

Potential impacts of immigration policies based on skills and salary thresholds in London

Summary of Current Issues Notes 58 & 59

July 2019



copyright

Greater London Authority
July 2019

Published by

Greater London Authority
City Hall
The Queens Walk
London SE1 2AA

www.london.gov.uk

Tel 020 7983 4000

Minicom 020 7983 4000

Cover photograph

© Shutterstock

For more information about this publication, please contact:

GLA Economics

Tel 020 7983 4000

Email glaeconomics@london.gov.uk

GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics form a basis for the policy and investment decisions facing the Mayor of London and the GLA group. GLA Economics uses a wide range of information and data sourced from third party suppliers within its analysis and reports. GLA Economics cannot be held responsible for the accuracy or timeliness of this information and data. The GLA will not be liable for any losses suffered or liabilities incurred by a party as a result of that party relying in any way on the information contained in this report.

Contents

| | | |
|---|-------------------------------|---|
| 1 | Introduction..... | 2 |
| 2 | Background | 3 |
| 3 | Scope of this work..... | 4 |
| 4 | Our approach..... | 6 |
| 5 | Summary of key findings | 7 |

1 Introduction

The Government recently set out plans for a ‘skills-based’ immigration system post-Brexit.¹ To inform debate, GLA Economics have produced two Current Issues Notes aimed at understanding which areas of London’s labour market are likely to be most affected by the proposals. Drawing on a wide range of published data sources, they aim to shed light on the following questions:

Current Issues Note 58: **Which occupations may be most affected by the new £30,000 minimum salary and RQF3+ skills threshold proposals? Who works in these roles?**
How does the list of affected occupations change as the salary threshold is reduced towards £21,000?

Current Issues Note 59: **In which occupations is the greatest disruption most likely from the proposed £30,000 minimum salary and RQF3+ skills threshold proposals?**

Current Issues Note 59 builds on the first part of Current Issues Note 58 by considering (i) the economic or social value of different occupations, (ii) the recent reliance on EEA workers and (iii) the ability of occupations to adjust to labour supply shortages. It therefore replicates at a London level economic analysis carried out by the [Home Office](#) on the Government’s proposals.²

This note provides a summary of key information related to: the background to this research, some points of caution for interpreting the results, and the main findings from the research.

¹ HM Government (2018) [The UK’s future skills-based immigration system](#)

² Home Office (2018) [Technical paper to accompany the ‘The UK’s future skills-based immigration system’ economic appraisal](#)

2 Background

Workers born in the rest of the European Economic Area (EEA) have made an increasingly significant contribution to London's labour market across a range of industries and occupations. While growth in the stock of jobs held by EEA workers appears to have slowed since the time of the 2016 EU Referendum, over 14% – approximately 762,000 – of jobs in London are now held by people born in the rest of the EEA, compared to 6% in the rest of the UK (see Current Issues Note 59).

In December 2018 the Government published a [White Paper](#) setting out its plans for the UK immigration system post-Brexit. In-line with recommendations from the [Migration Advisory Committee](#) (MAC) the White Paper makes the case for a single 'skills-based' immigration system once free movement of persons with the EEA ends. The proposals prioritise migration for medium and higher-skilled work and do not include a long-term route for lower-skilled work.

This prioritisation is to be realised through a combination of skills and salary thresholds under a skilled workers route, i.e. through changes to the existing Tier 2 visa route. Key measures include:

- Extending eligibility for the work visa system to include occupations at intermediate skills levels (RQF levels 3-5), not just graduate level jobs (RQF 6 and above) as at present.³
- Retaining the current minimum salary threshold for experienced workers at £30,000 per year, subject to a period of engagement with businesses and employers.

This contrasts with the current immigration system where migrants from the EEA at all skill and salary levels can come to the UK to work.

There are concerns about the potential impact of these proposals for employers who are currently reliant on EEA workers, especially given the high share of jobs which pay less than £30,000 per year in the UK, including in London.⁴ The White Paper acknowledges that in some circumstances there may be flexibility to allow migration at lower salary levels. For example, where specific skills are in shortage, or for new graduates as in the current Tier 2 system. The Government is also planning discussions with businesses and employers on the appropriate salary thresholds.

