which fall within the scope of the ISC. The increase in the ISC payable by UK operating employers is regarded as a transfer payment between UK employers and the UK Government; this is because the increase in ISC payable represents an increase in revenue for the Government and a cost to UK operating employers. Transfer payments may change income or wealth distribution of the resident population, but do not give rise to direct economic costs and benefits, thus they are not counted in the NPSV of the option considered. Keeping all assumptions at their central scenario level, the estimated cost to employers and therefore the increase in government revenue associated with the increase in the surcharge is **estimated to be between £1.3 and £2.3 billion with a central estimate of £1.8 billion** (10-year PV, 2020/21 prices).

184. Of this, **between £0.7 and £1.4 billion with a central estimate of £1.1 billion** is considered as a direct cost to business as it represents the cost of extending the requirement for to pay the ISC for new EEA migrants, while between £0.6 billion and £0.8 billion (central estimates of £0.7 billion) is considered as an indirect cost to business from additional non-EEA migrants.

Employer Sponsorship Fees

185. Paragraphs 88 to 94 set out estimates of changes to the number of organisations applying for a sponsor licence to recruit migrant skilled workers. The cost of an application for a sponsor license are set at £1,476, with a discounted rate of £536 for small and micro businesses. As set out in paragraphs 88 to 94 , in the central case, the analysis assumes that no new sponsor licenses are granted to large organisations, and are instead split between medium, small and micro businesses. The cost of new sponsor licenses is therefore weighted using the distribution of medium, small and micro businesses set out in Table 11 below, excluding large organisations. In the central case, this is estimated to be £845.

Table 11: Breakdown of unique sponsors with used CoS – average across 2016-2018, (£ and %)⁹⁵

	Sponsor Licence Fee (£)	Proportion including Large Organisations (%)	Proportion excluding Large Organisations (%)
Large organisation (251 + employees)	1,476	30	-
Medium organisation (51 - 250 employees)	1,476	23	33
Small organisation (10 - 50 employees)	536	21	30
Micro organisation (0 - 9 employees)	536	26	36

Source: Home Office internal analysis, 2020

186. The increase in sponsorship license applications is estimated to generate between £36 million and £63 million, with a central estimate of £49 million (10-year PV, 2020/21 prices) for the Home Office and represents an equivalent cost for businesses. **Of this, between £19 and £39 million, with a central estimate of £29 million is considered as a direct cost to business as it represents the cost of extending the requirement for a sponsorship license to sponsor EEA migrants**, while £17 to £23 million (with a central of £20 million) is considered as an indirect cost to business from sponsoring additional non-EEA migrants.

187. In addition to the cost of a sponsor license, businesses must pay a further £199 to obtain a CoS for each non-EEA migrant⁹⁶ they wish to sponsor for a Skilled Worker visa. Migrants sponsored from

⁹⁵ HO internal analysis of Tier 2 (General) and Tier 2 (ICT) certificate of sponsorship usage by size of organisation.

⁹⁶ Excluding Turkey and North Macedonia

EEA counties, as signatories to the CESC, are not subject to the £199 fee, as set out in section E.4. As a consequence of the increase in the volume of non-EEA applicants there is expected to be an increase in the number of applications for CoS equal to the increase in applications for the visa products themselves. The increase in non-EEA CoS applications is estimated to generate between £42 and £59 million, with a central estimate of £51 million (10-year PV, 2020/21 prices) for the Home Office and represents an equivalent indirect cost for businesses.

188. Both the sponsor licence and CoS products, including those for EEA nationals, incur administrative costs to the Home Office equal to, or greater than, the cost imposed on businesses. The cost to the Home Office associated with the above impacts is included as part of the ongoing costs to the Home Office in section E.7.2.

E.10 SUMMARY OF RESULTS

E.10.1 Net Present Social Value (NPSV)

189. **Under central assumptions, the estimated total costs and total benefits are £28.5 and £25.9 billion respectively, resulting in an estimated net present social cost of £2.6 billion** (10-year PV, 2020/21 prices). The main driver of the costs of the policy is the reduction in long-term EEA workers which outweighs the increase in non-EEA nationals due to changes in skill and salary thresholds. On average the EEA migrants restricted by the policy are assumed to provide a positive fiscal contribution to the UK. EEA migrants are often young with few dependants they tend to consume less in terms of public services and have a lower fiscal cost/greater fiscal benefit than the resident overall migrant population. For example, analysis conducted by both the MAC and the Home Office estimated that an EEA national aged around 20 with no dependants would only need to earn between £10,000 and £15,000 to provide a positive fiscal contribution⁹⁷. This analysis is very uncertain, as predicting both future migration and the impact of policy changes relies on a range of assumptions. Due to lack of evidence on which to base estimates the analysis does not account for the impact of any employer behavioural response in adjustment to this measure. The impacts of different types of behavioural responses are highly uncertain and will be highly firm specific. A purely illustrative scenario of the potential impacts of one type of response is discussed in section G.

190. **Changes to the assumptions on baseline volumes and price elasticity of demand for a visa, while keeping all other assumptions constant, produces a range around the net present social cost for the central case of £1.0 to £4.1 billion** (10-year PV, 2020/21 prices). Shown in

⁹⁷ Migration Advisory Committee (September 2017), 'EEA migration in the UK: Final report'; paragraph 4.14.

191. Table 12.

Table 12: Net present social value assessment, £ millions

Present Values – 10-year appraisal period (2020/21 prices)	Low baseline/High elasticity	Central baseline/ Central elasticity	High baseline/ Low Elasticity
Benefits			
Revenue raised from visa fees	800	1,100	1,300
Revenue raised from IHS	1,100	1,500	1,900
Reduction in admin costs to employers due to removal of RLMT	<£5m	<£5m	<£5m
Lower public service provision due to fewer EEA migrants	9,500	13,600	17,700
Increase in tax revenue due to more non-EEA migrants	8,100	9,700	11,400
Total benefits (PV)	19,500	25,900	32,300
Costs			
Home Office implementation costs	200	200	200
Home Office processing costs	300	400	600
Third party payment processing fee	<£50m	100	100
Admin burden to employers of EEA nationals	100	200	300
Familiarisation costs to all employers and immigration services	<£50m	<£50m	<£50m
Increase in public service provision due to more non-EEA migrants	2,900	3,500	4,100
Reduction in tax revenue due to fewer EEA migrants	16,800	24,000	31,200
Total costs (PV)	20,500	28,500	36,400
Net Present Social Value (NPSV)	-1000	-2,600	-4,100

Source, Home Office, own estimates, 2020. Rounded to nearest £100 million, or indicating potential scale of impact where below £50m.

E.10.2 Business Net Present Value (BNPV)

192. This section summarises the direct and indirect costs and benefits to business associated with the introduction of the Skilled Worker route, including those set out in the costs and benefits section above. Direct costs stem from the application of immigration rules to a new cohort of EEA migrants, indirect costs and benefits arise from the extension of the route to additional non-EEA workers.

193. Direct costs and benefits include:

- Familiarisation costs of staff time required to read new guidance - costs to new and existing sponsors are set out in paragraphs 119 to 132 above and costs to immigration services such as immigration lawyers and advisors as set out in paragraphs 133 to 140 above;
- Administration costs associated with sponsoring migrants who previously did not require sponsorship. Estimates of costs to employers per additional migrant sponsored are set out in paragraphs 148 to 150 above;
- Sponsorship license fees, CoS costs and the ISC for the EEA cohort are all direct costs that fall to businesses. These are discussed in section E.9 above and are defined as economic transfers, as such they are excluded from the NPV provided above but included in BNPV below;

- There is a **direct benefit** to existing sponsors from the removal of the Tier 2 cap and the RLMT – the benefit of which is discussed in paragraphs 176 to 177;
- The ending of free movement – but not the specific legislation subject to appraisal in this IA – may also lead to direct impacts on business from opening Tier 5 routes to EEA nationals. The IA for Immigration and Social Security Co-ordination (EU Withdrawal) Bill 2020⁹⁸ presented discussion of these impacts. It is unclear if opening Tier 5 routes to EEA citizens would lead to additional employers registering to become sponsors; but if employers did this, they would face time costs in fulfilling the administrative criteria needed for successful sponsor applications and use of the sponsorship system. Transactional costs may also increase for existing sponsors choosing to sponsor EEA citizens under Tier 5 routes.

