

UK Immigration Policy After Leaving the EU

Impacts on Scotland's Economy, Population and Society

Expert Advisory Group on Migration and Population

Executive Summary

Background to the report

The UK's departure from the EU will usher in important changes to immigration policy. The UK Government's proposals on immigration are set out in the December 2018 White Paper on *The UK's Future Skills-Based Immigration System*, which draws on prior recommendations from the Migration Advisory Committee (MAC). These proposals suggest that from January 2021, EU nationals will be subject to UK immigration rules. The proposals also suggest changes to the current points based system, notably:

- an expansion of the Tier 2 route for skilled workers, through abolishing the annual cap and lowering the skills threshold, as well as simplifying procedures for employers; and
- piloting a seasonal agricultural workers' programme, and introducing a transitional temporary workers route covering all skills levels.

The proposals are intended to reduce overall net migration to the UK, while expanding opportunities for skilled migrants.

This report examines how these changes are likely to affect migration to Scotland; and how changes in immigration may in turn affect areas of devolved responsibility in Scotland, including economic growth, public services, and the sustainability of communities. The report focuses on four broad dimensions of change: the labour market, fiscal impacts, demographic trends, and social effects on local communities.

Migration to Scotland

Migration from EU countries has accounted for a significant portion of overseas immigration over the past decade. Most EU nationals come to Scotland to work and have higher employment rates than UK nationals, and are on average younger than the UK population. EU nationals work in a range of sectors, and comprise a substantial share of Scotland's employment in sectors such as accommodation and food services, manufacturing, and administrative and support services.

EU migration since the 2000s has been widely distributed across all areas of Scotland. While cities enjoy a higher share of immigration, rural and remote areas have also seen a substantial rise in immigration. This has been enabled by the free movement framework, which allows flexible patterns of movement and employment for EU nationals. The absence of a skills threshold has also meant that EU migrants have filled lower-skilled jobs in areas such as agriculture, tourism, manufacturing, health and social care, across Scotland.

The UK's withdrawal from free movement would restrict EU immigration to the points based system, with most labour migration channelled through Tier 2.

Drawing on a range of data and taking into account the White Paper analysis, we develop two scenarios for future migration flows.

Scenario 1

80% reduction in EU net migration

Scenario 2

50% reduction in EU net migration

The first scenario builds on the analysis of the White Paper, while the second takes into account inflows of dependents, family migration, and also factors in an expected increase in non-EU nationals because of changes to Tier 2.

Based on these scenarios, we project that the proposed changes could lead to a reduction in annual overseas net migration to Scotland of between one third and one half after 2020. This would imply a reduction in annual net migration from around +13,000 (the average net migration over the past five years) to a range between +6,600 and +9,000. However, as with all migration projections, we note that these are approximations.

Key to understanding the effects of this change is how reduced migration flows are distributed – both across sectors, and across different areas of Scotland. Understanding these differentiated effects is the focus of the next sections of the report.

Labour market effects

In order to understand the effects of Tier 2 provisions on EU migration, we analyse the distribution of incomes across Scotland, including for different employment groups, by age and gender, and for local areas.

Overall, 63% of workers in Scotland earn less than the proposed £30,000 salary threshold for Tier 2. This would be 58% if the salary threshold were reduced to £27,500, and 53% in the case of a £25,000 threshold. In occupations such as textiles, social care, leisure and travel, sales, and elementary occupations, almost no jobs would qualify for a £30,000 threshold.

One example of a severely affected sector is social care, where less than 10% of those in caring personal service occupations in Scotland earn above £25,000, and none earn £30,000. The budgetary pressures faced by local authorities, the main purchaser of social care services, mean that there is little prospect of raising salaries in social care to a level that would attract greater numbers of UK workers. Therefore, the proposed changes will exacerbate existing labour shortages in many areas. The brunt of these shortages is likely to be borne by friends and family who will have to assume responsibility for care, and especially female family members.

Looking at the effects by age and gender, we found that only 25% of those aged 22-29 meet the £30,000 threshold, rising to between 43% and 45% for those in their 30s and 40s. A far lower proportion of female employees meet the £30,000 threshold. Indeed, in many of the occupations dominated by female employees, salaries do not even meet a lower £25,000 threshold, implying that the proposed Tier 2 arrangements could create a gender disparity in the supply of future migrants.

If we look at the regional distribution of salaries across Scotland, we see a wide variation in the proportion of jobs that meet the £30,000 threshold, ranging from 49.5% in East Renfrewshire to just 16% in Na h-Eileanan Siar. This implies that very few migrants would be able to move to those areas to work under Tier 2. This would limit labour migration in areas of Scotland that already experience low levels of productivity and face challenges of depopulation. Relaxing the income threshold would substantially increase the range of jobs available to migrants.

