

The potential impact of recent UK immigration policy announcements in Scotland

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March 2024

Introduction

On the 4th of December last year, the Home Secretary announced a set of changes to skilled worker immigration rules. The changes significantly increase the requirements and fees for Skilled Worker visas, as well as limiting the ability of certain visa-holders to bring dependents with them when they enter the UK. These stand in addition to previous announcements restricting most students from bringing dependents into the country.

The stated goal of these new policies is to reduce net immigration from an estimated 672,000 in the year ending June 2023. The ONS has pointed to several reasons for higher immigration numbers in recent years, including people on student visas staying longer, more dependents accompanying visa-holders, and higher rates of non-EU immigration. Targeted schemes like the Homes for Ukraine sponsorship scheme and the British National (Overseas) visa may have also contributed to increases, alongside some lingering delayed immigration after the COVID-19 pandemic.

It is not yet clear what wider impacts the policies are likely to have on the regional economies of the UK. Within the UK, Scotland is particularly reliant on immigration to maintain the size of its working population, both due to a more rapidly ageing population and generally lower fertility rates than other nations of the UK. This reliance may contribute to somewhat more positive attitudes towards immigration in Scotland compared to the rest of the UK.¹

The end of free movement after Brexit in 2021 restricted the number of EU nationals available to fill rising vacancies in Scotland and the rest of the UK. The new policies are likely to further reduce skilled workers immigrating to Scotland, which may have significant labour market impacts. These effects are likely to be distributed unevenly across sectors and occupations, with many concerned about the social care and hospitality sectors in particular. Students and recent graduates are also likely to be disproportionately affected, possibly posing problems for Scottish universities. As immigration policy is reserved, the Scottish Government does not have leeway to implement its own immigration policies tailored to Scottish needs.

This paper summarises the December policy announcements and compares them to the current rules. We then discuss the potential impacts of these announcements on the level of immigration to the UK and to Scotland. We describe the current contributions of immigrants

¹ In a survey of Scottish respondents in 2023, Migration Policy Scotland found that 38% of survey respondents prefer increased immigration, 28% preferred a decrease, and 34% wanted immigration levels to remain the same. In a UK-wide survey in the same year, Migration Observatory concluded that 52% of respondents wanted reductions in immigration, 14% wanted increases, and 22% wanted immigration to remain the same. The two surveys use slightly different questions and methods and should thus be compared with caution, but offer broad evidence on differences in attitudes towards immigration between Scotland and the UK as a whole.

to Scottish society and the economy and then consider the potential impacts of last year's policy announcements. Effects on demographics, specific sectors, and public finance are covered in more detail, including labour supply to different sectors, the number of fees-paying university students, and the fiscal position.

The current immigration system

The UK currently has a points-based immigration system, which was implemented in January 2021 following the end of free movement between the UK and the EU. In comparison to the previous system, which primarily aimed to reduce net immigration from non-EU countries, the current system also aims to shift the composition of immigrants towards skilled workers. For those seeking to move to the UK for work from the EU, the new system introduces significantly greater restrictions. However, this has been combined with some liberalisation of requirements for skilled workers from outside the EU, as skill and salary thresholds have been lowered and the Resident Labour Market Test removed. There have also been special provisions for some sectors, most notably following the introduction of a specific visa for health and care workers.

Most people entering the UK to work on a long-term basis must qualify for a Skilled Worker visa (previously known as a Tier 2 visa). Skilled Worker visas are sponsored by eligible employers, who must register with the Home Office. The job offered must meet a minimum salary threshold or the "going rate" for the appropriate occupation, whichever is higher. Some exceptions apply, including occupations that appear on the shortage occupations list (SOL), which are then subject to reduced thresholds compared to others in the same job field.

Skilled Worker visa costs paid by the applicant are comprised of the visa fee and a health surcharge. At the end of 2023, these were £625 per person (£1,235 if the visa was for longer than three years) and £624 per person per year for a job not on the SOL, respectively. Applicants must also demonstrate that they have £1,270 to support themselves before applying or show that their employer is willing to cover their costs in their first month in the UK.

Another, more temporary, route to working in the UK for foreign nationals is the Graduate route. This was re-introduced in 2021 as part of the new points-based system. This visa allows those who complete a university degree in the UK to stay for two years (three if they have obtained a PhD) and gives them the right to work in the UK during that time. While those who hold a Graduate visa do not need to meet minimum salary thresholds, those wishing to stay past the 2-3 years granted by this route must switch to another route like a Skilled Worker visa. At that point, they must reach the minimum salary threshold for new entrants (70% of the standard threshold), and other fees and requirements which apply.

Table 1 summarises some of the current salary thresholds and fees based on whether the applicant is applying from within or outside the UK, whether the job is in a shortage occupation, and whether or not the Health and Social Care route is used.

Table 1: Salary requirements, visa fees, and surcharges for Skilled Worker visas as of 2023

Job category	Salary threshold	Visa fee (per person)	NHS surcharge (per visa year, per person)
Standard – outside the UK	£26,200 OR the going rate for your job	£625 (up to 3 years) £1,235 (3+ years)	£624
Standard – inside	£26,200 OR the going	£719 (up to 3 years)	£624

the UK	rate for your job	£1,423 (3+ years)	
Shortage occupation – general	£20,960 OR 80% of the going rate for your job	£479 (up to 3 years) £943 (3+ years)	£624
Shortage occupation – Health and Social Care	£20,960 OR 80% of the going rate for your job (or your national pay scale rate)	£247 (up to 3 years) £479 (3+ years)	£0 (exempt)

Source: *The Home Office and the Internet Archive*

Changes to immigration policy announced in December 2023

Following the initial announcements on 4th December 2023, further updates were published on the 21st of December 2023. Most of these changes will go into effect from this spring, with some kicking in earlier and some introduced gradually over time.

Broadly, the new announcements comprised five changes to current policy. These five changes are:

1. An increase in the baseline minimum salary required to qualify for a Skilled Worker visa (excluding workers on the Health and Care Worker visa² and education workers on national pay scales);
2. An increase in the minimum income required to sponsor a spouse/partner visa;
3. An increase in the Immigration Health Surcharge;
4. A winnowing of the occupations on the shortage occupations list (SOL), which will now be called the Immigration Salary List (ISL), and the removal of the past 20% reduction in the “going rate” of occupations on the SOL;
5. The removal of social care workers’ right to bring dependents with them on their visa when they enter the UK.

Additionally, the Home Office has asked the Migration Advisory Committee (MAC) to review the Graduate visa, which currently allows overseas graduates of British universities to work in the UK for two years following graduation without sponsorship. The Home Office has requested that the review be completed by mid-May.

