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7 July 2020

Dear Ms McAlpine,

I wrote to you in March 2019 to inform you that the Expert Advisory Group on Migration and Population had published their first report: *UK Immigration Policy after Leaving the EU: Impacts on Scotland's Economy, Population and Society*. I wrote to you again in November 2019 to inform the Committee that the Group had concluded their second report: *Immigration Policy and Demographic Change in Scotland: Learning from Australia, Canada and Continental Europe*.

It is now on this note that I am pleased to let the Committee know that the group have concluded their third report: *UK Immigration Policy After Leaving The EU: Impacts on Scotland's Economy, Population and Society - June 2020 update* and that this was published on 2 July. This publication is an Annex updating the findings of the Group's first report to reflect the UK Government's February 2019 policy statement "*The UK's points-based immigration system: policy statement*".

The February 2019 report considered how the ending of free movement and future UK immigration policy would affect Scotland, and concluded that this could lead to a reduction in annual overseas net migration to Scotland of between one-third and a half after 2020. The update considers the UK Government's proposed lower salary threshold of £25,600, and the inclusion of RFQ3 occupations exempt from this threshold (through the Shortage Occupation List). The annex finds that a higher proportion of EEA nationals would in principle meet the threshold and considers this alongside the decline in EEA net migration and the rise in non-EEA net migration since 2015.

The findings in the annex remain the same as in the previous report, i.e. anticipating a reduction of net migration of between one-third and a half after 2020. As with the original report, the Group notes that the key issue is how the UK Government's proposed changes will affect the occupational, geographic and gender distribution of migration to Scotland.

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Finally, the Group have also concluded their fourth report analysing migration within the UK. I will write to the Committee to update them on the publication of this report and on any future commissions that are decided in the coming months.

I am copying this letter to the Finance and Constitution Committee.

Best regards,

Ben Macpherson

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UK Immigration Policy After Leaving the EU

Impacts on Scotland's Economy, Population and Society

July 2020 update

Expert Advisory Group on Migration and Population

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1. Background

UK Government White Paper, 2018

In February 2019 the Expert Advisory Group on Migration and Population (EAG) produced a report (EAG 2019) analysing the impacts of the UK Government's proposed changes to the immigration system on Scotland's economy and society, set out in its White Paper (2018). In February 2020, the Home Office published a Policy Statement (2020) updating these proposals. This Annex to the 2019 EAG report considers how these recently advised changes to UK Government plans might affect Scotland, drawing on the analysis of the 2019 EAG paper.

Policy Statement, February 2020

The 2018 White Paper had proposed ending free movement for EEA nationals; expanding entry through Tier 2 (notably, through lowering the skills threshold from RQF6 to RQF3, removing the cap on number of people entering, and ending the resident labour market test); a sectoral programme for agriculture (beginning with a pilot scheme for 2,500 workers); and a transitional scheme for temporary workers (maximum of 12 months). The Policy Statement of February 2020 made several adjustments to these proposals.

Tier 2: The 2020 Policy Statement proposed retaining some of the changes to Tier 2, including the proposed lower skills threshold (RQF3), as well as the removal of the cap on numbers and resident labour market tests. It also proposed some additional changes:

- Lowering of the salary threshold for Tier 2, from £30,000 to £25,600 (or the 'going rate' for a particular occupation, where that is higher)
- Introducing a requirement of English language skills (to the 'required level')
- Introducing exceptions to the £25,600 threshold, where an occupation is designated by the Migration Advisory Committee (MAC) as a shortage occupation
- Allowing entrants with a PhD to take up employment at a lower salary rate (£23,040 for those with a PhD in a subject relevant to the job; £20,480 for those with a PhD in a STEM subject relevant to the job)

These criteria are captured in the table below.

Characteristics	Tradable	Points
Offer of job by approved sponsor	No	20
Job at appropriate skill level	No	20
Speaks English at required level	No	10
Salary of £20,480 (minimum) – £23,039	Yes	0
Salary of £23,040 – £25,599	Yes	10
Salary of £25,600 or above	Yes	20
Job in a shortage occupation (as designated by the MAC)	Yes	20
Education qualification: PhD in subject relevant to the job	Yes	10
Education qualification: PhD in STEM subject relevant to the job	Yes	20

Tier 1: The Policy Statement announced a moderate expansion of highly skilled routes (the Global Talent route, as already announced), with potential further expansion to be announced.

