



EMN – ESRI – Department of Jobs, Enterprise and Innovation
Making labour migration work: Identifying skills shortages
and attracting migrant workers as part of the solution
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Approaches to identifying labour shortages and informing migration policy

Review of the UK's Tier 2 Routes for Skilled Migrant Workers

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Outline

The UK Migration Advisory Committee (MAC)

How are labour shortages identified in the UK?

How does this identification of labour shortages fit within the overall UK immigration system?

Skilled?

Shortage?

Sensible?

How to adjust shortage criteria over time

Data

Difficulties



The UK Migration Advisory Committee (MAC)

Non-departmental public body set up in 2007

Provides evidence-based advice to Government on immigration issues

Five members, including Chair – all (currently) academic economists – appointed by the Minister for Immigration through open and fair competition for a 3 year period

Supported by a secretariat of economists, researchers and policy officials

MAC website:

<https://www.gov.uk/government/organisations/migration-advisory-committee>



MAC's interaction with Government

1. MAC's work commissioned by UK government (Home Office)

Questions for the MAC are agreed across government departments (the MAC does **not** "set its own homework" – the agenda is set by government)

2. The MAC produces and publishes reports setting out recommendations (The published MAC reports are the result of a series of iterations and so reflect the consensus of the committee)

The MAC **recommends** but it **cannot** decide policy (unlike the Bank of England which sets interest rates)

Government may accept or reject the MAC's recommendations and the MAC has to abide by this

3. Government can (and does) implement other immigration reforms without consulting the MAC



How are labour shortages identified in the UK?

The MAC is periodically asked by the Government to examine the labour market for skilled workers and suggest if and where there are shortages that cannot sensibly be filled by workers already settled in the UK.

(There is a consensus that unskilled vacancies can be filled by settled workers and EEA migrants.)

How are labour shortages identified in the UK?

The MAC has recommended occupations to be included in the Shortage Occupation List (SOL).

The MAC was asked for....

“... independent advice concerning those occupations that are

- a) Skilled
- b) in Shortage
- c) could Sensibly be filled by immigration”

as a basis for defining whether a job could appear on the list for the Tier 2 skilled worker entry route



How are labour shortages identified in the UK?

The MAC's identification of skill shortages requires:

- A definition of “**skilled** workers”
- Examination of evidence to identify **shortage**
- An analysis of whether it is **sensible** for identified shortages to be filled by migrant workers
- Analysis of whether conditions should be placed on the use of migrant labour
 - sunset clause?
 - inducement to finance training/upskilling of domestic labour (levy/charge)?



How does this identification of labour shortages fit within the overall UK immigration system?

The shortage occupation list (SOL) is one route by which (suitably skilled) non-EEA migrants can access the UK labour market

Other routes include:

- Resident Labour Market Test (RLMT)
 - SOL and RLMT are part of Tier 2 (General)
- Intra-Company Transfers (ICTs)

These routes all fall within Tier 2 of the Points Based System (PBS).

Overview of the UK migration system

The UK Points-Based System (PBS) was introduced in 2008 to manage work- and study-related migration of non-EEA nationals.

PBS consists of 5 tiers:

Name of tier	Immigrant groups covered by tier
Tier 1	Investors, entrepreneurs, graduate entrepreneurs and exceptionally talented migrants.
Tier 2	Skilled workers with a job offer in the UK.
Tier 3	Low-skilled workers needed to fill specific temporary labour shortages. Tier 3 has never been opened.
Tier 4	Students.
Tier 5	Youth mobility and temporary workers. This route is for those allowed to work in the UK for a limited period of time to satisfy primarily non-economic objectives.
Source: Migration Advisory Committee, 2015	