194. Indirect costs and benefits are more uncertain, and difficult to quantify as they are associated with behavioural responses:

- Medium skilled long-term non-EEA citizen labour resulting from the loosening of the skill threshold will incur additional administration, sponsorship and ISC costs. These are also defined as economic transfers and are excluded from the NPSV above but have been quantified as part of the transfer payment estimates in section E.9. The additional labour will result in additional benefits to employers of increased output, which are expected to more than offset the costs from sponsorship fees and ISC requirements, as otherwise employers would not choose to hire medium-skilled non-EEA citizens through this route. The additional benefits are unquantified and as the quantified costs are expected to be offset by the benefits neither the costs and benefits are included in the BNPV.
- Employers of low skilled (below RQF 3) long-term EEA citizen labour may see adjustment costs resulting from restricting access to new flows of this labour. These potential costs are discussed, but not quantified, within paragraphs 156 to 171 above. As mentioned in paragraphs 161 to 162, there are multiple options for adjustment, with the viability of each option being largely firm-specific. The ability to collect or proxy this firm level data is limited, meaning no estimates of the relative costs of the alternatives to migrant labour, and which choices firms may make have been possible. Whilst the analysis set out within

⁹⁸ Home Office (2020) Impact Assessment HO0346 “Impact Assessment for Immigration and Social Security Co-ordination (EU Withdrawal) Bill 2020”. Please refer to paragraph 154 of that document.
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/885682/2020-05-18_IA_ImmSSC_Bill_v21_with_Signature.pdf.

- Figure 5 and Figure 6 above illustrates the occupations and sectors with highest estimated shares of long-term EEA worker inflows affected by skills and salary thresholds within the Skilled Worker route, the data to enable more dynamic estimates of business response in this area has not been identified. However, an illustrative, highly uncertain, scenario for potential response of these employers is included in Section G. It highlights illustrative additional costs to employers should an alternative to long-term EEA inflows cost 5% or 10% more than the estimated average wage for occupations below RQF3 level. This is purely a 'what if', not a representation of 'likely' outcomes and the extent to which firms may face increased costs is highly uncertain. Such costs, were they to occur, would be assumed to be transitional with the expectation that the economy adjusts in the long run, and businesses may only be expected to increase costs where businesses saw the benefits of these costs being at least equal to the additional costs.
- Employers at RQF 3+ level long-term EEA citizen labour may also see adjustment costs where other eligibility criteria (e.g. salary thresholds) restrict access to new flows of this labour. Whilst information on potential business response to estimate dynamic impacts is limited by similar factors as for below RQF 3 level, an illustrative scenario for the potential scale of cost related to one type of adjustment (wage adjustments where eligibility criteria for salary thresholds restrict entry) is provided in the sensitivity section below. The scenario presented is purely illustrative and may not provide indication of 'likely' response, and only 'what if' employers acted as assumed in the scenario. The sensitivity section illustrates whilst alternative choices to migrant labour (or increasing the cost of migrant labour) may provide additional costs to business, these choices would only be made where businesses saw the benefits of these costs being at least equal to the additional costs.
- There is an indirect impact on business due to the third-party payment processing fees paid by the Home Office (discussed in section E.9). As the business will incur costs associated with processing the payments themselves, this estimated to offset the additional revenue and so is excluded from the BNPV.

195. Quantified costs and benefits are brought together in Table 13. **The business net present cost is estimated to be between £0.9 and £1.8 billion, with a central estimate of around £1.4 billion** (10-year PV, 2020/21 prices) over the appraisal period.

Table 13 : Business net present value assessment, £ millions

Present Values – 10-year appraisal period (2020/21 prices)	Low baseline/High elasticity	Central baseline/Central elasticity	High baseline/Low Elasticity
Benefits			
Reduction in admin costs to employers due to removal of RLMT (Direct)	<£5m	<£5m	<£5m
Total benefits (PV)	<5m	<5m	<5m
Costs			
Admin burden to EEA employers (Direct)	100	200	300
Familiarisation costs to all employers and immigration services (Direct)	<£50m	<£50m	<£50m
EEA ISC (Direct - Transfer)	700	1,100	1,400
EEA CoS costs (Direct - Transfer)	0	0	0
EEA sponsor license costs (Direct - Transfer)	<£50m	<£50m	<£50m
Total costs (PV)	900	1,400	1,800
Business Net Present Value (BNPV)	-900	-1,400	-1,800

Source, Home Office, own estimates, 2020. Rounded to nearest £100 million, or indicating potential scale of impact where below £50m.

E.10.3 Equivalent Annual Net Direct Cost to Business (EANDCB)

196. The **EANDCB** lies between the range of **£18 and £35 million** with a central estimate of **£26 million**, based on the direct costs and benefits outlined in Table 13 – excluding transfers. This is based on the following direct benefit and cost components:

- **Direct cost: Admin burden to employers** – Outlined in paragraphs 148 to 150, This is estimated by multiplying the admin unit cost of £1018 by the estimated additional inflow of EEA main applicants to the Skilled Worker route (see Table 4),
- **Direct cost: Familiarisation costs to employers and immigration services** – Outlined in paragraphs 119 through 140. For sponsors, this approach uses readingsoft.com to estimate the length of time it takes to read the relevant guidance, ASHE data on wage costs, uplift to account for non-wage costs to estimate the cost per employee to read guidance (estimated at £97). This is applied on a per sponsor basis (for both existing and additional sponsors), using a weighted average of HR employees by sponsor size. For immigration lawyers and advisors, this approach uses readingsoft.com to estimate the length of time it takes to read the relevant guidance and immigration rules, and using ASHE data and National Careers Services data to estimate costs of time taken to read the guidance and rules, which is applied to different scenarios for volumes of lawyers required to familiarise (resulting from uncertainty in the volume of lawyers per firm who may be working on immigration and need to familiarise) and to the published number of regulated immigration advisors. It is noted that data limitations mean estimates of familiarisation and dissemination of information are limited to reading rules and/or guidance only,
- **Direct benefit: Reduction in Admin burden to employers following the removal of the RLMT** - Outlined in paragraphs 176 to 177. This is estimated by multiplying the estimated saving per migrant for the removal of the RLMT of £9.84 by the baseline projected volumes of Tier 2 General migrants.

E.11 Impact on small and micro-businesses

197. In 2019 there were around 1.4 million employers in the UK private sector⁹⁹. Of these, 82 per cent were micro employers with between one and nine employees and 15 per cent were small employers with between 10 and 49 employees)¹⁰⁰ Some of these businesses may be affected by these policy changes.

198. The impact on small and micro businesses will depend on how many of these organisations will need to comply with sponsorship requirements in the future. Under the current sponsorship system, there are mitigations in place for small and micro-businesses. Licence fees are charged at a reduced rate for small sponsors¹⁰¹. A business is considered small if annual turnover is £10.2 million or less or it has fewer than 50 employees, amongst other factors¹⁰². The licence fee for small sponsors is £536 when hiring an employee on a Tier 2 visa, compared to £1,476 for a medium or large sponsor.

199. As set out in the employer sponsorship fees section above, currently, the proportion of unique, active sponsors which are non-large organisations is around 70 per cent - of which around two thirds are

⁹⁹ Business population estimates 2018. Data rounded to the nearest 100,000.

<https://www.gov.uk/government/statistics/business-population-estimates-2018>

¹⁰⁰ Business population estimates 2018. <https://www.gov.uk/government/statistics/business-population-estimates-2018>.

¹⁰¹ <https://www.gov.uk/uk-visa-sponsorship-employers/apply-for-your-licence>

¹⁰² Where an organisation is subject to the small companies regime as set out in paragraphs 381 to 384 of the Companies Act 2006

micro and small organisations and one third medium.¹⁰³ If this distribution was to hold constant in future it could mean that two thirds of the sponsor licence costs for new sponsors could fall to micro and small employers. Furthermore, although around 70% of sponsors are non-large firms, only around 20 per cent of total CoS used are used by non-large organisations – of which around half are micro and small organisations and half medium¹⁰⁴. Assuming that this distribution holds constant for future inflows, would imply around 10 per cent of the CoS charge and administrative costs per applicant could be incurred by micro and small businesses.