Lower skills routes: The Policy Statement further announced that the transitional scheme for lower skilled workers set out in the white paper would not be taken forward; and that the pilot scheme for seasonal agricultural workers would be expanded from 2,500 to 10,000.

The Policy Statement rejected proposals for regional variation in the salary threshold, and did not clarify whether the Scotland regional shortage occupation list would be sustained. It did not bring forward the decision by the former Home Secretary of launching a pilot scheme for remote/rural areas in Scotland.

It is worth noting, however, that the proposed points-based system builds in some flexibility.

- First, shortage occupations, which will be exempted from the salary threshold where relevant (but not the skills threshold), will be designated by the MAC.
- Second, the Policy Statement signals there may be further adjustment to the points-based system. As the statement notes, 'This is just the first stage in our plans for a points-based 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. For example, this might include a greater range of qualification levels or other factors such as age or experience studying in the UK. However, we need to guard against making the system too complex.'

2. Implications for Migration to Scotland

Overall flows

The 2019 EAG report estimated that the 2018 White Paper changes to Tier 2 might result in a reduction of net migration to Scotland of between 30 – 50%. The first scenario was based on HM Treasury analysis projecting a 80% decrease in net EU migration following the changes. The second was based on EAG analysis which assumed:

- 78% of EEA nationals entering under free movement would not meet the Tier 2 threshold
- However, removal of the cap, a lower skills threshold, and reducing the administrative burden on employers might also lead to an increase in non-EEA nationals entering via Tier 2
- The combination of these two effects were estimated as a 70% reduction in current EEA inflows for work
- Family migration and dependents under Tier 2 would be at a rate of 0.7 per Tier 2 entrant
- Return rates of entrants under Tier 2/family routes would be approximately 50%

The proposed lower salary threshold of £25,600, and the inclusion of RQF3 occupations exempt from this threshold (through the Shortage Occupation List), implies that a higher proportion of EEA nationals would in principle meet the Tier 2 threshold. At the same time, however, we need to take into account the steady and significant decline in EEA net migration since 2015, even prior to the introduction of new immigration rules. We note that there has been a simultaneous rise in non-EEA net migration, though most of the increase in non-EEA in-migration has been for the purpose of study.

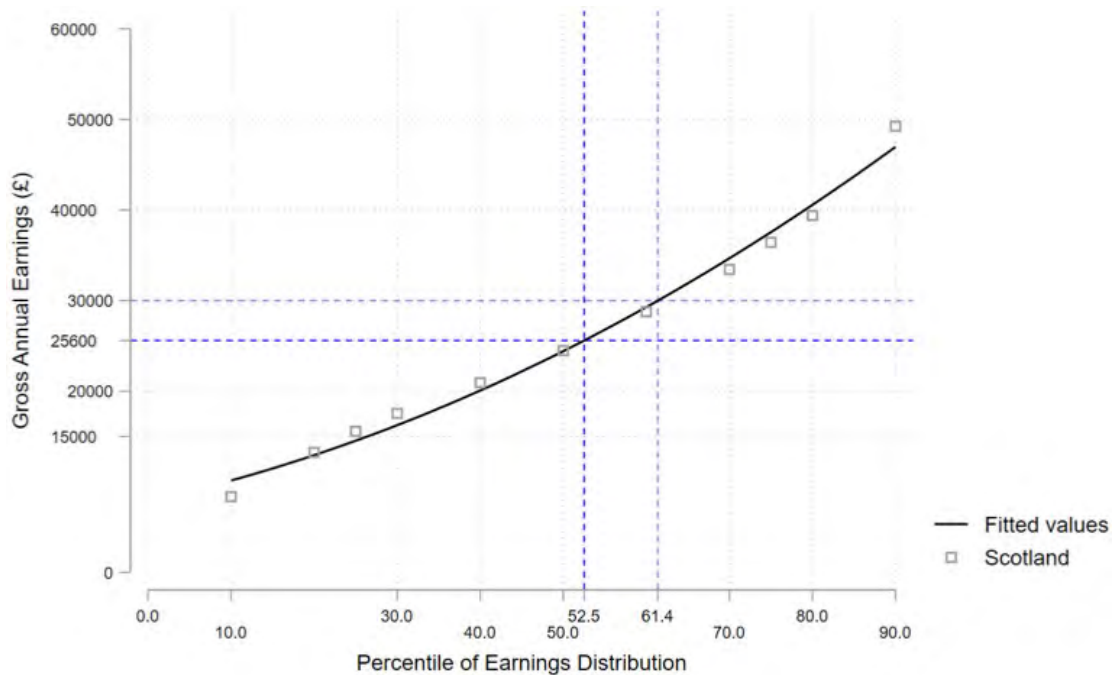
Taking both considerations into account – the broadening of Tier 2, but the general decline in EEA migration to the UK – we would retain the original projected scenarios from the February 2019 report, i.e. anticipating a reduction of net migration of between 30–50%.