The MAC was also asked to review the process of adding occupations to the new Immigration Salary List (ISL), and they delivered a rapid review in February. Previously, occupations on the SOL had a 20% reduction in the salary threshold required for a visa; this has now been removed. Instead, occupations on the ISL will be subject to a threshold of either £30,960 or an occupation-specific threshold, depending on which is higher. These increases in salary thresholds may therefore pose a significant barrier even for occupations on the ISL, especially in areas of the country with lower pay rates.

The announcements in December followed several changes in the autumn, including a restriction that students not on research courses can no longer bring dependents with them.

² The general threshold for Health and Care Worker visas will be £29,000 or the occupation-specific threshold, both of which are set at the 25th percentile of salaries for the applicable occupation code.

Salary and income thresholds

The changes to minimum salaries/incomes to qualify for visas or sponsorship and charges associated with immigration are relatively high (Table 2).

Table 2: Announced changes to salary thresholds and surcharges, December 2023

Type	Previous amount (£)	New amount (£)	% increase
Salary threshold - Skilled Worker visa ³	26,200 20,960 (SOL)	38,700 30,960 (ISL)	48% (both)
Salary threshold – health and care worker visa	26,200 20,960 (SOL)	29,000 23,200 (ISL)	11% (both)
Minimum Income Requirement - Family visa ⁴	18,600	38,700	108%
Skilled worker visa fee – main applicant, dependents, children	625 (3-yr) 1,235 (5-yr)	719 (3-yr) 1,420 (5-yr)	15% (both)
Family visa fee – dependents & children ⁵	1,538	1,846	20%
Immigration health surcharge (per year) – main applicant and adult dependents	624	1035	66%
Immigration health surcharge (per year) – children ⁶	470	776	65%

Source: UK Parliament, the Home Office, and the Migration Advisory Committee

Notes: Visa fees are shown for those applying from outside the UK for a three-year visa; costs for a five-year visa are in parentheses where applicable. Different fees apply for applicants who are already living in the UK.

Broadly, the thresholds are now in line with UK median salary rates for occupations eligible for a given visa, where they had previously been aligned with the 25th percentile.⁷ There will also be occupation-specific thresholds (previously called “going rates”), also set at the median for each occupation, that may exceed the new minimum threshold. Median salary rates are determined at the UK level from the latest Annual Survey of Hours and Earnings (ASHE), and do not account for differences in median pay in different UK regions.

³ The new salary threshold will apply from 4th April 2024.

⁴ The Minimum Income Requirement (MIR) is being raised gradually, first to £29,000 in April 2024 (the 25th percentile salary rate for jobs qualifying for a Skilled Worker visa), then to £34,500 (40th percentile) later in 2024, and finally to £38,700 “by early 2025”.

⁵ This change went into effect in October 2023.

⁶ These changes went into effect in February 2024. For both adults and children, the annual rate is higher for a visa lasting two years and nine months – about £681 per year for an adult and £513 per year for a child. These rates have now increased to about £1,129 for an adult and £847 for a child.

⁷ These calculations are based on the latest available data from the Annual Survey of Hours and Earnings (ASHE).

Both the skilled worker salary threshold and the minimum income requirement (MIR) for Family visas are being raised to £38,700, the median salary among jobs that qualify for a Skilled Worker visa.

The increase in the MIR will happen gradually over the next year or so and represents over a 108% increase compared to the previous requirement. In contrast, the main salary threshold for a Skilled Worker visa will increase by about 48%, effective in April 2024.

Visa costs

Visa fees for Skilled Worker visas are also set to increase by 15-20% (Table 2).

The immigration health surcharge (IHS) is being (or already has been) raised for both main applicants and any dependent adults or children applying alongside them. The increase is around two-thirds, rising from £624 for each year of the visa per adult (£470 per year per child) to £1035 (£776).

These increases are historically high. Between the introduction of the post-Brexit points-based immigration system in 2021 and October 2023, for example, the visa fee for a Skilled Worker visa rose by only £15.⁸

The exception is the IHS, which was £200 per year when introduced in 2015 and increased by 100% to £400 in 2018. It then rose by 56% to £624 in 2020 (and the £470 rate for children was introduced), where it remained fixed until the announcement in December.

The total cost of immigration via a Skilled Worker visa will therefore be significantly higher than previously. For example, for someone with a dependent partner and one child entering the UK on a three-year Skilled Worker visa for an occupation not on the ISL, the combined visa fees and IHS costs will rise from £7,029 to £10,695 (a 52% increase).

The impact on immigration to the UK and Scotland

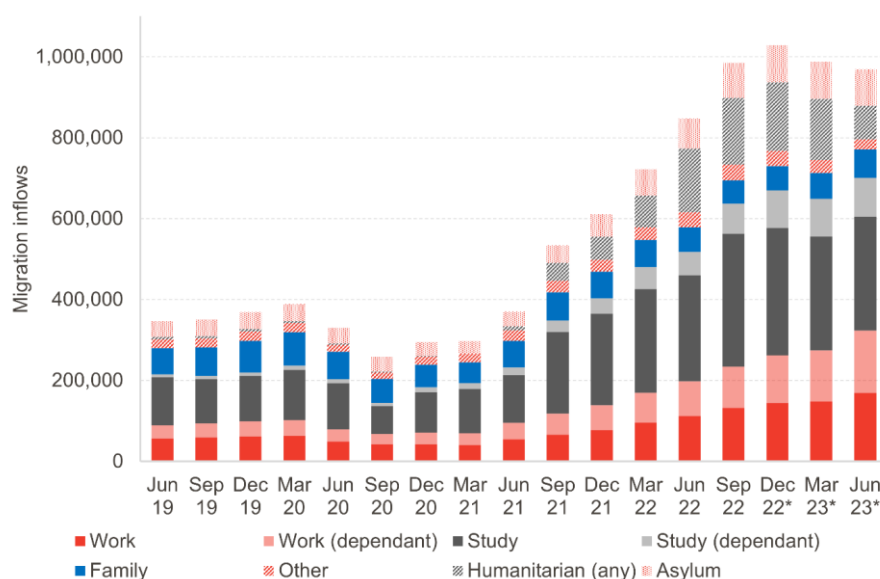
Immigration inflows

The Home Office has estimated that these measures will likely reduce immigration inflows by about 300,000 people in a year. This would account for approximately a quarter of the total inflows of people to the UK in the year to June 2023, according to ONS provisional estimates. The total impact on net migration could be larger than the projected impact on inflows if current UK residents leave at higher rates as a result of these policies (e.g., because they cannot sponsor family members to enter the UK).

