

Title: Migration Permanent Limit, Tier 2 IA No: HO0068 Lead department or agency: Home Office Other departments or agencies: HM Treasury, Business, Innovation and Skills, Department for Work and Pensions, Health, Education, Communities and Local Government, Cabinet Office and Foreign and Commonwealth Office	Impact Assessment (IA) Date: 01/04/2011 Stage: Final Source of intervention: Domestic Type of measure: Secondary Legislation Contact for enquiries: Migration Policy, Home Office
Summary: Intervention and Options	RPC Opinion: Amber

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?	
-£1453m	-£0.01	-£0.001	Yes	In

What is the problem under consideration? Why is government intervention necessary?

The Government believes that Britain can benefit from migration, but not uncontrolled migration. Unlimited migration places pressure on public services, school places, and the provision of housing, all of which causes problems for certain local communities.

Maintaining and monitoring a limit on non-EU migration will support the policy to reduce net migration to the tens of thousands. Ensuring that only highly skilled non-EEA workers are admitted to the UK to ensure a more selective immigration system that will help support economic growth.

What are the policy objectives and the intended effects?

The policy objectives in applying limits on the number economic migrants are;

- to reduce net migration;
- to reduce any adverse social impacts of immigration;
- to continue to attract the brightest and the best people to the UK that will help drive economic growth.

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

Option 2 – Maintain the limit for Tier 2 (general) applications and amend some associated policies. Specifically;

Maintain the Tier 2 (General) limit at 20,700 for 2012/13.

Raise the skills level for Tier 2 (General) and Intra-Company Transfers to NQF 6 from NQF 4, excluding creative professions. Maintain the skills level at NQF 4 for the Shortage Occupation List.

Remove the requirement to advertise in JobcentrePlus for all jobs paying £70,000 - £150,000. For PhD level occupations there will be no requirement to advertise in JobCentrePlus, jobs may be advertised in the UK and overseas simultaneously and the best candidate may be recruited wherever they may be based.

We have considered other options including, "Doing nothing" and policy changes to the Intra-Company route, which we are prevented from implementing because of free trade agreements.

Will the policy be reviewed? It will/will not be reviewed. **If applicable, set review date:** 2013

Does implementation go beyond minimum EU requirements?			Yes / No / N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: n/a		Non-traded: n/a

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister:



Date: 2 April 2012

Summary: Analysis & Evidence

Policy Option 1

Description: Do nothing

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)																			
			Low: 0	High: 0	Best Estimate: 0																	
<table><tr><td rowspan="4">COSTS (£m)</td><td colspan="2">Total Transition (Constant Price) Years</td><td>Average Annual (excl. Transition) (Constant Price)</td><td>Total Cost (Present Value)</td></tr><tr><td colspan="2">Low0</td><td>0</td><td>0</td></tr><tr><td colspan="2">High0</td><td>0</td><td>0</td></tr><tr><td colspan="2">Best Estimate0</td><td>0</td><td>0</td></tr></table>						COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)	Low0		0	0	High0		0	0	Best Estimate0		0	0
COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)																		
	Low0		0	0																		
	High0		0	0																		
	Best Estimate0		0	0																		
Description and scale of key monetised costs by ‘main affected groups’ No additional monetised costs																						
Other key non-monetised costs by ‘main affected groups’ There is the potential for some short-run displacement of resident workers by migrants in the UK; and for continued costs and risks associated with the public service and social impacts of migrants.																						
<table><tr><td rowspan="4">BENEFITS (£m)</td><td colspan="2">Total Transition (Constant Price) Years</td><td>Average Annual (excl. Transition) (Constant Price)</td><td>Total Benefit (Present Value)</td></tr><tr><td colspan="2">Low0</td><td>0</td><td>0</td></tr><tr><td colspan="2">High0</td><td>0</td><td>0</td></tr><tr><td colspan="2">Best Estimate0</td><td>0</td><td>0</td></tr></table>						BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)	Low0		0	0	High0		0	0	Best Estimate0		0	0
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Other key non-monetised benefits by ‘main affected groups’ No additional non monetised benefits.																						
Key assumptions/sensitivities/risks					Discount rate (%)3.5																	
A central scenario volume forecast which projects entry volumes to grow at forecaste OBR growth rates for five years and then at HMT established UK trend growth rates for another five years. We assume no labour market displacement of resident workers by migrants. Risks include, continued negative social impacts associated with migration; risks of labour market displacement.																						

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs:	Benefits:	Net:	Yes/No	IN/OUT/Zero net cost

Summary: Analysis & Evidence

Policy Option 2

Description: Option 2 - Amend the limit for Tier 2 (general) applications and associated policies .

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 1384	High: 1923	Best Estimate: 1453

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	153	1529
High	Optional	223	2230
Best Estimate	0.2	164	1644

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

Reduction in economic output - estimated at between £1516m-£2210m over 10 years (present value), these costs may be lower depending on whether or not there is labour market displacement of resident workers by migrant workers; reduction in UKBA fee income - £13m to £21m over 10 years (present value); training and familiarisation costs for employers, private and public sector, are estimated at £215k in 2012/13. In 2009 Annual Equivalent Prices the Net OIOO Cost (IN) is around £1,000 in the Central

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

Reduction in GDP per capita; reduction in any positive dynamic impacts of migrants on economic growth; potential costs to employers of recruiting, training and/or upskilling resident workers to replace lost migrants if there is labour market displacement and replacement of migrant workers with resident workers. This is likely to vary across sectors affected.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	15	145
High	Optional	31	307
Best Estimate		19	191

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

Reduction in public service and social impacts of migration including: reduction in health care costs, £47m to £70m over 10 years (PV); reduction in education costs for migrant child dependants £61m to £91m over 10 years (PV); reduction in crime costs, £7m to £10m over 10 years (PV); reduction in UK Border Agency settlement case processing costs, £8m to £13m over 10 years (PV); Reduction in administrative burden on businesses, no longer having to advertise on Job Centre Plus, £81k-£578k

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

Reduction in wider negative public service and social impacts of migration including: reduction in contribution to higher population growth; reduction in negative impacts of migration on housing, congestion and wider public service provision; potential increase in social cohesion in the UK; increase in public confidence in the immigration system; potential benefit to resident workers if there is reduced likelihood of labour market displacement of resident workers by migrants.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
Key assumptions include: Baseline Tier 2 entry volumes forecast to grow from financial year 2010/11 at OBR published rates for the Central case, at 5% for the high case (with General routes remaining constant at previously set entry limits) and 0% growth for the low case scenario. No labour market displacement by migrants.		

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 0.0	Benefits: 0.0	Net: -0.0	Yes	IN

Evidence Base (for summary sheets)

A. Strategic Overview

A.1 Background

The Points Based System (PBS) was introduced between February 2008 and March 2009 by the previous Government. It consists of five Tiers.

Summary of the Points Based System:

Tier 1:	Investors, Entrepreneurs and Exceptional Talent (a further Tier 1 route, Post Study Work, will be closed in April 2012).
Tier 2:	Skilled workers with a job offer
Tier 3:	Low skilled workers (currently suspended)
Tier 4:	Students
Tier 5:	Temporary Workers and Youth Mobility - primarily for non-economic reasons.

Tier 2 requirements

Those seeking entry under Tier 2 (General) must have a job offer from a licensed Tier 2 sponsor in the UK. At present they must be coming to fill a job at a skill level equivalent to National Qualifications Framework (NQF) level 4 and be paid a minimum salary of £20,000 or the appropriate rate as specified in the relevant code of practice. Before bringing in a non-EEA migrant an employer must show that there is no suitably qualified worker available within the UK or EEA by conducting a 'Resident Labour Market Test' (RLMT). Employers are required to advertise the vacancy through 'Jobcentre Plus' and at least one other medium (for instance a trade magazine) for a period of four weeks. Following the unsuccessful advertising of a vacancy the employer has 6 months in which to recruit a non-EEA migrant. The RLMT requirement does not apply to jobs paying more than £150,000 per annum or to occupations listed on the 'Shortage Occupation List'. This list, drawn up and maintained by the Migration Advisory Committee (MAC), details those job titles or occupations currently experiencing a labour shortage. This list is revised periodically (last revised September 2011).

