

## Summary

The Migration Advisory Committee (MAC) was set up to provide transparent, independent and evidence-based advice to the Government on where shortages of skilled labour can sensibly be filled by immigration from outside the European Economic Area (EEA).

Our remit is as follows: *“Produce shortage occupation lists for UK and Scotland only (Tier 2 skilled employment). These lists comprise occupations where, in the MAC’s view, there are shortages which can sensibly be filled by enabling employers to recruit migrants.”*

The first meeting of the MAC was on 7 December 2007, and we have had seven formal meetings in total. But these meetings were the tip of the iceberg, with MAC members engaged in a series of activities, as set out in this report.

### Part I: Context

#### The UK labour market and immigration context

Immigration policy can select immigrants in a way that maximises their complementarities to residents. The new Points Based System (PBS) emphasises two elements of complementarity. First, it emphasises skilled immigration rather than unskilled, in order to fit with the pattern of relative labour demand and how that is changing over time. Second, skilled immigrants supply labour where the occupation or job is currently experiencing a shortage and where there is little prospect of eliminating the shortage in the near future.

Despite the current economic slowdown, we are making our recommendations in the context

of a relatively healthy and stable labour market. Nonetheless, the composition of employment has changed over recent years, mainly due to the increased proportion of women in employment, although female participation among immigrants is still relatively low.

In terms of immigrant flows, the MAC is dealing with what, under current trends, is in the region of around 100,000 people per year. This is a significant, but relatively low, proportion of overall immigration inflows.

#### The current work permit system for managing immigration

There has been an increase in the numbers of work permits issued over the past decade. This has been reflected in both new applications from out-country and applications and extensions for immigrants already in the UK. The proportion of in-country applications has increased at a somewhat higher rate than out-country applications. The shortage occupation route will not be limited solely to new immigration.

The shortage occupation route currently accounts for only a small proportion of work permits. The past is not necessarily a good guide to the future, but it does raise questions about the optimum balance between the shortage route and other routes, which will need to be considered as the new system is evaluated.

Nonetheless, there is little doubt that some specific occupations are heavily dependent on the shortage route, even in the current system. It is necessary to look at occupations and job titles at a disaggregated level in order to fully understand how the system is needed, and used,

by employers. We also need to remain alert to the fact that employers will look to use the system in a way that benefits them, which may not always coincide exactly with what was anticipated.

### **The Points Based System for managing immigration**

The Government has outlined its ambition for the UK to join the world's 'premier league' for skills by 2020, backed by financial investment and a range of new approaches to improve the skill level of the domestic population. The Government emphasised the priority it gives to improving skills in its response to our call for evidence, but also recognised the important role that immigrants play in the UK labour market.

The PBS consists of five tiers, each of which represents a possible route for non-EEA nationals to enter the UK to work, train or study. Tier 1 covers highly skilled individuals. Tier 2 covers skilled workers with a job offer to fill gaps in the UK labour force. Tier 3 relates to low-skilled workers, and is currently suspended. Tier 4 relates to students and Tier 5 to youth mobility and temporary workers.

Tier 2, our main focus in this report, will replace the current work permit system. It allows UK employers to recruit skilled non-EEA nationals into vacancies that they are not able to fill from within the EEA. Points are earned based on factors that include prospective earnings, qualifications held by the individual, and whether the occupation passes the resident labour market test (RLMT). The RLMT requires the employer to advertise the vacancy through Jobcentre Plus or as agreed in a sector code of practice.

If an applicant holds an offer of a job that has been identified as in shortage by the Government on our advice, the earnings, qualifications and RLMT criteria do not apply. Hence the shortage route facilitates access to immigrant labour in occupations where the economy would particularly benefit from it.

## **Part II: Analysis**

### **Approach and issues**

We have used a three-stage approach to drawing up the shortage occupation lists for the UK and Scotland. This is set out in the report as follows:

- first, we consider whether individual occupations or categories of jobs are sufficiently **skilled** to be included on the shortage occupation lists;
- then, we assess whether there is a **shortage** of labour within each skilled occupation; and
- finally, we consider whether it is **sensible** for immigrant labour from outside the EEA to be used to fill these shortages.

When addressing these questions, we used a hybrid method that combined the consistency and comprehensiveness of a 'top-down' approach using national-level data with the fine-grained detail and contextualisation of a 'bottom-up' method using evidence relating to particular categories of jobs and sectors.

The need to identify occupations in the labour market where shortages exist requires us to form and communicate a clear and consistent view of what we mean by 'occupation'. We have, where possible, worked with the Standard Occupational Classification 2000 (SOC2000), which breaks the labour market down into 353 occupations. In many cases, we have also considered specific jobs within those 353 occupations.

