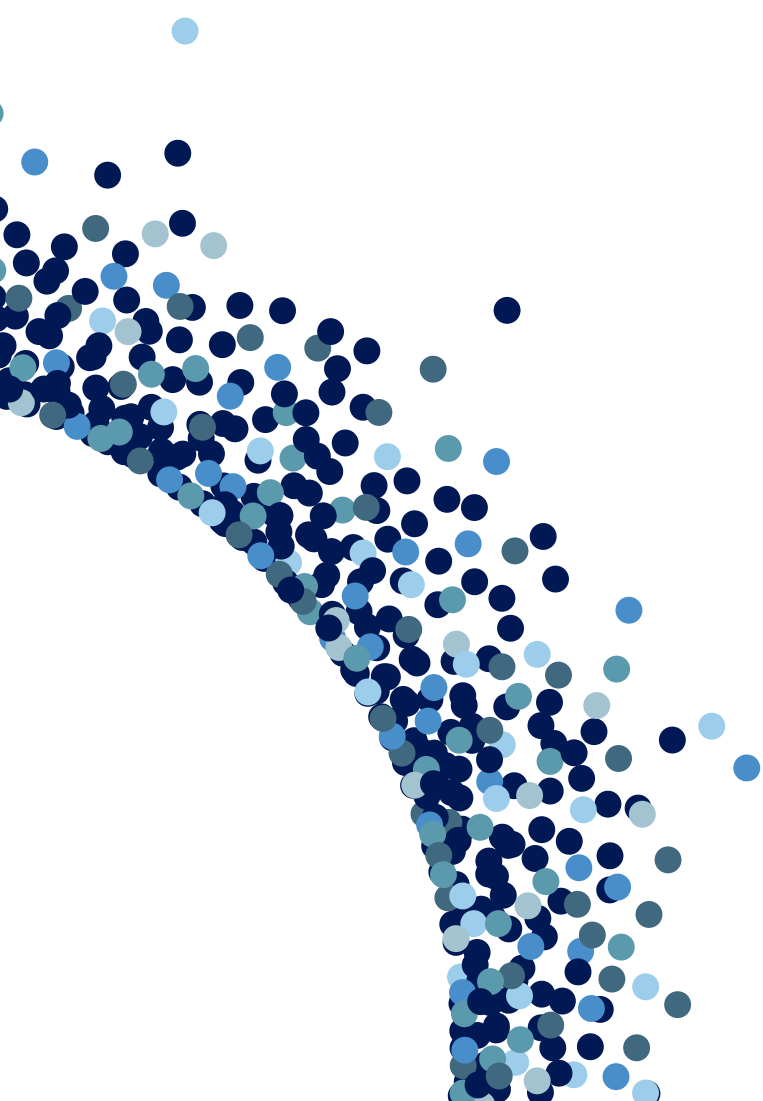




COMMENTARY

A Loose Fitting Cap: Why Is the Limit on Skilled Non-EU Workers Undersubscribed?



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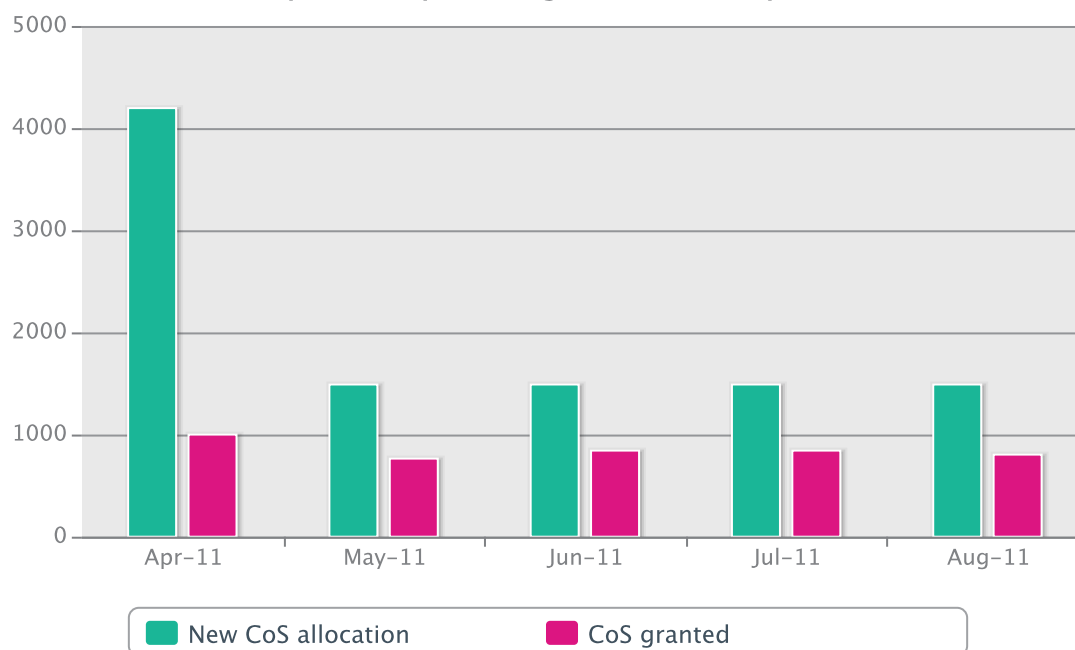
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In April of this year (2011) the government introduced one of its “flagship” immigration policies – a cap on skilled labour immigration from outside the EU. The cap was the subject of heated debate but – surprisingly to many – has, so far, been substantially undersubscribed.