Most of the projected reduction in inflows comes from changes to student visas and visas for care workers (both around 140,000). ONS provisional estimates for net migration to the UK in the year to June 2023 for work and study (or as a dependent of someone entering for that reason) are 323,000 and 378,000, respectively (Chart 1). The projected reductions in inflows would then represent 43% fewer people immigrating for work or as the dependent of someone coming to work compared to that level, and 37% fewer arriving students and their dependents.

⁸ From £610 to £625 per person for a visa of up to three years, and from £1,220 to £1,235 for a visa of 3-5 years.

Chart 1: Immigration inflows by reason, UK, 2019-2023



Source: ONS

Notes: Inflows are for the year to the month listed. Months indicated with an asterisk indicate provisional estimates.

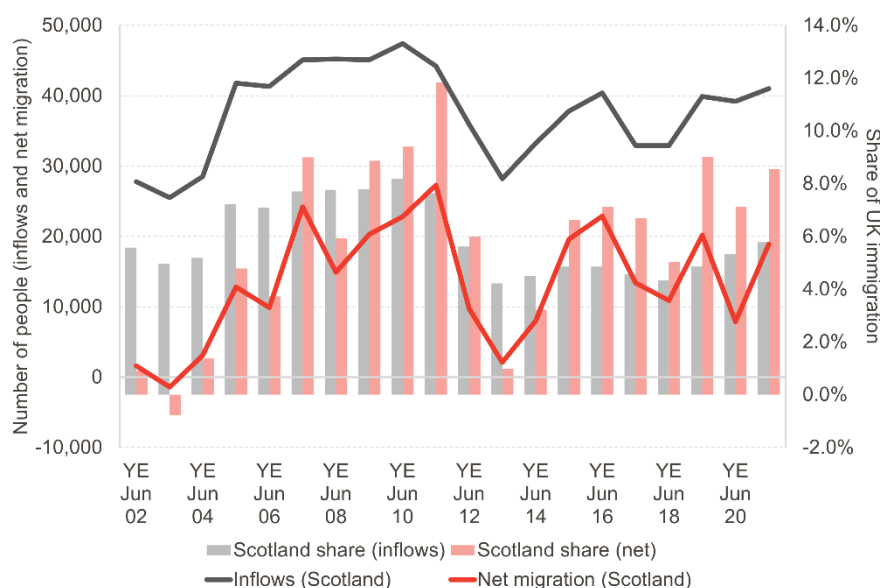
The Government estimate that another reduction of 15,000 will come from changes to Skilled Worker visas, and possibly reductions in the “low tens of thousands” from increasing the MIR to £29,000. They do not estimate the impact of further raising the MIR to £38,700 next year.

It is very difficult to say how flows of immigrants to Scotland are likely to change.

From 2002 to 2021, net international migration to Scotland ranged from a low of -1,400 in the year to June 2003 to a high of 27,300 in the year to June 2011 (Chart 2). Scotland’s share of net migration to the UK averaged just under 6% over this period, exceeding its population share in the years to June 2007, 2009-2011, 2019, and 2021. It is possible that some of these numbers may be revised later using information from the 2021 Census.

If the projected reduction in immigration flows is evenly distributed across the UK by population, we would expect a reduction in immigration inflows of around 25,000 (about 60% of average annual inflows to Scotland between 2019 and 2021). If Scotland’s share of the projected reduction is more similar to its average share of international immigration from 2002-2021, then the reduction in immigration inflows would be around 18,000 (about 45% of average inflows from 2019-21).

Chart 2: International migration to Scotland, YE June 2002 – YE June 2021



Source: NRS and ONS

Notes: Inflows, net migration, and shares are for the year to June each year. ONS statistics on international migration from 2001-2011 are published by calendar year; the denominators to determine Scotland's share of UK migration here are weighted averages of successive years to obtain a comparable measure of migration in each year to June. Shares are measured on the right-hand axis.

In practice, many factors will determine the actual impact of the changes to immigration policy on immigration inflows to Scotland. These include pay levels, availability of jobs that meet visa requirements, employers' willingness to sponsor visas, local amenities, previous immigration patterns, and other personal aspects.

For instance, in April 2023, median gross earnings for Scotland were £703 per week, about 3% higher than the median for the whole of the UK. Scotland also had the highest growth in median gross weekly earnings compared to other regions of the UK from 2022 to 2023. The latter, however, is primarily driven by jobs in the public sector like education and health which are subject to salary thresholds based on national pay scales. Pay growth and median wages in some other sectors are lower than in the rest of the UK, which may limit the incentive for migrants to settle in Scotland.

Higher pay and pay growth may make Scotland more attractive as a destination for some immigrants seeking work in specific sectors. However, higher taxation of income for those on incomes above the median may also negate the incentive.

Affordability

Decision making for prospective migrants is notoriously difficult to predict and will be impacted by a wide range of personal circumstances, desired outcomes of a period of migration, and prior knowledge of and ability to accurately calculate living costs and other fees relative to salaries. The increased charges will however certainly impact on migrant households' finances, adding a significant set of increased costs alongside the pressures of rising costs of living experienced by all. The affordability of these increased costs is likely to differ considerably depending on the occupations of primary migrants, the route through which they have arrived and their household composition, including both the number of dependents and the potential availability of second earners.

The new salary thresholds for those arriving with Skilled Worker visas after April 2024 may mean that new arrivals are able to absorb increased fees. Nonetheless, the extent of the increased costs, the fact that they are payable up front for the entire length of the visa and for all family members will still create a considerable burden and one that is proportionately higher the more dependents or children in a household. These high up-front costs are likely to dissuade some from immigrating to the UK, especially those from lower-income backgrounds.

The greatest proportional financial disadvantage is likely to be experienced by those migrants arriving to take up jobs on the ISL, on the graduate route or holding a Health and Care Worker visa, where salaries can be lower. Whereas those applying in occupations on the ISL are subject to reduced visa fees, the reduction is small compared to the total cost of the visa. These groups will all still be subject to raised visa fees and the higher NHS surcharge (apart from health and care workers who are exempt from the latter).

The new restrictions on bringing dependents for students and health and care workers are also likely to be a factor in decision-making. In general, adult dependents of those entering the UK on work and student visas can work in any occupation (i.e., they are not subject to salary thresholds when applying as a dependent). Previously, some students and health and care workers will have entered the UK with dependents with the expectation that one or more of their dependents will work. These households would now be split between the UK and the country of origin, with higher costs from living apart. This is likely to discourage a number of immigrants from coming to the UK for both family and financial reasons.