Recent changes in Government Policy

In April 2011 the Government introduced an annual limit on the numbers of skilled workers applying to enter the UK in the Tier 2 (General) category. This was set at 20,700 for 2011/12. The Tier 2 (General) limit does not apply to those switching into the route from within the UK or to those earning £150,000 or above. The limit does not apply to Tier 2 (Intra-Company Transfer) applicants as the UK is bound by General Agreement on Trade In Services (GATS) and other Free Trade Agreements to allow certain categories of employees of multi-national companies to transfer to a UK based branch of the same company.

In April 2011 the Government raised the skills level for applicants in Tier 2 from NVQ 3 level to NQF 4+. It closed Tier 1 (General) and introduced a Tier 1 Exceptional Talent route which is limited to 1,000 places for 2011/12. It committed to reviewing the operation of the Tier 2 (General) limit and other associated changes one year later.

This Impact Assessment assesses the Government's proposals for changes to the limit and proposed amendments to the criteria for those seeking to enter or remain the UK as a skilled worker within Tier 2 (General) from April 2012.

A.2 Groups Affected

Those affected by the policy are:

- i. Government departments, including the UK Border Agency (UKBA) which is responsible for administering Tier 2, and other Government departments which have an interest in its deliverables;
- ii. UK-based employers (including the UK branches of multinational companies); and
- iii. Potential migrants in both Tiers 1 and 2.

A.3 Consultation

Within Government

The Government departments consulted or involved in the formulation of the interim limit include: the Home Office, HM Treasury, Business, Innovation and Skills, Department for Work and Pensions, Better Regulation Executive, Health, Education, Communities and Local Government, Cabinet Office and Foreign and Commonwealth Office

Public Consultation

The Government asked the independent Migration Advisory Committee to advise on the Tier 2 policy package for 2012/13, including the level of the limit and whether further changes were needed to Tier 2 in light of the impact of the current limit and associated policies.

On 26 October 2011, the Migration Advisory Committee launched a call for evidence in response to the Government's request. Views were sought from a variety of corporate partners, particularly those within the business community, on the operation of the limit and the impact of possible changes to the skills level and recruitment processes.

The MAC's consultation ended on 21 December 2011 and we have received their conclusions and advice.

B. Rationale

The rationale for maintaining a limit on the number of Tier 2 (General) migrants is to contribute to a reduction in net migration. Raising the skills level from NQF 4 to NQF 6 contributes to the creation of a more selective immigration system and encourages only the brightest and the best to the UK. Greater selectivity of migrants could reduce the pressure on public services, incentivise the up-skilling of native workers, and increase public confidence in the immigration system. Given the proportion of total inward migration accounted for by the work routes, measures to continue to limit Tier 2 (General) are a necessary part of any package to reduce net migration overall.

C. Objectives

Policy objectives in designing and implementing measures to apply limits on the number of economic migrants are to:

- Reduce net migration
- Reduce any adverse social impacts of immigration
- Continue to attract the brightest and the best people to the UK who can help drive economic growth.

D. Options

Option 1 is to make no changes (do nothing).

We considered making no changes either to the limit for Tier 2 (General) or to any of the associated policies. However, it is important to continue to maintain downward pressure on the numbers of non-EEA workers to ensure that the net migration figures are reduced. The proposed changes in option 2 achieve this. Making no changes to the arrangements for the Resident Labour Market Test for senior global jobs paying £70,000 or more, or PhD occupations, will not reduce the level of bureaucracy which has been a cause of negative feedback from users of the system.

Option 2 is to maintain the Tier 2 (General) limit at 20,700 for 2012/13, raise the skills level for Tier 2 (General) and ICT applications and make adjustments to the Resident Labour Market Test for jobs paying £70,000 or more and PhD occupations.

Specifically this would include the following package of measures:

Maintaining the limit for Tier 2 (General) at 20,700 for 2012/13.

The current Tier 2 (General) limit is undersubscribed (by about 50%). Maintaining it by the proposed amount will still allow for substantial growth in the economy, which may see an increase in the demand for skilled non-EEA labour. At the same time it will reinforce the message that businesses should first look to the resident labour force to fill vacancies, resolving shortages through training and development rather than relying on migrant recruitment.

Raise the skills level for Tier 2 (General) and Tier 2 (ICT) from NQF 4 to NQF 6.

Raising the skills bar for work routes has been central to ensuring a smarter, more selective immigration system. This ensures greater selectivity in the immigration system which will encourage only the brightest and the best to the UK. It will also focus this route on those jobs where we believe skilled migrants can offer significant benefits and remove other jobs which the resident labour force can more readily fill. Raising the skills bar to NQF 6 will reduce overall numbers as only higher skilled occupations will be eligible for the Tier 2 route. Creative occupations will be exempt from this change at this stage. As a transitional measure to help business we will retain occupations on the Shortage Occupation List at NQF 4 level.

Remove the requirement to advertise jobs paying £70,000 - £150,000 in Jobcentre Plus. Amend the Resident Labour Market Test to allow PhD level occupation vacancies to be advertised simultaneously both in and outside the UK. The best candidate may be recruited wherever they may be based. Extending the period for which the Resident Labour Market Test is deemed to have been satisfied from 6 months to 12 months for PhD level occupations only.

At present jobs paying £70,000 to £150,000 must be advertised through Jobcentre Plus as part of the Resident Labour Market Test. Feedback from users of the system has been that this an unnecessary and bureaucratic measure. This is confirmed by evidence from DWP which suggests that very few jobs at these salary levels are successfully advertised through 'Jobcentre Plus'. Removing this requirement will reduce bureaucracy for the user. It is not anticipated to have a significant impact on overall numbers.

We also propose to amend the Resident Labour Market Test requirement for PhD level occupations only. We will allow vacancies to be advertised simultaneously both within and outside the UK. The best candidate may be recruited wherever they may be based.

The package of measures proposed in option 2 will continue to exert downward pressure on the numbers of migrants using work routes, but the limited nature of the changes will ensure we

continue to support the business sector. Although the current Tier 2 (General) limit is undersubscribed (by about 50%), maintaining it at the current level will still allow for growth in the economy, which may see an increase in the demand for skilled non-EEA labour. At the same time it will reinforce the message that businesses should first look to the resident labour force to fill vacancies, resolving shortages through training and development rather than relying on migrant recruitment.

E. Appraisal (Costs and Benefits)

GENERAL ASSUMPTIONS & DATA

E. Appraisal

Time Period of Appraisal

The impacts are estimated over ten years in line with guidance from the Better Regulation Executive (BRE) and the Regulatory Policy Committee (RPC). This means the appraisal period runs from April 2012/13 to April 2021/22.

Estimated policy impacts are likely to have an immediate effect on sponsorships, grants and applications for Tier 2 immigrants intending to work in professions with SOC codes corresponding to those affected by the policy package, i.e. those identified according to MAC specified criteria as requiring workers qualified to NQF4 but not NQF6.

E.1 Volume Impact

Internal modelling has been used to estimate the impacts of the policies on the volume of Tier 2 migrants coming to the UK. Given the uncertainty in projecting migration volumes forward a range of assumptions are used to set out a low and high scenario for baseline settlement volumes against which to estimate the impacts of the policy proposals. Annex 3 has a full list of assumptions used in the modelling.

Option 1

The baseline scenario below sets out estimated Tier 2 entry volumes under Option 1, 'Do nothing', and represents a scenario where there are no further policy changes; we then use this to compare against the volume changes we might expect based on the above policy changes to Tier 2 entry routes.

The baseline includes the estimated impacts of the limits on Tier 2 migration that have already been announced. This allows us to identify only the direct impacts from the change in the limits policy.

Tier 2 Entry volumes

Under the baseline scenario, Tier 2 grants for the most recent data period available have been taken and projected forward according to OBR GDP growth rates. We then assume these translate directly to arrivals.