As before, however, we note that the key issue is how these changes will affect the occupational, geographic and gender distribution of migration to Scotland. Thus, we now consider in detail the effects of reducing the minimum salary threshold from £30,000 per annum to £25,600 per annum on the types of job in Scotland that might be accessible to migrant workers. As in the previous report, we present a selection of views of the Scottish labour market – by gender, occupation and local authority – to show how the probability of being eligible for different types of worker would be affected by the new, lower threshold.

Since the proposed regulation is based on annual salary, our analysis focuses on the distribution of gross annual earnings for selected groups of workers. Data on annual earnings are taken from the ONS Annual Survey of Hours and Earnings (ASHE), carried out in April 2019. All of our analysis is approximate because it is based on a curve fitted to data points. Note that these data include only employees: the self-employed are excluded. Under current UK Government proposals, the self-employed would not be eligible to migrate to the UK. The ASHE data provide an appropriate comparator group for potential migrants. The ASHE data identify points within these distribution – 10th, 25th, 50th etc. percentiles. The figures presented in this section then show interpolated values for each point in the distribution constructed by fitting a quadratic function to these observed points. This allows us to compare the proportion of existing jobs that meet the newly proposed minimum salary threshold of £25,600 with those that met the previous threshold of £30,000. In each figure, gross annual earnings is shown on the vertical axis and the proportion of existing jobs which pay *less* than a specified level of earnings on the horizontal axis.

For example, Figure 1 shows the earnings distribution of *all* employees in Scotland – male and female in all occupations and local authorities – and shows that in 2019, 52.5% of all workers in Scotland earned less than £25,600. In contrast 60.9% of all jobs in Scotland pay less than £30,000 per annum. The reduction in the migrant salary threshold from £30,000 to £25,600 implies that migrants would be eligible for an additional 8.4% of all jobs in Scotland.

Figure 1: Distribution of Annual Earnings: All Employees, Scotland 2019.