Immigrant contributions to the Scottish economy and demographics

The labour market

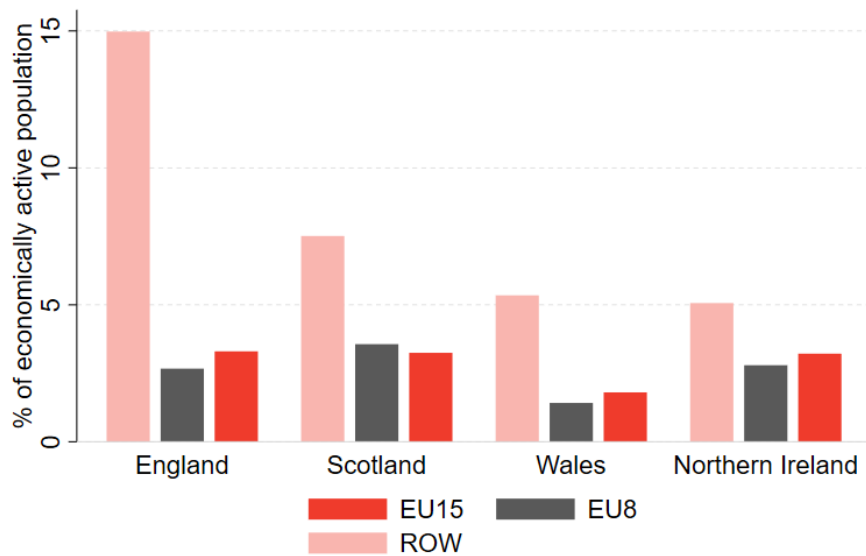
Immigrants play an important role in Scotland's labour market. Scotland's proportion of non-UK-born workers⁹ in its economically active population was 14.3% in 2022, compared to 21% in England,¹⁰ 11.1% in Northern Ireland, and 8.6% in Wales (Chart 3).

Scotland has the highest proportion of economically active people born in the EU, about 7% compared to 6% in England and Northern Ireland and 3% in Wales.

⁹ Throughout this section and the next, we conduct analysis of the Annual Population Survey, which collects information on country and region of birth but not citizenship status. We are not able to draw direct conclusions about the proportion of workers or the working-age population made up of UK citizens or non-citizens. All statistics presented represent at least 30 sample observations.

¹⁰ When London and the rest of England are considered separately, the former's economically active population is 44.7% non-UK-born and the latter's is 15.8%.

Chart 3: Percent of economically active population (16-64) by region of birth and nation, 2022

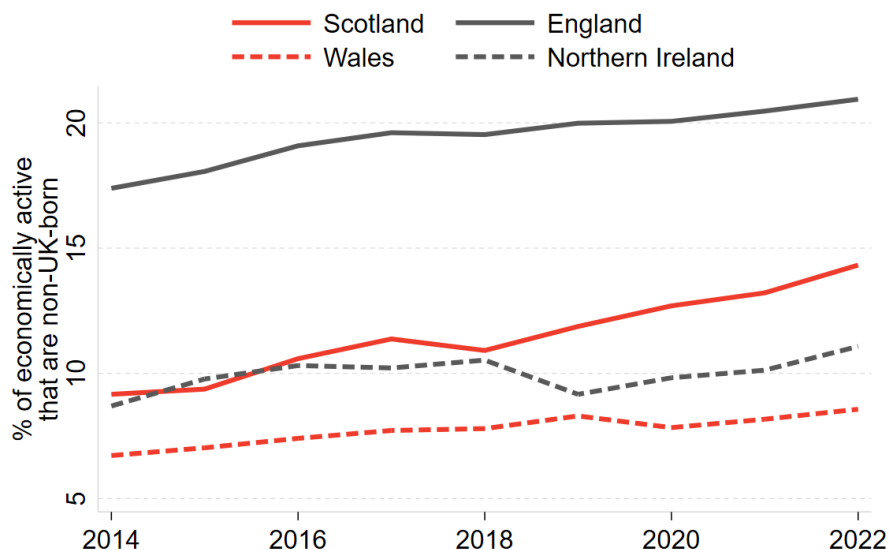


Source: FAI calculations from the Annual Population Survey

Notes: Proportions are calculated as a share of the economically active population (those who are employed or looking and ready for work) aged 16-64. Each figure represents a sample size of at least 30.

Scotland also saw the fastest growth in its non-UK-born share of the economically active population from 2014-2022 (Chart 4).

Chart 4: Percent of economically active population (16-64) not born in the UK by nation, 2014-2022



Source: FAI calculations from the Annual Population Survey

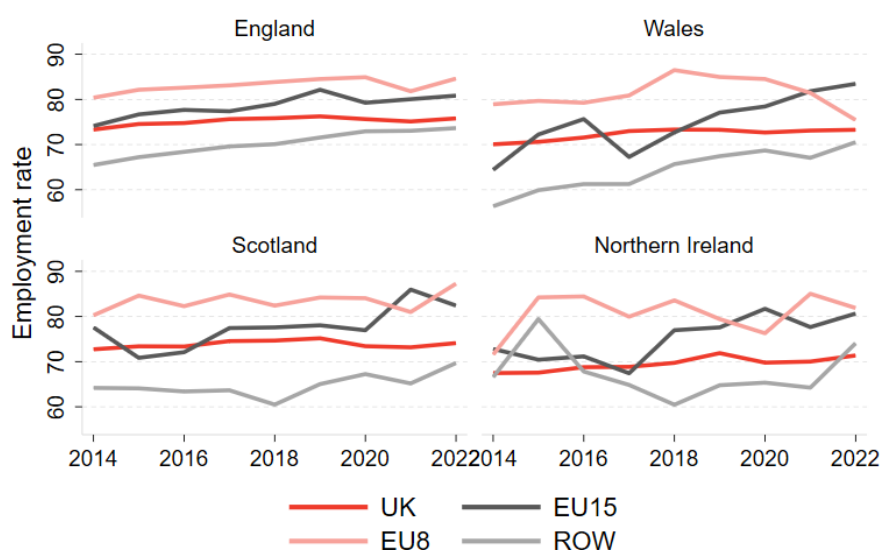
Notes: Proportions are calculated as a share of the economically active population (those who are employed or looking and ready for work) aged 16-64. Each figure represents a sample size of at least 30.

Scotland non-UK-born share grew by 5.2 percentage points (pp) over that period, compared to England's share which grew by 3.6pp (the next-highest change).