Tier 2 High and Low Scenarios

We have used a range of scenarios to reflect the uncertainty in forecast volumes of visa applications and grants. In the central case we project grant volumes from FY 2010/11 to FY 2015/16 according to OBR growth forecasts, after this we assume that growth continues to FY2021/22 at 2.25% according to HMTs standardised and audited estimation of UK trend growth.

For the high scenario, we assume that General Tier 2 grants, reach and are constrained by the limit imposed by previous policy of 20,700 per annum. For ICT (intercompany transfers) both long and short term, we assume a high growth rate of 5%. Only at the very top of the high scenario would we envisage the proposed new limit to be at risk of being breached.

The low scenario assumes a zero percent growth across all routes – in effect grants remain constant over the period of analysis.

Table 1: Tier 2 grants – Baseline (rounded to nearest 500)
Central, High, Low volumes split by ICT, General (RLMT, SOL)

000's	Central	Low	High
RLMT	6,500	6,000	14,500
SOL	2,500	2,500	6,000
Tier 2 General	9,000	8,500	20,500
ICT Short term	9,000	8,500	9,500
ICT Long term	21,000	20,500	22,500
ICT	30,000	29,000	32,000
Tier 2 main	39,000	38,000	53,000

The above table shows the volume inflow estimates for 2012/13 which are then projected forward as explained. It is from this projected baseline that the impacts of policy proposals on Tier 2 volumes are estimated.

Option 2

Raising the qualification requirement from NQF4 to NQF6 for tier 2 entrants, excluding those applying for professions on the Shortage Occupation List (SOL) has the direct effect of rendering some migrants ineligible for application.

To estimate the proportion of potentially effected, and deterred, migrants, we have used management information to calculate the percentage of entrants from April 2011 to December 2011, who applied for roles with SOC codes, identified by the MAC, as requiring qualification to NQF4 but not NQF6 [see Annex A3.4 for list of SOC codes]. This percentage has been taken as representative of the proportion of applicants which will be excluded by the raising of the education threshold. The percentages of affected routes which fall between NQF4-6, and consequent % reductions on the baseline are as follows:

Table 2: % Tier 2 General and ICT immigrants educated at NQF4-6

RLMT	6%
ICT Short term	9%
ICT Long term	5%

Source: UKBA Management information

According to the MAC report, whilst they predict that there may be a positive, marginal, impact on migrant inflows arising for the relaxation of RLMT requirements, there is insufficient data available from Job Centre plus to plausibly estimate this impact. In line with the methodology proposed by the report, we therefore assume a zero immigrant flow impact for the policies of eliminating the need for advertising posts on Job Centre Plus for roles paying between £70k-£150k and for roles which require individuals qualified to PhD level.

Impact of Proposals

The table below shows the ten year total impact on projected grants to main applicants of restrictions on entrants qualified to NQF4 but not to NQF6.

Table 3. Total 10 year, post policy main applicant grants/flows as compared to the central baseline.

	Central baseline	Post policy	Reduction (%)
RLMT	70,500	66,000	-6%
SOL	30,000	30,000	0%
Tier 2 – General	100,500	98,500	-2%
Tier 2 – Intra Company Transfers Short Term	99,500	90,500	-9%
Tier 2 – Intra Company Transfers Long Term	236,000	223,500	-5%
Tier 2 – Intra Company Transfers	335,500	315,000	-6%

Source – Analysis of UKBA Management Information

Note – for the purpose of this policy, nurses are to be included at NQF6+, despite the suggestion by the MAC that they should be counted as qualified below NQF6.

Average yearly reduction in applications – Main Applicant reductions 2012/13 – 2021/22

	Central Scenario	Low Scenario	High Scenario
RLMT	-422	-367	-869
Tier 2 – Intra Company Transfers Short Term	-895	-778	-1079
Tier 2 – Intra Company Transfers Long Term	- 1,251	-1087	- 1,508

**Note this data does not immediately reconcile to Table 3, as it represents a yearly average reduction over 10 years, where as Table 3 represents 10 year total inflows, rounded to the nearest 500*

According to our central case estimates, if the proposed policy is maintained at the same level for the full ten years we anticipate it will result in an average yearly reduction of approximately 2,600 main applicant grants across ICT and RLMT, and a reduction of approximately 1,600 dependent grants across the same routes.

Impacts across sectors

The list of occupations provided by the MAC which are considered to require qualification to NQF4 but not NQF6, allows us to look historically at how many individuals have come through on these routes and look roughly at the proportional impacts on each profession of this policy relative to other professions on the list. From management information, five professions on the list in particular constitute the majority of entrants, these are; IT operating technicians (39%), Business related and associate professionals (17%), Financial accounting Technicians (13%), Office managers (11%) and Marketing professionals (7%). These professions comprise 87% of entrants in the professions that will be restricted under up-coming policy.

E.2 Net migration Impacts

Option 2

We anticipate that these proposals will maintain the downward pressure on, and control of, net migration through the initial reform of the Tier 1 and Tier 2 work-related migration routes.

E.3 Appraisal (Costs and Benefits)

In the following sections, the expected impacts of options 1 and 2 are set out. The estimated volume impacts of the policy framework are translated into monetary values for inclusion in the cost-benefit analysis under two broad headings – direct costs and benefits, and indirect, or “wider”, costs and benefits.

The **direct** costs and benefits are those that are clearly related to the activities of those coming through the routes under consideration, and the operations of institutions and the UKBA in processing their applications. The direct costs include training and familiarisation costs for the UKBA and sponsors, and reductions in UKBA fees income. The direct benefits are dominated by a reduction in UKBA processing costs as Tier 2 application volumes fall.

The **wider** costs and benefits are those more closely associated with economic output and labour market activity. The wider costs include the impact on UK GDP of lost output. The wider benefits of a reduction in Tier 2 volumes relate to reduced pressure on public services and improvements in social cohesion.

The following sections describe in more detail how costs and benefits have been calculated, and summarises the results. In general the method is straightforward: total costs and benefits are the product of a change in volume and an estimated unit cost or benefit, adjusted for the impact being considered and discounted at a rate of 3.5%, in line with HM Treasury Green Book guidance. Ranges are used to reflect the uncertainty in potential impacts.

Option 1 – do nothing

Costs

The ‘Do nothing’ option represents the baseline against which we analyse option 2. There will be a number of risks associated with option 1.

- There will be no change in the adverse social consequences of migration such as burdens on the tax payer;
- No improved public confidence in the migration system; and
- Net migration will not be reduced.

Benefits

The ‘Do nothing’ option represents the baseline against which we analyse option 2. Migrants and dependants that currently qualify for Tier 2 would continue to arrive and work in the UK.

Option 2 – Tighten Tier 2 entry criteria

The impacts of option 2 are set out below. We have used ranges in assumptions to estimate high and low scenario impacts. These are based on the high and low volume impact assumptions. In the absence of other information, the central estimates are assumed to be the mid-point of the low and high estimates, and these are set out in the summary table.

Direct Impacts

The direct impacts of the proposals are estimated by looking at the volumes affected by the policies across the groups identified, and then estimating the total direct costs and benefits of the proposals. The assumptions used to construct the cost and benefit estimates are set out below and a summary table can be found in Annex 3.

The impacts on businesses through changes in levels of employment are a direct impact. However, it is believed that working migrants, are marginal hires. Thus their wage is equal to their marginal productivity, and the cost in terms of lost output is equal to the benefit of the saved wage. Overall, the direct impact on business is expected to be zero. This is explained further on page 14.

Direct Costs

Set up costs

- Familiarisation, training and guidance costs for UKBA:

Familiarisation Costs for UKBA Staff: Staff processing applications from Tier 2 migrants will be required to be familiar with the rules changes for Tier 2 migrants. It is estimated that staff will require approximately five hours familiarisation. Assuming around 100 to 120 staff will require familiarisation training, at a wage of £14.28 per hour (the ASHE 2010 median hourly wage for public administration staff including on-costs of 21%), familiarisation is estimated to cost around £7.9k in 2012/13.