³ RQF is the Regulated Qualifications Framework. The skill categories are designed to reflect how much training and experience is required for someone to do a job.

⁴ 46% of employee jobs in London were paid below this level in 2017. Source: ONS Annual Survey of Hours and Earnings 2017

3 Scope of this work

While London's labour market is likely to reach a new balance in the long run – one that accounts for changes to both the supply and demand for labour – the move to a new 'skills-based' immigration system is likely to pose labour market challenges in the short to medium term. For example:

- There are risks of labour shortages having negative impacts on business performance including through loss of orders or higher operating costs.⁵
- In sectors where there are fewer alternatives to EEA workers some businesses might 'grow more slowly, contract or even disappear'.⁶
- Lower employment in one occupation could also lead to undesirable spillovers for other occupations (e.g. if 'bottlenecks' constrain economic activity).

However, it's important to keep in mind that the immigration system is complex, and our research does not offer definitive judgments about the impact of every aspect of the Government's proposals. These notes are focused on two of the key measures from the White Paper which have received most attention from employers and other stakeholders – namely the RQF3+ skills and £30,000 minimum salary thresholds. The following points are not included in our analysis:

- The Government has advocated temporary work visas as a transitional measure and asked the MAC to review the [Shortage Occupation List](#). We do not incorporate either of these measures, and it remains unclear to what extent they could meet the needs of employers.⁷
- There is not one single route or salary threshold under the existing work visa system: there are, for example, exceptions in-place for certain roles (e.g. certain public service occupations only need to meet 'standard rates of pay' for the relevant job) and a lower threshold of £20,800 for new entrants (i.e. young people getting their first visas).⁸ These variations are also not incorporated in our analysis and remain difficult to evaluate.
- The White Paper also proposes to remove the cap on the numbers of migrants under Tier 2 and that, combined with the lower skills threshold, could increase the opportunities for non-EEA workers to migrate to the UK (although they would still be subject to the same salary thresholds). Box 1 summarises the different impacts of proposed immigration policy changes on four broad groups of work-related migrants based on work by Portes & Forte.

Given these caveats, our findings should only be interpreted as a starting point for understanding which occupations may face the greatest difficulties under the proposed future immigration system. While other elements or policies could alleviate the impacts for some identified occupations, there could equally be highly affected roles which are not recognised in our work.

⁵ The [Employer Skills Survey](#) (2017) reports on the impacts faced by London employers who have difficulty filling vacancies because of skills shortages. Among the more common are loss of business orders and increased operating costs (both 44%).

⁶ Migration Advisory Committee (2018) [EEA-workers In the UK labour market: Interim Update](#)

⁷ For useful discussions see, for example: Sumption, M. (2019) [Is Employer Sponsorship a Good Way to Manage Labour Migration?](#) and Consterdine, E. (2019) [Youth Mobility Scheme: The Panacea for Ending Free Movement?](#)

⁸ See, for example: Migration Observatory (2019) [Threshold? Which threshold?](#). Note: for experienced workers the current salary threshold is £30,000 or the 25th percentile of the occupational pay distribution, whichever is higher. For some roles the threshold is substantially above the minimum (e.g. aircraft pilots must earn at least £69,600). Yet new entrants have a lower salary threshold which can be as low as £20,800 for some occupations, while the salary threshold for some workers in health and education is based on national pay scales. Our analysis focuses on the £30,000 minimum salary threshold level (and other variants).

Box 1: Work-related migration: options for different groups post-Brexit

A recent report by Portes & Forte (2019) summarises the varying impacts of the proposed post-Brexit immigration policy changes on four broad categories of work-related migrants:

- 1) **EEA migrants earning less than £30,000 per year.** Currently benefit from free movement. Under the proposed system, they would not be able to obtain a Tier 2 visa (although some may be able to move to the UK through other routes which allow work). They could also be eligible for new temporary visa routes.
- 2) **EEA migrants earning more than £30,000 per year.** Again, benefit from free movement at present. In future, they would (in principle) be able to secure a work visa but would also face significant new barriers. For example: they would have to have a job offer, they or their employers would need to pay various fees and charges, and the current bureaucratic process is burdensome. As well as these costs, there are other reasons that it is less attractive to be resident in the UK on a Tier 2 visa than via freedom of movement (e.g. fewer rights to public services and extra barriers when seeking permanent settlement).
- 3) **Non-EU migrants earning less than £30,000 per year.** Cannot usually migrate for work purposes to the UK under the current regime. Under the new immigration system some people in this group, i.e. those from 'low-risk' countries, might be able apply for a temporary work visa. Beyond this, there will be no significant direct effects for this group.
- 4) **Non-EU migrants earning more than £30,000 per year.** The White Paper sets out several measures that will have the effect of liberalising migration for this group. In particular, the removal of the current quota of 20,700 for Tier 2 visas will mean that there is no longer an upper limit on numbers; while a reduction in the minimum skill level and measures to streamline and simplify the visa system would also have an impact.

Source: Adapted from: Portes, J. & Forte, G. (2019) [Migration in Wales: The impact of post-Brexit policy changes](#)

4 Our approach

The research we have carried out draws heavily on data provided by the Office for National Statistics (ONS), including published data from the [Annual Population Survey](#) (APS) and [Annual Survey of Hours and Earnings](#) (ASHE). Yet, as with any analysis of this kind, there are also data issues and methodological assumptions to be aware of. Some of the main issues relate to:

- *Data sources* – imperfect data (e.g. survey data) mean that confidence intervals can be large. This is particularly true for detailed occupations and at a sub-national level.
- *Data availability* – our analysis is mainly static, based on the latest year of data; it does not consider the flow of workers by occupation (for which data is unavailable). As such, we assume that the EEA job share and salary of the current stock of workers in occupations accurately reflects the flow of workers moving into those occupations.⁹ Our data on jobs also does not distinguish between employees and self-employed workers.
- *Assumptions* – any labour market modelling requires the use of evidence-based judgements, for example about indicators for labour market adjustment. Where data is missing at a London level we also impute data based on what information is available.
- *Behavioural response and change* – predicting behaviour change is inherently uncertain, including the ability for employers to respond to changes in the supply of EEA migrants.

The results of our analysis should be interpreted with these caveats in mind and treated with due caution. More in-depth methodological guidance can be found in the full publications.

⁹ So, for example, if occupation X currently has 20% of jobs earning under £30,000 a year an implicit assumption is made that 20% of workers going into jobs in that occupation will also be earning under £30,000.

5 Summary of key findings

Having highlighted the main caveats related to the scope and approach to this work, we now turn to the main findings emerging from the research. Again, there is more detail in each of the notes.

Current Issues Note 58: Skills and salary threshold analysis

Some occupations in London stand to be more affected by the introduction of the proposed skills and salary thresholds than others. In the first instance this will depend on the skills and earnings levels associated with different occupations, as well as their level of reliance on EEA workers. On this basis the evidence shows that:

- **A third of jobs in London are in occupations that fail to meet the proposed qualification threshold** (RQF level 3 and above).
- **London has a higher proportion of lower-skilled (below RQF level 3) jobs filled by EEA workers than the UK as a whole.** Around 301,500 jobs in the capital's lower-skilled occupations were filled by workers born in the rest of the EEA.
- **Thirty-three occupations that meet the skills requirements have at least a quarter of jobs paying below the £30,000 salary threshold**, although London has fewer occupations in which at least half of the jobs pay under the salary threshold (12) compared to the UK overall (24).
- **Within those occupations that meet the skills threshold an estimated 148,000 jobs in the capital pay below £30,000 and are held by EEA workers.** 'Construction and building trades' has the largest number of EEA-held jobs paying below £30,000 per year (24,900) followed by 'Food preparation and hospitality trades' (13,700).
- **Overall, 60% of jobs held by EEA workers in London would not meet the proposed skills and salary criteria.**
- **In London, the largest proportion of EEA workers in jobs under the proposed skills and/or salary threshold are aged 30 to 44.**
- **The majority of EEA workers in jobs that do not meet the thresholds are male, white and working full-time.** However, EEA workers in jobs below the skills threshold are more likely to be female, non-white and working part-time than their counterparts in jobs that meet the skills requirement but not the salary threshold.
- **An alternative £21,000 salary threshold** – broadly equivalent to a full-time job at the London Living wage threshold – **would more than halve the number of jobs held by EEA workers that fail to meet the salary threshold (to 70,200).**
- **And only two occupations would have over half of jobs paying below the alternative £21,000 salary threshold.**
- **'Construction and building trades' would have the largest decline in EEA-held jobs under the lower salary threshold** – from 24,900 to 11,800. This alone accounts for 17% of the overall London reduction in jobs held by EEA workers earning under £21,000 rather than £30,000.