Key features of Tier 2 of the PBS for work-related migrants

- Work-related migrants must have a sponsor
- Sponsor (employer) requires a licence
- Migrants must obtain a Certificate of Sponsorship (a form of work permit)
- Initially, points were awarded on the basis of the characteristics of the applicants e.g. qualifications, age, pay, etc. More points, greater chance of entry
- System subsequently evolved away from points towards “**requirements**” e.g. graduate job, minimum pay threshold
 - Some requirements apply to each individual migrant
 - Some requirements apply to the job



Requirements that all Tier 2 (General) migrants must meet

- Salary threshold for Tier 2 (General): £20,800 (amount from April 2015 on)
 - A figure of £20,000 was set following a recommendation in a MAC report of 2009 (when the skill requirement was set by the Government at NQF3: equivalent to A-level).
 - £20,000 was approximately the 25th percentile of the salary distribution of full-time workers in occupations skilled to NQF3.
 - This Tier 2 salary threshold increases each year in line with wage inflation.
 - Some exceptions e.g. pay bands within NHS
- And occupation-specific thresholds:
In addition, the salary must be at the 10th percentile for that occupation for new entrants and the 25th percentile for experienced workers



Requirements that all Tier 2 (General) migrants must meet

- Minimum level of English language
- Savings (in order to prove the migrant can support themselves and any dependents)
- Main applicants and their dependants must pay the immigration healthcare surcharge of £200 per year



Definition of “skilled” occupations: Top-down indicators identify skilled occupations (at NQF6 – graduate level – or above)

- **Earnings:** We require median hourly earnings for full-time employees within an occupation to be £14.75 per hour or more.
- **Formal Qualifications:** We require 36.4 per cent or more of the workforce within an occupation to be qualified to NQF6+.
- **SOC skill level:** We require an occupation to be classified at level 4 in the SOC 2010 hierarchy.

An occupation must pass **at least two of the three** top-down indicators of skill to be considered skilled at NQF6+.

In our latest analysis, 97 occupations out of 369 occupations were classified in this way as skilled at “degree level” (NQF6 +).

The **shortage analysis** is **then** carried out for these 97 occupations.

Under each of these occupations there are several, and sometimes hundreds of, job titles.