UKBA Staff Changes to Guidance: Changes to guidance and rules are assumed to take four members of staff around eight weeks to draft, check and amend. Assuming a wage of £14.28 as per above, this is estimated to cost around £16.5k in 2012/13

Private Sector Familiarisation Costs: Direct private sector costs of familiarisation use the stock of tier 2 sponsors and assume that one member of administrative staff will take one hour to familiarise themselves with the new changes at a wage of £9.79 (taken from the median administrative wage for admin staff, ASHE, 2010). This is estimated to cost around £216k in 2012/13.

Ongoing Costs

Fall in UKBA fee income for Tier 2 applications: Migrants, no longer eligible for sponsorship under Tier 2 will no longer apply for Tier 2 visas resulting in a direct cost to UKBA in lost fees. Using proposed UKBA visa fees, set to come into force in April 2012, and projected reductions in applications in Central, High and Low scenarios, we estimate that consequent fees lost from deterred migrants will range between £13m and £21m NPV in the ten years from 2012/13

Direct Benefits

Fall in UKBA case work costs for Tier 2 applications: Changing the qualification criteria for Tier 2 is expected to reduce the volume of applications and hence reduce UKBA case work costs. Applications for Tier 2 in 2012/13 cost £250 for Tier 2 General applicants and Long term ICT, and £227 for Short term ICT, based on UKBA estimates of associated unit costs. Assuming the volumes fall as predicted by the High, Central and low Cases outlined above, UKBA case work costs are estimated to fall by between £8 million and £13 million over 10 years (present value).

Fall in administrative burden on businesses and educational institutions: Under the current RLMT requirements, jobs are required to be advertised with Job Centre Plus and one other recognised medium. Under current proposals, businesses and educational institutions will no longer be required to advertise jobs with JobCentre Plus where the roles to be recruited for

meet the criteria specified above. Using an ASHE estimate of average hourly administrative staff wages, we estimate a benefit to businesses ranging between £81k and £578k over ten years (present value).

Wider Indirect Impacts – Monetised and Included in the NPV

Indirect Costs

Indirect Cost: Lost UK Output

Lost output is calculated by multiplying the employment rate and average anticipated wage of those migrants prevented from arriving and working in the UK. We use the Migrant Journey Analysis to anticipate how long each migrant may have stayed in the UK. For the first 5 years, we assume a 100% employment rate for Tier 2 migrants deterred. The average salary used for deterred RLMT migrants is £28,433 and for deterred ICT migrants, £28,952. After 5 years, we use evidence from the LFS to reduce this employment rate to 84%; the average for Non-EU Born migrants that have been in the UK for at least 5 years and came to work. For dependants, due to sample size issues, we use the average employment rate and salary for Non-EU born migrants that came to the UK to “accompany or join”; 54% and £19,500 respectively.

Under these assumptions the central estimate for the lost output of Tier 2 main applicants and dependants is £1629m over 10 years, within a range of £1516m in the low scenario and £2210m in the high scenario.

Impact on GDP per capita

The volume impacts are so small that the impact on static GDP per capita is anticipated to be negligible.

Over the longer-run, however, dynamic effects will have more of an impact on both GDP and GDP per capita. As skilled migrant workers are expected to have a positive dynamic impact on growth over the long-run, we would expect reductions in skilled Tier 2 migrants to have a negative dynamic impact on per capita growth. However, as the policy affects a small number of workers and not those deemed to be in shortage occupations, the dynamic impacts are likely to be relatively modest. In addition, there may be adjustment across the economy, for example if employers are incentivised to “up-skill” resident workers and improve average productivity in the UK.

The largest part of the costs from this proposal are derived from the negative impacts on GDP, however it is not possible to estimate the potential positive impacts which might offset the negative effects and so the NPV calculation does not take these into account.

Furthermore, under the low and central scenarios, there remains scope for both an increase in the number of Tier 2 migrants that still qualify and a change in the mix of inflows towards more highly skilled migrants in light of the new entry criteria. Such behavioural change would offset any negative impacts here but is not possible to predict the extent of this effect.

Impact on Public Services

The impacts on public services of option 2 are estimated using the following methodology:

- i. the cumulative reduction in main applicant and dependant volumes is broken down by age band;
- ii. a unit cost of public service provision is applied for each age band, adjusting for likely take-up rates (for example, participation rates in education);
- iii. the volumes and unit costs are multiplied to estimate total public service impacts.

The key assumption is that Tier 2 migrants and their dependants will use public services at the same rate as UK residents controlling for their age. Unit costs of public service provision have been provided for health and education services and unit costs of crime have been used to estimate the potential impact of fewer migrants on the criminal justice system.

Table 7 sets out the estimated savings in public service provision over 10 years (present value) for health, education and the criminal justice system. Further detail on the assumptions and methodology are set out in Annex 6.

Table 7 – Estimated 10 year savings from reduced public service provision – Option 2

Public Service	Low	High
Health	£47m	£70m
Education	£61m	£91m
Criminal Justice	£7m	£10m

There are a number of uncertainties around these estimates: firstly, participation rates in education and the average costs of schooling may change over time; secondly, the unit costs of health services across age bands may change over time; and thirdly, migrants may not take-up health and education services or have the same propensity to commit crime as the UK average.

There are also other public service impacts which we have been unable to quantify – these are discussed in table 11.

In addition, there is likely to be an impact on the public service workforce. This is discussed in more detail in the wider non-monetised impacts section below.

Impact on Welfare benefits

The impacts on welfare payments of a reduction in migrants associated with option 2 are estimated using the following methodology:

- i. the cumulative reduction in main applicant volumes is broken down by age band – only main applicant volumes are used as these are a proxy for the household benefit unit (it is the benefit unit that drives benefit claims);
- ii. a unit cost of welfare payment is applied for each age band across welfare benefit types, adjusting for likely take-up rates of those benefits
- iii. the volumes and unit costs are multiplied to estimate total changes in welfare payments

The key assumption is that Tier 2 migrants will take-up benefits at the same rate as UK residents (or EU8 migrants) controlling for their age. Unit costs of welfare benefit payments have been provided for Income-based Jobseekers Allowance, Employment Support Allowance, Housing Benefit, Council Tax Benefit, Attendance Allowance, Carer's Allowance, Disability Living Allowance, Child Tax Credit, Working Tax Credit and Child Benefits. LA Housing and Homelessness, Social Fund Payment, Residential Care Support and State Pension Credit have not been considered in this modelling so the total savings may be underestimated.

Table 8 sets out the estimated savings in welfare payments to migrants over 10 years (present value) in the low and high scenarios. Further detail on the assumptions and age bands are set out in Annex 3.

Table 8: Estimated 10 year savings from reduced welfare payments – Option 2

Welfare Savings	Low	High
Welfare Savings	£23m	£123m

There are a number of uncertainties around these estimates: firstly, benefit take-up rates may vary between migrants and UK residents; secondly, the take-up of benefits will change over time depending on the state of the economy and employment; and thirdly, reforms to benefits may affect future levels and availability of benefits to UK residents and migrants.

Wider Impacts – Non-monetised

Regional Impacts

This impact assessment assumes that Tier 2 migrants are distributed throughout the UK and there are no disproportionate impacts on a specific region.

Impact on Employers

If a migrant worker is no longer eligible to work then, under our assumption that migrant workers do not displace non-migrant workers, the economy suffers a loss in output equal at least to the migrant wage. The loss will be greater if, as well as the wage, the economy (and the employer) also lose the additional value added by the worker, over and above the wage. This is sometimes referred to as “producer surplus”; the additional output that the worker provides for the employer over and above the output represented by the wage cost.

In our analysis we have treated the loss as limited to the wage, with no loss of producer surplus. This assumption is justified in each of the following cases:

- (i) the migrant labour is employed at the margin, where the wage of the worker in a competitive labour market is driven to equal the output produced, with no element of producer surplus; or
- (ii) the migrant labour has low value-added, meaning that the producer surplus, although not zero, is nevertheless very low.

We contend that the migrant workers affected by this policy change are indeed marginal because the numbers affected are so low.