In the first five months of the cap, which releases a limited number of “Certificates of Sponsorship” (CoS) to employers of non-EU workers on a monthly basis, a total of 10,200 CoS (to the end of August 2011) were made available, but only 4,323 – fewer than half – were taken up by employers. Figure 1 shows the monthly new CoS allocations and take-up.

Allocations and grants of Tier 2 CoS, Apr–Aug 2011

Chart provided by www.migrationobservatory.ox.ac.uk



Source : Migration Advisory Committee

The government has asked the independent Migration Advisory Committee (MAC) to advise on the level of the cap for the year April 2012–2013. Given the lower than expected take-up of this year’s cap, should next year’s limit be even lower? To address this question it is important to find out the reasons for why the cap is currently undersubscribed.

At first look it seems odd that there should be so little take-up. Is it because employers are confused about the new system? Have employers resigned themselves to being unable to recruit non-EU migrants because they expected the cap to be oversubscribed?

It is possible that these may be factors, but it would be surprising if they were the key reasons, especially considering the widespread media coverage in recent months about the low levels of take-up.

To understand what is really happening we need to take a brief look at how the cap works and what else might be affecting employers of migrants who would be covered by it:

The cap was introduced in April 2011 to help the government achieve a target of reducing net-migration from the current level of 239,000 to less than 100,000 by the end of parliament (2015). The government asked the MAC

in 2010 to advise on the level of the first cap (April 2011–12). The MAC recommended in a report in November 2010 that the cap for Tier 1 and Tier 2 of the Points-Based System be set at between 37,400 and 43,700 – down from around 50,000 visas issues in 2009. The MAC recommended that intra-company transfers be included in the cap.

As a concession to business, the government decided not to include intra-company transfers (ICTs) – where staff employed by a company in one country are moved to their operations in the UK – which accounted for around 22,000 visas in 2009.

Working on the assumption that the number of ICTs would remain the same, the government capped skilled labour immigration from outside the EU (Tiers 1 and 2) to 21,700 to arrive at the 43,700 “limit” (the upper bound of the range recommended by the MAC).

Tier 1 allows non-EU migrants with “exceptional talent” to come to the UK without a job offer. The cap limits this group to 1,000 migrants per year. This means that, from April 2011–12, the annual cap for Tier 2 makes available 20,700 “Certificates of Sponsorship” to employers of migrants who have a job offer to work in designated “shortage occupations” or those who have passed the Resident Labour Market Test (RLMT), which requires employers to prove that they can’t fill the vacancies with British or other EU workers.