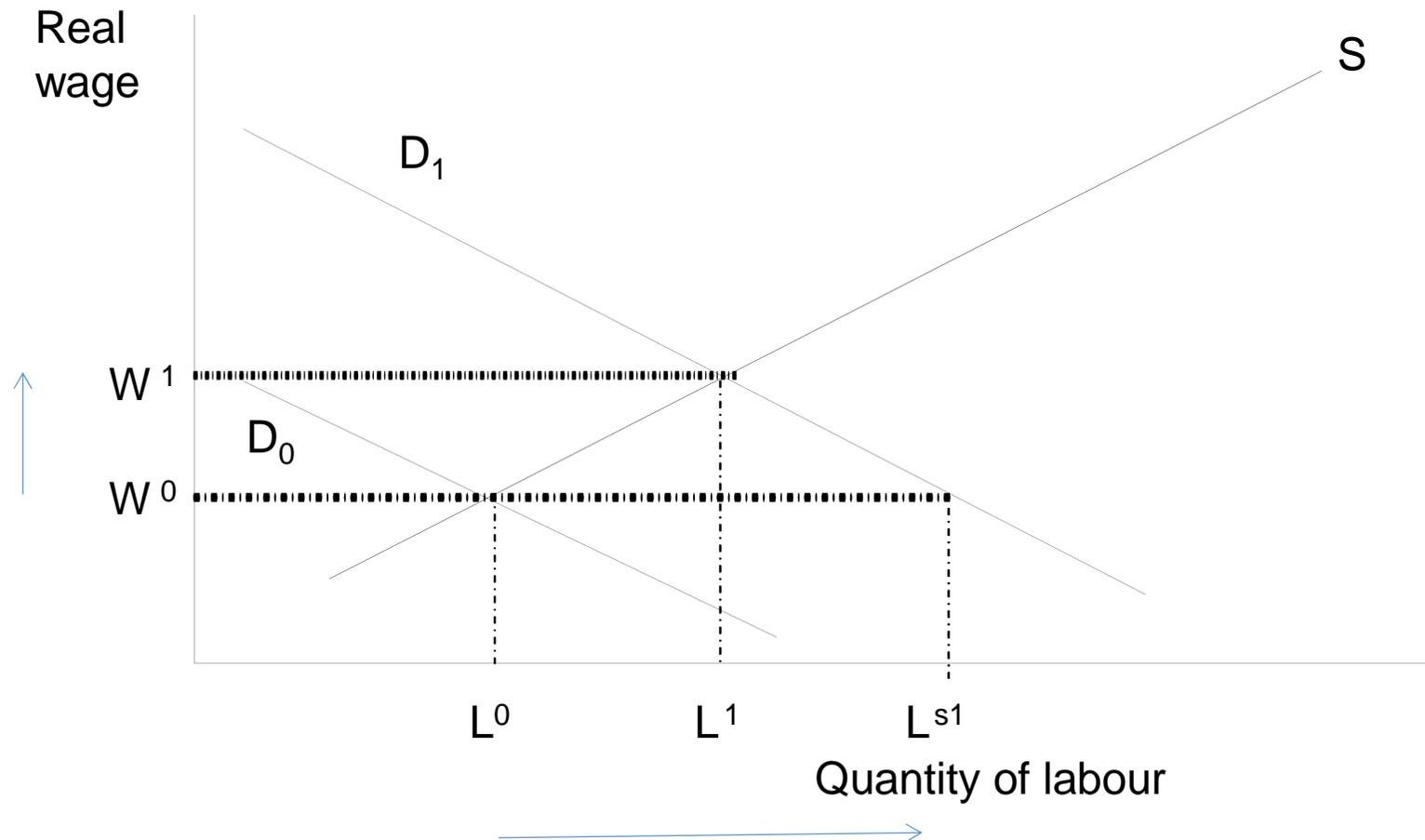
Shortage methodology

The MAC assesses shortage by:

1. Carrying out analysis of national-level datasets. This **top-down** analysis is primarily used to assess shortage at **occupational level**; and
2. Engaging in consultation with corporate partners. This **bottom-up** analysis is essential for close examination of **individual job-titles** that national level data do not allow.

Economics 101: indicators of shortage

Rising demand relative to supply tends to put upward pressure on either wages or employment. Try to look for this in indicators





MAC produced a set of 12 top-down shortage indicators (No single measure appears adequate)

Code	Indicator	Source	Threshold data	Threshold value	Indicator values data
P1	Percentage change of median real pay (over 1 year)	ASHE	2006-2007	0.76	2009-2010
P2	Percentage change of median real pay (over 3 years)	ASHE	2004-2007	5.12	2007-2010
P3	Return to occupation	LFS	2010Q2-2011Q1	0.06	2010Q2-2011Q1
I1	Change in median vacancy duration (over 1 year)	JCP	Apr06-Mar07 to Apr07-Mar08	-3.25	May09-Apr10 to May10-Apr11
I2	Vacancies / claimant count	JCP	Jan07 to Dec07	0.50	May10 to Apr11
V1	Percentage change of claimant count (over 1 year)	JCP	Mar07 to Mar08	-23.25	Apr10 to Apr11
V2	Percentage change of employment level (over 1 year)	LFS	2006Q1-2006Q4 to 2007Q1-2007Q4	8.48	2009Q2-2010Q1 to 2010Q2-2011Q1
V3	Percentage change of median paid hours worked (over 3 years)	ASHE	2004-2007	0.10	2007-2010
V4	Change in new hires (over 1 year)	LFS	2006Q1-2006Q4 to 2007Q1-2007Q4	0.02	2009Q2-2010Q1 to 2010Q2-2011Q1
E1	Skill-shortage vacancies / total vacancies	NESS	2007	35.84	2009
E2	Skill-shortage vacancies / hard-to-fill vacancies	NESS	2007	98.52	2009
E3	Skill-shortage vacancies / employment	NESS/ LFS	2007	0.24	2009

Notes: The threshold data refer to the data used to calculate the threshold values for each indicator. The

Assessing occupations in shortage

No single indicator good enough on its own,

so MAC suggested a **“traffic light”** approach

– if an occupation is above a given threshold in at least half of the available indicators then this may be construed as a shortage occupation

Box 6.7: Production and process engineers

4-digit SOC 2010 Occupation: 2127 Production and process engineers

Only the following job titles within this occupation are included on our recommended shortage occupation list:

Chemical engineer.