Our analysis also shows that EU employees work longer hours than their UK-born equivalents – on average 5% more. This implies that maintaining current levels of output would require more than a one-to-one replacement of EU workers with UK-born employees.

Fiscal effects

The fiscal effects of EU migrants on the Scottish economy are similar to the effects on the UK economy as a whole. The UK evidence suggests that EU migrants typically contribute more through tax revenues than they consume by way of public services. This conclusion largely holds for EU migrants to Scotland, though their average earnings are slightly lower than the average for EU workers in the UK as a whole, and therefore they contribute slightly less to tax revenues.

As in the rest of the UK, EU migrants to Scotland are typically young and economically active, and people of their age group tend to consume a relatively small amount of public services because they are not usually receiving welfare benefits, nor are they heavy users of health and social care services. However, if they have children, they are likely to consume publicly provided education services. If they remain in Scotland, EU migrants may eventually consume health and social care services. But the lifetime balance of their contribution to tax revenues and use of public spending will tend to be favourable, other things being equal, because the costs of their early upbringing and education have been met by another state.

EU migration also affects the allocation of fiscal risk between the Scottish and UK Governments. Following the Scotland Act 2016, the Scottish Government is responsible for income tax and a share of VAT revenues raised within Scotland as well as a number of welfare benefits. It also pays for, or contributes towards, services such as health, education and local government. Changes in EU migration will have differential effects on tax revenue collected, and on public spending, by the respective governments. While Scotland is responsible for providing migrants with many public services, it may only appropriate a portion of the tax revenue paid by migrants. It is therefore important to understand the distribution of revenue and expenditure associated with migration across different levels of government. This implies the need for a more nuanced analysis of the spatial distribution of the fiscal benefits of immigration.

Population effects

Immigration to Scotland has been the major driver of population change since the early 2000s. After a prolonged period of population decline, Scotland's population grew from 5.07 million to 5.42 million between 2000-2017. This was largely driven by migration rather than natural change, which has been negative since 2015. If migration stays at its current level, Scotland's population is projected to increase by 8% over the next 25 years. With reduced migration from the EU, it would increase by between 5%-6%. Migration can also help reduce the speed of population ageing, though its impact is relatively small. The proportion of people aged 65 and older in Scotland is expected to rise from 29 per 100 over the next 25 years to between 41 and 46 per hundred, across all migration scenarios. Scotland is projected to experience more pronounced population ageing than other parts of the UK.

While immigration will not significantly reduce the speed of population ageing in Scotland, it will have a considerable effect on the absolute size and age composition of the working age population. At current immigration rates, the working age population is expected to remain stable over the next 25 years, whereas with reduced migration from the EU, it is projected to decline by between 3% and 5%. Reduced EU migration would lead to a gradually declining and rapidly ageing working age population. This is in contrast to the UK as a whole, where the working age population would still grow with reduced international migration. While the provision of health care for a rapidly growing elderly population will be a UK-wide challenge in coming decades, population ageing in tandem with a declining working age population will exacerbate the challenge of managing the consequences of an ageing society in Scotland.

Importantly, the impact of demographic processes is not spread evenly across different areas of Scotland. Between 2007-2017, urban and mixed urban/rural areas benefited from positive natural change (that is, more births than deaths) and substantial immigration, mostly from the rest of the UK but also from overseas. Areas that are mainly rural saw only small natural increase, but this was more than compensated by in-migration. Remote rural and island areas, by contrast, experienced negative natural change, which was not balanced by in-migration. The demographic challenges for these areas will therefore be exacerbated by the proposed changes to EU migration.

Overseas migration is especially conducive to future demographic stability because of its relatively young age structure. However, in rural and remote areas a much smaller share of in-migrants come from overseas than is the case in urban areas. In 2017 just 8% of in-migrants to rural areas were from outside the UK, compared to 28% for cities. Moreover, rural areas are far less likely to have jobs that meet the Tier 2 salary threshold recommended by the MAC. As a consequence, the changes proposed in the White Paper would largely eliminate opportunities for encouraging the longer-term stay and settlement of non-UK nationals in rural Scotland.

It is important to recognise that, for remoter rural areas and islands, attracting working-age migrants (including from EU countries) is the only realistic option to avert a downward demographic spiral driven by the age structure legacy of selective out-migration during the last decades of the twentieth century. Under the proposed changes to migration policy these areas of Scotland seem to be facing a 'demographic double whammy', which is likely to have far-reaching implications for economic activity, the provision of services, and levels of general well-being.