Impact on Social Cohesion

Option 2 reduces the volume of migrants and their dependants and may have a positive effect on social cohesion. We are unable to quantify the size of these effects.

Distributional Impacts

There may be some distributional effects associated with option 2 for migrants as those affected will be those that have the lowest earnings. There may however, be positive effects on lower paid resident workers if they are more likely to find employment. Overall, it is not possible to quantify the size of these effects

Summary Costs and Benefits

The summary monetised costs and benefits for inclusion in the NPV are set out in the table below for both the low, high and central scenarios. In the central case, the costs are expected to be £1,525 million and the benefits are expected to be £178 million over 10 years (present value). The Net Present Value is expected to be £1346 million.

Table 10: Summary monetised 10 year costs and benefits of option 2

Set Up Costs		10 yr NPV Low £m	10 yr NPV High £m	10 yr NPV Central £m
UKBA	Training and Familiarisation	£ 0.0	£ 0.0	£ 0.0
	Guidance Notes	£ 0.0	£ 0.0	£ 0.0
Private and third sector	Training – Sponsors	£ 0.2	£ 0.2	£ 0.2
Ongoing Costs				
UKBA	UKBA Reduction in Tier 2 fee income	£ 13	£ 21	£ 15
UK Economy	Reduction in Resident Output	£ 1,516	£ 2,210	£ 1,629
Total Costs		£ 1,529	£ 2,230	£ 1,644
Ongoing Benefits				
UKBA	UKBA Reduction in processing costs	£ 8	£ 13	£ 9
Public sector	Reduction in Education Costs	£ 61	£ 91	£ 67
	Reduction in Health Costs	£ 47	£ 70	£ 51
	Reduction in Crime Costs	£ 7	£ 10	£ 7
	Reduction in Welfare	£ 23	£ 123	£ 57
Private Sector	Reduction in administration	£ 0.1	£ 0.6	£ 0.2
Total Benefits		£ 145	£ 307	£ 191
Net Impacts		£ 1,384	£ 1,923	£ 1,453

Non-Monetised Costs and Benefits

A summary of the non-monetised costs and benefits are set out in the table below.

Table 11: Summary of Non-monetised impacts of option 1 and option 2

Non-Monetised Impact	Option 1	Option 2
Impact on GDP per capita	No impact on current GDP per capita or current impact of long-term Tier 2 migration on GDP per capita	Risk of negative short-term impact on GDP per capita although mitigated in that the average productivity of Tier 2 migrants that settle will be higher, and hence their long-term contribution to dynamic growth should be higher
Impact on Population	Risks of negative impact on population and associated population pressures over the long-run	Reduced risk of long-term population growth and population pressures in the UK over the long-run
Social Impacts – public service provision (health and education services)	Risks of continued negative social impacts associated with migrants and their dependants settling in the UK over the short and long-run	Reduced risk of negative social impacts associated with migrants and their dependants settling in the UK over the short and long-run
Social Impacts – congestion and the transport network	Risks of continued negative social impacts associated with migrants and their dependants settling in the UK over the short and long-run	Reduced risk of negative social impacts associated with migrants and their dependants settling in the UK over the short and long-run
Social Impacts – Housing	Risks of continued negative social impacts associated with migrants and their dependants settling in the UK over the short and long-run	Reduced risk of negative social impacts associated with migrants and their dependants settling in the UK over the short and long-run
Social Impacts – Crime	Risks of continued negative social impacts associated with migrants and their dependants settling in the UK over the short and long-run	Reduced risk of negative social impacts associated with migrants and their dependants settling in the UK over the short and long-run
Social Cohesion	Risks of continued negative social impacts associated with migrants and their dependants settling in the UK over the short and long-run	Reduced risk of negative social impacts associated with migrants and their dependants settling in the UK over the short and long-run

F. Risks

Policy risks

If employers were to respond to a relaxation in the RLMT rules by increasing their recruitment of non-EEA nationals, then we would expect to observe a corresponding increase in demand for Tier 2 visas. This may offset the expected reduction in net migration. However, this is a relatively small risk: only a small proportion of jobs in the labour market pay over £70,000 per annum and no employers reported to the MAC that they regularly fill high-salary jobs using resident workers.

Employers may not welcome the rise in skill level for Tier 2 general migrants due to the perception that this may inhibit their ability to recruit skilled migrants. The Government believes the labour market has been given adequate time to adjust to changes in migration policy, thus this is a minor risk. The changes outlined in this impact assessment concentrate on meeting the Government's desire to attract only the brightest and the best migrants to the UK.

Modelling risks

The estimation of the impact of the policy changes is based on a number of assumptions and is therefore subject to error.

As explained, recent changes in policy have made anticipating the future path of visas uncertain.

Lost output effects are based on the Migrant Journey Analysis assumptions.

Sensitivity Analysis

The numbers produced in the body of the Impact Assessment assume a zero per cent displacement rate of British Born workers. Applying a 23% displacement rate, as per the MAC report into the Analysis of Migration would significantly decrease the NPV of the policy. It may also increase annual costs to business through up skilling. The table below presents how the NPV may change in line with the displacement rate, where 35% is the upper bound for the displacement effect, based on the standard errors in the MAC report.

£m	0%	23%	35%
Low Scenario	-£1,282	-£943	-£766
Central Scenario	-£1,346	-£971	-£775
High Scenario	-£1,715	-£1,219	£960

Whilst the NPV would become less negative under displacement, we may anticipate upskilling costs to business where Tier 2 migrants are replaced with British Born workers.

One In One Out – Impact of regulation on businesses and third sector

It is anticipated that there will be a small net benefit to business through a reduction in the administrative burden of advertising posts in JobCentrePlus. The central estimate of this saving is £24,000 per annum.

Overall, training and familiarisation costs for the private sector are anticipated to be £216k in 2012/13 (Present Value).

There may be additional costs for employers if the reduction in skilled migrants requires them to up-skill resident labour in their place. Given the assumption of zero labour market displacement, there is not expected to be any replacement or need for up-skilling, although the risk may vary across different sectors.

Overall, the reduced annual administrative burden of advertising in Job Centre Plus is offset by the one-off training and familiarisation costs for the private sector, such that the measure qualifies as a In of around £1,000 over 10 years.

G. Enforcement

UKBA will enforce current and Tier 2 settlement policies. There is not expected to be an increase in enforcement activity or costs as a result of these policy proposals.

H. Summary and Recommendations

The table below outlines the summary costs and benefits of the proposed changes.

Table H.1 Costs and Benefits		
Option	Costs	Benefits
2	£1644 (PV over 10 years)	£191 (PV over 10 years)
Source: UKBA Analysis		

The preferred option is option 2 – alteration to Tier 2 Limit. There is a great deal of uncertainty around the NPV for this option but this option meets the Government's objectives.

I. Implementation

The Government plans to implement these changes from April 2012 onwards.

J. Monitoring and Evaluation

The effectiveness of the new regime will be monitored by the UK Border Agency. This will include:

- Monitoring the volume and characteristics of Tier 2 migrants and their dependants that apply for and qualify for entry to the UK under Tier 2;
- Monitoring IPS net migration to see if there are any changes in non-EU inflows post-policy-implementation.

K. Feedback

Feedback and findings from monitoring will be incorporated into the post-implementation review of the policy to inform future policy decisions on employment-related settlement.

L. Specific Impact Tests

See annex 1 for details.

Annex 1. Specific Impact Tests

Economic Impacts

Competition Assessment

The settlement salary criteria will apply to all migrants and will therefore affect all firms employing migrant workers equally. The proposals should not have an adverse impact on competition.