200. However, these are highly uncertain estimates, they assume the current organisation size composition of licence holders (and CoS usage) remains the same and by assuming all additional sponsors are medium, small or micro employers it could overestimate the true number of new sponsors. Ultimately, the number of new sponsors in the future system will depend on behavioural responses of employers which will be highly firm specific.
201. As described in the administrative costs for sponsors section above, an administrative cost per applicant of £1018 is assumed. External literature, however, suggests that there could be a difference in internal staffing costs for a business to support a Tier 2 sponsorship application based on how frequently they use the sponsorship system¹⁰⁵. Whilst non-large organisations tend to recruit fewer migrants and would therefore have a lower overall administrative burden, this would suggest that they could have higher average staffing costs per migrant recruited.
202. Discounts on licence and COS fees as well as the Immigration Skill Charge (ISC) will continue to apply to small and micro businesses as described above. Some, albeit lower, costs will still need to be incurred in order to protect resident labour. The Migration Advisory Committee has stated that salary thresholds and the ISC are the best way to protect resident labour by increasing the cost of recruitment. Therefore, both should be applied universally.

Potential response of small and micro businesses

203. With regards to how small and micro businesses may respond to the immigration policy impact on labour supply, findings from the Federation of Small Businesses (FSB)¹⁰⁶ indicated some firms would adjust using the following processes:
- 17 per cent of small firms said they would employ skilled staff to replace EEA citizens with UK workers.
 - 19 per cent stated they would continue to employ EEA citizens and thus engage with Immigration Rules and absorb any additional costs.
 - 6 per cent of small businesses who employ staff in roles above RQF3 would invest in machinery and/or information technology and/or automate processes previously completed by their workforce, if they struggle to recruit EEA workers after the end of the transition period.
 - 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 of the transition period.

¹⁰³ HO internal analysis of Tier 2 (General) and Tier 2 (ICT) certificate of sponsorship usage by size of organisation across 2016-2018.

¹⁰⁴ HO internal analysis of Tier 2 (General) and Tier 2 (ICT) certificate of sponsorship usage by size of organisation across 2016-2018.

¹⁰⁵ EY March 2019 "Challenges and costs of the UK immigration system for Russell Group universities".

<https://russellgroup.ac.uk/media/5750/challenges-and-costs-of-the-uk-immigration-system-for-russell-group-universities.pdf>

¹⁰⁶ Federation of Small Businesses February 2020 "A world of talent building an immigration system that works for small businesses" pg. 8 <https://www.fsb.org.uk/static/b21f3889-24ba-4dee-93d9fa6136d31a14/A-World-of-Talent-Building-an-immigration-system-that-works-for-small-businesses.pdf>

Mitigation measures to reduce the impact on SMBs

204. The Home Office will fundamentally reform its system of assurance, streamlining and digitising the IT platforms and the guidance which supports it. Sponsorship is vital for an effective immigration system – creating a link between employer and employee. Employers take responsibility and ensure immigration compliance for those migrants they choose to employ. Whilst the current system works well for large businesses (for which it was designed), it is recognised there is a perception the sponsorship system can be complex, costly and difficult to use for small businesses and charities. The reforms will make the sponsorship process simpler both for large and for small organisations and will aim to significantly reduce the processing times for the majority of applications. The Home Office will also make it easier for third party HR firms and accountants that often undertake HR functions on behalf of small business to administer their sponsor accounts.
205. The Government is committed to reforming the system of sponsoring migrants to speed up and simplify the process of bringing over a migrant. The intention is to reduce the time taken to bring over a migrant, which can currently take up to 20 weeks, to two to three weeks in the considerable majority of cases.
206. The current sponsorship system is cumbersome to use requiring employers and migrants to take a number of steps that can only happen sequentially. The Government will streamline this to reduce the number of steps and to require information only to be provided once. The Government will update the systems used to remove outmoded requirements (such as that payments can only be made by credit card) and seek to reduce the record keeping burden placed on employers by re-using data the business have already provided other parts of Government with such as HMRC and Companies House.
207. The suspension of the cap on the number of skilled migrant workers – which requires applications to be held to the end of the month to see whether the cap is oversubscribed and a prioritisation exercise required – and the RLMT – which requires jobs to be advertised in the UK for 28 days before a migrant can be recruited – will contribute substantially to reducing the time taken to bring over a migrant.
208. The Home Office is planning to support small sponsors who will need to familiarise themselves with the system in the future through its communication strategy on the future points-based immigration system. A comprehensive programme of communications and engagement is already underway to raise awareness of the Points Based Immigration System, ensuring those affected by the changes are fully aware of what it means for them and understand how the system will operate. On 9 April, the Home Office published an introduction for employers to the new points-based immigration system. The document contains a section on how to become a sponsor within the immigration system which is likely to be particularly relevant to small (2-50 employees) and medium (51-250 employees) enterprises, which may have previously had little interaction with the immigration system due to reliance on UK and EU labour.
209. The Home Office runs advisory groups which focus on employers, education, crossing the border, national interests and vulnerability, with each group designed to bring together stakeholders from across the UK, including civil society groups. Additionally, the Home Office will be forming a new advisory group in the near future to support Small and Medium Enterprises. As noted above, such companies may have had limited prior exposure to the immigration system and are likely to manage their HR tasks in-house so their understanding is vital. Engagement will continue via multiple methods across the whole of the UK and focus upon those sectors most impacted as well as continuing to work in collaboration with other government departments to utilise existing channels of

engagement with stakeholders. This engagement will also allow users to preview and give feedback on new parts of the system that will be introduced in later tranches.

210. The engagement programme will be supported by a traditional communications campaign to ensure all audiences who are impacted are told about the changes and what they need to do to adapt to the new system. Guidance for employers has already been prepared and can be downloaded on gov.uk; further content will be produced to help audiences understand aspects of the system. All content will be distributed through appropriate engagement groups detailed above; and through OGDs such as BEIS, as well as being available online to download where appropriate. The Government is also reviewing additional channels to use to reach all audiences, in response to the current focus on Covid-19.
211. The Home Office is also investing into a significant marketing campaign to be delivered towards the end of the year, with a specific focus on UK employers and EEA citizens; as well as ensuring that talented individuals all over the world know that the UK welcomes them. This campaign will be insight-led to enable us to tailor the communications approach to the channels, messages and devices that work for businesses of different sizes, sector and approach to recruitment. It is likely to be geared towards SMEs and micro-businesses who have not previously had to engage with the immigration system and need to understand the new system.

E.12 Impacts on Charitable Organisations

212. In 2018, there were 168,186 charities registered with the Charity Commission for England and Wales¹⁰⁷. Charitable organisations may be affected by changes – the impacts outlined in paragraphs 193 and 194 above could include impacts to charitable organisations.
213. Charities who currently use the Tier 2 sponsorship system to hire skilled non-EEA migrants, and would benefit from the removal of the Resident Labour Market Test and suspension of the cap, and face the transitional familiarisation costs for existing sponsors set out in paragraphs 119 to 132 above.
214. Responses to the MAC Call for Evidence on EEA nationals in the UK labour market¹⁰⁸ suggests resident EEA nationals contribute relatively small shares of the resident labour force in the charity sector, and comparatively higher shares (relative to UK/Non-EEA counterparts) in higher skilled and higher earnings roles.
215. However, data has not been identified to enable estimates of how many charities may seek to hire:
- Long-term EEA citizen labour who may not meet eligibility criteria in the Skilled Worker route, who may see adjustment costs resulting from restricting access to new flows of this labour. As outlined in paragraph 194, the ability to estimate dynamic responses in how organisations may adjust are also limited.
 - Long-term EEA citizen labour who may meet eligibility criteria in the Skilled Worker route, and as such may face familiarisation and ongoing costs from use of the sponsorship system and associated fees with sponsorship and sponsoring a migrant worker.
 - Long-term non-EEA citizen labour at RQF 3-5 level where if charities chose to make use of the increased access to this labour, there may be the expectation that this labour provides

¹⁰⁷ <https://www.gov.uk/government/publications/charity-register-statistics/recent-charity-register-statistics-charity-commission>. Data for 30 September 2018.

¹⁰⁸ See responses from National Council for Voluntary Organisations and Charity Finance Group as published <https://www.gov.uk/government/publications/non-professional-services-call-for-evidence-responses>

benefits outweighing additional costs resulting from use of the sponsorship system and associated fees with sponsorship and sponsoring a migrant worker.