Those born outside the UK are also playing an increasingly important part of the employed population. Employment rates differ somewhat across region of birth and nation, with greater employment growth among the population born outside the UK (Chart 5).

Those born in the EU have typically had higher employment rates than the UK-born population, although the difference has narrowed in recent years in Northern Ireland and Wales.

Chart 5: Employment rates by region of birth, UK nations, 2014-2022



Source: FAI calculations from Annual Population Survey 2014-2022

Notes: Employment rates are calculated as a percentage of the working age population (16-64). Each figure represents a sample size of at least 30.

Employment rates have generally trended upwards to a greater extent for the non-UK-born working-age population than for those born in the UK.

This is particularly true of the non-EU, non-UK-born population. Between 2014 and 2022, the employment rate for this group grew by 5.5 percentage points (pp) in Scotland compared to 1.4pp for the UK-born working-age population (

Table 3). The differences are also large in the other UK nations, particularly Wales. This likely reflects a change in the composition of immigrants coming from outside the EU.

Table 3: Growth in employment rates by region of birth, 2014-2022 (16-64)

	Growth in employment rate, 2014-2022 (pp)	
	UK-born	Non-UK, non-EU born
Scotland	1.4	5.5
England	2.5	8.2
Northern Ireland	3.9	7.5
Wales	3.2	14.2

Source: FAI calculations from Annual Population Survey 2014-2022

Notes: Employment rates are calculated as a percentage of the working age population (16-64). Each figure represents a sample size of at least 30.

In addition to having higher growth in employment, those born outside the UK are less likely to report economic inactivity due to illness or injury. In 2022, 38% of UK-born inactive workers in Scotland attributed their inactivity to either temporary or permanent illness or injury compared to 13% of those born outside the UK.

Rates of inactivity due to poor health are persistently higher in Scotland compared to the rest of the UK, making this an area of considerable policy interest.

Immigrants also play important roles in specific sectors, with health and social care often highlighted as an example.

Based on calculations from APS data, between 10-11% of NHS workers in Scotland in 2020-22 were born outside the UK, over half of which were not born in the EU. These numbers compare to an estimated 24-25% in England, where nearly 20% were not born in the EU.

Although figures are not available for NHS Scotland, the House of Commons Library reports that 20.8% of NHS England staff were non-UK nationals in June 2023, including 28.8% of nurses and health visitors and 36.1% of doctors. If figures for Scotland differed from those in England by the same proportion as those estimated for NHS workers born outside the UK in the APS data, approximately 9% of NHS Scotland workers would be non-UK nationals (12% of nurses and 16% of doctors).

Audit Scotland has highlighted the fact that low workforce capacity and high vacancies put significant pressure on NHS Scotland. Immigration policies that discourage these workers from coming to the UK are likely to compound these pressures.

Demographics

Beyond more direct economic impacts and contributions, immigration is a crucial driver to population growth in Scotland nationally, contributing most strongly to the working age population. The potential for immigration to play a role in mitigating population change is particularly significant in many of Scotland's rural areas. This is reflected in the Scottish Government's 2021 Population Strategy and the more recently published Addressing Depopulation Action Plan.

Immigrants have more children on average, particularly those from outside the EEA. Meanwhile, the total fertility rate has fallen across the UK, with Scotland's fertility rate significantly below that of England and Wales. Those who settle permanently in the UK therefore also play a role in slowing the decline in birth rates.

This view of migration as having a role to play in mitigating the impacts of population ageing and/or decline is reflected in both political rhetoric and public attitudes as noted above. This appears well-aligned with a desire for migration which leads to settlement and particularly so of younger people who might either arrive with families or establish new families in Scotland. Several of the proposed changes run directly counter to these aspirations.

Attitudes towards immigration

Recent attitudinal survey data has found warmer attitudes to migration in Scotland than in similar UK-wide surveys. In 2023, Migration Policy Scotland undertook the first representative survey of Scottish attitudes to immigration in almost a decade. This found greater support for an increase in immigration (38%) than for a reduction in numbers (28%). A clear majority (59%) of respondents viewed migration as positive for Scotland and 48%

viewed it as positive for their local area. Only 18% described the impacts of migration as negative for Scotland, and 20% for their local area.

The same survey sought to understand respondents' views on the more specific economic, social, cultural and demographic benefits or challenges migration might bring. Questions were asked in relation to both respondents' local areas and Scotland as a whole. Overall and at both geographical levels, respondents were more likely to agree with positive statements about the potential for migration to impact positively on the economy, to fill vacancies in jobs for which local workers are hard to find, to boost innovation, enrich cultural life and bring people to areas which need them. They were also more likely to reject negative statements about migration as a burden on welfare services, increased competition for jobs or threat of criminality.

On demographic benefits, the finding that well-over half of respondents (59%) believed that migration can 'bring new people to areas which need them' across Scotland, and 49% believed the same for their local area, is particularly striking. This suggests that demographic arguments for sustained or increased migration which have been made at a more elite level in Scotland for many years, do now resonate with a wider public.

Finally, this survey shows a strong preference for longer-term migration rather than short-stays to fill temporary gaps in the workforce. Asked to choose between a system where labour migrants are allowed to stay longer-term in Scotland, to settle and to integrate rather than one requiring them to return home after a short period of employment, 66% chose the former and only 16% the latter.

The impact of the new policy announcements in Scotland

Growth

On a macroeconomic level, the OBR has forecast that lower net migration would result in lower real GDP, but the impact on real GDP per person is ambiguous. These forecasts assume that immigrants have a slightly higher economic activity rate than the UK-born population, and the effect on real GDP grows larger when this assumption is adjusted to assume a much higher economic activity rate.

