

SCOTLAND'S POPULATION NEEDS AND MIGRATION POLICY: DISCUSSION PAPER ON EVIDENCE, POLICY AND POWERS FOR THE SCOTTISH PARLIAMENT



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Scotland's population needs and migration policy: Discussion paper on evidence, policy and powers for the Scottish Parliament

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MINISTERIAL FOREWORD



Migration is crucial to the development of Scotland as an inclusive, fair, prosperous, innovative country ready and willing to embrace the future. It is essential to our economic prospects and our demographic sustainability that Scotland continues to attract the level and nature of migration it needs. Migration is not just about economic prosperity. It has helped to shape Scotland – just as people born in Scotland have helped to shape nations across the world so people migrating to Scotland have shaped and changed our own country. People from overseas who come to Scotland to live, to study or work, or to raise their families are our friends and neighbours. They strengthen our society and we welcome them.

This paper is our contribution to a crucial discussion that we need to have about migration and the impact it has in Scotland. It raises issues and looks at options to explore how powers over migration could be devolved to the Scottish Parliament. There are distinct needs in Scotland in relation to our population and our demographic sustainability, the skills and positive economic impact people who come to Scotland have, as well as the cultural and community benefits that migration can play an important role in supporting.

Powers over immigration are reserved to the UK Government under the Scotland Act 1998.¹ In the first years of the new Scottish Parliament that did not stop a cross-party consensus emerging that because the migration needs of Scotland were distinct from those of the rest of the UK, the policy solutions for Scotland should be distinct as well. This difference led to the Scottish Executive of the time working to introduce Fresh Talent, a post-study work visa scheme that allowed international students to stay in Scotland after they had completed their studies in order to seek work and make a contribution to Scotland's economy.

¹ Schedule 5, Section B6 Immigration and nationality

However the UK government ended the post-study work visa in 2012 as part of a series of changes to the immigration system intended to limit abuse and create a “hostile environment” for illegal migrants. In the time since, we have also seen claims made about the impact of migration that are not supported by the evidence.

The Scottish Government has always been clear that our fellow citizens of the European Union who have chosen to live and work here are welcome – that this is their home and we want them to stay. The First Minister reiterated that position on the first morning after the EU referendum, and that remains our strong position. We have been clear as well that we want Scotland to continue to benefit from free movement of people – which is not just an immigration system, but a set of reciprocal rights that British citizens now stand to lose – and have set out how we would seek to achieve that in both of our reports on *Scotland’s Place in Europe*.

As we start the Year of Young People, it is worth reflecting that those valuable rights we enjoy to live, work and study across Europe are now at risk of being taken away from Scotland’s young people through a process in which few of them had any say. The prospect of the UK leaving the EU and any restriction on freedom of movement makes a tailored solution for Scotland even more important. The consensus that saw Fresh Talent introduced also exists to see it reintroduced, as reflected in the report of the Smith Commission and the cross-party work that took place to try to deliver that. The Scottish Government wants to build on this consensus to discuss the application of UK migration policy in Scotland and new powers for the Scottish Parliament on migration.

We need to ensure that come what may from the Brexit negotiations, Scotland is able to continue to benefit from free movement from Europe; and, in addition, to ensure that Scotland is able to manage international migration in a way that addresses our specific needs.

That is why it is vital we have this debate now. As this paper shows, Scotland’s needs are different from the rest of the UK. UK government policy is not meeting those needs. The case for new powers for the Scottish Parliament on migration is clear. This paper sets out options for a future migration system which would reflect Scotland’s needs and will form the basis of discussion with employers, trade unions, academics, politicians and the public. We are committed to a migration system which meets all of Scotland’s needs and will seek to work positively with the UK Government, with partners across Scotland and the rest of the UK to deliver that aspiration.