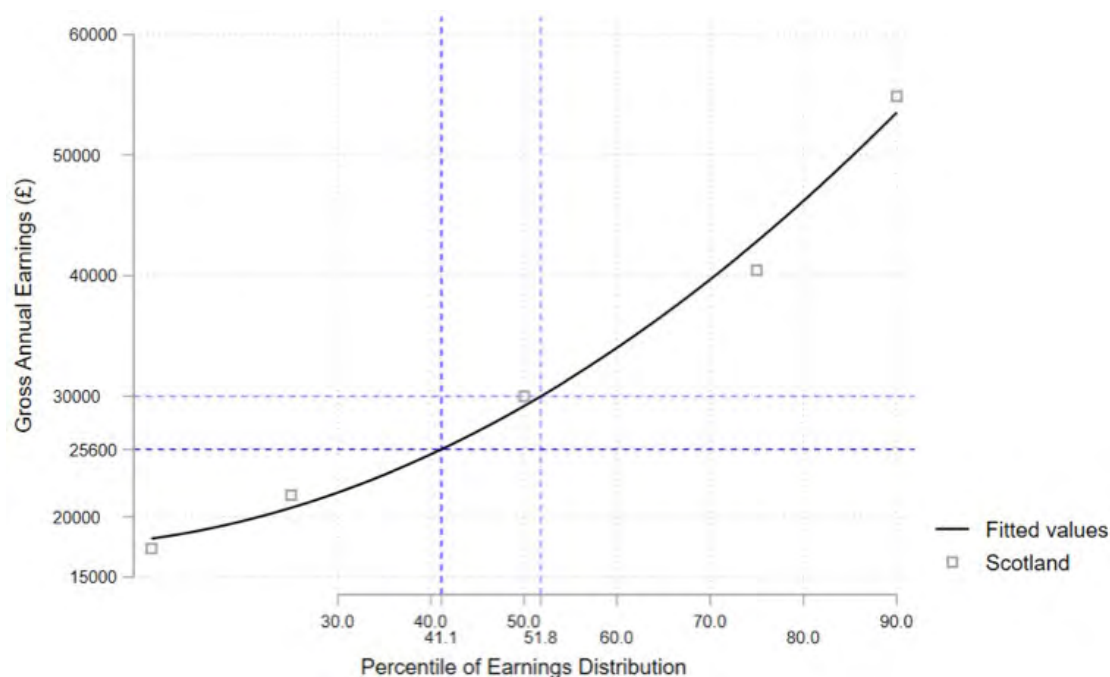


Source: ONS ASHE

Of course, there are variations across working time, gender, location and occupation.

For example, only 41.1% of full-time jobs have salaries below the £25,600 threshold and so would be unavailable to migrants. Since part-time work generally pays less than full-time work, migrants seeking full-time work would be excluded from a smaller proportion of full-time jobs. Under the previous threshold of £30,000, migrants would not be eligible for 51.8% of full-time jobs. An additional 10.7% of full-time jobs would be open to migrants under the lower proposed threshold.

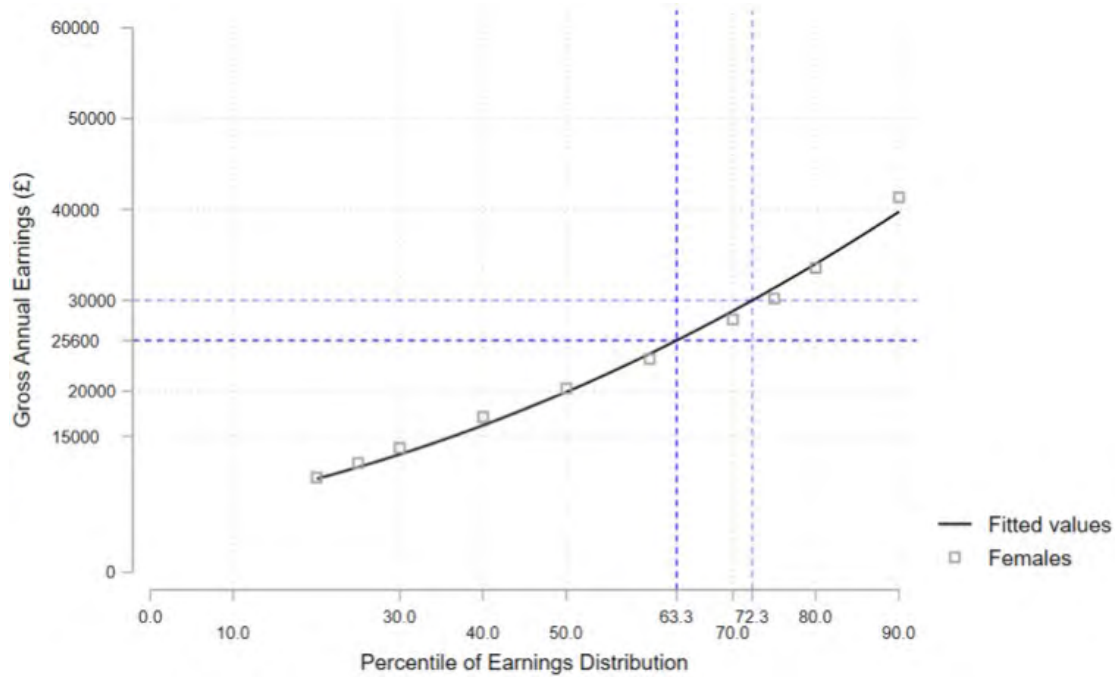
Figure 2: Distribution of Annual Earnings: All Full-Time Employees, Scotland 2019.