A summary of the results (with a £30,000 minimum salary) is illustrated in Figure 1. Table 1 sets out the results for 47 occupations that meet the RQF3+ skill level and have at least 10,000 jobs in London with varying minimum salary thresholds.

Figure 1: Impact of the new migration system based on RQF3+ Skills and £30,000 Salary Threshold (Current Issues Note 58) (o/w = of which)

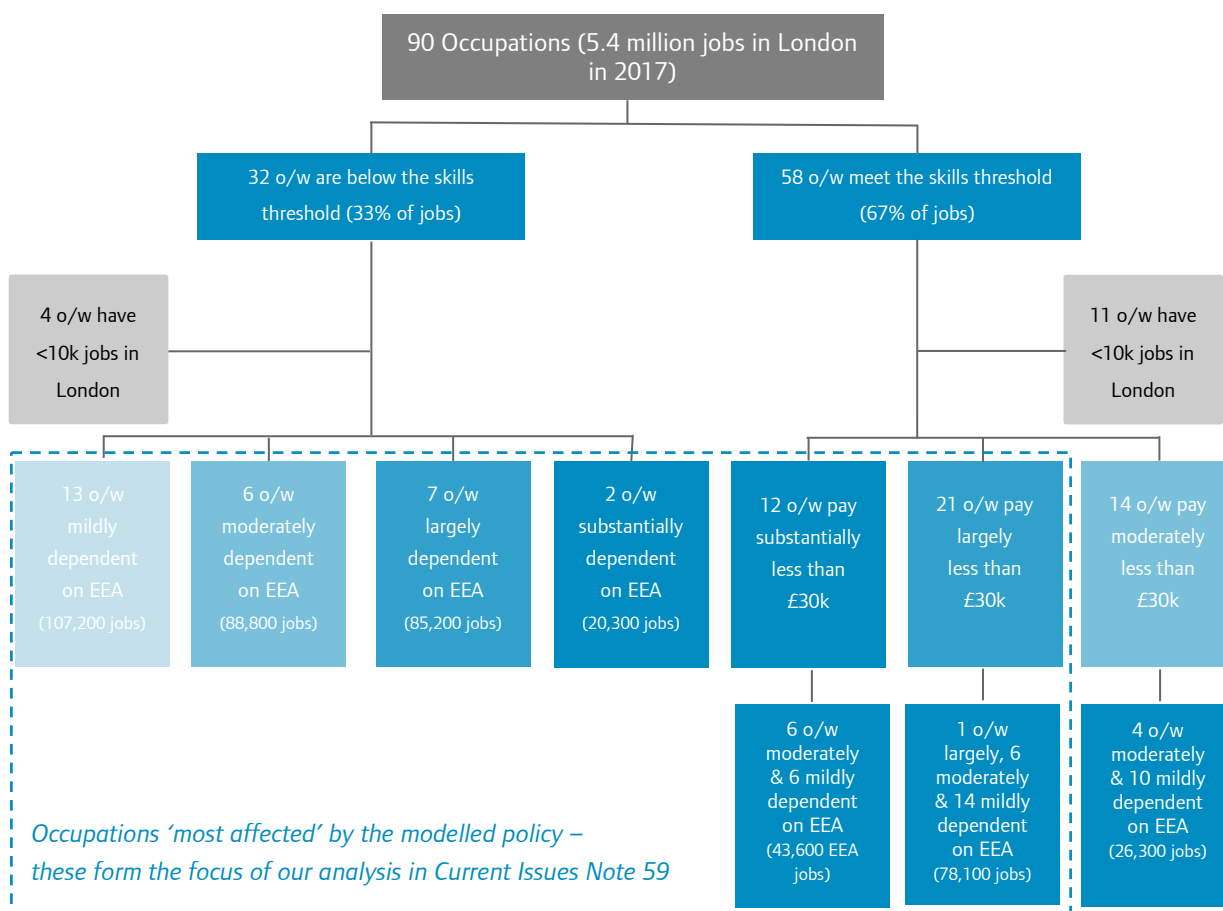


Table 1: Occupations (RQF3+) affected in London by salary threshold level (Current Issues Note 58)

| | Number of 3-digit occupations affected by category (estimated number of EEA jobs currently paid below threshold) | | | |
|-------------------------------------|---|-----------------|----------------|----------------|
| | £30,000 | £27,000 | £24,000 | £21,000 |
| Substantially: >50% below | 12 (43,600) | 6 (25,500) | 4 (18,800) | 2 (10,900) |
| Largely: 25%-50% below | 21 (78,100) | 18 (54,400) | 9 (7,600) | 5 (6,500) |
| Moderately: <25% below | 14 (26,300) | 23 (35,600) | 34 (61,900) | 40 (52,900) |
| Total | 47 (148,000) | 47 (115,500) | 47 (88,300) | 47 (70,300) |

Source: ONS APS / ASHE and GLA Economics' calculations.

Note: total jobs estimates are based on the sum of jobs across three-digit occupations for which data is available. The analysis is based on the impact of a single threshold only, e.g. no adjustment is made where the 25th percentile of earnings is higher. The following definitions are used:

'Substantially dependent' is defined as occupations where more than 50% of jobs are held by people born in the EEA; 'largely dependent' is where between 25% and 50% of jobs are held by EEA workers; 'moderately dependent' is where between 15% and 25% of jobs are held by EEA workers; and 'mildly dependent' is where the proportion is below 15%.