We recognise that many employers face real difficulties in recruiting staff from outside their area of the UK. Our work plan did not allow us to produce separate shortage occupation lists for UK countries or regions other than Scotland. We are also not convinced that separate shortage occupation lists for each region and country of the UK are desirable or practicable. Even if regional shortages, however defined, exist and can be identified, it is probably not sensible to fill vacancies with immigrants if there is not a national shortage.

## Gathering and considering the evidence

'Bottom-up' evidence came from individual employers and sectoral and occupational representatives. In our February 2008 report we launched a call for evidence in order to collect information to support our work and take comments on our proposed methodology. The evidence that we received on occupations has been key to the development of our recommended lists. Comments on our methodology from most sectors were broadly supportive.

Other actions we took included carrying out visits to every country and region of the UK, engaging with the Sector Skills Councils and Sector Advisory Panels, and setting up a formal Stakeholder Panel and a larger Stakeholder Forum. We also had many other meetings with employers, employees and representative organisations and commissioned independent research into labour shortages and immigration across key sectors. In all, we took individual evidence from well over 100 stakeholders, and took evidence from many more stakeholders at group events.

We also carried out top-down analysis to establish which jobs and occupations were skilled, in shortage, and where shortages would be sensibly filled by non-EEA immigration.

### Is it skilled?

There is no unique, objectively defined measure of skill. Nonetheless, individual jobs under Tier 2 of the PBS need to be skilled to at least National Qualifications Framework (NQF) level 3. It follows that the shortage occupation lists should contain only occupations and job titles at this level or above.

To assess this, we have looked at factors that might indicate whether an occupation is relatively skilled. These include qualifications held by people within that occupation, average earnings and skill level within the SOC2000. Other indicators of skill, such as on-the-job training

or experience and innate ability required to carry out the job to the appropriate level, are important too, and were considered through our bottom-up analysis.

For our purposes, we defined an occupation as top-down skilled if at least two of three criteria are satisfied: 50 per cent or more of the workforce are qualified to level 3 or above; median hourly earnings for all employees is £10 or more; and the occupation is defined as skill level 3 or 4 in the SOC2000. Applying these criteria, 192 occupations out of 353 satisfy our definition of skilled. It was mostly, for our purposes, appropriate to assume that all jobs within these occupations are skilled. In addition, our bottom-up analysis allowed for the fact that there may be some specialised skilled jobs within less skilled occupations.

### Is there a shortage?

As with skill, there is no universal definition or measure of 'shortage'. However, two key lessons emerge from the UK and overseas literature. First, although these attempts at identifying shortages of skilled labour are based on different methods, it is apparent that most approaches do not rely on a single indicator of shortage. So we have examined a range of indicators in our top-down analysis of shortage.

Second, the differences between the approaches suggest that there is no single, infallible way of measuring shortage, making it crucial that quantitative analysis is contextualised by background information and knowledge of the labour market. So we have paid careful heed to the bottom-up evidence on shortage.

For our top-down analysis we identified four basic sets of indicators. These were: employer-based indicators (e.g. reports of shortage from skill surveys); price-based indicators (e.g. relatively rapid earnings growth); volume-based indicators (e.g. employment or unemployment); and other indicators of imbalance based on administrative data (e.g. vacancies or vacancy/unemployment

ratios). Within these four categories we identified 12 indicators in total and carried out analysis to determine the appropriate threshold between shortage and non-shortage for each.

We do not use our top-down analysis to draw a firm line between shortage and non-shortage occupations. However, we consider there to be particularly strong top-down evidence of potential shortage if an occupation passes our shortage threshold on 50 per cent or more of the indicators. Twenty out of 192 skilled occupations do this.

When considering the bottom-up evidence for shortages we have assessed it by looking at the same broad groups of indicators that the top-down evidence considers. This included looking at factors such as whether wages are increasing more than average and vacancies are increasing faster than jobs are being created.

### **Is it sensible?**

The concept of 'sensible' can be interpreted in many different ways, but any definition depends on the underlying policy objectives. In some cases, government objectives or policies may relate to particular sectors or occupations. For example, immigrant labour has in recent years played a key role in supporting particular government priorities in areas such as healthcare. However, we do not assume that immigration, or the use of immigrant labour to sustain wages at below the market rate, is necessarily the best way to meet government objectives in particular sectors.

We examined the availability of alternatives to employing non-EEA immigrants in response to a shortage of skilled labour. This included considering whether immigrants are in some cases employed primarily as cheap labour, as well as efforts being made to fill the shortage by other means. We also considered whether bringing in immigrants would affect the skills acquisition of the domestic workforce, including potential disincentives to up-skill workers. Finally, we examined wider impacts on the

UK labour market and economy, including the impact on employment opportunities for UK resident workers.

In practice, the question of sensible is very likely to be specific to sectors and/or occupations. We rely heavily on bottom-up evidence. However, there are a limited number of numerical indicators available that might provide context to the bottom-up evidence, including the shares of non-EEA immigrants already employed in an occupation and the percentage of the workforce in receipt of training.