The following job title within the aerospace industry: manufacturing engineer (process planning).

Technical services representative in the decommissioning and waste areas of the nuclear industry.

Top-down data

Shortage	Occupation passes 5 out of 10 available indicators		
	Winter 13		Winter 13
P1: Percentage change of median real pay (over 1 year)		V2: Percentage change of employment level (over 1 year)	25.57
P2: Percentage change of median real pay (over 3 years)		V3: Percentage change of median paid hours worked (over 3 years)	0.24
P3: Return to occupation	-0.29	V4: Change in new hires (over 1 year)	0.00
I1: Change in median vacancy duration (over 1 year)	-1.92	E1: Skill-shortage vacancies / total vacancies	21.23
I2: Vacancies / claimant count	0.54	E2: Skill-shortage vacancies / hard-to-fill vacancies	92.31
V1: Percentage change of claimant count (over 1 year)	-2.02	E3: Skill-shortage vacancies / employment	0.78
Sensible			
Percentage of workforce born non-EEA	8.1	Percentage of workforce trained in past 13 weeks	28.5

Total employment in this 4-digit occupation is approximately 48000 (average, LFS, 2011Q3-2012Q2)

Partner evidence received from:

We received evidence from the Institution of Chemical Engineers, EEF, the manufacturers' organisation, Oil & Gas UK, Total E&P UK Ltd, BP PLC, Rolls Royce PLC, and Energy Solutions EU Ltd.

Box 5.4: Nurses

4-digit SOC 2010 Occupation: 2231 Nurses

Only the following job titles within this occupation are included on our recommended shortage occupation list:

Specialist nurse working in neonatal intensive care units.

Top-down data

Shortage

Occupation passes 3 out of 12 available indicators

	Winter 13		Winter 13
P1: Percentage change of median real pay (over 1 year)	-3.57	V2: Percentage change of employment level (over 1 year)	6.59
P2: Percentage change of median real pay (over 3 years)	0.78	V3: Percentage change of median paid hours worked (over 3 years)	0.00
P3: Return to occupation	-0.47	V4: Change in new hires (over 1 year)	-0.01
I1: Change in median vacancy duration (over 1 year)	-2.04	E1: Skill-shortage vacancies / total vacancies	19.23
I2: Vacancies / claimant count	3.40	E2: Skill-shortage vacancies / hard-to-fill vacancies	73.99
V1: Percentage change of claimant count (over 1 year)	-15.01	E3: Skill-shortage vacancies / employment	0.34

Sensible

Percentage of workforce born non-EEA

18.3

Percentage of workforce trained in past 13 weeks

58.9

Total employment in this 4-digit occupation is approximately 581000 (average, LFS, 2011Q3-2012Q2)

Partner evidence received from: The Department of Health: the Centre for Workforce Intelligence.



If a shortage is identified, the MAC then asks:
is it sensible to use migration to deal with this?

Key criteria to assess whether it is sensible to fill shortage with immigration
– questions to stakeholders

Alternatives to employing immigrants:

What feasible alternatives to immigration have been considered?

Do employers face obstacles in pursuing alternatives to migration?

Skill acquisition:

What effort have been, or could have been made, to train and upskill the UK resident workforce?

Productivity, innovation, international competitiveness:

What impacts will access to immigrant labour have on the above at industry level?