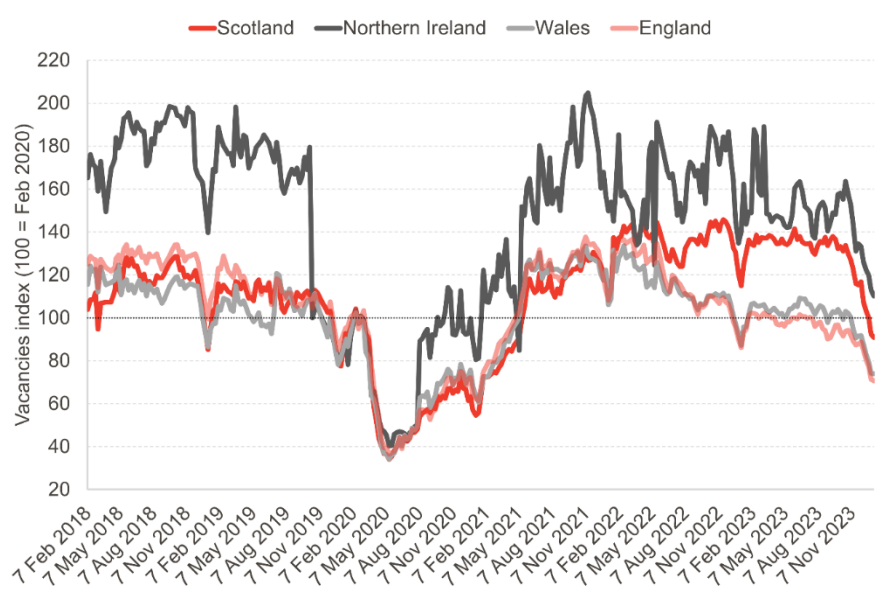
No UK regional growth estimates are available that unpick the potential effects of the new immigration policies on growth in Scotland, although the underlying assumptions used by the OBR are likely to hold here as well. The SFC forecasts for Scotland from December 2023 are based on net international migration estimates aligned to the January 2023 ONS projections. The coming forecasts in May 2024 should include updated migration estimates, and information about the impact of the projected reductions in net immigration on Scottish growth would be very welcome.

Scotland's labour market

As discussed in the previous section, people born outside the UK play a crucial role in the Scottish labour market. Furthermore, immigration is the main driver of population growth in Scotland. Immigrants to the UK therefore play an important role in filling maintaining employment levels in Scotland.

The UK vacancy rate has been relatively high throughout the recovery from the Covid-19 pandemic, particularly in Scotland and Northern Ireland (Chart 6). While vacancies in England and Wales have largely been around or below pre-pandemic levels since late 2022, vacancies in Scotland only reached pre-pandemic levels in November 2023.

Chart 6: Vacancies by region, deduplicated and indexed to February 2020, Feb 2018 - Jan 2024



Source: ONS

As the new immigration policies come into effect and immigration falls, it may become more difficult to fill vacancies.

There has also been ongoing concern about high inactivity rates in Scotland relative to the rest of the UK, particularly due to ill health. Reductions in immigration rates to Scotland may limit economic activity rates over time, given that the current mix of immigrants tend to have higher rates of employment and economic activity.

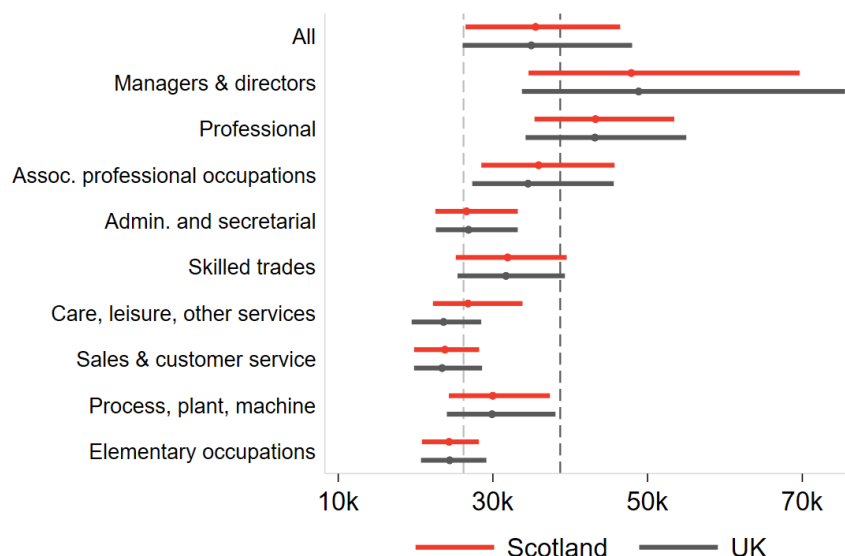
Impact across sectors and occupations

The impacts are likely to be distributed very unevenly across sectors and occupations. This is both because different standards are applied across occupations (e.g., occupations on the ISL will face lower salary thresholds) and because salary rates vary across jobs.

Charts 7 and 8 compare the distribution of annual gross pay across sectors and occupations in Scotland and the UK to the old and new general salary thresholds to qualify for a Skilled Worker visa.

Previously, all sectors except sales & customer service and elementary occupations had higher median pay than the general immigration salary threshold in Scotland. This was also broadly the case in the UK generally, apart from care, leisure, & other services where Scotland has significantly higher median pay.

Chart 7: 25th, 50th, and 75th percentile of annual gross pay for full-time workers by occupation, 2023



Source: ASHE 2023 (provisional)

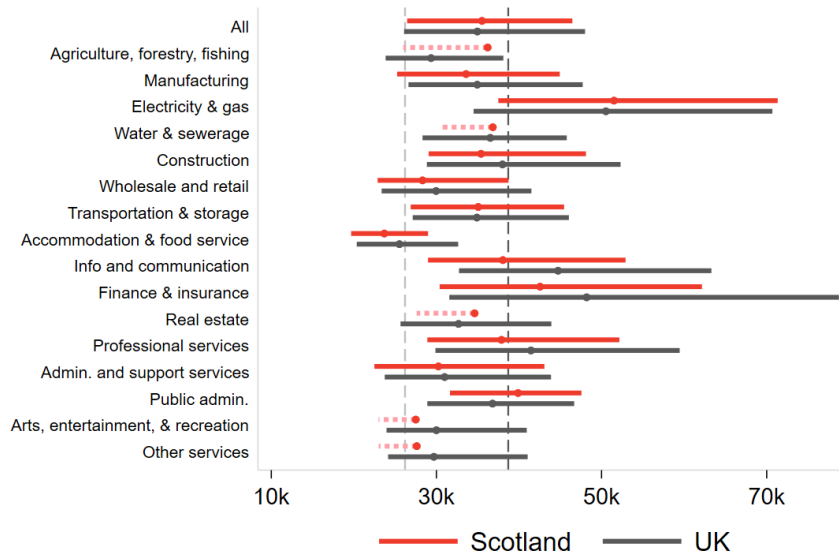
Notes: Bars indicate the 25th to 75th percentile of gross annual pay for each occupation; the dots indicate the median. The previous general immigration salary threshold is indicated in light grey, and the new one is in dark grey.

In contrast, only managers & directors and professional occupations have median pay rates that exceed the new general salary threshold. Associate professional occupations, administrative and secretarial occupations, skilled trades, care, leisure & other services (in Scotland), and process, plant, and machine occupations will now have median pay rates below the general salary threshold. Within this group, only associate professional occupations and skilled trades will still have over 25% of jobs with higher gross annual pay than the salary threshold.