216. As such, robustly quantifying potential volumes of charities affected by policy changes and their potential responses has not proved possible. However, where charities are affected, similar mitigation factors as outlined for small and micro businesses will apply to charities. Charities will benefit from the reduced fee for a sponsor license, reforms to the sponsorship, and support and engagement as set out in paragraph 198 and paragraphs 204 to 211 above.
217. The Migration Advisory Committee have stated they do not recommend sector-based routes (with the exception of seasonal agriculture) for workers ineligible to qualify under what the MAC termed 'their recommended revised Tier 2 process'¹⁰⁹ - the Skilled Worker route. This, alongside the evidence gathered from advisory groups (set out below) and the mitigation factors outlined have meant exemptions have not been implemented for charitable organisations.
218. A number of charities take part in our advisory groups for the new system. These groups have given extensive feedback over the last two years and helped shape the current policies. We will be working with the Charity Commission for England & Wales, the Official Scottish Charity Regulator and the Charity Commission for Northern Ireland to ensure readiness for the new system in the sector and monitor its effectiveness. As well as maintaining existing discounts for licence fees, Certificate of Sponsorship fees and the Immigration Skills Charge we have also introduced new measures which will benefit a number of charities in particular sectors. Those in the healthcare sector such as Macmillan Cancer Support and other support charities who provide services to the National Health Service will benefit from the Health and Care Visa giving them reduced visa fees, faster processing times and additional support. For charities in the education sector we have agreed to introduce the Graduate route which will attract more students giving them a clear pathway from study through to employment in the graduate route, into the Skilled Worker route and subsequently settlement. A number of charities have raised the issue of the settlement threshold for Skilled Workers which we have amended to match going rates and the general salary threshold.

F. Proportionality

219. The approach taken in this IA is considered proportionate given the wide-ranging implications the ending of free movement may have on the UK, but there is still considerable uncertainty around estimates, which is discussed throughout. The best available data has been used along with sensible and proportionate assumption, some of which are taken from the published literature. A considerable effort has been devoted to this analysis but no more than that required given the scale of costs and benefits involved. In areas where there is a high degree of uncertainty, such around behavioural responses the analysis has been tested with sensitivity analysis and illustrative scenarios to provide order of magnitude assessments of impact. Projected migrations volumes are also highly uncertain, ranges have therefore been provided around central estimates. Analysis has been subject to proportionate analytical quality assurance. The resources devoted to the analysis is proportionate to the complexity of the analysis and the associated risks.

G. Risks

¹⁰⁹ Migration Advisory Committee (2018) "EEA Migration in the UK: Final Report"

220. The following main risks have been identified with the analysis presented in this IA:

- Any analysis of the impacts of changes in migration are highly uncertain. All estimates should be seen as indicative. Projecting migration flows is challenging due to the wide range of drivers which themselves can be inherently uncertain. Analysis should be considered in the context of the wider economy and the labour market being dynamic and continually adapting to an evolving environment.
- The impact in some areas is particularly uncertain, due to the reliance on behavioural assumptions. For example, the estimated response of EEA migrants to the imposition of visa fees and the increase in non-EEA workers as a result of a lowering of the skills threshold/changes to salary thresholds are highly uncertain, as both are dependent on the behaviour of migrants and employers.
- Modelling in-country volumes using the 2010-2013 cohort of migrants means future behaviour regarding extensions and settlement applications is based on those who came to the UK under different extension settlement rules which may not be representative of future behaviour. Changes to settlement policy occurred in April 2011 where the new criminality threshold and the requirement for applicants to pass the 'Life in the UK' test prior to gaining settlement were introduced. These changes may have had some influence on the 2010-2013 cohort of migrants' decision to settle.
- Modelling is not dynamic, meaning estimates do not attempt to quantify adjustment by firms to a change in labour supply. For example, it does not estimate the extent to which employers may invest in automation as a response to changes in access to migrant labour, nor does it estimate the number of UK workers who might replace lost migrant workers. The costs of these adjustment could be large but are highly uncertain and firm specific. Purely illustrative scenarios of the costs of potential employer response are provided below.

G.1 SENSITIVITY TESTS

Cost of potential employer responses (above RQF 3)

221. Labour markets are dynamic and as such will be expected to adjust to changes in labour supply. As mentioned in paragraphs 161, there are multiple options for adjustment, with the viability of each option being largely firm-specific.
222. This section provides purely illustrative scenarios to test the potential scale of costs to employers of one type of adjustment; if employers raise wages to meet the salary threshold. This scenario focuses on baseline inflows who meet the skill requirements but do not earn enough to meet salary thresholds, therefore are ineligible for the Skilled Worker route.
223. Analysis of the earnings distribution of these ineligible workers and costs related to hiring an EEA migrant under the Skilled Worker route suggests that in order to see any increase in the number of inflows meeting the salary thresholds, a relatively large percentage increase in employers' costs would be required. These costs to employers include not only the increase in wages needed to meet salary thresholds and the subsequent increase in non-wage costs such as pensions and national insurance contributions, but also fixed costs such as the ISC, sponsorship fees and administrative burdens, imposed on businesses. These costs represent a relatively large proportion of overall employment costs, including wages. For example, if it was assumed that employers were willing to increase employment costs by up to 10 per cent in order to employ an additional worker, it is estimated that this would affect an estimated 0.05 per cent of baseline inflows (this equates to fewer than 100 additional inflows per annum). This increase would not substantially change the proportion restricted by the skilled worker policy – it would remain around 70 per cent of baseline inflows. If employers were willing to raise employment costs by up to 20 percent to employer an additional

worker, around 3 per cent of baseline inflows could be affected (around 3,000 additional inflows per annum).

224. Fixed costs included within the analysis equate to around £3,500 per migrant:

- Costs of a sponsor licence – As set out in paragraph 185 each new sponsor is assumed to pay £845 to obtain a new sponsorship licence. Only around 20 per cent of inflows are assumed to be hired by a new sponsor (paragraphs 88 to 94) and each new sponsor is assumed to hire three migrants each (paragraphs 88 to 94). Therefore, a cost of £70 per migrant on average is applied. For each new sponsor a familiarisation cost, as set out in paragraph 124, is applied – adjusted to assumptions around the ratio of new sponsors and the number of migrants per sponsors - this is assumed to be around £12 on average per migrant employed.
- An administrative cost of £1018 is applied for all employers employing a migrant on the Skilled Worker route (paragraph 150).
- Some employers will also be required to pay the ISC – based on the current split of small or charitable and medium or large sponsors and adjusting for the proportion of sponsors required to pay the ISC (around 90%¹¹⁰) an average ISC of around £2,500 is applied.

225. This is purely illustrative. An employer's ability to respond by raising wages of migrants, and incurring additional costs, is likely to be highly firm specific and dependant on several factors (discussed in paragraph s 161). Those willing to raise migrant wages are more likely to be those reliant on EEA inflows, with limited available resident labour and the ability to absorb the additional costs. This scenario makes no assumption about which firms or sectors would be more or less likely to raise wages. It instead considers the impacts if all employers raise wages for EEA inflows closest to the salary threshold, given employers are more likely to respond in this way if the cost is smaller (i.e. there is a smaller increase in wage necessary to meet the threshold level).

226. There are a number of points to note:

- The scenario only focuses on one type of employer response and does not consider other options open to employers such as employing resident labour, which may be more viable.
- The assumption that employers engage in this specific behavioural response is more relevant in a tight labour market where employment rates are high and options for employers to hire resident labour (instead of migrant labour) are limited. However, this becomes less likely in the context of high unemployment rates and Covid-19.
- The benefits to employers of continuing to employ non-UK labour (at a higher price) are assumed to more than offset any costs from wage raises, as otherwise employers would not choose to employ labour. This will be more likely where employers can vary wages for individuals, but less realistic if higher wages feed into wage setting across an organisation.
- This approach assumes the same response for all employers, which is unlikely to be true as responses are highly firm-specific and dependent on a range of factors including firm characteristics, such as the firm's size and the industry it operates within.

227.

¹¹⁰ HO internal analysis of Tier 2 (General).