Local communities

Free movement has enabled EU migrants to live and work across Scotland including in rural and remote areas, including through routes that begin elsewhere in the UK. The flexibility of free movement has facilitated the emergence of migrant networks, as family and friends move to join previous migrants, and such networks facilitate integration and settlement. At the same time, access to social security and public services has enabled EU migrants to sustain often low-paid and precarious jobs.

Local authorities in Scotland, as well as employers and third sector organisations, have actively supported the recruitment and settlement of EU migrants. Many areas have invested in infrastructure to support language learning and have developed tailored support services. Local authorities have also played an active role in recruiting and retaining EU staff working in public services such as teaching and social care. In some areas facing population decline, EU nationals have made an important contribution to sustaining such services, in turn helping to retain existing populations in these areas, both UK and foreign-born.

The experiences of EU nationals have not been universally positive, and in many cases those in lower-paid and lower-skilled jobs may experience more limited prospects for social mobility. EU migrants have also faced similar challenges to previous waves of immigration, in many cases suffering from social isolation, long working hours, and concentration in more deprived neighbourhoods. Many who moved to rural areas have cited a more welcoming attitude, and have benefited from the efforts of local authorities and other groups to provide support and encourage their longer-term integration.

The proposals to end free movement and restrict immigration to Tier 2 and temporary routes would seriously disrupt current patterns of mobility and settlement across Scotland. As we saw, there are very few jobs available in rural and remote areas that would meet the £30,000 salary threshold, and many jobs would not meet a lower £25,000 threshold. The proposed seasonal agricultural workers programme and transitional temporary scheme would involve short-term stays of single migrants, without access to public funds and with no pathway to settlement and integration. This would prohibit the retention of staff in many local areas, with serious consequences for the sustainability of local services.

The proposals also imply a diversification of migrants in terms of countries of origin. This is not a problem in itself, and could make a positive contribution to local communities. However, the presence of migrants from a wider range of countries, alongside changes to existing patterns of migration with regard to length of stays, gender, age and family profiles, would require existing services to adapt in order to support newer groups and their social integration. Smaller communities will also lack existing migrant networks in local areas, implying less informal support for integration. The potential consequences for local support services require further analysis.

Keypoints

- The changes set out in the White Paper are projected to reduce net migration to Scotland by between 30% and 50% over the coming two decades.
- Under this reduced migration scenario, Scotland would continue to grow its population, but at a lower rate compared to current levels of migration. Lower levels of immigration from the EU countries would not significantly reduce the speed of population ageing in Scotland, but they would lead to a gradual decline and ageing of the working age population.
- An expanded and simplified Tier 2 would widen the route for skilled non-EU workers, and could sustain at least a portion of EU immigration flows from those meeting the skills and salary criteria.
- However, the overall reduction in EU immigration would be especially challenging for those sectors most reliant on lower-paid, non-UK workers, including occupations such as textiles, social care, leisure and travel, sales and elementary occupations. Many of these sectors would be unable to adjust by increased investment in skills or capital and as a result may need to change their business model.
- Restricted routes for EU immigration would also be particularly disruptive for rural and remote areas of Scotland, where the old age structure means that in-migration is the only means of countering depopulation. The prevalence of lower-paid jobs in these areas implies it would not be feasible to recruit workers under Tier 2.
- The seasonal and temporary programmes proposed in the White Paper would prohibit the longer-term settlement of immigrants working in key sectors, which would again be most acutely felt in rural and remote communities where such jobs are particularly important.
- The proposals will significantly change the patterns of migration Scotland has seen over the last 10-15 years. A proliferation of smaller groups of migrants from a wider range of countries, a predominance of shorter stays, changes to gender, age and family profiles, will require planning and investment for successful social integration.
- The proposals are likely to have a pronounced gender effect, with proportionally fewer women able to meet the salary threshold, especially in rural areas and areas of disadvantage.
- Non-migrant women would also be especially affected by labour shortages in social care, as female family members would be most likely to bear the burden of gaps in care provision.



Scottish Government
Riaghaltas na h-Alba
gov.scot

© Crown copyright 2019



This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at www.gov.scot

Any enquiries regarding this publication should be sent to us at
The Scottish Government
St Andrew's House
Edinburgh
EH1 3DG

ISBN: 978-1-78781-637-4 (web only)

Published by The Scottish Government, February 2019

Produced for The Scottish Government by APS Group Scotland, 21 Tennant Street, Edinburgh EH6 5NA
PPDAS545746 (02/19)

W W W . G O V . S C O T