Unfortunately, regional ASHE data has missing information on pay in more specific occupations (by 4-digit SOC code) for Scotland, so it is difficult to explore how the new thresholds applicable to occupations on the ISL compare. For occupations where a median is reported in ASHE, we confirm that the occupation codes not recommended by the Migration Advisory Committee for inclusion in the ISL due to their high median wage also have a median higher than the ISL salary threshold in Scotland.

Similarly, a number of sectors previously had median pay above the salary threshold but will now fall below it. These sectors include manufacturing; water & sewerage; construction, wholesale, and retail; transportation & storage; real estate; administrative and support services; arts, entertainment, & recreation; and other services. Notably, information & communication and professional services have median pay that exceeds the new salary threshold in the UK but not in Scotland specifically, while the opposite is true in public administration.

Chart 8: 25th, 50th, and 75th percentile of annual gross salary for full-time workers by sector, 2023



Source: ASHE 2023 (provisional)

Notes: Bars indicate the 25th to 75th percentile of gross annual pay for each occupation; the dots indicate the median. Lighter red dashed lines indicate the 25th to 50th percentile of gross annual pay for sectors in Scotland with no available data on the 75th percentile of pay due to sample size restrictions. The previous general immigration salary threshold is indicated in light grey, and the new one is in dark grey.

Salaries within each occupation and each sector have their own distribution, so it is not the case that all employers in occupations and sectors with median pay newly under the salary threshold will not be able to hire any immigrants whatsoever. Nevertheless, proportionally fewer of these jobs will qualify for visas, further tightening labour market conditions.

Health and social care

Many health workers are on national pay scales, which form the basis for salary thresholds in those occupations. The recent rapid review of the ISL by the Migration Advisory Committee recommends that many health occupations be excluded from the ISL for that reason, since immigrants looking for jobs in these occupations will not benefit from a lower salary threshold.

The primary exception is social care, where there is no national pay scale and rates of pay are generally lower. If included on the ISL, the salary threshold for social care workers would be £23,200; the median pay for these workers in Scotland (£25,400, and about £30,000 for senior workers) exceeds this level. However, if social care is not included on the ISL, the salary threshold will be £29,000. This level of pay would pose a significant restriction in hiring non-senior workers for social care employers in Scotland even with the recent commitment to pay social care workers £12 an hour (an increase of 10.1% over the previous minimum).

Regardless of inclusion on the ISL, the new restrictions mean that social care workers will no longer be allowed to bring dependents with them when they enter the UK. This is also likely to limit the effectiveness of recruiting social care workers from abroad, placing greater pressure on social care providers.

These issues of workforce recruitment and sustainability will be very important in the current debate over the National Care Service bill.

Higher education

The new announcements are likely to affect both supply and demand for higher education services. The new policies will pose significant challenges for higher education institutions (HEIs), a key sector for Scotland.

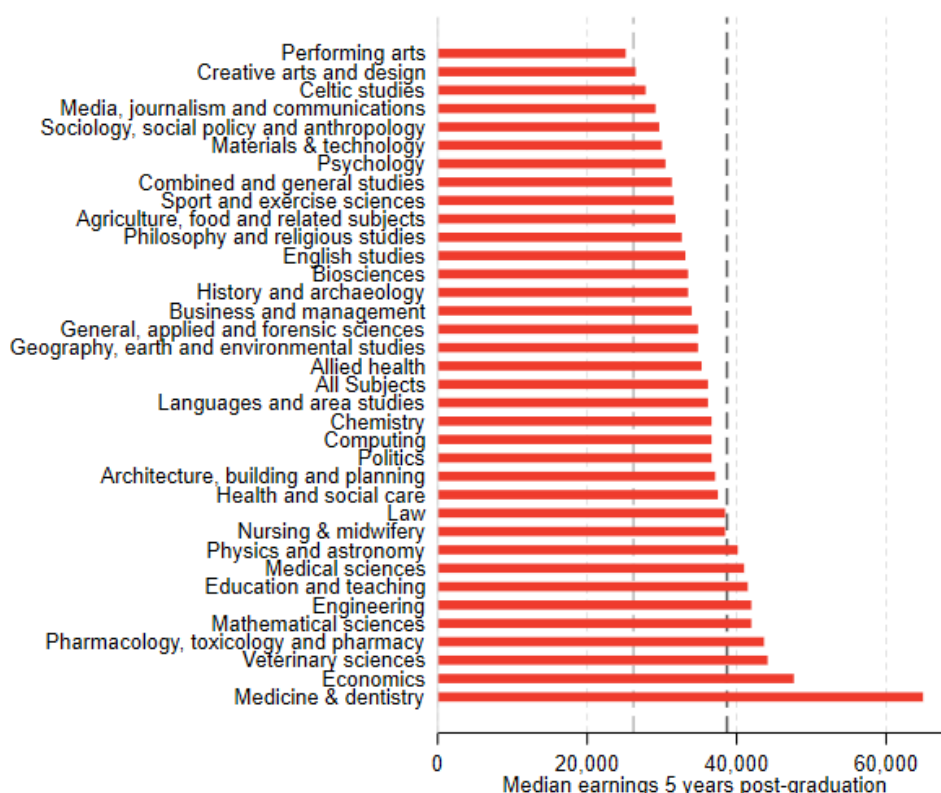
On the demand side, students from abroad choosing where to study will likely be discouraged by increases to visa fees and the immigration health surcharge, both of which must be paid up-front.

For the academic year 2021-22, 18% of full-time undergraduate students and 71% of full-time postgraduate students at Scottish HEIs came from outside the UK. The majority of these, particularly in postgraduate study, were from non-EU countries. Non-UK students accounted for 70% of total course fees and about 25% of total income received by Scottish HEIs in 2021-22.

While many students leave the UK after completing their studies, some will also seek to remain and work in the UK. The Graduate visa scheme allows graduates to work for two years after they complete their degree (three years for a PhD). However, the new salary threshold means that many students will not expect to earn enough to qualify for a Skilled Worker visa two years after graduation.

Chart 9 shows median earnings for graduates of Scottish HEIs residing in the UK, five years after completion of their degree. The figures have been updated to February 2024.

Chart 9: Median earnings for graduates of HEIs by subject, 2020-21



Source: Scottish Government and ONS

Notes: The previous immigration salary threshold is indicated in light grey, and the new one is in dark grey. Earnings are for graduates of Scottish HEIs that reside in the UK, measured five years after graduation. Figures for 2020-21 have been updated to February 2024 using CPI.