'Pay substantially less' than £30,000 (or the £27k, £24k, £21k threshold in Table 1) is defined as having over 50% of jobs paying under the threshold, 'pay largely less' is where between 25% and 50% of jobs pay under the threshold and 'pay moderately less' is where fewer than 25% of jobs pay below the threshold.

Current Issues Note 59: Scope for labour market adjustment and relative importance

In reality, the impact of a reduction in the availability of EEA workers will also depend, to some degree, on the characteristics of an occupation and wider economic factors. For example, to what extent employers have been reliant on EEA workers in recent years or are already encountering difficulties in filling vacancies in certain occupations. Some roles will also be of high economic value or make an important contribution to public service delivery.

To assess which occupations may face the greatest difficulties in adjusting to the modelled policy proposals and get a sense of the relative importance of the (potential) impacts, our second note considers a further set of three indicators:

- i. High wage / high contribution to public services – this indicator looks at the relative importance of occupations affected, either economic value (as proxied by high average wages) or social value (as proxied by high contribution to public service industries).
- ii. Recent reliance on EEA workers – this indicator considers the change in jobs held by EEA workers by three-digit occupational group from 2012 to 2017.
- iii. Potential difficulty for adjustment – this indicator aims to measure the ability of occupations to adjust to unexpected changes in the labour market, either by substituting labour for labour or by substituting capital for labour.

Following an approach developed by the Home Office we analyse and rank occupations under nine sub-components which make-up these indicators. Using this approach we identify:

- **62 out of 90 three-digit occupations as being ‘highly affected by the modelled policy’ in London.** These are occupations with at least 10,000 jobs and which are either below RQF level 3 or are medium and higher-skilled roles where at least 25% of employee jobs earn below £30,000 a year (see Figure 1).¹⁰ They represent the focus of this analysis.
- Of these occupations we identify **37 as having limited scope to adjust to labour supply shortages and/or a high recent reliance on EEA workers**, most of which are medium or higher-skilled occupations (RQF3+). We also identify a further four occupations as having a relatively high economic or social value (Figures 2-3).¹¹
- Combined these 41 occupations account for over half of the current stock of jobs in the capital, including two-thirds of the jobs currently held by EEA workers. Note, however, it’s primarily the *flow* of migrants into these roles that would be (directly) affected by the proposed changes to immigration policy, not the stock.
- **In several of these roles the share of jobs held by EEA workers and employee jobs paid below £30,000 a year also far exceed the London average.** On this basis certain roles, such as ‘Childcare Services and ‘Elementary Cleaning’, seem particularly exposed to the modelled policy. Many of these are lower-skilled (below RQF3) occupations and would be unable to recruit long-term migrants regardless of salary levels.

These results are further illustrated in Figures 2-4 (overleaf).

¹⁰ Looking back at Figure 1: this includes the 28 occupations below RQF3 with at least 10,000 jobs in London, as well as 33 occupations with at least 10,000 jobs where at least 25% of employee jobs are paid below £30,000 a year (the ‘substantially less’ and ‘largely less’ groups). By including a 1 percentage point margin of error in relation to employee earnings in the capital we also include ‘Health Professionals’ (24% of employee jobs paid below £30,000 in London) within our analysis in Current Issues Note 59.

¹¹ Note: there is a large degree of overlap in the occupations we identify as facing labour market adjustment difficulties and/or of high relative value in London and those we identify in the UK as a whole, suggesting common areas of challenge post-Brexit.

Figure 2: Medium and higher-skilled occupations (RQF level 3 and above) facing labour market adjustment difficulties and/or of high relative value, London (Current Issues Note 59)

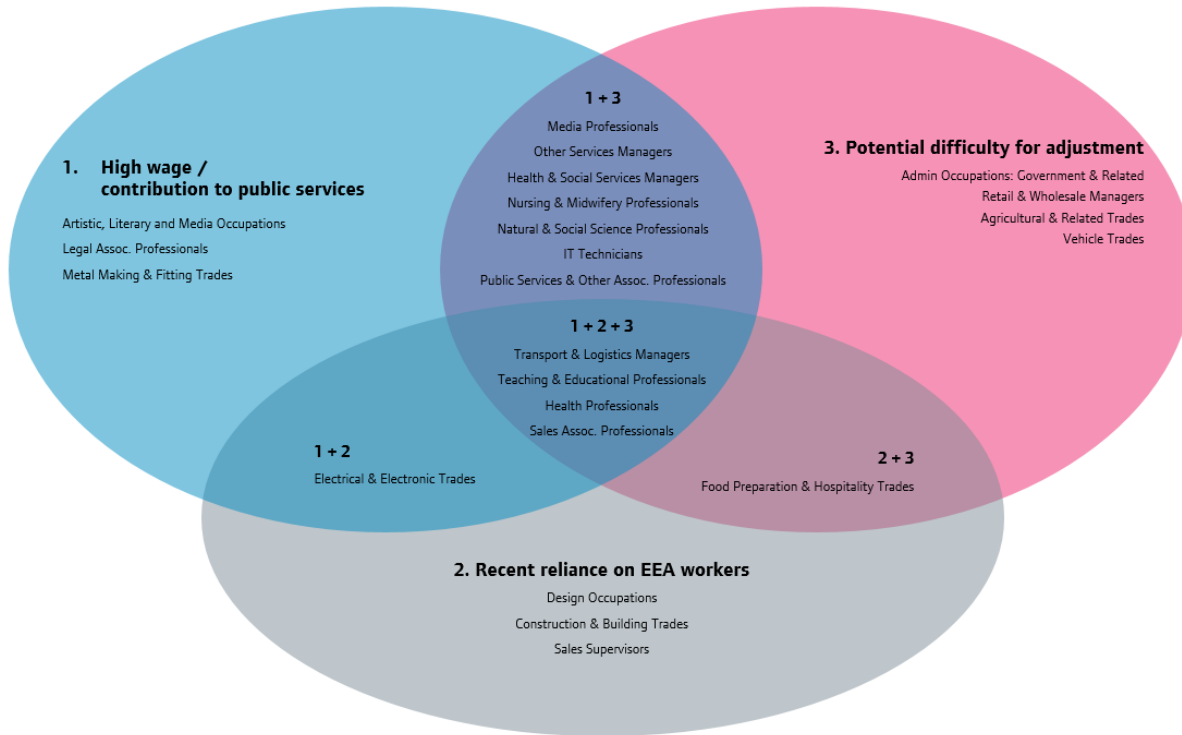


Figure 3: Lower-skilled occupations (below RQF level 3) facing labour market adjustment difficulties and/or of high relative value, London (Current Issues Note 59)