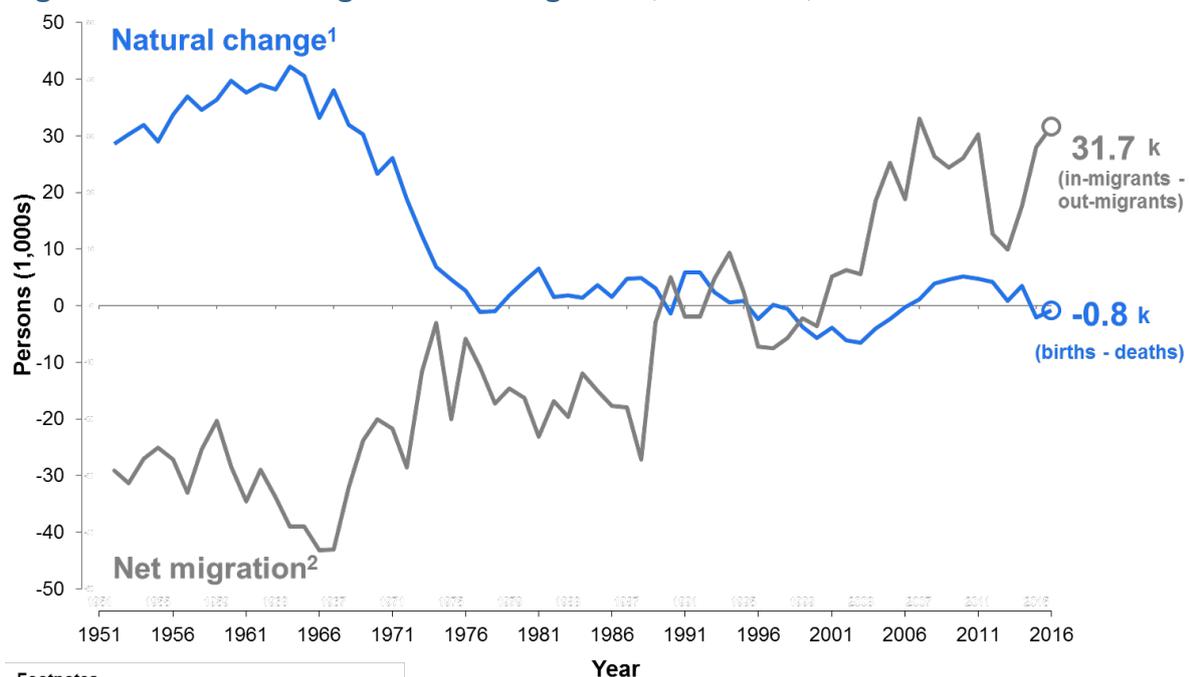


Fiona Hyslop MSP
Cabinet Secretary for Culture, Tourism and External Affairs

INTRODUCTION

1. Scotland is a progressive outward looking nation. We recognise that migration strengthens our society and our nation benefits from the skills, the experience and the expertise of those individuals who have chosen to live, work and study in Scotland. Future migration systems should ensure that Scotland can welcome people within Europe and from elsewhere who want to study, live, work and raise their families here. This paper is intended to contribute to an open and positive discussion on how future migration to Scotland should be managed in a way that achieves that.
2. Scotland has a long history of both welcoming people who have come here, either through choice or need, but also of Scots being migrants themselves. In fact, the dominant feature of population change through Scotland's history has been out-migration. This is in contrast to the rest of the UK. Throughout the 1950s and 1960s, when England and Wales saw strong in-migration, almost 6% of the population left Scotland in each decade. Scotland also experienced population decline throughout the 1970s, 1980s and 1990s whereas the UK as a whole saw almost constant growth in population over this period.

Figure i: Natural change and net migration, Scotland, 1951-2016



Footnotes

1) Births minus deaths.