Source: ONS ASHE

Now consider the role of gender. Addressing the long-standing wage gap between men and women is a key priority for the Scottish Government. Yet our analysis shows that 63.3% of jobs currently employing females would not be available to migrants. This is much larger than the corresponding percentage for males and is due to the lower wages typically earned by females – the gender pay gap. Although migrants would therefore be excluded from most jobs currently occupied by females, the reduction in the threshold would increase the range of such jobs available to migrants by 9%.

Figure 3: Distribution of Annual Earnings: All Female Employees, Scotland 2019.



Source: ONS ASHE

Now consider the spatial effects of the new threshold. Table 1 is based on similar calculations to the preceding figures. It shows the proportion of jobs in each local authority that fall below the new and previously proposed migrant salary thresholds. Those local authorities with relatively high median salaries have the lowest share of jobs for which migrants would not be eligible. These include, for example, East Renfrewshire, East Dunbartonshire, Stirling and Edinburgh. In each case, the reduction in the proposed salary threshold would increase the set of jobs available to migrants by around 10%.

At the other end of the scale, local authorities where pay is typically lower have a much higher proportion of jobs for which migrants would be ineligible. These include, for example, Inverclyde, Clackmannanshire, Dumfries and Galloway and Na h-Eileanan Siar. The change in the threshold is more beneficial to these authorities because a larger proportion of jobs would now be available to migrants. Thus, for example, the reduction in the threshold makes an additional 15.5% of jobs available in Na h-Eileanan Siar and 12.4% of jobs available in Dumfries and Galloway.

Table 1: Percentage of jobs falling below the £30,000 and £25,600 limits by Scottish local authority.

	Threshold	
	£30,000	£25,600
East Renfrewshire	50	41.8
East Dunbartonshire	55.8	46.5
Stirling	57.5	47.3
Shetland Islands	58.5	49.5
Renfrewshire	59.8	50
North Ayrshire	61.1	50.1
South Lanarkshire	61.8	50.5
East Lothian	61.4	50.7
Aberdeen City	60.7	50.8
City of Edinburgh	58.3	50.9
West Lothian	63.9	51.7
Falkirk	63.2	52.3
Angus	64	52.3
East Ayrshire	63	52.4
South Ayrshire	62.7	52.5
North Lanarkshire	65	53.4
Midlothian	64.3	53.9
Aberdeenshire	62.9	54
Perth and Kinross	65.2	54.3
Scottish Borders	65.8	54.4
Fife	64.3	54.8
Highland	66.7	55.9
Glasgow City	65.8	56.7
West Dunbartonshire	68.3	56.8
Dundee City	71.1	59.3
Inverclyde	72.6	60.9
Clackmannanshire	73.7	61.2
Moray	71.9	62.2
Argyll and Bute	72.4	62.4
Dumfries and Galloway	77.4	65
Na h-Eileanan Siar	84.2	68.7

Now consider the effects of the change in the threshold on the eligibility of migrants to access specific occupations. Table 2 shows the effects of the reduction in the threshold on broad occupations within the Scottish labour market. It uses the same calculations as in elsewhere in the paper and follows the same format as Table 1.

Table 2: Effects of the reduction in the threshold on broad occupations within the Scottish labour market.