Small Firms Impact Test

The settlement salary criteria will apply to all migrants at settlement and will therefore affect all firms employing migrant workers of any size equally. Management information from the UK Border Agency suggests the breakdown of sponsors is as follows:

Organisation Size – Tier 2 Sponsor	Total	%
Large organisation (251 + employees)	3,879	18%
Medium organisation (51 – 250 employees)	4,507	20%
Small organisation (10 – 50 employees)	7,588	34%
Micro organisation (0 – 9 employees)	6,049	27%
Total	22,023	100%

Source: UKBA Management Information. These figures were extracted on the 03/11/2011 and are subject to change. Note – organisation size is self-declared by the sponsor and as such, may not be 100% accurate

It is possible that micro and small sponsors may be adversely affected by the proposals depending on the volume of Tier 2 migrants that they employ and the salaries they are being paid. It is not possible to exempt micro or small businesses as the policy objectives would not be met.

Environmental Impacts

Greenhouse Gas Assessment

No impact identified

Wider Environmental Issues

No impact identified

Social Impacts

Health and Well-being

Refer to Annex 4 for discussion of the social impacts.

Human Rights

No impact identified.

Justice

No significant impact identified. There may be a small increase in Judicial Reviews and costs in the first year of implementation, but these are not expected to be significant.

Rural Proofing

No impact identified

Sustainability

Sustainable Development

No impact identified

Annex 3. Assumptions

This section lists the main assumptions used in the cost benefit modelling.

Table A.3.1: Key assumptions for cost and benefit estimates

Set Up costs – Private Sector		
Stock of Tier 2 Sponsors	22,023	UKBA Management Information – November 2011. Volumes are correct at time of data extraction, but may change over time as sponsors join and/or de-register.
Hours of familiarisation required for Tier 2 sponsors	1	Assumes one member of staff per sponsor requires familiarisation training
Average wage of sponsor admin staff	£9.79	ASHE 2010 – hourly median wage for all administrative staff – http://www.statistics.gov.uk/downloads/theme_labour/ASHE-2010/tab2-5a.xls
On Costs	21%	Eurostat Labour Cost Survey 2007 ¹ On-costs are the additional costs (above the annual salary) incurred in employing someone to fill a position or undertake a role

Set Up costs – UKBA		
Staff Volumes – UK COS caseworkers		
Proportion of staff likely to need training	100%	UKBA Assumption. All settlement case workers will require familiarisation training
Hours of training and familiarisation required	5	UKBA Assumption
Hourly Wage of Public Admin staff	£14.28	ASHE 2010 – hourly median wage for public admin staff http://www.statistics.gov.uk/downloads/theme_labour/ASHE-2010/tab2-5a.xls
Guidance notes – weeks to produce	32	Expected to take four FTE staff eight weeks to construct guidance, update forms, and provide communications on changes
Judicial Review – volumes	1-5	UKBA Assumption
Cost to UKBA of a Judicial Review	£3,372	UKBA Management Information (2010/11)

Wider Impacts – Displacement, Upskilling and Lost Resident Output		
Tier 2 Average Wage of displaced migrant	£29,215	Refer to annex 5
Tier 2 Employment Rate (after 5 years)	82%	LFS Q3 2010 – Q2 2011. Employment rate for non-EU born who came to the UK to work and have been here over 5 years
Tier 2 Dependant Average Wage (after 5 years)	£19,526	Median wage of non-EU born coming to the UK as a dependant that has been in the UK over 5 years
Tier 2 Dependant Employment Rate (5 years)	57%	LFS Q1 – Q3 2010. Employment rate for those who came to the UK as a dependant and have been here long enough to settle
Tier 2 Dependants of Working Age	46%	Analysis of age distribution of Tier 2 Dependant Visas
Proportion of workers requiring up-skilling (if there is labour market displacement)	23%	Assumption. The remainder are assumed to be recruited through the Government skills strategy
% on the job NVQ training	80%	Assumption that the majority of training will be at work
Cost of NVQ Level 3 training	£5,500	Assumption based on NVQ courses costs from a range of institutions
Time taken to Train to NVQ Level 3 (years)	1.25	Assumption based on NVQ courses taking around one year to complete
Average wage of workers being up-skilled (if there is labour market displacement)	£24,200	ASHE 2010 – hourly median wage for all UK workers - http://www.statistics.gov.uk/downloads/theme_labour/ASHE-2010

¹ See: http://epp.eurostat.ec.europa.eu/portal/page/portal/labour_market/labour_costs/main_tables

Table A.3.2: Volume Modelling Assumptions

Volume Modelling assumptions	Value	Source
Tier 2 General entry volumes	9,000 to 20,700	UKBA Management Information
Tier 2 Intra Company Transfer Volumes	29,000 to 32,000	UKBA Management Information

Table A.3.3: List of creative occupations exempt from the proposals

SOC Code	Occupation Group
3411	Artists
3412	Authors, writers
3413	Actors, entertainers
3414	Dancers, choreographers
3422	Designers, clothing, product-related

Table A.3.4: List of Occupations meeting MAC criteria for being included in NQF4-6

SOC Code	Occupation
1112	Directors and chief executives of major organisations
1113	Senior officials in local government
1114	Senior officials of special interest organisations
1121	Production, works and maintenance managers
1122	Managers in construction
1123	Managers in mining and energy
1131	Financial managers and chartered secretaries
1132	Marketing and sales managers
1133	Purchasing managers
1134	Advertising and public relations managers
1135	Personnel, training and industrial relations managers
1136	Information and communication technology managers
1137	Research and development managers
1141	Quality assurance managers
1142	Customer care managers
1151	Financial institution managers
1161	Transport and distribution managers
1171	Officers in armed forces
1172	Police officers (inspectors and above)
1173	Senior officers in fire, ambulance, prison and related services
1174	Security managers
1181	Hospital and health service managers
1182	Pharmacy managers
1184	Social services managers
1212	Natural environment and conservation managers
2111	Chemists
2112	Biological scientists and biochemists
2113	Physicists, geologists and meteorologists
2121	Civil engineers
2122	Mechanical engineers
2123	Electrical engineers
2124	Electronics engineers
2125	Chemical engineers
2126	Design and development engineers
2127	Production and process engineers
2128	Planning and quality control engineers
2129	Engineering professionals n.e.c.
2131	IT strategy and planning professionals

2132	Software professionals
2211	Medical practitioners
2212	Psychologists
2213	Pharmacists/pharmacologists
2214	Ophthalmic opticians
2215	Dental practitioners
2216	Veterinarians
2311	Higher education teaching professionals
2312	Further education teaching professionals
2313	Education officers, school inspectors
2314	Secondary education teaching professionals
2315	Primary and nursery education teaching professionals
2316	Special needs education teaching professionals
2317	Registrars and senior administrators of educational establishments
2319	Teaching professionals n.e.c.
2321	Scientific researchers
2322	Social science researchers
2329	Researchers n.e.c.
2411	Solicitors and lawyers, judges and coroners
2419	Legal professionals n.e.c.
2421	Chartered and certified accountants
2422	Management accountants
2423	Management consultants, actuaries, economists and statisticians
2431	Architects
2432	Town planners
2433	Quantity surveyors
2434	Chartered surveyors (not quantity surveyors)
2441	Public service administrative professionals
2442	Social workers
2443	Probation officers
2444	Clergy
2451	Librarians
2452	Archivists and curators
3212	Midwives
3214	Medical radiographers
3215	Chiropodists
3221	Physiotherapists
3222	Occupational therapists
3223	Speech and language therapists
3229	Therapists n.e.c.
3415	Musicians
3416	Arts officers, producers and directors
3432	Broadcasting associate professionals
3512	Aircraft pilots and flight engineers
3532	Brokers
3534	Finance and investment analysts/advisers
3535	Taxation experts
3565	Inspectors of factories, utilities and trading standards
3568	Environmental health officers

Annex 4: Calculation of Output Loss

In order to calculate the lost output from migrants that no longer have entry to work in the UK, we need to understand not only how many no longer enter, but also for how long they would have remained working in the UK.