228. Table **14** below shows the impact of these behavioural response scenarios on the NPV and Table 15 shows the BNPV. A 10 per cent increase in wages has limited impact on both the NPV or BNPV – with the increase in costs to business being £4 million (PV 2020/21 prices) over the 10 years. Unsurprisingly a 20 per cent increase in wages has a more substantial impact and suggests that the overall impact of the policy in this hypothetical scenario may reduce the costs of the policy to the economy (due to a reduction in fiscal costs and increase fee revenue), although the relative costs may fall disproportionately on employers.

Table 14: NPSV under employer behavioural response (RQF 3+) illustrative scenario, £ millions

Present Values – 10-year appraisal period (2020/21 prices)	20% increase in wages	10% increase in wages	Central baseline/ Central elasticity
Benefits			
Revenue raised from Visa fees	1,100	1,100	1,100
Revenue raised from IHS	1,600	1,500	1,500
Reduction in admin costs to employers due to removal of RLMT	<£5m	<£5m	<£5m
Lower public service provision due to fewer EEA migrants	13,100	13,600	13,600
Increase in tax revenue due to more non-EEA migrants	9,700	9,700	9,700
Total benefits (PV)	25,600	25,900	25,900
Costs			
Home Office implementation costs	200	200	200
Home Office processing costs	500	400	400
3 rd party payment processing fee	100	100	100
Admin burden to EEA employers (Direct)	200	200	200
Familiarisation costs to all employers and immigration services (Direct)	<£50m	<£50m	<£50m
Increase in public service provision due to more non-EEA migrants	3,500	3,500	3,500
Reduction in tax revenue due to fewer EEA migrants	21,500	24,000	24,000
Employer wage costs	200	<£5m	0
Employer non-wage costs	<£50m	<£5m	0
Total costs (PV)	26,400	28,400	28,500
Net Present Social Value (NPSV)	-800	-2,500	-2,600

Source: Home Office, own estimates, 2020. Rounded to nearest £100 million, or indicating potential scale of impact where below £50m.

Table 15: BNPV under employer behavioural response (RQF 3+) illustrative scenario, £ millions

Present Values – 10-year appraisal period (2020/21 prices)	20% increase in wages	10% increase in wages	Central baseline/ Central elasticity
Benefits			
Reduction in admin costs to employers due to removal of RLMT	<£5m	<£5m	<£5m
Total benefits (PV)	<£5m	<£5m	<£5m
Costs			
Admin burden to EEA employers (Direct)	240	220	220
Familiarisation costs to all employers and immigration services (Direct)	<£50m	<£50m	<£50m
EEA Immigration Skill Charge (Direct - Transfer)	1,210	1,090	1,090
EEA CoS costs (Direct - Transfer)	0	0	0
EEA sponsor license costs (Direct - Transfer)	<£50m	<£50m	<£50m
Employer wage costs	180	<£5m	0
Employer non-wage costs	110	<£5m	0
Total costs (PV)	1,810	1,360	1,360
Business Net Present Value (BNPV)	-1,810	-1,360	-1,350

Source: Home Office, own estimates, 2020. Rounded to nearest £10 million, or indicating potential scale of impact where below £50m.

Cost of potential employer responses (below RQF 3)

229. Labour markets are dynamic and as such will be expected to adjust to changes in labour supply. As mentioned in paragraph 161, there are multiple options for adjustment, with the viability of each option being largely firm-specific.
230. This section provides purely illustrative scenarios to test the potential scale of costs to employers if restricted access to inflows of EEA migrant labour to low skilled (below RQF 3) led to additional costs for businesses to employ alternatives to that labour. This is a purely illustrative 'what if' scenario and is not providing insight into likely outcomes. As outlined in this IA, data limitations mean that it is challenging to develop robust analysis to understand various factors - such as what options firms may have, whether these options result in a higher cost than current outcomes, the relative costs of higher cost options, the timeline for implementing changes - as these all may vary on a firm-specific basis. Sourcing information on, or attempting to proxy, the aggregate of those firm specific variables across the economy is a complex task and has not proved possible to inform analysis in this IA.
231. In addition, in the long-run it would be expected that labour markets adjust to changes, and data is not available to assess how long the transition from short to long-run is. For simplicity, the analysis in this sensitivity assumes the short-run persists for the full 10-year appraisal period, but again there is uncertainty in both directions around this assumption.
232. The analysis presented here identifies design of analysis in this sensitivity is agnostic towards the actions firm take in response to changes in access to inflows of lower skilled migrant labour. The modelling framework¹¹¹ used to inform the change in volumes as a result of policy changes presented in Table 6 allows us to identify the change in volumes of long-term EEA worker inflows resulting from implementing the RQF 3+ skills threshold alone – based on the estimated occupation distribution from analysis of Annual Population Survey 2016-2018 data applied to modelled long-term EEA worker inflows to estimate the volume of relevant inflows which may not meet the RQF 3+ skills threshold.
233. Analysis for this sensitivity has considered illustrative potential changes in employer costs relating to long-term EEA worker inflows only (no adjustment for potential working dependents has been considered) - noting working dependants will still have access to work in any occupation. As a result, where working dependants no longer arrive in the UK (and potentially enter occupations below RQF 3) as a result of a reduction in long-term EEA worker inflows into occupations below RQF 3, the sensitivity may provide an underestimate of impacts. Given wider uncertainties in this analysis, for example in the prevalence and size of any additional costs employers may face and the length of the 'short-term', the simplicity in accounting only for long-term EEA worker inflows in the design of the analysis for this sensitivity is a proportionate limitation.
234. As set out in paragraph 161, there is large uncertainty not only as to how employers may respond to change but also as to where responses may come at a higher cost (noting the next best alternative to long-term EEA worker inflows may be less productive if at the same or lower cost, unless when hiring long-term EEA worker inflows over the next best alternative employers had choices between factors of production with only very marginal differences that may not affect wider outcomes). As set out in paragraph 194, data to identify or proxy firm responses has not been identified. Therefore a purely illustrative assumption has been made where firms choose a higher cost alternative to 50% of long-term EEA worker inflows in occupations below RQF 3. **This assumption is purely illustrative, and no evidence has been identified to provide an indication of likely outcomes.**

¹¹¹ Please refer to the Technical Annex for details

235. For simplicity, the analysis assumes the remaining 50 per cent of inflows are replaced by next best alternatives with only very marginal differences that may not affect wider outcomes. Where this is not the case there may be wider economic impacts, for example, in terms of fiscal impacts (perhaps by employing less productive labour at a lower cost and thereby affecting tax revenue) or productivity and output (for example if investing in capital to replace labour, the change in the firm's composition of factors of production could lead to changes in productivity across the firm) that are not accounted for in this sensitivity analysis. The volumes of 50 per cent of long-term EEA worker inflows to occupations below RQF 3 over the 10 year appraisal period and where the illustrative assumption is made that employers may see higher costs to replace this labour are set out in Table 16 below.

Table 16 - Out of country long-term EEA worker inflows to occupations below RQF3 assumed to be subject to increased replacement costs in illustrative sensitivity analysis for employer response - central estimates (000s)

	20/21	21/22	22/23	23/24	24/25	25/26-29/30
Change in EEA long-term work inflows	7	30	30	30	30	20

Figures over 10,000 rounded to nearest 10,000. Figures under 10,000 rounded to nearest 1,000

236. To identify current labour costs for the 50% of long-term EEA worker inflows to occupations below RQF 3 over the 10-year appraisal period and where the illustrative assumption is made that employers may see higher costs to replace this labour, analysis of Annual Population Survey (APS) 2016 – 2018 data and Annual Survey of Hours and Earnings (ASHE) 2019 data is used. APS data is used to identify the occupation distribution of resident EEA nationals employed in occupations below RQF 3 level, and ASHE data is used to identify the earnings distribution (i.e. the share in ASHE data of employees in each occupation earning in a distribution of salary bands). This data combines¹¹² to provide a weighted average of assumed employer wage spend on long-term EEA worker inflows to occupations below RQF 3 over the 10-year appraisal period, which is thereby assumed to be £17,400 per year. To account for non-wage costs, an uplift of 22 per cent¹¹³ is applied, meaning the full base cost of the relevant labour is assumed at £21,220 per year¹¹⁴.