There are some issues which, although important, are beyond our remit when we consider the question of sensible. First, there are the potentially important implications that immigration has for immigrants and their countries of origin. Second, beyond any labour market and economic effects, our terms of reference do not include the social impacts of immigration. The Migration Impacts Forum was set up to look at the social effects of immigration. Third, we are not in a position to make judgements based on factors such as national security implications of immigrants working in sensitive areas.

A question that falls within our remit, but which presents a clear challenge, is the potential trade-offs between the short run and the long run. For example, bringing in immigrants to fill shortages may be essential in the short run to ensure the survival of businesses or the provision of crucial services. However, in the long run it may reduce the incentives to invest in the training and up-skilling of UK resident workers, and therefore contribute to maintaining or even increasing dependence on immigrant workers in the long term. Our approach to such difficult issues has been to make our decisions in a balanced, consistent and transparent manner.

## **Part III: Results and next steps**

### **Dovetailing the evidence**

In Chapter 9 we set out the evidence we have received for specific jobs and occupations and

assess whether and to what extent it met our skilled, shortage and sensible criteria. We also state whether the evidence justifies inclusion of each job or occupation considered on our recommended UK shortage occupation list.

We discuss occupations from across the labour market, including areas such as healthcare, social care, engineering, teaching, catering and the construction industry. In some cases we include whole occupations on our list, and in others we include more specific jobs within occupations. We also discuss some occupations for which evidence was submitted, but which we did not include on our shortage occupation list. This is either on the basis that insufficient evidence was provided, or that the evidence provided was not sufficiently convincing.

## Results

**Our recommended shortage occupation list for the UK is set out in Chapter 10.** The Government will announce in due course whether it is going to accept our recommendations.

The number of occupations and jobs included on this list is larger than the last (July 2008) shortage occupation list produced by the UK Border Agency (UKBA). This is almost inevitable, because we have examined the entire labour market while the UKBA focused, in the most recent iteration of their list, on only three key areas: human and animal health; engineering; and education. Nonetheless, although it is not possible to calculate precise numbers, we estimate that the occupations on our list account for approximately 700,000 employees in the UK, well below the over one million employees covered by the July 2008 UKBA list.

We will review various occupations over the next six months, including those in healthcare and, where appropriate, those that were classed as skilled and passed on at least 50 per cent of the available top-down shortage indicators. A full list is provided in Chapter 10.

## The Scotland list

By definition, a UK list includes Scotland, meaning that the UK list will apply to Scotland as well as to the rest of the UK. Because our work plan requires us to produce a Scotland shortage occupation list, in this way Scotland gets a 'second bite of the cherry'.

Official projections for 2006 estimate Scotland's population, including working-age population, to increase less rapidly than in the UK as a whole. Currently, however, the total employment rate in Scotland is slightly higher than that for the UK taken as a whole. Immigrants account for less than 7 per cent of the working-age population in Scotland, compared with 13 per cent in the UK, although the Scotland figure is three times higher than 20 years ago.

The highest numbers of skill shortage vacancies reported in Scotland (in 2006) per thousand employees are for associate professional and professional occupations. The number of skill shortage vacancies as a proportion of employment in Scotland is particularly high for associate professionals, skilled trades and professionals, both relative to other occupations in Scotland and relative to England.

Because of Scotland's smaller population, data limitations at the UK level tend to be exacerbated at the Scottish level, so bottom-up evidence was crucial. Evidence received from stakeholders in Scotland also played a role in helping us to assess where shortages exist at the whole UK level as well as Scotland. We held the fourth meeting of the MAC in Glasgow on 28 March 2008. Among other activities, we visited a number of employers around Glasgow and Aberdeen and also hosted a lunch event for Scottish employers and other organisations to gather further evidence.

**Our recommended shortage occupation list for Scotland is set out in Chapter 11.**

Again, the UK Government will announce in due course whether it wishes to accept our recommendations.

## **Next steps**

Assuming that the Government asks us to keep the shortage occupation lists under review, we plan to carry out a partial review of the shortage occupation lists for Scotland and the UK within the next six months. We will also fully review the lists at least every two years. We may recommend more frequent changes. We will publish our recommendations.

Stakeholder input is essential to the evidence base on which we are working to advise the Government. We continue to welcome this evidence. Please see Chapter 12 for further details of how to submit evidence.

Our potential future research plans include looking in more detail at how skill might be defined and measured at the occupational level; further research into our shortage indicators; and exploring in more detail when and where non-EEA immigrants may sensibly fill gaps in the labour market, including how employing non-EEA immigrants impacts on employer incentives, the productivity of resident workers, and the economy and public finances.

Our research programme will allow us to evaluate, and thus potentially improve, our approach. We will use the data available to us to assess the impact that the shortage occupation lists are having on migration flows, and believe that high-quality management information should be collected for this purpose. We also believe that the PBS should be evaluated rigorously and we would be happy to be involved in this process.