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Migration Advisory Committee
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Dear MAC

Re: Tier 2 – Minimum Salary Thresholds Call for evidence

My experience is mainly of the IT and finance sectors. My IT sector experience dates from c1997, and so has covered many 'boom' years in IT as well as the .com 'bust'. In 1997-2000 a combination of 'Y2K' projects, and the first .com boom, helped to create across the board shortages in skills. Companies could place full-page recruitment advertising in the trade press ('Computing' or 'Computer Weekly') and receive no replies at all. In the last decade, we have not faced such across the board shortages, but there have always been niches, some large, and some small, where skills have been scarce relative to demand. Senior roles require prior experience, and predicting which skills will be in demand in 2-3 years time is not much easier than predicting which stocks will be in demand in 2-3 years time. Whether one is a UK IT professional, or a UK technology consultancy, decisions about investing in training are made without a crystal ball. Those that invest in the areas which go on to flourish will prosper, just as those that make equity investments prosper if they correctly predict what will be popular. Unfortunately, it is inevitable that the guesses made about the future will not align perfectly with the reality of future demand, so there will always be areas of shortage. In some cases, with new technologies coming from overseas companies (the USA and Israel lead in many areas) there will have been no opportunity for those in the UK to gain expertise; the only expertise will lie within the overseas companies themselves, who will probably charge £250/hr for onsite consultancy, so it is much better for 'UK PLC' if employers here can head hunt individuals out of the companies, rather than having to pay vast fees.

The niches where there are shortages are not just niches within industries, but also within Sector Occupation Classification codes. In IT, having the right technological experience (eg 'Big data') is often a more important distinction than that between SOC 2136 (programmers/developers), SOC 2135 (analysts/designers) and SOC 2134 (project managers). This relates to the salary threshold debate because SOC codes necessarily cover a range of specializations (eg different technologies), and it would not be practical to list separate salaries by technology: even if one was prepared to divide each of those 3 SOC codes into several hundred sub-areas, many roles involve a combination of skills/technologies, and it would certainly be impractical to list every possible combination.

	Question before the MAC	Analysis
1	How do the existing salary thresholds for Tier2 compare to, and impact on, the overall wage distribution for each occupation?	<p>There is a large contrast between</p> <ul style="list-style-type: none"> a) sectors where the SOC threshold is only divided between 'New Entrant' and 'Experienced': where the 'Experienced' threshold is often in line with someone with perhaps 3-5 years experience & Senior staff typically earn appreciably more. b) Sectors such as 2211 Medical practitioners, which have a large number of grades within the SOC, where the distribution is captured more closely. Rather than simply having 'New Entrant' Vs 'Experienced' grades, we have the 2 Foundation Year stages (range £22,636-28,076) and 4 more experienced grades (range £30,002-75,249).
2	<p>What types of jobs and occupations are done by highly-specialised and/or highly-skilled experts,</p> <p>and is pay a good proxy for this high level of specialisation or skill?</p>	<p>Highly skilled experts are found in most areas, but to the traditional professions (Law, Medicine, divinity) one must certainly add IT, Accountancy, and Finance. Roles in the latter often require not only the underlying professional discipline, but also specific expertise in a vertical sector (eg Oil/gas, or utilities) and in particular products (in the case of IT, eg Salesforce; in the case of Finance eg interest rate swaps). There is seldom an across the board shortage, but there are always combinations of expertise that are in short supply relative to demand.</p> <p>--</p> <p>Pay is an imperfect proxy for skill, it works very well in some areas, but less well in others. Nevertheless it is almost certainly the least-bad proxy to use when formulating policy. The alternatives are highly subjective, any policy based on them would be complex and arbitrary.</p> <p>One area where the relationship between pay and specialized skills breaks down is in the lower and middle ranks of the creative/artistic/media sectors where lots of highly qualified and intelligent people are competing for jobs, and thereby drive down salaries. The over-supply of applicants could be said to render the issue moot as far as Tier 2 is concerned: on the other hand, perhaps the arts are an area where the UK should be open to the best of global young talent. This week's tennis at Wimbledon is a great example of the UK benefitting from hosting the world's best – a benefit we reap even in those years where 'home' competitors have little chance of gracing the podium.</p>

	<p>The percentiles deal with the whole sector, not just new entrants. Across a sector as a whole, the average experience level may be over a decade. I guess that the 25th percentile of experience may be 3-5 years. A new entrant would have to be exceptional to be paid as much as an average person with 3-5 years experience.</p> <p>Although high starting salaries of >£40k pa are offered to new entrants in the City, almost no one would keep such a job by working only the 37.5-40hrs / week detailed their employment contracts: they work such long hours that the de-facto hourly rate is often only average. However, their long term total pay is very good, and they are an important ingredient in the success of the City, and thus the income of HM Treasury</p>
<p>What would be the impact of increasing the Tier 2 minimum thresholds from the 25th to the 50th or 75th percentiles for each occupation for experienced workers?</p>	<p>The impact would be to remove the lower 'rungs on the ladder'.</p> <p>Consider the position of someone hired as a New Entrant at the current 10th percentile, or even the 25th percentile that has been mooted. At what point would they justify being placed in the 75th percentile?</p> <p>If the intention is to limit Tier 2 migration by 'raising the bar' then the simplest option is to raise the minimum salary required under Tier 2. If the threshold is raised to the 75th percentile, it will create a big incentive to re-categorise roles, and thus will create work for lawyers engaged to debate the categorisation with the Home Office.</p> <p>If the intention is to be more certain that migrants are not a 'cheap option', then sectors currently with a single threshold for 'experienced' staff could be divided further to reflect the usual pay progression with experience.</p> <p>New Entrant: 10th percentile >2yrs experience: 25th percentile >7yrs experience: 50th percentile >15yrs experience: 75th percentile</p> <p>A simple taxonomy, such as the one above, has attractions. But there are complications eg when dealing with those that have changed careers and still utilize skills from their former career. An example is an accountant who becomes a Business/Systems Analyst focusing on enterprise financial systems. He might have 14years accounting experience but only 2 years systems experience. The initial 14 years are vastly helpful, and</p>