237. This sensitivity analysis is agnostic about the action taken to replace the 50 per cent of long-term EEA worker inflows to occupations below RQF 3 over the 10-year appraisal period and where the illustrative assumption is made that employers may see higher costs to replace this labour. A blanket, illustrative, assumption is made that an increase of 5 per cent or 10 per cent on the weighted average cost of this labour is used to represent the cost of whichever higher cost alternative to this labour that employers choose to pursue. **These assumptions are purely illustrative, and no evidence has been identified to provide an indication of likely outcomes.**

238. As with the sensitivity analysis for employers above RQF 3+, employers are assumed to see the benefits of these actions more than offset any additional costs. However, tightness in the labour market can affect outcomes. In addition, as this sensitivity analysis is agnostic about the higher cost action taken to replace the relevant labour analysis, it only accounts for a highly illustrative and uncertain potential addition cost to employers. This means that wider impacts of the actions taken are not accounted for, for example if the action taken is in higher wages there may be fiscal impacts to account for, or if the action changes the mix of factors of production there may be wider productivity or compositional impacts to account for. Given the wider uncertainties where highly uncertain and

¹¹² Note, as with all analysis applying ASHE earnings distribution – which looks at a sample of all employees in the UK at a point in time – to a population defined in APS analysis an implicit assumption is made that the earnings of the wider population is reflective of the earnings of the subset of the population analysed in APS data. In this case this is implicitly assuming earnings distribution of long-term EEA worker inflows by occupations reflects the wider population of employees in the relevant occupations.

¹¹³ Based on Eurostat. Labour cost levels by NACE Rev. 2 activity 2000-2019. Last data update: 31/03/20.
https://ec.europa.eu/eurostat/web/products-datasets/-/lc_lci_lev

¹¹⁴ Data in 19/20 price year. For simplicity, and given broader uncertainties in this analysis, no assumption on inflation in line with real productivity growth as a proxy for real wage increase has been made.

illustrative assumptions have been made in this analysis – such as the uncertainty in firm level options available and cost of alternatives to EEA labour, firm choices in adapting to change, and timescales in adjusting to change - adding an additional highly uncertain level of complexity to this analysis to provide an additional illustrative element account for such factors is not appropriate. The mix of factors unaccounted for could also impact results in either direction.

239. Whilst the results of this sensitivity analysis are presented in Table 17 and

240. Table 18 below it is important to note the uncertainties in this analysis set out in the preceding paragraphs. This illustrative, ‘what if’ analysis is limited in the insight it offers, and cannot provide an indication of likely outcomes in business and wider impacts – with uncertainty in both directions in the elements presented in the tables below. Unsurprisingly, as the key assumption in this analysis is assuming highly uncertain and illustrative higher costs to employers in replacing relevant labour, the tables below illustrates this feeds through into the NSPV and BNPV accordingly.

Table 17 - NPSV under employer behavioural response (below RQF 3) illustrative scenario, £ millions

Present Values – 10-year appraisal period (2020/21 prices)	10% increase on base labour cost (below RQF3)	5% increase on base labour cost (below RQF3)	Central baseline/ base labour cost (below RQF3)
Benefits			
Revenue raised from Visa fees	1,100	1,100	1,100
Revenue raised from IHS	1,500	1,500	1,500
Reduction in admin costs to employers due to removal of RLMT	<£5m	<£5m	<£5m
Lower public service provision due to fewer EEA migrants	13,600	13,600	13,600
Increase in tax revenue due to more non-EEA migrants	9,700	9,700	9,700
Total benefits (PV)	25,900	25,900	25,900
Costs			
Home Office implementation costs	200	200	200
Home Office processing costs	400	400	400
3 rd party payment processing fee	100	100	100
Admin burden to EEA employers (Direct)	200	200	200
Familiarisation costs to all employers and immigration services (Direct)	<£50m	<£50m	<£50m
Increase in public service provision due to more non-EEA migrants	3,500	3,500	3,500
Reduction in tax revenue due to fewer EEA migrants	24,000	24,000	24,000
Illustrative potential replacement cost	500	200	0
Total costs (PV)	28,900	28,700	28,500
Net Present Social Value (NPSV)	-3,000	-2,800	-2,600

Source: Home Office, own estimates, 2020. Rounded to nearest £100 million, or indicating potential scale of impact where below £50m.

Table 18: BNPV under employer behavioural response (below RQF 3) illustrative scenario, £ millions

Present Values – 10-year appraisal period (2020/21 prices)	10% increase on base labour cost (below RQF3)	5% increase on base labour cost (below RQF3)	Central baseline/ base labour cost (below RQF3)
Benefits			
Reduction in admin costs to employers due to removal of RLMT	<£5m	<£5m	<£5m
Total benefits (PV)	<£5m	<£5m	<£5m
Costs			
Admin burden to EEA employers (Direct)	220	220	220
Familiarisation costs to all employers and immigration services (Direct)	<£50m	<£50m	<£50m
EEA Immigration Skill Charge (Direct - Transfer)	1,090	1,090	1,090
EEA CoS costs (Direct - Transfer)	0	0	0
EEA sponsor license costs (Direct - Transfer)	<£50m	<£50m	<£50m
Illustrative potential replacement cost	460	230	0
Total costs (PV)	1,810	1,590	1,360
Business Net Present Value (BNPV)	-1,810	-1,580	-1,350

Source: Home Office, own estimates, 2020. Rounded to nearest £10 million, or indicating potential scale of impact where below £50m.

Impact of Covid-19

241. The estimates outlined in section E do not account for the impact of Covid-19, which could have a sizeable impact on volumes at least at the start of the appraisal period, both by reducing or delaying employer recruitment plans and by reducing the demand for visas if migrants are less willing or able to migrate.
242. There will also be an impact on the composition of labour demand resulting from short term, and potential longer-term restructuring of the economy – with growth in some sectors and a decline in others. The balance of the labour market will change as a result – at least in the short term – with a looser labour market, and more opportunity for firms to recruit from the domestic labour market, rather than relying on migrant labour.
243. This section sets out the potential impact on results of different scenarios around demand for work visa between 2020/21 and 2022/23 resulting from Covid-19. This analysis does not take account of the impact of restructuring the economy but gives an indication of the impact that lower visa demand has on costs and benefits of the policy. These scenarios should not be seen as projections of what may happen to visa demand or in terms of economic recovery and no assessment of the probability of either scenario has been produced – they are purely illustrative.
- Low scenario – this assumes the overall visa demand is suppressed, Visa Application Centres slowly begin to reopen from July 2020 with travel restrictions. Recovery in terms of visa demand is slow with demand significantly below baseline by April 2023. Returning to baseline from 2023/24.
 - High scenario - A large proportion of visa demand is recovered from October 2020 when restrictions are expected to be eased and demand recovers to baseline levels by early 2022/23.

Table 19: Covid-19 scenario – percentage reduction in visa baseline demand 2020/21 to 2022/23

	2020/21	2021/22	2022/23
Low	-80%	-44%	-35%
High	-20%	-12%	-0.4%

Source: Home Office, own estimates, 2020.

244. Table 20 below illustrates the change in quantified costs and benefits as a result of the above scenarios around reduced demand for visas – they do not however capture the wider impacts of Covid-19 or assumptions around the shape of economic recovery, including the impacts on the adjustment costs of employers to change in migration policy.

Table 20: NPSV under different illustrative Covid-19 scenario, £ millions

Present Values – 10-year appraisal period (2020/21 prices)	Central baseline/ Central elasticity	Low covid-19 scenario	High covid-19 scenario
Benefits			
Revenue raised from Visa fees	1,100	1,000	1,100
Revenue raised from IHS	1,500	1,400	1,500
Reduction in admin costs to employers due to removal of RLMT	<£5m	<£5m	<£5m
Lower public service provision due to fewer EEA migrants	13,600	13,100	13,500
Increase in tax revenue due to more non-EEA migrants	9,700	9,400	9,700
Total benefits (PV)	25,900	24,800	25,800
Costs			
Home Office implementation costs	200	200	200
Home Office processing costs	400	400	400
3 rd party payment processing fee	100	100	100
Admin burden to EEA employers	200	200	200
Familiarisation costs to all employers and immigration services (Direct)	<£50m	<£50m	<£50m
Increase in public service provision due to more non-EEA migrants	3,500	3,400	3,500
Reduction in tax revenue due to fewer EEA migrants	24,000	23,100	23,900
Total costs (PV)	28,500	27,300	28,300
Net Present Social Value (NPSV)	-2,600	-2,600	-2,600

Source: Home Office, own estimates, 2020. Rounded to nearest £100 million, or indicating potential scale of impact where below £50m.