Wider economic and labour market effects:

What wider effects will access to immigrant labour have on the economy and labour market? (i.e. impacts on wages and employment rates, business failure, public services impacts)

How to adjust the shortage criteria over time

Can try to build in an “automatic stabiliser”:

- “benchmark” indicator thresholds to a period of labour market stability, so that more shortages are identified in a boom and fewer in a recession

Update each indicator as new data become available

Adjust definitions of “skilled” worker according to labour market and wider immigration policy needs



How to adjust the shortage criteria over time

The Shortage List is meant to provide temporary relief for labour shortages.

Those occupations that have been ever-present on the list (e.g. engineers) have to justify their continued presence on the list with evidence that they have tried to address those shortages, i.e. are they “sensible”?

MAC (2013) Full Review of the Shortage Occupation List

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/257241/mac-report.pdf

How to adjust the shortage criteria over time

Sunset clause?

In 2013 the MAC considered whether occupations on the SOL should be automatically subject to a “sunset clause”.

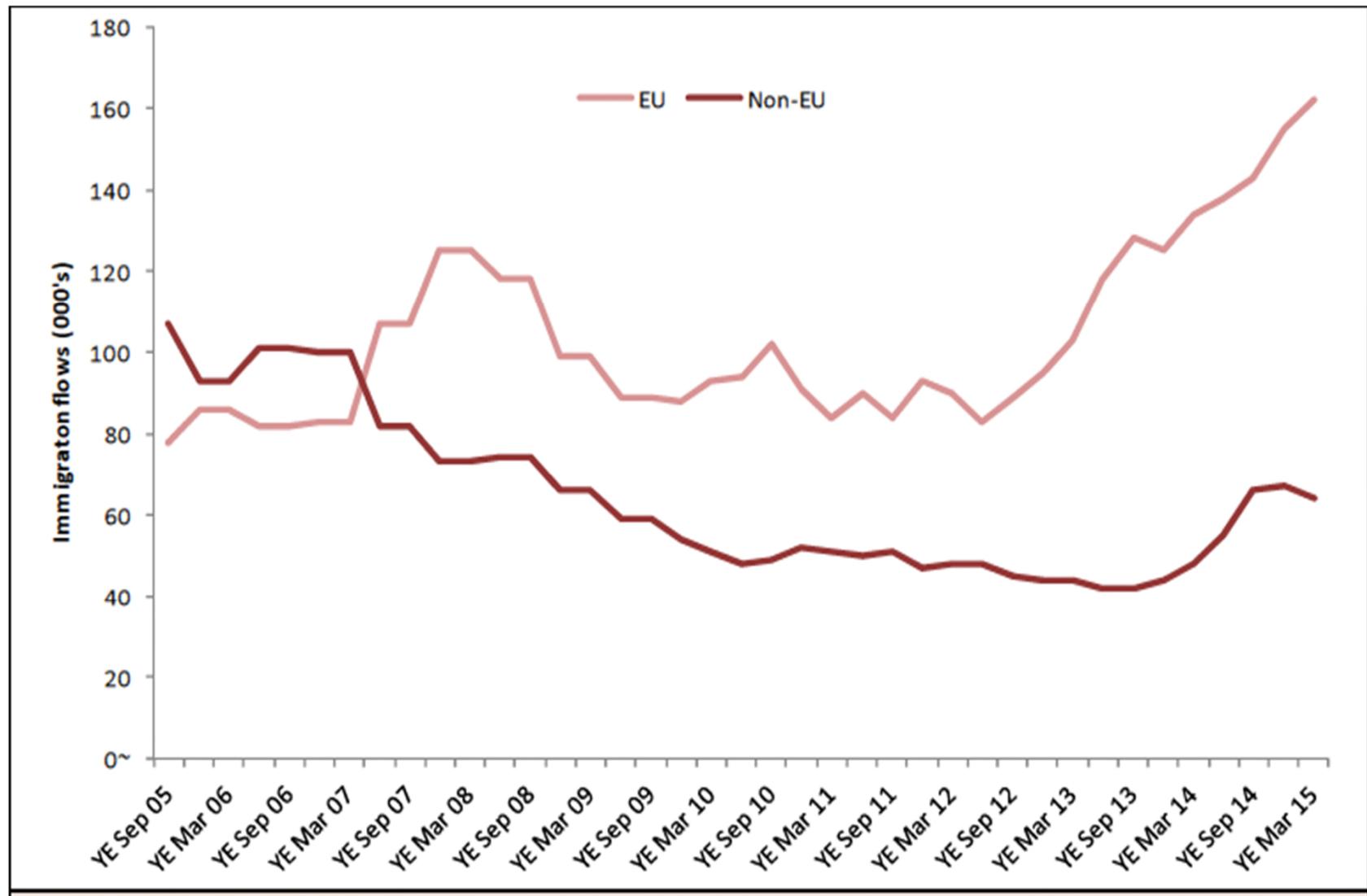
MAC advised against this:

- Regular SOL reviews already remove and add occupations according to current shortage
 - Since the first list in 2008, MAC has recommended the removal of over 100 job titles
- Automatic sunseting would be inflexible and thus could lead to error
- Unpopular with partners



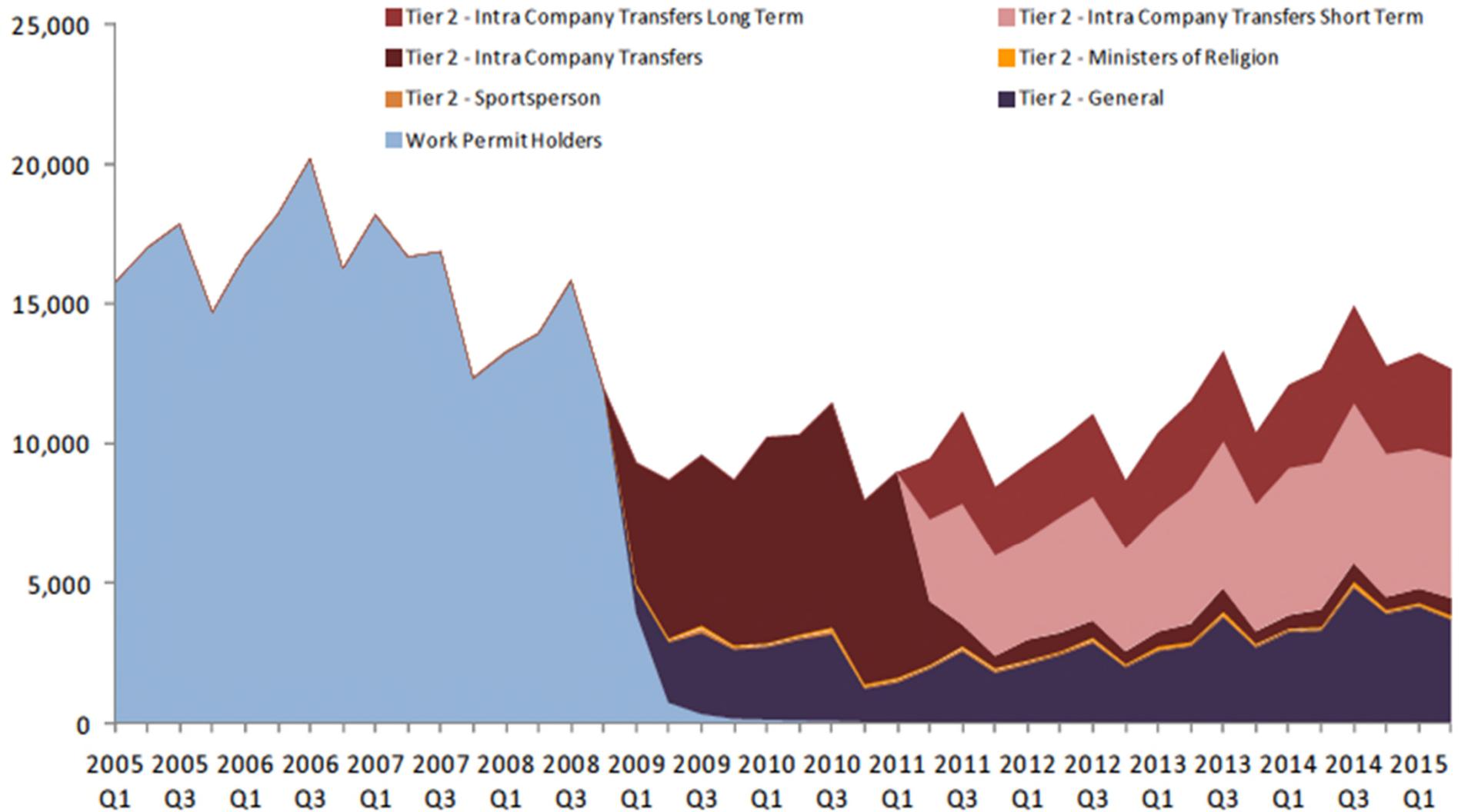
Data: The extent of work-related migration to the UK, migration under Tier 2 and into shortage occupations (SOL)