To understand how many migrants are likely to remain from each entry year cohort, we use evidence from the Migrant Journey Analysis. The proportions of migrants estimated to remain at the end of each year are found in the table below:

Table A4:1: Migrants Journey Analysis Survival Rates

Proportion of non-EEA migrants who entered the UK through the study or work leading to citizenship routes in 2004 with leave to remain in the UK at the end of each year		
Year ending	Study route	Work leading to citizenship route
2004	84%	81%
2005	57%	68%
2006	41%	59%
2007	32%	54%
2008	27%	49%
2009	21%	40%
Note: Work leading to citizenship route consists of main applicants in Tier 1, Tier 2 and their predecessor routes, including grants to dependants of these main applicants. Study route consists of main applicants in Tier 4 and its predecessor route, including grants to dependants of these main applicants. The numbers of migrants arriving in the UK in 2004 sampled in the UK Border Agency (2010) are as follows: study route, 185,600 cases; and work leading to citizenship route, 105,880 cases. Source: Migrant Journey Analysis: UK Border Agency, 2010		

For example, if 100 migrants arrive to work at the start of the period, of that cohort: 81 will remain at the end of year 1, 68 will remain at the end of year 2, 59 at end of year 3, 54 at end of year 4 and 49 at the end of year 5 and so on.

This is effect from 1 entry cohort only. Each year will see an additional 100 migrants, such that we get a staggered effect. At the end of year 2, we would see an increase in migrants of 68 migrants from the first entry cohort and 81 migrants from the second entry cohort, such that the full impact in year 2 will be 149 extra migrants in the UK.

To calculate the loss of output from migrants we carry on building up the stock over the full 10 years. We calculate the output loss by multiplying their anticipated wage their average employment rates.

Table A6:2 Estimated Survival Rates of Entry Cohort at end of each year

Route of Entry	Year 1	Year 2	Year 2	Year 4	Year 5	Year 6	Through to...	Year 10
RLMT Main	81%	68%	59%	54%	49%	40%		40%
Tier 2 ICT ST Main	81%	0%	0%	0%	0%	0%		0%
Tier 2 ICT LT	81%	68%	59%	54%	49%	40%		40%
RLMT Dependants	81%	68%	59%	54%	49%	40%		40%
Tier 2 ICT Short Term Dependants	81%	0%	0%	0%	0%	0%		0%
Tier 2 ICT Long Term Dependants	81%	68%	59%	54%	49%	40%		40%

Note: Short Term ICT is for less than 12 months so percentage falls to 0.

Table A5:3 Estimated Employment Rates of Working Age Migrants over Time

Employment Rates	Years 1 to 5	Years 5 to 10
RLMT Main	100%	82%
Tier 2 ICT ST Main	100%	82%
Tier 2 ICT LT	100%	82%
RLMT Dependants	57%	57%
Tier 2 ICT ST Dependants	57%	57%
Tier 2 ICT LT Dependants	57%	57%

Notes: Tier 2 migrants expected to have 100% employment rate as arrive for firm job. After 5 years, employment rate for those who came to the UK to work and have been here long enough to settle (5 years)

Dependants are the employment rate for those here for 5 years.

56% of dependants are of working age.

Table A5:4 Estimated Salary Levels

Wages	
RLMT Main	£28,835
Tier 2 ICT ST Main	£28,952
Tier 2 ICT LT	£28,952
RLMT Dependants	£19,526
Tier 2 ICT ST Dependants	£19,526
Tier 2 ICT LT Dependants	£19,526

Annex 5: Methodology to estimate the public service and welfare impacts

The presence of migrants in the UK places additional pressure on the provision of public services in the UK. We have attempted to quantify the impacts of a reduction in migrants as a result of the proposals to increase skills level on healthcare, education and the criminal justice system. The estimated savings are shown below.

Table A6.1 – Estimated savings from reduced public service provision

Public Service	Low	High
Health	£47m	£70m
Education	£61m	£91
Criminal Justice	£7m	£10m

Health

In general, lower levels of migrants settling in the UK might be expected to reduce the total demand for healthcare, although the extent will depend on the characteristics of migrants settling, and those prevented from settling. Individuals can have very differing healthcare needs – the old and the very young for example have, on average, high costs, while working age adults have much lower costs.

We assume that all Tier 2 Visas are working age migrants. An analysis of the age-related visa grants data found that 44% were children and 56% were working age adults. Of dependants, 55% were children, 43% were working age adults. Less than 1% were over 65.

To estimate the effect of the policies contained in option 2 on health care costs we inflate Hospital and Community Health Services (HCHS) per capita expenditure by age (1999-00, England)¹ by the increase in overall HCHS expenditure in England, and we assume that these per capita costs stay constant over the reference period. The figures we derive are as follows:

Table A6.2 – Annual HCHS per capita expenditure, 2010-11

Age	Per capita HCHS cost per annum
Under 5	£1,913
5 to 15	£446
16 to 44	£790
45 to 64	£1,107
65 to 74	£2,287
75 to 84	£4,057
Over 84	£6,360

We have assumed that all migrants that settle will settle permanently in the UK and thus would incur healthcare costs in each future year. The table below gives the estimated volume of migrants affected in each year of the IA under the central scenario assumptions.

Table A6.3 – Estimated cumulative volumes not requiring healthcare under option 2, 000s

Year	1	2	3	4	5	6	7	8	9	10
Cumulative volumes - Central	3	4	6	7	8	9	11	12	13	14

We have used the volumes figures outlined above combined with the HCHS costs above to calculate the reduction in healthcare costs resulting from a decrease in migrants. Where the age bands do not compute with the healthcare ranges we have assumed that ages are equally distributed within the bands. In our central scenario, the 10 year healthcare savings are £51million. Under the low and high scenarios, the healthcare costs range from £47 to £70million.

¹ See: http://www.ohe.org/page/knowledge/schools/appendix/nhs_cost.cfm

Education

The policy proposals are expected to affect state and independent schools through a reduction in the number of migrants and their dependants who will settle and require education in the UK.

Forthcoming research by the National Institute of Economic Research (NIESR) suggests that Tier 1 and Tier 2 migrants are more likely to have pre-school children than the population as a whole and therefore, will make fewer initial demands on education services. These demands will increase as the children reach school age. However, reductions in Tier 2 migrants are likely to have a relatively small aggregate effect on the demand for teachers over the reference period, as these economic migrants represent only a small subset of the total migrant population. However, there may be a larger effect at the local level.

We have estimated that reducing the volumes Tier 2 work routes could lower education spending by around £62million (present value) over ten years. This assumes that 54% of dependants are aged between 0 and 16 and a further 1% are aged between 16 and 18. We have taken ageing into account and constructed an estimate of children moving through the schooling system. On advice from the Department of Education (DfE), we have assumed a participation rate of 82% for 0 to 15 year olds, and 67% for 16 to 18 year olds. The cost per year per pupil is expected to be £5,310; this is based on DfE's published revenue funding per school pupil 2010/11 plan for pupils aged 3 to 19.² This amount does not include capital spending and is the best available estimate of the variable costs associated with education. We have assumed that the unit funding will stay constant during the reference period. However the spending review announced that unit funding will need to fall and therefore the cost savings are overestimated in this respect, but it is uncertain by how much.

We have assumed that children of those settling would mainly attend state schools, but that 7% would attend independent schools, in line with the average for the UK population.³ However, the forthcoming NIESR research suggests that the children of Tier 1 and Tier 2 migrants may be more likely to attend independent schools. Costs at independent schools may differ, and revenue may be lost at independent schools.

The participation age will rise to 17 in 2013 and to 18 in 2015; the figures in this IA do not consider the impact of this change and will therefore underestimate the benefits in this respect. The IA has also assumed the current participation rate for those aged between 16 and 18 will remain constant, but this may be subject to change over time. Schools and colleges may also respond to falling numbers of non-EEA students by recruiting more UK or EU domiciled students. This would lower the estimated cost savings.

Criminal Justice System

Reducing the volume of migrants arriving in the UK could lead to reductions in expenditure on the criminal justice system. We have used data from the Offending Crime and Justice Survey 2006⁴ and the Offending Crime and Justice Survey 2003⁵, to estimate the likelihood that an individual of a certain age would commit a crime by crime type.

Neither the police nor the criminal justice sector routinely record activity by nationality or migrant status. Thus we have assumed that the propensity of non-EU migrants settling in the UK through employment routes to commit crime is the same as that of British nationals of the same age group.