Fiscal assumptions

245. This section tests the sensitivity of results to changes in underlying fiscal assumptions. The central methodology used in the fiscal analysis of this IA represents a ‘marginal’ approach to measuring the impact of migration policy on the exchequer and therefore excludes fiscal spend and revenue components that are unlikely to vary according to the number of individuals moving to the UK.

246. Under the marginal approach, newly arrived migrants are assumed to have little or no impact on spending on services such as pure public goods, debt interest and EU transactions, or on revenue streams such as capital gains tax, inheritance tax and gross operating surplus. However, they are assumed to have an impact on congestible public goods and taxes paid by businesses such as corporation tax and business rates. However, these assumptions are uncertain.

247. Two sensitivity scenarios are calculated in order to test the impact of the above assumptions regarding elements of revenue and spend are apportioned to migrants:

- **Sensitivity 1: Purely average approach – includes all spend and revenue components**
 - Public goods (such as research and development, defence) are allocated on a per capita basis.
 - Other indirect taxes such as capital gains tax, inheritance tax, the climate change levy and environmental levies are allocated to individuals based on estimated consumption patterns and income. This assumes the same relationship between earnings and tax contribution as indirect tax.
 - Other receipts such as gross operating surplus, interest and dividends and other income streams are allocated on a per capita basis.

- **Sensitivity 2: Purely marginal approach – excludes all public goods and only includes taxes income tax, National Insurance contributions (NIC), council tax and indirect taxes.**
 - All public goods (both pure and congestible) are excluded.
 - Business rates and corporation tax are excluded. This means only income tax, NIC, council tax and indirect taxes are included.

248. The sensitivities outlined above are applied to the central baseline volumes, using the central elasticity assumptions, under the policy scenario.

249. Table **21** below shows that under sensitivity 1, the absolute value of the NPSV decreases by around 25 per cent relative to the marginal (central) approach. Alternatively, under sensitivity 2, the absolute value of the NPSV increases by around 20 per cent relative to the marginal (central) approach.

Table 21: NPSV under different Fiscal assumptions, £ millions

Present Values – 10-year appraisal period (2020/21 prices)	Central baseline/ Central elasticity/ Fiscal sensitivity 1	Central estimate	Central baseline/ Central elasticity/ Fiscal sensitivity 2
Benefits			
Revenue raised from visa fees	1,100	1,100	1,100
Revenue raised from IHS	1,500	1,500	1,500
Reduction in admin costs to employers due to removal of RLMT	<£5m	<£5m	<£5m
Lower public service provision due to fewer EEA migrants	21,100	13,600	9,200
Increase in tax revenue due to more non-EEA migrants	11,400	9,700	8,600
Total benefits (PV)	35,000	25,900	20,300
Costs			
Home Office implementation costs	200	200	200
Home Office processing costs	400	400	400
Third party payment processing fee	100	100	100
Admin burden to EEA employers	200	200	200
Familiarisation costs to all employers and immigration services (Direct)	<£50m	<£50m	<£50m
Increase in public service provision due to more non-EEA migrants	5,800	3,500	2,000
Reduction in tax revenue due to fewer EEA migrants	30,200	24,000	20,400
Total costs (PV)	37,000	28,500	23,400
Net Present Social Value (NPSV)	-2,000	-2,600	-3,000

Source: Home Office, own estimates, 2020. Rounded to nearest £100 million, or indicating potential scale of impact where below £50m.

Sponsors volumes

250. This section tests the sensitivity of results to underlying assumptions related to the number of additional, new sponsors in the system. The analysis in the central body of this IA assumes 80 per cent of inflows are hired by large employers, all of which are existing sponsors. The remaining inflows are assumed to be hired by new sponsors who are all assumed to be medium, small or micro business and each sponsor on average hires three migrants each. These assumptions are highly uncertain – two alternative scenarios have been provided in order to illustrate the sensitivity of results to these assumptions.

- Sponsorship sensitivity test 1: Half the additional inflows to Skilled Worker route are hired by new sponsors, the size of these employers are assumed to align with the current distribution and therefore the current migrant to sponsor ratio remains constant at nine migrants per sponsor.
- Sponsorship sensitivity test 2: All additional inflows to the Skilled Worker route are hired by new sponsors and all these new sponsors are assumed to be medium, small or micro employers – therefore hiring three migrants each on average.

Table 22: Volumes of additional sponsors under different assumption (central baseline and fee behaviour assumptions)

	20/21	21/22	22/23	23/24	24/25	25/26-29/30
Central estimate	2,000	7,000	7,000	7,000	7,000	7,000
Sponsorship sensitivity test 1	1,000	5,000	5,000	5,000	5,000	5,000
Sponsorship sensitivity test 2	8,000	33,000	33,000	32,000	32,000	30,000

Source: Home Office, own estimates, 2020.

251. Familiarisation costs are driven by the volume of additional sponsors under the new system. Under the central scenario the estimated familiarisation costs are £20 million (10-year PV, 2020/21 prices). Under sponsorship sensitivity test 1 this reduced to £17 million and under test 2 it increases to £52 million. Under test 1 the NPSV reduces from costs of £2.6 billion to £2.4 billion, under test 2 the NPSV increases to a cost of £2.8 billion (10-year PV, 2020/21 prices).

252. The BNPV in the central scenario is estimated to be -£1.4 billion (10-year PV, 2020/21 prices), this increases to -£1.3 billion under test 1 and decreases to -£1.5 billion under test 2.

H. Direct costs and benefits to business calculations

Table 21: Summary Table of Monetised Benefits and Costs (NPSV, BNPV and EANDCB), £ millions

Present Values – 10-year appraisal period (2020/21 prices) - rounded to the nearest £100 million	Low baseline/High elasticity	Central baseline/ Central elasticity	High baseline/ Low Elasticity
Benefits			
Direct Benefits			
Revenue raised from visa fees	800	1,100	1,300
Revenue raised from IHS	1,100	1,500	1,900
Reduction in admin costs to employers due to removal of RLMT	<£5m	<£5m	<£5m
Indirect Benefits			
Lower public service provision due to fewer EEA migrants	9,500	13,600	17,700
Increase in tax revenue due to more non-EEA migrants	8,100	9,700	11,400
Total benefits (PV)	19,500	25,900	32,300
Costs			
Set-up costs			
Home Office implementation costs	200	200	200
Ongoing costs			
Home Office processing costs	300	400	600
Third party payment processing fee	<£50m	100	100
Admin burden to EEA employers	100	200	300
Familiarisation costs to all employers and immigration services	<£50m	<£50m	<£50m
Indirect costs			
Increase in public service provision due to more non-EEA migrants	2,900	3,500	4,100
Reduction in tax revenue due to fewer EEA migrants	16,800	24,000	31,200
Total costs (PV)	20,500	28,500	36,400
Net Present Social Value (NPSV)	-1000	-2,600	-4,100
Transfer (Indirect benefit to business)			

Transfer (Direct costs to business)			
EEA ISC (Direct - Transfer)	700	1,100	1,400
EEA CoS costs (Direct - Transfer)	0	0	0
EEA sponsor license costs (Direct - Transfer)	<£50m	<£50m	<£50m
BNPV	-900	-1,400	-1,800
Present Values – 10-year appraisal period (2020/21 prices) - rounded to the nearest £ million			
EANCB	18	26	35

Source: Home Office, own estimates, 2020. NPV/ BNPV rounded to nearest £100 million (or indicating potential scale of impact where below £50m). and EANCB rounded to nearest million.