Immigration of EU and non-EU nationals for “work related reasons”, 2005 - 2015





Entry Clearance visas issued to Tier 2, and work permits, main applicants, by route, 2005–2015



Source: Home Office Immigration Statistics

Entry clearance visas issued and granted extensions of stay for Tier 2, 2009 to 2014

	2009	2010	2011	2012	2013	2014
Total	114,127	105,653	98,162	118,296	143,137	151,659

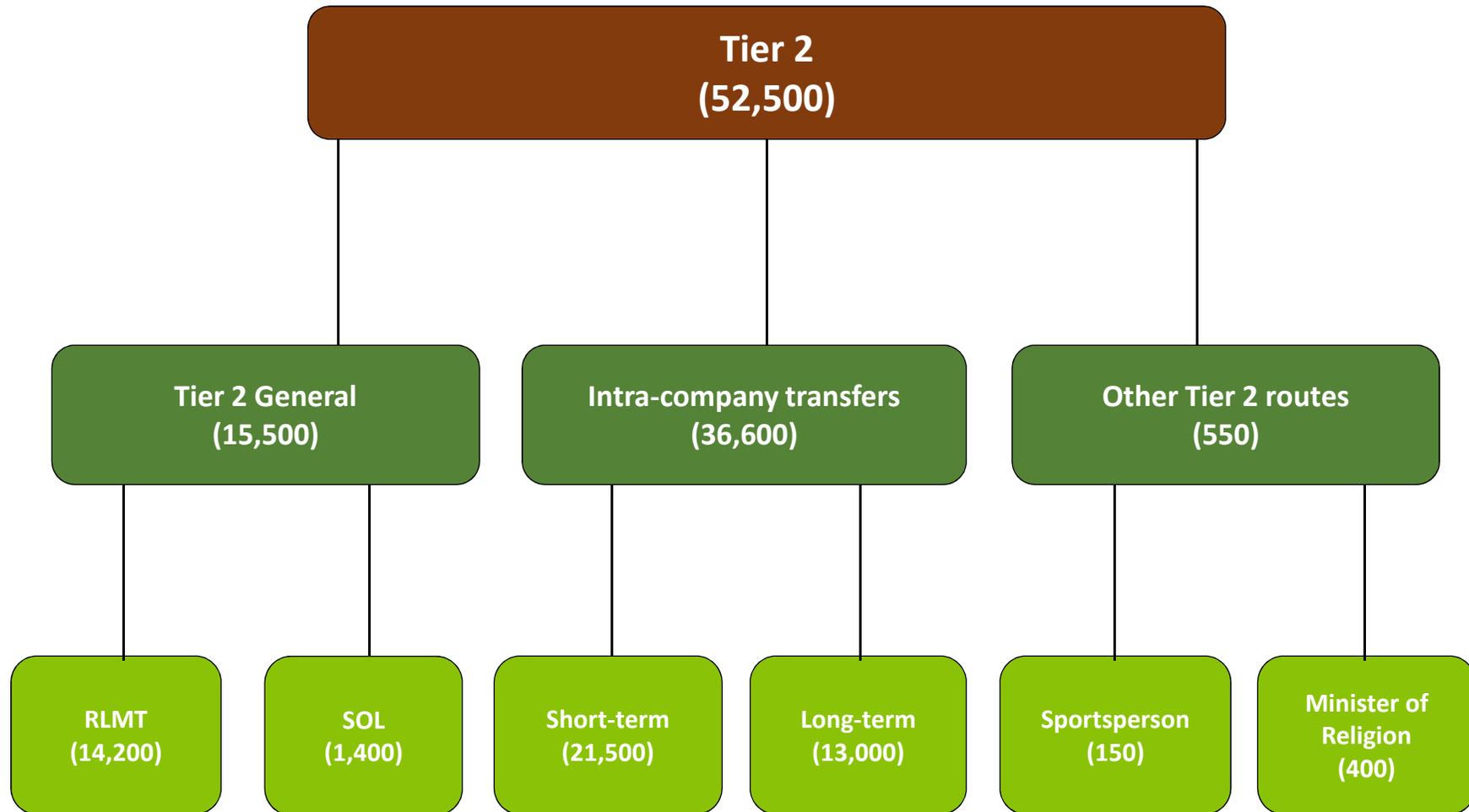
Entry clearance visas						
Main applicants	36,287	39,922	38,088	39,171	45,636	52,478
<i>Tier 2: General</i>	8,556	9,914	7,764	9,420	11,779	15,255
<i>Intra company transfers</i>	22,029	29,170	29,708	29,255	33,240	36,635
<i>Other</i>	5,661	835	614	496	617	588
Dependants	26,982	28,268	28,344	28,933	34,346	38,247