	<p>may even have given essential skills, but the person is unlikely to be comparable with someone else that did 2 years accountancy and then 14 years on the financial modules of ERP packages. Nor would it be fair to compare them to someone only 2 years out of university.</p> <p>However, if the intention is to be more certain that migrants are not a 'cheap option', the main change required in Tier 2 is to allow Tier 2 ICT migrants to be head hunted by UK employers. The best way to ensure that staff are not paid below the market rate is to ensure that the employees pay is subject to the market. This does not happen at the moment as a Tier 2 ICT employee is not able to take a better paying job unless it meets the £155,300pa 'high earner' exemption. Any reduction in the threshold required for the exemption would help. A level of £75,000pa (for 'ICT switching', not necessarily the other element of the high earner exemption ie the RLMT waiver) would be a significant boost to the fairness of Tier 2 ICT pay, the treatment of ICT staff, and to the UK businesses that would love to be able to hire such individuals.</p>
<p>As an employer, what would be the impact of increasing the Tier 2 minimum thresholds on:</p> <ul style="list-style-type: none"> a) hiring migrant workers from outside the EU; b) hiring migrant workers from within the EU; c) hiring natives. 	<p>This question is ambiguous: 'migrant workers from within the EU' could mean EITHER EU residents/nationals that are not British OR: Non-EU nationals that are resident in the EU I assume the latter interpretation is required.</p> <ul style="list-style-type: none"> a) Hiring non-EU nationals on an 'out of country' basis would decline only slightly if the 50th percentile were adopted, as (other than for global companies with offices where the recruits are to be found) it is already expensive to hire such people b) It is much easier to hire non-EEA nationals that are already in the UK. They can be interviewed and tested face to face (skype is not the same, flying someone to the UK is expensive). Increasing the minimum threshold for new entrants could have a noticeable impact, but for experienced staff moving from the 25th to the 50th percentile would not have a great impact. c) Hiring of UK nationals would decline other than with respect to some new entrants. <ul style="list-style-type: none"> a. An increased threshold for Tier 4 graduates would push hiring towards locals, but would involve the cost of not allowing employers to select the best people for the job, and so potentially reducing long term business growth/success/hiring

	<p>b. For experienced staff any reduction in the ability to plug skills gaps would hurt businesses and have a tangible impact in terms of reducing the jobs and opportunities on offer: opportunities of which at least some, and possibly most, would be taken up by UK/EU nationals</p>
<p>Are there additional national pay scales or sources of salary data that should be used to set the thresholds?</p>	
<p>What other appropriate measures would you like to see for determining the minimum salary thresholds?</p>	<p>If we must reduce Tier 2 migration (and I think that we should not, as being globally competitive requires a labour market open to the world), I suggest that the minimum salary within Tier 2 be raised to the national average salary (c£27,000). This would minimise the distortions caused by the 'policy tightening'</p> <ul style="list-style-type: none"> - it would minimise the extent to which rationing is determined by who invests most in lobbying - it would avoid creating an incentive to re-classify roles into lower paying SOC's / grades. Such re-classification is not necessarily artificial, for example in the IT sector people often progress from System Development/Programming (SOC 2136 £31,100) to Analysis/Architecture (SOC 2135 £33,000) to Project Management (SOC 2134 £40,600). The progression is by way of many tiny steps, and the question of where one 'draws the dividing line' is necessarily arbitrary. At the moment, where the case is arguable either way, I advise clients to err on the side of safety by using the more senior SOC, not least as natural progression in a role may take someone from 'definitely in the more junior category' to 'possibly in the more senior category'. Adopting the 75th percentile for salary thresholds would make it necessary to argue the case far more often, and enforcing the policy would require Home Office compliance officers becoming experts in a range of sectors in order to assess whether or not a sponsored employee was in the right SOC code.

		<p>If the percentile threshold is to be changed, then the 50th would be far less distorting / damaging than the 75th</p>
	<p>Should the minimum salary threshold take account of variations in regional pay? If so, how?</p>	<p>This is intuitively and superficially very attractive, but is probably impossible to implement as staff are necessarily mobile within the UK.</p> <p>If someone is hired by the Manchester office of Slater & Gordon (solicitors), can there be any limit to the amount of time that they spend in the London offices of their employer?</p> <p>How should we treat an IT consultant employed by Tata Consultancy Services with a Central London headquarters, but whose work location will alternate between different client sites, many or all of which may not be in London.</p>

For your ease of reference, I append my letter of 22nd May 2015 to the minister, which was also CCd to the MAC as this deals with the 'Shortage Occupation' issue and Tier 2 ICT switching in more detail.

I hope that this feedback is helpful, and would be pleased to discuss it. I must apologise that it is rushed in order to meet today's deadline. I hope to provide further and better details with my response to the wider consultation choosing later this year.

Yours faithfully

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Enc: Letter of 22nd May 2015 to James Brokenshire