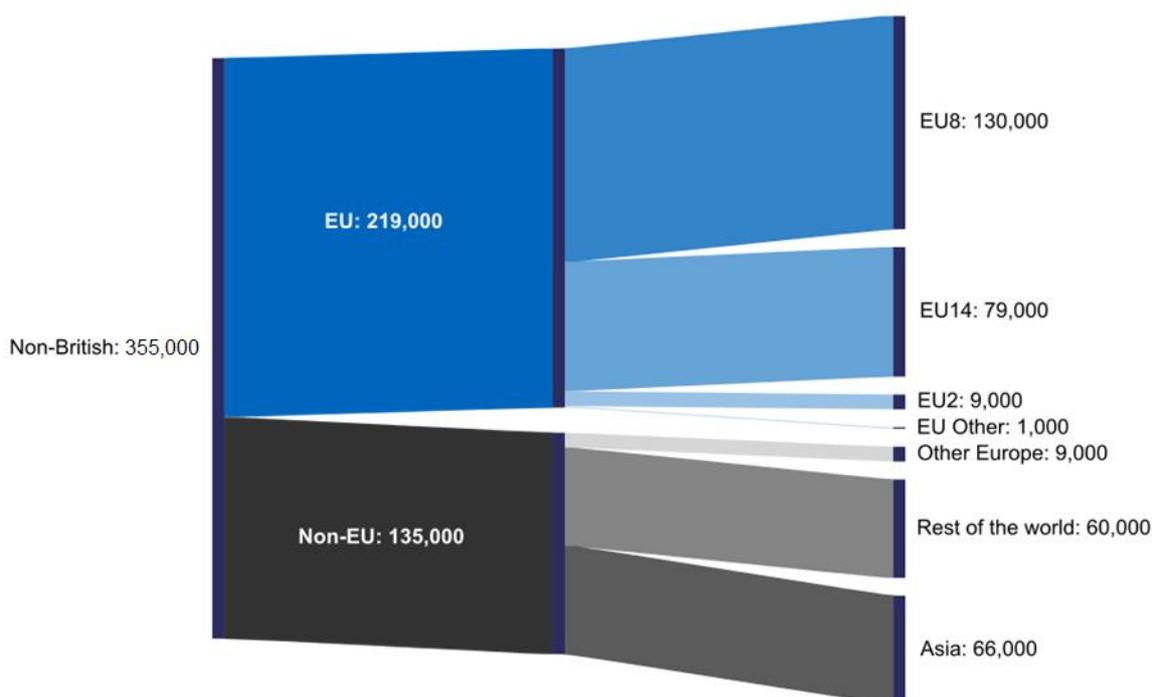
2) Inward minus outward migration.

Source: Scotland's Population 2016 - The Registrar General's Annual Review of Demographic Trends, National Records of Scotland

3. One of the earliest policy challenges the Scottish Parliament concerned itself with after it was reconvened in 1999 was population decline, particularly rural depopulation, and the welcome fact that more of our population were living longer. The cross-party consensus that emerged in the Scottish Parliament and at Westminster of the different pressures that Scotland faces relative to the rest of the UK, led to an early example of UK policy in a reserved area responding positively within the devolution settlement
4. The previous Labour and Liberal Democrat coalition government in Scotland, working with the then UK Government, introduced Fresh Talent in 2005, a scheme administered by the Home Office that allowed international graduates of Scottish universities to remain in the country after the end of their course of study to live and work for up to two years.² This differentiation of migration policy for Scotland was intended to both support economic growth and mitigate demographic pressure. Fresh Talent recognised that different parts of the UK had different needs and expectations of migration.
5. The Fresh Talent scheme took place at much the same time as Scotland also benefited from the expansion of free movement of people within the European Union. From 2001, Scotland became a country of sustained net inward migration for the first time since records began, driven by the free movement of EEA nationals coming to Scotland to live, work and study. This was reinforced by the 2004 enlargement of the EU, which included eight new member states from central and eastern Europe.
6. Today, there are an estimated 219,000 EU citizens living in Scotland, alongside an estimated 135,000 other international migrants. These 355,000 non-British nationals living in Scotland represent 7% of Scotland's population. The majority of migrants in Scotland come here to work, to join family, or to study.

² The programme ran until 2008, when it was mainstreamed into the newly-implemented UK points-based immigration system. Post-study work was ended in 2012 by the Conservative and Liberal Democrat coalition government.

Figure ii: Population by non-UK nationality, Scotland, year ending June 2017



Source: Annual Population Survey, Office for National Statistics, July 2016 to June 2017

7. Migration, and particularly EU citizens moving to Scotland, has helped mitigate these long-term demographic challenges, but the challenges still remain. Projections from the National Records of Scotland (NRS) and the Office of National Statistics (ONS) show that natural change, the number of births minus the number of deaths, is projected to be negative in Scotland each year for the next 25 years. There are nearly 11,000 more deaths than births expected in 2041. All of the projected increase in Scotland's population over the next 25 years is due to migration. Any move that limits migration to Scotland therefore has the potential to seriously harm Scotland's economy.
8. The UK Government has stated its intention to leave the European Single Market and Customs Union upon leaving the EU and to end free movement of people. The Scottish Government believes that both Scotland and the UK's best interests are served by the UK remaining in the European Single Market and continuing to benefit from free movement of people.
9. Even with current free movement of people between Scotland and the rest of the EU, it is clear that UK policy on migration does not meet Scotland's needs. It is now appropriate to explore the devolution of powers on migration to ensure that Scotland can continue to attract migrants from Europe and around the world to live, work, study and invest here and make a long-term contribution to society as members of our communities.