I. Wider Impacts

253. Migration, and changes in migration flows, can have impacts on communities. Community impacts include access to local housing, congestion, access to public services, environmental impacts and crime. These are particularly difficult to quantify, as the MAC has found¹¹⁵. Previous MAC analysis considered the impact of migration on cohesion and integration and found at a national level there is limited scope for quantification and monetisation of impacts, although it was suggested analysis at a local level may provide a clearer picture of impacts¹¹⁶.
254. In its report on EEA migration to the UK¹¹⁷ the MAC considered the impact of migration on crime and well-being. The report did not find any evidence of migration having an impact on crime. This was found to be the case in either direction; namely migrants are not more likely to be either perpetrators or victims of crime than the resident population. The MAC acknowledged the impact of migration on wellbeing is particularly challenging, given the subjective nature of well-being. The MAC did not find evidence suggesting migration has had a negative impact on subjective wellbeing.
255. Overall, the evidence has not found causal links between migration and community impacts¹¹⁸. The literature stresses the difficulty of doing this and it has focused on a qualitative discussion of the potential impacts. Community impacts are likely to vary at the local level and be subjective in nature.
256. Economic output is a function of labour used and capital employed and can be measured impartially by GDP. Each worker is a unit of labour and contributes to the creation of economic output. If all else is equal, higher work immigration means more workers in the economy and therefore higher economic output. Whilst aggregate economic output is an important measure, when considering the economic impact of immigration, it is also important to consider GDP per capita. On this measure, particularly in the short run, impacts will be small on aggregate as increased economic output are shared across a larger population. In line with MAC advice¹¹⁹, it is important to note that although

¹¹⁵ Migration Advisory Committee, Analysis of the Impacts of Migration. January 2012. Page 94-96.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/257235/analysis-of-the-impacts.pdf

¹¹⁶ Migration Advisory Committee, EEA migration in the UK: Final report. September 2018. Page 99.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/741926/Final_EEA_report.PDF

¹¹⁷ Migration Advisory Committee, EEA migration in the UK: Final report. September 2018. Page 99-100.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/741926/Final_EEA_report.PDF

¹¹⁸ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/741926/Final_EEA_report.PDF

¹¹⁹ Migration advisory committee January 2012; "Analysis of the Impact of Migration"

<https://www.gov.uk/government/publications/analysis-of-the-impacts-of-migration>

migration may affect GDP per head (by a small amount) mainly due to higher pay and employment rates of migrants compared to natives, it is the immigrants, rather than the resident population, who are the main gainers/losers. Therefore, it is important to focus on the impact migration has on the GDP of residents through dynamic effects on productivity and innovation.

257. Available evidence included within the MAC (2018) report suggests that “*high-skilled immigrants make a positive contribution to the levels of innovation in the receiving country*”¹²⁰. While the MAC acknowledged the significant uncertainty about the impact of immigration on productivity, they found that most studies conclude there is a positive impact, particularly for high-skilled migrants. This can be through the complementary nature of migrant and domestic labour, boosted competition, upskilling of domestic workers, and – particularly with the facilitation of migration of researchers through the global talent route – the facilitation of knowledge diffusion and conducting cutting-edge research. There was little evidence of the impact on training and investment, but the MAC concluded that “*there is no evidence that migration has had a negative impact on the training of the UK-born workforce*”.

J. Trade Impact.

258. As detailed above, the policy proposals are likely to have an impact on migration flows of skilled workers to the UK. These changes may in turn have an impact on trade between the UK and the rest of the world.

259. There are a number of channels through which immigration may affect trade and, in general, the external literature finds a positive relationship between the stock of immigrants and trade. At a macro level high immigration to the UK increases the UK population and consequently aggregate demand and the demand for imports. UK exports may also increase if immigration can enhance the international competitiveness of the UK. For example, Gould (1994)¹²¹ argues that immigrants have individual-specific knowledge of home-country markets which could enhance trading opportunities. For example, immigrants may have a greater a knowledge of foreign languages which helps improve communication in trading relationships, and immigrants may have a greater understanding of legal arrangements which may help lower the fixed costs of trade. Other mechanisms through which immigrants may affect trade include a preference for home-country goods, which could increase the demand for UK imports through an increase in consumption.

260. Genc et al. (2011)¹²² provide a meta-analysis of 48 studies and find that, on average, a 10 per cent increase in the number of migrants may increase the volume of trade by about 1.5 per cent. With regards to services, Ottaviano et al. (2016)¹²³ find a 10 per cent increase in the immigrant share increases exports by 3-5 per cent, whilst reducing imports by 1-2 per cent. Dastidar and Balasubramanyam (2015)¹²⁴ assess the impact of the immigrant stock on services exports for the EU and commonwealth countries separately and find a 10 per cent increase in the stock of immigrants from EU and Commonwealth countries raise services exports by 2.8 per cent and 4.3 per cent, respectively. The lack of common language, institutions and bureaucratic procedures may explain the lower elasticity for EU countries and the lower potential to contribute to services exports.

¹²⁰ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/766465/The-UKs-future-skills-based-immigration-system-print-ready.pdf

¹²¹ Gould (1994) ‘Immigrant Links to the Home Country: Empirical Implications for U.S. Bilateral Trade Flows’.

¹²² Genc et al (2011). ‘The Impact of Immigration on International Trade: A Meta-Analysis.’

¹²³ Ottaviano et al., (2016). ‘Immigration, Trade and Productivity in Services: Evidence from UK Firms’.

¹²⁴ Dastidar et al., (2015). ‘The Impact of Immigrants on the Foreign Trade of the UK’.

261. The extent to which policy changes will impact on goods and services trade depends on the extent to which policy changes affect the overall UK population. Different policy changes are likely to affect trade flows in different ways and, therefore, the overall impact on trade has not been quantified. For example, the changes for skilled workers may reduce immigration by EU citizens, whilst increase immigration from non-EU citizens.

K. Monitoring and evaluation (Post Implementation Review if necessary), enforcement principles.

262. The Home Office is developing plans to evaluate the reforms to the Skilled Worker immigration route introduced under the future skills-based immigration system. This is planned to be an integrated analytic evaluation with multiple components of secondary data analysis and primary research that will report cumulatively over a period of five years post-implementation.

L. Annexes

Impact Assessment Checklist

Mandatory specific impact test - Statutory Equalities Duties	Complete
<p>Statutory Equalities Duties</p> <p>The public sector equality duty (PSED) requires public bodies to have due regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations in the course of developing policies and delivering services. [Equality Duty Toolkit]</p> <p><i>A Policy Equality Statement (PES) was published 13 July 2020 which set out the consideration given to the PSED regarding policy formulation of the Skilled Worker route from January 2021. Published here: https://www.gov.uk/government/publications/equality-impact-assessment-of-the-points-based-immigration-system</i></p> <p><i>The Policy Equality Statement highlights that EEA citizens are likely to feel the biggest impact from the requirements of the future immigration system, but notes these impacts are justified as EEA nationals looking to migrate to the UK following the end of free movement will effectively be in the same position as any other migrant - ensuring fair and consistent treatment of applicants, whatever their nationality.</i></p> <p><i>It also discusses the potential for direct discrimination in terms of age and nationality, clearly justifying the grounds for doing so; and provides an appropriate, evidence-based discussion of potential indirect discrimination and potential mitigation and justifications for this. For example, it highlights potential indirect discrimination on the basis of age through imposing salary thresholds on both non-EEA and EEA citizens - which may disproportionately affect younger workers. Analysis presented highlights this may persist when accounting for the mitigation factor of the lower new entrant threshold, and highlights the grounds for justifying this being to protect the level of wages earned in the UK and to ensure that migrants are able to support themselves without relying on public funds.</i></p> <p><i>The document also highlights the commitment that the Government will continue to keep impacts under review.</i></p>	<p>Yes</p>

<i>The Senior Responsible Officer has read, understood and agreed this statement</i>	
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Any test not applied can be deleted except **the Equality Statement**, where the policy lead must provide a paragraph of summary information on this. The Home Office requires the **Specific Impact Test on the Equality Statement** to have a summary paragraph, stating the main points. **You cannot delete this and it MUST be completed.**

Economic Impact Tests

Does your policy option/proposal consider...?	Yes/No (page)
Business Impact Target The Small Business, Enterprise and Employment Act 2015 (s. 21-23) creates a requirement to assess the economic impacts of qualifying regulatory provisions on the activities of business and civil society organisations.	Yes

Small and Micro-business Assessment (SaMBA) The SaMBA is a Better Regulation requirement intended to ensure that all new regulatory proposals are designed and implemented so as to mitigate disproportionate burdens. The SaMBA must be applied to all domestic measures that regulate business and civil society organisations, unless they qualify for the fast track.	Yes
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Social Impact Tests

Justice Impact Test The justice impact test is a mandatory specific impact test, as part of the impact assessment process that considers the impact of government policy and legislative proposals on the justice system.	No
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Environmental Impact Tests

Environmental Impacts The purpose of the environmental impact guidance is to provide guidance and supporting material to enable departments to understand and quantify, where possible in monetary terms, the wider environmental consequences of their proposals.	No
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