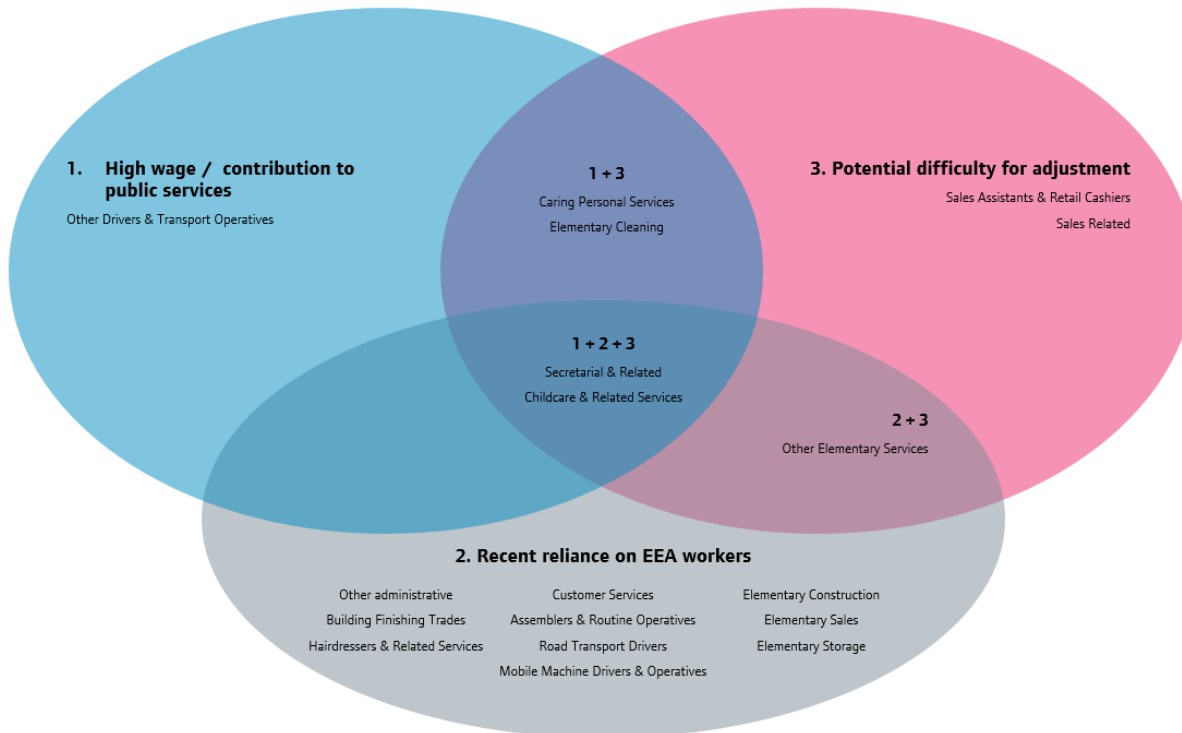
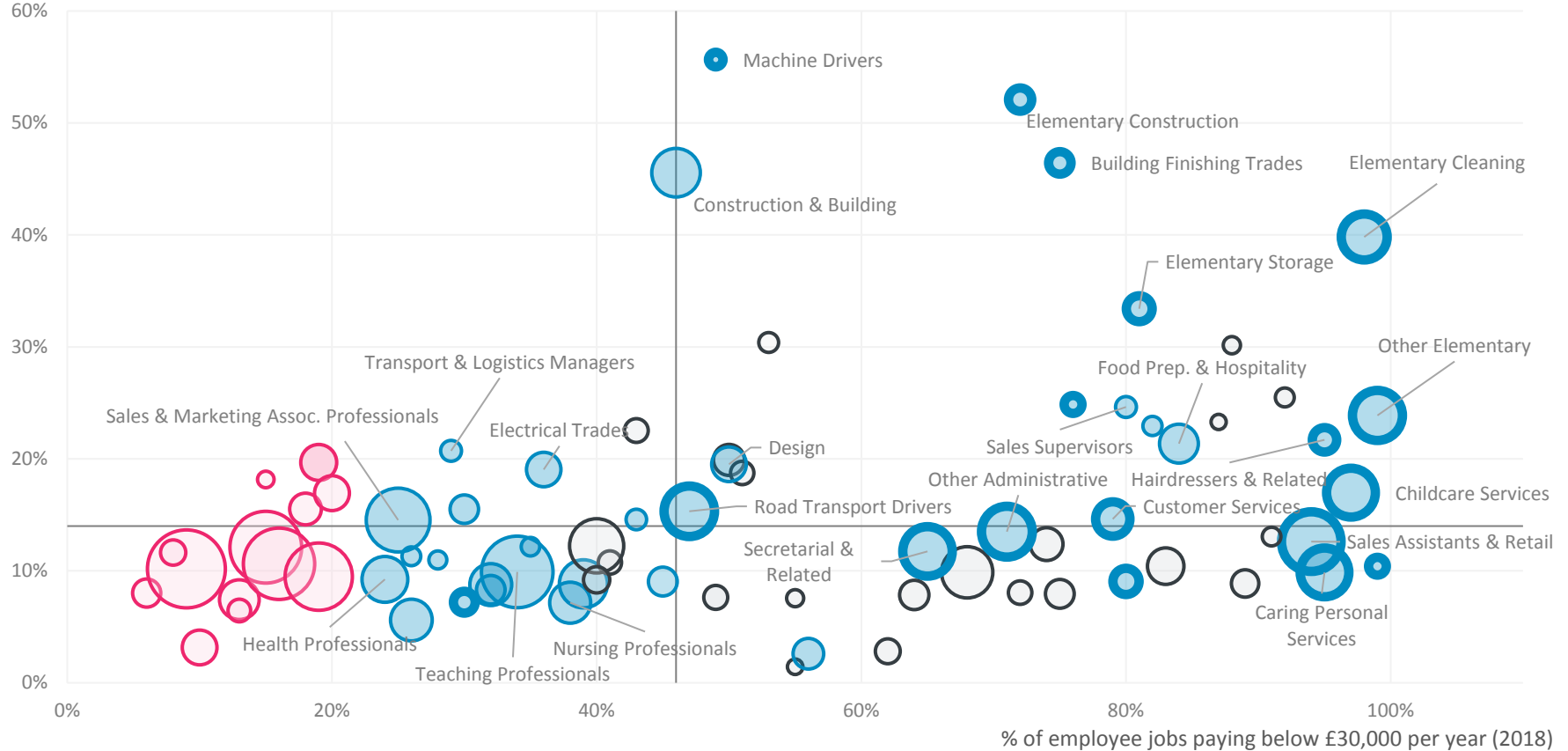


Figure 4: Selected 3-digit occupational groups in London, by adjustment status

(blue circles = adjustment difficulties/high relative value; pink circles = less affected roles; circle size = total jobs; bold border = occupations below RQF3)

% of jobs held EEA workers
(2017)



Source: GLA Economics analysis of ONS APS / ASHE data. Note: excludes three-digit occupations with fewer than 10,000 jobs. The vertical and horizontal represent the 2017 average proportions of jobs held by EEA workers in London (14%) and paid below £30,000 (46%). Where data is missing the proportion of jobs held by EEA workers has been imputed – this affects 9 three-digit occupations with at least 10,000 jobs in London. Lower-skilled occupations identified as facing adjustment difficulties have bold borders.

GLAECONOMICS

Greater London Authority
City Hall
The Queens Walk
London SE1 2AA

Tel 020 7983 4000
Minicom 020 7983 4000
Email glaeconomics@london.gov.uk

MAYOR OF LONDON