10. The case for this is clear and there is already broad agreement within the Scottish Parliament and elsewhere on the need for a different approach. The Home Affairs Committee report on migration policy was open to regional approaches in different parts of the UK, the Economic Affairs Committee of the House of Lords saw merit in a differentiated system for Scotland, and the Scottish Affairs Committee concluded that a tailored approach was needed for Scotland.
11. The Scottish Government wants to see continued free movement of people from Europe, alongside a tailored approach for Scotland in relation to international migration. The case becomes more pressing and urgent if UK policy results in a hard Brexit that sees Scotland taken out of the European Single Market and Customs Union, and free movement of people ended or curtailed.
12. The Scottish Government's 2017-18 Programme for Government³ included a commitment to publish a series of evidence-based discussion papers setting out the case for further extending the powers of the Scottish Parliament in a number of key areas including in relation to migration. This discussion paper will explore why it is vital to be able to attract migrants from across Europe and the world to settle in Scotland; why the current UK Government policy is so harmful to Scotland's interests; and how a tailored approach to migration with more powers for the Scottish Parliament could operate.

About this paper

13. **Chapter one** explores why it is important to economic growth and prosperity that Scotland is able to continue to grow the population and in particular the working age population. It highlights:
 - demographic projections prepared by NRS and ONS;
 - economic and fiscal forecasts by the Scottish Fiscal Commission;
 - new modelling presented in this paper of the economic impact of migration; and
 - the social benefit of migration to Scotland, including the positive contribution it makes in our rural communities.

³ Available at <http://www.gov.scot/Publications/2017/09/8468>

14. **Chapter two** sets out why current UK policy on migration is having a detrimental impact in Scotland. It recommends that the UK Government should:
- abolish the net migration target, or at the very least migration to Scotland should not be counted in it;
 - take a different approach to family migration, and improve the rights of people in Scotland to bring close family into the country with them;
 - review the immigration skills charge, which is an unhelpful burden on employers;
 - give the Scottish Ministers a formal role in deciding on the Scotland shortage occupation list; and
 - reintroduce the post-study work visa as recommended by the Smith Commission.
15. **Chapter three** looks at options for future migration schemes in the UK. It concludes that:
- Scotland should continue to benefit from free movement of people from the EU by the UK remaining in the European Single Market and Customs Union after Brexit, as set out in *Scotland's Place in Europe: People, Jobs and Investment*;
 - devolution of some aspects of the immigration system could allow the Scottish Government, accountable to the Scottish Parliament, to set criteria for a new international migration route to start to meet Scotland's most acute needs; and
 - there is an opportunity to rethink the UK immigration system to design a new regional approach, with powers for the Scottish Parliament to meet Scotland's full range of needs, drawing on international examples where this works well.
16. Finally, the **Technical Annex** contains the details of new economic modelling which shows that reduced migration as a result of the UK leaving the EU could reduce Scotland's GDP by almost £5 billion per year by 2040 – but that there are potential economic gains if a different approach can sustain or increase migration to Scotland.

Note on terminology

17. This paper uses the term 'migrant'. When discussing the flow of migration, this refers to a person not currently resident in Scotland who moves to Scotland with the intention of remaining here for more than 12 months. When discussing the population of migrants in Scotland, it refers to the number of people who have come to Scotland in this way.
18. **UK nationals** can therefore be migrants to Scotland if they are resident elsewhere (in the UK or abroad) and move to Scotland, and would be counted in migration flows. When talking about the population of migrants in Scotland, we normally refer only to non-UK nationals, split between EU and other international migration.