	Threshold	
	£30,000	£25,600
Protective service occupations	14.8	0
Science, research, engineering and technology professionals	23.6	13.4
Business, media and public service professionals	31.7	21.6
Corporate managers and directors	30.3	22.5
Teaching and educational professionals	36.2	25.7
Managers, directors and senior officials	34.2	25.9
Skilled metal, electrical and electronic trades	39.3	26.4
Professional occupations	41	30.1
Science, engineering, technology and associated professionals	48.6	34.3
Business, public service and associated professionals	47.1	35.2
Other managers and proprietors	49	37.2
Health professionals	48.8	37.5
Associated professional technical occupations	49.5	37.7
Skilled construction and building trades	61.4	39
Skilled trades occupations	58.1	44.6
Transport, mobile machine drivers and operators	68.1	51.2
Process plant machine operators	68.5	53.3
Process plant machine operators 2	68.7	55.7
Health and social care associated professionals	79.4	59
Culture, media and sports occupations	78	62.4
Administrative occupations	81.6	68.9
Administrative and secretarial occupations	84.2	71.5
Customer service occupations	100	77.9
Leisure and travel related personal service occupations	100	88.3
Elementary occupations	100	88.5
Caring, leisure and other service occupations	100	88.9
Sales customer service occupations	100	89.6
Secretarial related occupations	100	90.7
Caring personal service occupations	100	90.9
Skilled agricultural related trades	100	91.2
Elementary administration service occupations	100	91.8
Sales occupations	100	97.4

The occupations are arranged in order of decreasing eligibility for potential migrants. Clearly, a large proportion of jobs in protective service, science research and engineering, media and management would be available to migrants. In contrast, very few jobs in agriculture, caring, office and customer related occupations would be eligible. Nevertheless, the reduction in the salary threshold would allow migrants to be eligible for a small proportion of jobs in these sectors. Thus, for example, whereas under a £30,000 threshold no jobs in customer services, leisure and elementary occupations would be available to migrants, a small proportion of such jobs would qualify under the lower threshold.

3. Policy Implications

Finally, we consider some of the policy implications of the proposals in the 2020 Policy Statement, focusing on how far they meet Scottish Government goals. The Policy Statement indicates the removal of the previously proposed transitional arrangements for temporary, lower-skilled migration to the UK. In our February 2019 report, we did not include these flows in our projections and analysis, given that they would involve short-term mobility of under 1 year, and thus not meet the formal definition of international migration. However, in the study we did consider the implications of patterns of temporary and seasonal labour for local communities. Here, we briefly reflect on the impact of removing any legal channel for recruiting migrants who do not meet the Tier 2 threshold.

Experience from other OECD countries suggest that restrictions to labour migration that result in acute shortages frequently lead to two scenarios:

- The (re)introduction of specific occupational or temporary programmes to meet acute shortages. Where immigration systems do not build in regular routes for workers to meet demand, countries have tended to introduce ad hoc or stop-gap arrangements, that can create a complex patchwork of different programmes. We note that the emergence of a more complex system of ad hoc programmes may undermine goals of simplicity and transparency in the immigration system. We also note that such an arrangement may also impede integration and longer-term settlement in local communities in Scotland, as outlined in the main EAG report.
- An increase in irregular movement and employment, as employers seek to meet shortages outside of regular channels. Certain sectors may be more susceptible to irregular patterns of recruitment and employment, because of the nature of employment practices as well as impediments to regulation and enforcement in the sector. Again, experience from other OECD countries suggests that sectors such as hospitality/ catering, domestic work, agriculture, construction and some areas of manufacturing may be more prone to such patterns. Again, any increase in irregular movement, work and stay would be damaging for local communities and more general confidence in the immigration system.

Finally, we note that the Policy Statement does not support arguments for a differentiated system, for example through regional salary differentials, or a rural pilot scheme. However, there are still some potential channels through which the Scottish Government could realise its population goals, notably in relation to addressing challenges of depopulation and labour shortages. Specifically, Scottish Government may want to consider:

- Criteria and processes for determining which occupations are included in the Shortage Occupation List, including through reconsideration of the methodology for designating shortages.
- Adjusting the points-based system, which the Policy Statement acknowledges may be subject to future revision. For example, the Scottish Government might want to make a case for accruing points based on taking up employment in particular areas (e.g. those facing depopulation).

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