

Post-study work routes for international students

Tier 2

26 June 2015

Background

1. The Scottish Government has established a Cross Party Group to examine the case for a separate post-study work system in Scotland¹. In a technical sense the Scottish Government is specifically calling for the reintroduction of the Tier 1 (Post-Study Work) Visa. This route was closed to new applicants in 2012 and the UK Government has said it has no plans to re-open it as the existing system has post-study work opportunities for “any student who can secure a graduate-level job with a graduate salary.” However, the proposals in Scotland reflect a strongly held and broadly supported position in education and industry that the Tier 2 system does not work as well across the UK as it should in practice.
2. The Migration Advisory Committee has published a call for evidence on minimum salary thresholds for Tier 2². Some of the proposals contained in that document would exacerbate the issues we describe here.

Tier 2 visa regulations and salary thresholds

3. International student graduates are able to apply for a graduate level job with a Tier 2 visa provided that the employer is a registered Tier 2 sponsor and the role pays above a certain threshold.
4. The minimum salary threshold for a Tier 2 application is **£20,800**. This lower pay threshold for “new entrant” employees (i.e. graduates and workers aged under 25) is set at the 10th percentile of the pay distribution for full-time employees in a given occupation, calculated using the ONS Annual Survey of Hours and Earnings. This means the threshold is higher for some occupations³.
5. Although it is understandable that a minimum threshold is set, and sensible that the threshold reflects new entrants to the labour market, there are problems posed by setting a national salary threshold across the UK.
6. In order to provide further evidence about actual graduate starting salaries, million+ commissioned [London Economics](#) to undertake analysis of average annual earnings for individuals aged between 22 and 24 inclusive - in possession of a first degree – not in full time education.

¹ <http://news.scotland.gov.uk/News/Cross-party-steering-group-on-post-study-work-visa-199f.aspx>

²

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/437324/Call_for_Evidence_Salary_Thresholds_FINAL.pdf

³

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/423732/codes_of_practice_april_2015.pdf

7. This reveals some strong regional differences. The salaries **highlighted in bold** are those that would meet the current Tier 2 minimum threshold. Only in London are average earnings for both men and women higher than the threshold:

SALARY			
REGION	MALE	FEMALE	ALL
North East	£18,600	£17,700	£18,100
North West	£16,700	£17,700	£17,300
Yorkshire	£16,200	£17,800	£17,100
East Midlands	£17,000	£17,300	£17,200
West Midlands	£19,100	£15,700	£16,800
East Anglia	£21,000	£18,900	£19,800
London	£26,100	£21,600	£23,900
South East	£22,100	£18,200	£19,900
South West	£18,200	£18,800	£18,600
Wales	£17,100	£17,400	£17,200
Scotland	£20,600	£17,000	£18,600
Northern Ireland	£17,800	£15,300	£16,400
Total	£20,300	£18,200	£19,200

London Economics analysis derived from the Labour Force Survey - pooled between 2011 and 2014 (to achieve sufficient sample) - with the earnings in previous years adjusted (up) for inflation over the period. The total number of observations was 1,874 (un-weighted) corresponding to 1.574,700 individuals when weighted. Full technical information available on request.

8. Although the minimum salary threshold is based on wage by specific occupation, rather than average wage overall, these figures demonstrate the scale of regional variation in “new entrant” or graduate starting salaries.
9. We hypothesise this has two principle effects. Firstly, that businesses in London and the South East are most likely to benefit from the talents of international graduates as labour market forces require them to set salaries higher than the threshold. Secondly, that regional companies that benefit from international graduates are likely to be high in the chain of production, rather than lower down the supply chain for example in component manufacture, as larger multi-site companies are more likely to have standardised salary structures across the UK.
10. This hypothesis is supported by Government figures⁴ on the regional distribution of employers who are Tier 2 licence holders; employers in London and the South East make up 63 per cent of active Tier 2 (General) sponsors⁵.

Number of Sponsors by region associated with migrants who have used Tier 2 General CoS					
Region	2009	2010	2011	2012	2013
London & South East	3,435	3,565	3,594	4,805	6,836
Midlands & East of England	1,016	1,143	1,036	1,192	1,726
Wales & South West	427	532	392	460	635
Scotland & Northern Ireland	506	517	387	449	672
North East, Yorkshire & the Humber	330	366	316	359	495
North West	310	344	258	347	495

⁴ <http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2014-10-10/209962/>

⁵ Additional analysis via the APPG Migration report on Post Study Work http://www.appgmigration.org.uk/sites/default/files/APPG_PSW_Inquiry_Report-FINAL.pdf

11. It is not possible to know whether the minimum salary threshold is the primary reason for this regional disparity however if the market rate of hiring a graduate in a particular region is significantly lower than the salary threshold employers have very little incentive to invest time and effort in becoming a Tier 2 sponsor.

Tier 2 visa regulations and employer / organisation sponsorship

12. There is already a perception among employers that Tier 2 is complex and difficult to manage. Research by EEF, the manufacturers' association, found that half of manufacturers disagreed that the process of recruiting a non-EEA graduate was easy, and over half (53%) found the process very-time consuming⁶. EEF also report that "SMEs, often without HR or legal departments, are disadvantaged as they are unlikely to be able to commit the necessary time and resources to navigating through what is a complex, and time-consuming migration system." This is a particular challenge for SMEs without an existing Tier 2 licence that spot opportunities for expansion based on the specific skillsets and experiences of an international graduate.

Home Office proposals on threshold changes

13. On 10 June 2015 the Home Secretary commissioned the Migration Advisory Committee (MAC) to advise on the impact of proposed changes to the Tier 2 route⁷, including advice on Tier 2 salary thresholds. This includes proposals to increase "the Tier 2 minimum salaries per occupation for new entrant workers from the 10th percentile to the 25th or 50th percentiles, or other appropriate measure." The regional impact of recommendations is within scope of the call.
14. This would effectively end the ability of international students to obtain graduate level jobs in the United Kingdom. It is important to note that the percentile split is by occupation, not industry. The requirement would not simply to be in the top 75 per cent or 50 per cent of earners in a sector but of earners fulfilling a similar role. This would be an extraordinary feat for any graduate new entrant to the labour market.
15. As discussed above these proposals would also have a disproportionate effect on small businesses, employers in supply chain and component manufacture and employers based outside London and the South East.
16. It is welcome that MAC has been invited to consider the regional impact of Tier 2 rules, particularly regarding salary thresholds.

Proposal

17. Post-study work routes are a factor in international student choice in some markets and the UK's competitors have systems that appear to be perceived by students as more welcoming. Many of the restrictions on the effectiveness of the system can be addressed technically, with no need for legislation or significant changes to Home Office policy. Encouraging the Migration Advisory Committee to consider the benefits of varying salary threshold by region may be a welcome start. We would also strongly advise against any increase in the minimum salaries per occupation for new entrant workers in terms of percentile group. In addition, both industry and the higher

⁶<http://media.squirepattonboggs.com/pdf/immigration/EEF-and-SPB-response-to-APPG-on-Migration-Post-Study-Work-Route.pdf>

⁷ <https://www.gov.uk/government/consultations/call-for-evidence-review-minimum-salary-thresholds-for-tier-2>

education sector would welcome practical support for small businesses to navigate the visa system and benefit from the skills of international students.

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