We used 2006 criminal justice costs by crime type⁶ inflated to 2011 prices and the propensity to commit crime to obtain the estimates shown below for the annual criminal justice cost per person dependant on age.

2 (<http://www.education.gov.uk/rsgateway/DB/TIM/m002012/NSRStatsJuneGDP140809.xls>)

3 See: <http://www.education.gov.uk/rsgateway/DB/SFR/s001012/index.shtml>

4 <http://rds.homeoffice.gov.uk/rds/pdfs08/hosb0908.pdf>

5 <http://rds.homeoffice.gov.uk/rds/pdfs05/hors275.pdf>

6 <http://rds.homeoffice.gov.uk/rds/pdfs05/rdsolr3005.pdf>

Table A6.4 – The annual unit criminal justice costs of crime by age.

Age Band	Unit Cost Per Annum
10-15	£251
16-23	£283
23-45	£74

We estimate that reducing the volume of migrants settling in the UK through altering the Tier 2 entry criteria could result in savings to the criminal justice system of £7m to £10m (present value) over 10 years.

Welfare savings

Gaining settlement in the UK gives migrants a number of entitlements. One of these is the ability to claim welfare benefits from DWP and HMRC. Reducing the volume of people eligible to claim these benefits, through reducing the volume of people settling in the UK, equates to a saving to the UK government. We have attempted to quantify the value of these savings. We recognise that these estimates are very uncertain but they give an indication of the scale of the possible benefits.

Estimating the total impact is a complicated calculation. It depends upon the modelled reduction in migrants settling in the UK relative to the current position, what proportion of these will claim benefits and for what duration. Furthermore, benefits in the UK are usually distributed in combinations depending on earnings, family size etc.

We assume migrants that stay in the UK for longer than 5 years go on to claim settlement. The policies assessed in this IA will reduce volumes eligible to claim welfare benefits. Increasing the Tier 2 entry criteria will reduce the number of main applicant migrants settling in the UK through employment routes and potentially staying in the UK indefinitely. Main applicant volumes are used as these represent the “benefit unit” that is eligible to claim benefits for the entire household. The estimated cumulative volumes of main applicants affected are the given in the table below:

Table A6.5 – Cumulative volumes of benefit unit no longer eligible to receive welfare benefits

Year	Reduction in main applicants under option 2 - Low	Reduction in main applicants under option 2 - High
Year 1	0	0
Year 2	0	0
Year 3	0	0
Year 4	0	0
Year 5	0	0
Year 6	5,000	8,000
Year 7	6,000	9,000
Year 8	6,000	10,000
Year 9	7,000	11,000
Year 10	7,000	12,000

DWP and HMRC do not record migrant status or nationality for benefits claimants. Therefore proxies are used to estimate the take up rate for the categories of benefit units. For economic migrants, we estimate the take-up rates of the main applicant as they are the head of the benefit unit. The take-up rates take the whole of the benefit unit into account, so estimates are not generated for dependants. A benefit unit is defined as an adult plus their spouse (even if not married) plus any dependant children.

The percentage of the UK population who take up benefits – by benefit unit

Several sources have been used to build a range around the benefit take-up rate of benefit units:

- *Minimum of range – Labour Force Survey:* The Labour Force Survey typically underestimates the take up of benefits; hence this has used this as the minimum possible impacts. The LFS was used to identify migrants who had come to the UK for the purpose of work more than five years ago and thus are now eligible to claim benefits. Four quarters of data was used to ensure sufficient sample sizes.

- *Maximum of range - The percentage of migrants who claimed out-of-work benefits within 6 months of registering for a National Insurance Number (NINo):* This data is collected by DWP⁷, but is limited in that not all migrants who claim benefits register for NINos and of those who do, many are likely to claim benefits after 6 months. This is used to proxy take up rates for out of work benefits such as Job Seekers Allowance (JSA).
- *Maximum of range – The proportion of benefit units who claim other benefits adjusted for the age of migrants settling through Tier 2:* DWP⁸ collect and publish data based on the proportion of benefit units claiming each type of benefit by age and type of unit. We have used data on the age of each benefit unit adjusted for the age of migrants prevented from settling in the UK to estimate the impact of Tier 2 migrants not being able to settle.

Benefit Amounts

Assumptions around the likely amounts of support provided were either taken from publicly available figures or provided by other Government departments (DWP, HMRC, CLG and DH). We have used average figures despite some benefits being determined by individual circumstances. This implies that Tier 2 migrants settling have the same characteristics as the rest of the population.

The estimated figures only take into account the amount spent on income based job seekers allowance, income support, employment support allowance (ESA), tax credits, housing benefit, council tax benefit, child benefits (child benefit and child tax credit), disability living allowance, carers allowance and attendance allowance. This estimate does not include various other benefits such as social housing and homelessness assistance, access to Higher Education at the home rate and any wider social impacts.

The table below sets out the benefit amounts and the estimated take-up which have been applied to the volumes of those no longer eligible.

Table A6.6 – benefit amounts and estimated take up by benefit unit.

Benefit Type	Benefit Amounts		Take-up rate		Note on Assumptions
	Amount per week	Annual amount	Min	Max	
Jobseeker's Allowance	£61.73	£3,210	1.2%	4.6%	Minimum: Based on LFS 2010 Q1 - Q4. Surveys migrants who have come to the UK to work more than five years ago - to proxy for ability to claim benefits. Maximum: Based on proportion of NINo registrations to adult overseas nationals entering the UK and claiming out of work benefits
Income support	£82.29	£4,279	2.4%	4.6%	
Employment Support Allowance	£73.94	£3,845	0.2%	4.6%	
Housing benefit	£87.18	£4,533	5.7%	11.0%	Minimum: Based on LFS 2010 Q1 - Q4. Surveys migrants who have come to the UK to work more than five years ago - to proxy for ability to claim benefits. These migrants are likely to be head of household, thus head of benefit unit, thus figures are comparable with maximum. Maximum: Based on proportion of benefit units in the UK who claim housing benefits, adjusted for age of benefit units and age of ODW migrants.
Attendance Allowance	£61.16	£3,180	0.1%	0.0%	
Carer's allowance	£53.79	£2,797	0.3%	1.2%	
Disability living allowance	£71.84	£3,736	2.5%	5.0%	
Council tax benefit	£15.76	£820	5.8%	12.5%	
Child tax credit		£3,151.00	18.6%	21.4%	
Working tax credit		£1,228.00	6.0%	8.3%	
Social fund payment					
Child benefit		£1,500	17.4%	32.5%	

⁷ See: http://www.dwp.gov.uk/asd/asd1/tabtools/nino_alloc_summ_tables_may09.xls

⁸ See: http://www.dwp.gov.uk/asd/asd1/tabtools/nino_alloc_summ_tables_may09.xls

The table below sets out the expected savings from reducing the volume of people who are eligible to claim welfare benefits. **Please note: there is a high degree of uncertainty around these estimates.**

Table A5.7 – Estimated reductions in welfare expenditure

Welfare Savings	Low	High
Option 2 savings	£20m	£110m

Note - the minimum figure assumes that the average support duration for the various types is 6 months, the maximum assumes 1 year.

The estimates presented in this impact assessment do not take account of the universal credit proposals as the impact on entitlements to migrants is not yet clear.

Universal Credit is expected to be open to new claims in October 2013, with individuals being migrated over from the existing income-related benefits over the subsequent four years. A majority of households will be entitled to higher entitlements under Universal Credit, with 85% of gains going to those in the bottom two quintiles of the income distribution. Whilst some households will have lower entitlements under Universal Credit, it is important to recognise that transitional protection will ensure there are no cash losers at the point of change. Overall, it is estimated that benefit expenditure will be around £2.6bn higher once Universal Credit is fully implemented. This estimate includes an increase of £2bn due to changes in entitlement rules and totals around £2.6bn after accounting for increased take-up. Offsetting this, it is estimated that there will be savings of around £2bn due to reduced fraud, error and overpayments together with changes to the earnings disregards that currently exist in tax credits.