

## Scottish Affairs Committee Inquiry: Post-study Work Schemes million+ evidence submission (December 2015)

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### Summary

1. million+ is a university think-tank that works with modern universities across the UK. These universities have long-standing concerns about the impact on international students and the international market of changes in the visa regime. These concerns include the abolition of the Tier 1 (Post Study Work) route and its replacement by Tier 2 visa regulations linked to salary thresholds. We therefore welcome the opportunity to submit evidence to this Inquiry.
2. Changes in visa regulations since 2010, the abolition of the Tier 1 Post-Study Work route, the extension of credibility interviews and arbitrary decision-making by UKVI in respect of visa refusals, have been damaging to universities and business in Scotland as well as in the rest of the UK.
3. In particular, the Tier 2 regime has shifted burdens onto employers and deployed entry-salary thresholds that are considerably higher than the average across the UK and in Scotland.
4. When viewed in its totality, UK visa policy could be considered to be a non-tariff barrier to trade. Notwithstanding the quality of the teaching and research in all of Scotland's universities, their competitiveness and that of businesses in Scotland has been undermined. While international student numbers have increased overall, some markets have been damaged and universities in Scotland will have lost proportionate market share.

### Background

5. Until 2008, Scotland supported the *Fresh Talent – Working in Scotland Scheme* (FTWiSS), a UK immigration scheme launched to deal with problems of population decline and skill shortages in Scotland. FTWiSS allowed non-EEA nationals who successfully completed a relevant Scottish degree or postgraduate qualification to work or set up a business in the UK for 24 months without needing a work permit.
6. The principle of the scheme, and of its successor, was to retain skilled and educated graduates as part of the labour force, who could switch into a longer-term work scheme such as the Work Permit scheme or Tier 1 (General), formerly the Highly Skilled Migrant Programme.
7. FTWiSS and the similar [International Graduates Scheme](#) was replaced on 30 June 2008 by a new 2-year scheme, Tier 1 (Post Study Work), as part of the UK's roll out of a [points-based immigration system](#). This route was closed to new applicants by the Coalition Government in 2012. The current 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."
8. The Scottish Government has established a Cross Party Group to examine the case for a separate post-study work system in Scotland<sup>1</sup>. In a technical sense the Scottish Government is specifically calling for the reintroduction of the Tier 1 (Post-Study Work) Visa. However, the proposals in

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

Scotland reflect a strongly held and broadly supported position in universities and industry that the Tier 2 system does not work as well in Scotland and across the UK as it should.

- The Migration Advisory Committee published a call for evidence on minimum salary thresholds for Tier 2<sup>2</sup>. Some of the proposals contained in that document would exacerbate the issues we describe in our submission.

### Tier 2 visa regulations and salary thresholds

- 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. 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 that the threshold is higher for some occupations<sup>3</sup>.
- Although it is understandable that a minimum threshold is set, and sensible that the threshold reflects new entrants to the labour market, imposing the same salary threshold across the whole of the UK is highly problematic.
- 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.
- This reveals strong national and regional differences. The salaries **highlighted in bold** are those that meet the current Tier 2 minimum threshold. Salaries in Scotland do not meet this threshold. Only in London are average earnings for both men and women higher than the threshold:

SALARY			
COUNTRY / 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	<b>£21,000</b>	£18,900	£19,800
London	<b>£26,100</b>	<b>£21,600</b>	<b>£23,900</b>
South East	<b>£22,100</b>	£18,200	£19,900
South West	£18,200	£18,800	£18,600
Wales	£17,100	£17,400	£17,200
<b>Scotland</b>	<b>£20,600</b>	<b>£17,000</b>	<b>£18,600</b>
Northern Ireland	£17,800	£15,300	£16,400
Total	£20,300	£18,200	£19,200

<sup>2</sup>

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/437324/Call\\_for\\_Evidence\\_Salary\\_Thresholds\\_FINAL.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/437324/Call_for_Evidence_Salary_Thresholds_FINAL.pdf)

<sup>3</sup>

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/423732/codes\\_of\\_practice\\_april\\_2015.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/423732/codes_of_practice_april_2015.pdf)

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.

14. Although the minimum salary threshold is based on wage by specific occupation, rather than average wage overall, these figures demonstrate the scale of country and regional variation in “new entrant” or graduate starting salaries.
15. 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 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 in Scotland and across the UK.
16. This hypothesis is supported by Government figures<sup>4</sup> on the national and 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) sponsors<sup>5</sup>.

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

17. It is not possible to know whether the minimum salary threshold is the primary reason for the disparity between Scotland/Northern Ireland or the reason for regional disparities within England. However if the market rate of hiring a graduate in a particular country or 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**

18. There is already a perception among employers that Tier 2 is complex and difficult to manage. For example, the Scottish Chambers of Commerce have stated that the Tier 2 regime restricts growth in some sectors of the Scottish economy. Similarly 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 consuming<sup>6</sup>. 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 those SMEs without an existing Tier 2 licence which spot opportunities for expansion based on the specific skillsets and experiences of an international graduate.

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

<sup>5</sup> 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](http://www.appgmigration.org.uk/sites/default/files/APPG_PSW_Inquiry_Report-FINAL.pdf)

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

### **Home Office proposals on threshold changes**

19. 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 route<sup>7</sup>, including advice on Tier 2 salary thresholds. This included 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 country and regional impact of recommendations is within scope of the call.
20. 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.
21. These proposals would also have a disproportionate effect on small businesses, employers in supply chain and component manufacture outside of London and the South East of England.

### **Conclusion**

22. Post-study work routes are a factor in international student choice and Scotland’s competitors have systems that are perceived by students as more welcoming. For example, international student numbers from India have fallen by 49% in 4 years for the UK as a whole. At the same time as the UK has restricted post study work, Australia and Canada have extended PSW opportunities.
23. Even if students are taken out of the migration numbers, the operation of the Tier 2 system and the approach adopted by UKVI in its management of visa applications will continue to constitute what are effectively non-tariff barriers to Scottish trade.
24. We strongly support the re-introduction of a Post Study Work route. However if the UK Government does maintain its current stance and immigration remains a reserved power, many of the restrictions on the effectiveness of the system could be addressed technically, with no need for legislation or significant changes to Home Office policy. For example, the Migration Advisory Committee should be asked to adopt varying salary thresholds by country and region. (We would strongly advise against any increase in the minimum salaries per occupation for new entrant workers in terms of percentile group).
25. In addition, industry, small businesses (including the creative industries) and universities would benefit from a simplified and much less onerous application process to become a Tier 2 licence holder. Pending substantial changes to Tier 2, a variation on the current Tier 2 scheme should be permitted in Scotland in order to ensure that universities and businesses benefit from the engagement and skills of international students.

### **About million+**

million+ is a university think-tank. We use rigorous research and evidence-based policy to address and provide solutions to complex problems in higher education. For further information about this submission or about million+ please visit [www.millionplus.ac.uk](http://www.millionplus.ac.uk) or contact Pam Tatlow, Chief Executive via [pamtatlow@millionplus.ac.uk](mailto:pamtatlow@millionplus.ac.uk) 020 7717 1655.

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