While graduates from most subjects have median earnings of over £26,200 even five years post-graduation, the same is not true of the new threshold of £38,700. This will make it more difficult for international graduates from these subjects to transition to Skilled Worker visas two (or three) years after they complete their degree. Subjects whose median earnings previously exceeded the salary threshold, but now fall below it, include media, journalism, and communications; biosciences; history and archaeology; and computing. Health and social care graduates also have median earnings under the overall salary threshold five years post-graduation, but will be subject to a reduced threshold through the Health and Social Care visa and potential inclusion on the ISL.

Additionally, jobs related to many of the subjects with median earnings over the new threshold (e.g., medicine) will likely face a lower salary threshold, either through the Health and Social Care visa or inclusion on the ISL.

The higher education sector in Scotland will also face challenges related to staffing due to the new immigration rules.

Scottish HEIs rely on international staff, with 40% of academic staff and 13% of non-academic staff at Scottish HEIs in 2021-22 comprised of staff with non-UK nationalities.

Currently, one of the exceptions to the salary threshold is if the visa holder is a postdoctoral researcher in science or higher education. People in these positions can be paid 70-90% of the going rate for their job (provided it is at least £20,960).

However, postdoctoral research positions are typically fixed term contracts. If a researcher wants to transition to a non-postdoctoral job in the UK, they will need to meet the criteria for a Skilled Worker visa. As with university and postgraduate students, this may discourage applicants from seeking these positions, and will limit the ability of Scottish universities to recruit from abroad.

Demographic considerations

The increased restrictions on dependents both for the health and care worker route and as previously announced for international students on non-research courses will make it very difficult for new migrants arriving on these routes to bring family with them. This may impact on their desired length of stay, their incentives for integration and the development of deeper roots in Scotland.

Those who are already resident in Scotland with dependent family members on either of these routes or who have transferred from a student visa to the Graduate route, are not (immediately) subject to increased salary thresholds. They are more likely than other international migrants to be employed in lower-medium income jobs, or dependent on post-graduate stipends. They will be subject however to increased fees for renewing visas and for the NHS surcharge which must be paid upfront for the entire period of the (renewed) visa and for all family members. The burden of these increased fees on household finances may negatively impact on such families' decision-making regarding length of stay in Scotland and on whether they can afford to stay as a family unit.

Other changes may also impact negatively on a trajectory to settlement for the cohort of highly educated, younger migrants currently on, or joining the Graduate visa route. The introduction of much higher salary thresholds required within two or three years of graduation to transfer to the Skilled Worker visa route may be unattainable for many graduates. This is likely to be the case not only for those who have been employed in some of the lower paid jobs in retail or hospitality which have been the target of criticism of the route. It could also affect many in the earlier stages of professional careers in research, civil service, third sector and other roles. This impact is likely to be most acutely felt in those

areas of Scotland where salaries are below national averages, many of which are also amongst those most in need of a boost to their working age populations.

Fiscal policy considerations

On average, immigrants in the UK (particularly new arrivals) have a positive net contribution to the tax and benefits system. This is both because employment rates are higher among immigrants and because there are restrictions on most visas that do not allow recourse to public funds (e.g., the benefits system). Rules about demonstrating appropriate financial support for themselves and their dependents are also intended to reduce the number of immigrants that require public support. Therefore, while immigrants from outside the European Economic Area (EEA) receive more family benefits and tax credits than the UK-born population on average, their total social payments are lower due to receiving fewer disability benefits and services.

Estimates of the net fiscal contribution of immigrants depend on their region of origin and what is included in the estimate. One study by Oxford Economics in 2018 estimated a net positive fiscal contribution for EEA immigrants, but a net negative for non-EEA immigrants. Part of this is due to the public education costs for children since non-EEA immigrants have more children on average. When these costs are excluded, non-EEA immigrants are also found to have a net positive fiscal contribution even before contributions from visa fees and the IHS are considered. Immigrants also draw less on the pension system. Furthermore, international students are also important net positive contributors to public finances, as discussed above.

Fewer arriving immigrants therefore means a reduction in tax receipts relative to what they would have been. The reduction is unlikely to be offset by lower social security costs, particularly since many immigrants are not able to access welfare payments in their first five years in the UK.

The Home Office estimates that fee and health surcharge revenue will decrease over the next ten years relative to a no-change baseline, despite increases in the levels of both. The direct impact on the Scottish fiscal position is likely to be negligible, as visa fees fund reserved Home Office spending and the IHS is unlikely to have a meaningful impact on overall departmental spending on health services.

Conclusion

Immigrants contribute to the Scottish economy and society in many ways. They form an important part of the workforce, contribute to population growth, and add to the public finances through several channels.

As a result, last year's immigration policy announcements will pose significant challenges for Scotland. Higher salary thresholds are likely to make recruitment of workers from overseas more difficult, with the effects distributed unevenly across sectors and occupations. While the salary thresholds are based on UK ASHE data, pay levels vary across regions, likely leading to uneven impacts across the nations of the UK.

Despite the dedicated Health and Social Care visa and reductions to the salary threshold for key occupations, pressures on health and social care recruitment in Scotland are likely to grow. Restrictions on bringing dependents for those entering the UK on Health and Social Care visas will also provide a disincentive and reduce the demographic contribution of new immigrants.

Higher education is also likely to be impacted, both in terms of international students and recruitment of staff. The new measures will likely discourage some students from choosing the UK for study, although it is not clear what share of the estimated 140,000 reduction in

international students and their dependents would have been expected to live in Scotland. Decreases in international students in Scotland will also impact negatively on export figures, as education services to non-residents (which includes international students for the purposes of these statistics) form a significant proportion of Scotland's exports.

Finally, reduced migration is related to higher public sector net borrowing and debt in OBR's forecasts, and in general immigrants (particularly new arrivals) tend to be net contributors to the fiscal balance. Fewer new arrivals means that tax receipts will likely be lower than they otherwise would have been, which is unlikely to be completely offset by lower social security costs. Income tax receipts in Scotland are therefore likely to fall relative to what they would have been. The projected fall in visa fee and IHS revenue from lower migration, however, is unlikely to meaningfully affect the block grant.

While the latest OBR forecasts include the estimated reduction in immigration, few statistics are available to describe the likely impact of the new measures on the Scottish economy. We strongly urge the UK government to consider regional impacts of the new policies, and to publish available information on these impacts as a matter of transparency so they can be properly scrutinised.