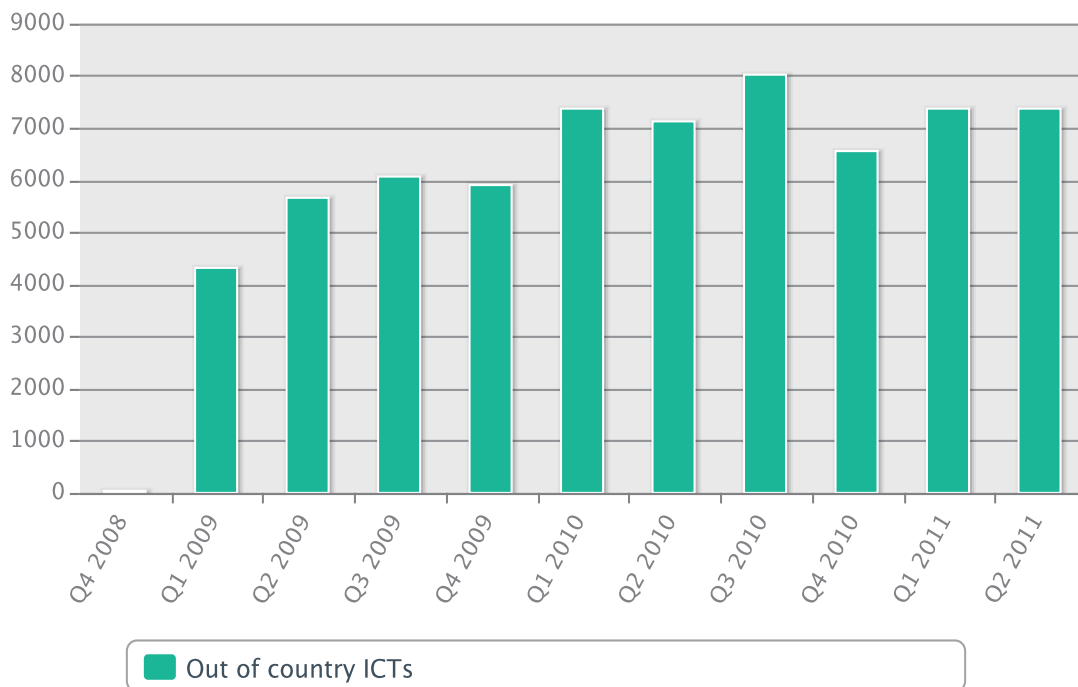
So what factors are likely to have affected Tier 2 employers’ applications to bring workers to the UK from outside the EU since the cap was introduced in April 2011? And what are the potential explanations for why the cap has been so heavily undersubscribed?

First, it is important to keep in mind that the current cap for Tier 2 (20,700) is greater than the number of CoS issued under Tier 2 (excluding intra-company transfers) in 2009. So compared to 2009, the cap did not reduce the number of CoS available for Tier 2. All of the necessary reductions in numbers were achieved through significantly reducing entry under Tier 1.

Second, the introduction of the cap in April 2011 was accompanied by more rigorous English language requirements and by an increase in the minimum skills threshold migrants must meet to be eligible for entry under Tier 2. Based on advice from the MAC, the number of eligible occupations was reduced from 192 to 121. The occupations that became ineligible included senior social care workers and most chefs – two occupations that used to take up significant numbers of CoS in 2009 (4,200 in July 2009 – June 2010). The exclusion of these and other occupations from Tier 2 naturally reduced demand for CoS since April 2011 – though it is hard to say by exactly how much.

Third, the list of occupations on the shortage occupation list was revised and reduced in September 2011, which has further reduced the eligible occupations.

These policy changes are likely to account for some of the reductions in applications for Tier 2 work visas, but it is also important to consider other routes of entry to see if they have changed too. One obvious place to look for more answers is intra-company transfers which – as discussed – have been excluded from the cap. As shown in Figure 2 below, Home Office visa data suggest that the number of out-of-country visas issued for ICTs increased between 2009 and 2010 but has been relatively stable in recent quarters, including Q2 2011 (i.e. after the cap was introduced).

Out of Country ICTs, 2008 Q4 – 2011 Q2Chart provided by www.migrationobservatory.ox.ac.uk

Source: Home Office

It is also important to ask whether and to what extent the cap on non-EU workers has encouraged employers to increase recruitment of migrant workers from within the EU and/or invest in skill development of British workers. We lack hard evidence on these issues but in a recent survey by the Chartered Institute of Personnel and Development, 34% of employers said that they intend to respond to the Government's new immigration policies by recruiting more EU workers and 23% said that they intend to respond by increasing the skills of their current workforce.

So we can explain some but, in all likelihood not all, of the gap between the number of CoS available and granted under the cap for Tier 2. This, then, brings us to the question of how the government is likely to respond.

To groups campaigning for reduced immigration the answer is straightforward: the low level of visa applications under the cap is evidence that businesses have been "crying wolf" on of their need for migrant workers and that tougher measures to reduce labour migration – such as a drastically reduced cap – can be introduced without harm to business.

However, some in business argue that – regardless of the low level of take-up – the cap and the associated policy restrictions are affecting them negatively by preventing businesses from making key appointments and discouraging firms from operating key parts of their business in the UK.

It is not surprising that the government is considering lowering the cap next year because of the low take up this year. Whether or not a lower limit is a good idea partly depends on whether the business sector and/or others can come up with more convincing explanations why the cap has been undersubscribed. In the meanwhile, the government is likely to take comfort from the fact that in this area of immigration policy at least, the numbers are currently going their way.



The Migration Observatory

Based at the Centre on Migration, Policy and Society (COMPAS) at the University of Oxford, the Migration Observatory provides independent, authoritative, evidence-based analysis of data on migration and migrants in the UK, to inform media, public and policy debates, and to generate high quality research on international migration and public policy issues. The Observatory's analysis involves experts from a wide range of disciplines and departments at the University of Oxford.



COMPAS

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