Entry clearance visas issued and granted extensions of stay for Tier 2, 2009 to 2014

	2009	2010	2011	2012	2013	2014
Total	114,127	105,653	98,162	118,296	143,137	151,659
Granted extensions of stay						
Main applicants	27,851	21,269	18,205	29,524	37,656	35,266
<i>Tier 2: General</i> <i>(Same visa category)</i>	12,900	14,306	11,295 <i>(4,149)</i>	20,185 <i>(10,116)</i>	28,377 <i>(14,553)</i>	26,700 <i>(14,757)</i>
<i>Intra company transfers</i> <i>(Same visa category)</i>	6,624	6,149	6,377 <i>(5,347)</i>	8,656 <i>(8,178)</i>	8,546 <i>(8,203)</i>	8,045 <i>(7,833)</i>
<i>Other</i>	7,898	789	531	681	733	521
Dependants	23,007	16,194	13,525	20,668	25,499	25,668

SOL migration is relatively small

Entry clearance main applicant visa allocation breakdown within the Tier 2 route of the Points Based System, year ending December 2014.





Which occupations use the Shortage List?

Top occupations for grants of Certificates of Sponsorship under the SOL during year ending March 2015 (in-country and out-of-country applications combined)

Occupation	Number of CoS
Medical practitioners	837
Design and development engineers	323
Chefs	228
Civil engineers	221
Secondary education teaching professionals	199
Medical radiographers	159
Programmers and software development professionals	158
Electrical engineers	139
Social workers	123
Arts officers, producers and directors	121
	3,123



Difficulties with the SOL

- Cannot always reflect most recent shortages
- Risk of lobbying
- Data availability: some indicators no longer suitable
- Requires substantial administration to keep up to date
- Does not capture regional shortages. (Note that the MAC's remit is to consider shortage at the national level only.)