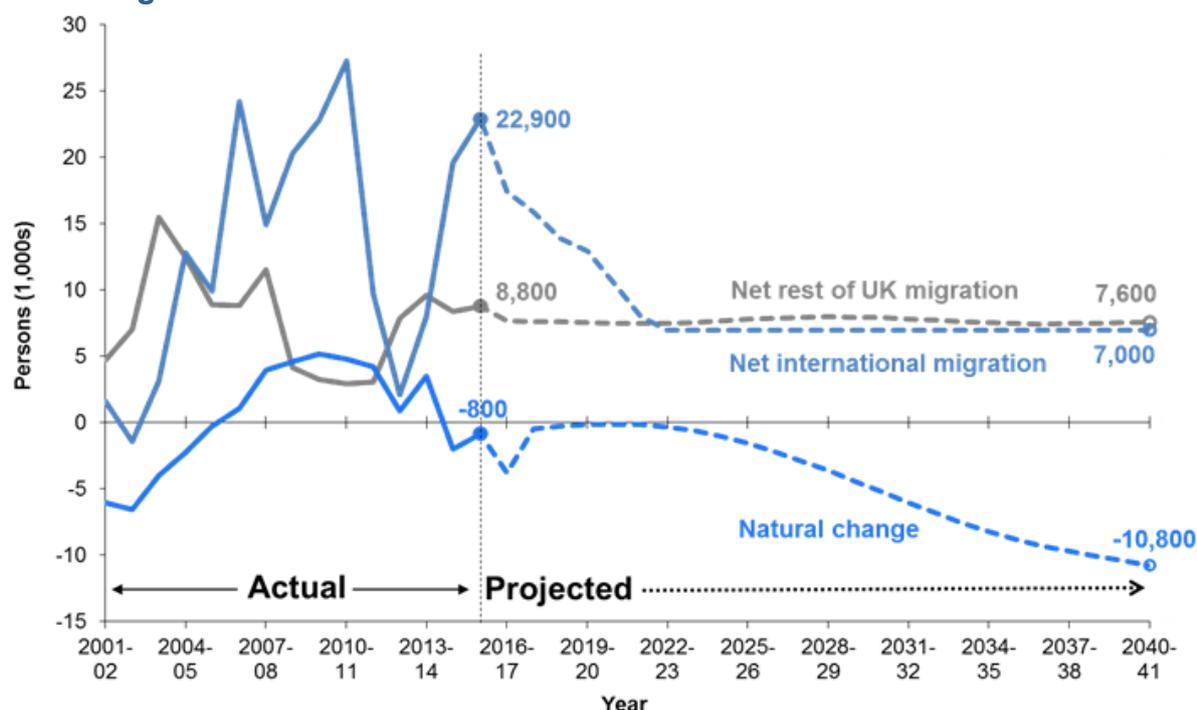
19. **Irish nationals** have particular rights within the Common Travel Area to live and work in the UK that are separate from their right to free movement as EU citizens, and the UK Government has committed to maintain the Common Travel Area after the UK leaves the EU. As they are EU citizens, we refer to Irish nationals within the flow of migration from the EU and within the population of EU migrants in Scotland.
20. **EU citizens, EEA nationals and Swiss nationals** have rights under treaties and directives governing the European Single Market and free movement of people to live and work in other EU Member States, countries within the EEA and Switzerland. These are reciprocal rights that British nationals also currently enjoy. The current arrangements facilitate free movement across the Single Market for all EU and EEA citizens with an initial right of residence in a host State for up to three months. Beyond then an individual and their family members have rights to reside if they are a worker, self-employed, economically self-sufficient, a student with sufficient resources to support themselves, or a jobseeker who has a genuine chance of gaining employment.
21. EU citizens exercising these rights would not normally be classed as migrants, but we describe them here in this way when it aids clarity. We normally refer to EU citizens and EU migration rather than EEA, unless greater clarity is required, as the number of EEA nationals and Swiss nationals in Scotland is low. We sometimes refer to groups of Member States who joined the EU at a particular point using terms such as EU15. These terms are explained in footnotes where they are first used.
22. **International migrants** from other countries do not generally have special rights to live and work in the UK, and their ability to do so is governed by the UK immigration rules. Most international migrants in Scotland are issued with a visa under one of the tiers of the UK points-based system. The other main route for international migrants is family migration. A small proportion of international migrants in Scotland entered by seeking asylum and there are particular humanitarian obligations in relation to refugees and asylum seekers.
23. The points-based system for international migration was first introduced in the UK in 2008 and consists of five tiers, each of which can contain multiple categories of visa. Tier 1 is for high value and exceptional talent, including entrepreneurs and investors. Tier 2 is for skilled workers sponsored by an employer. Tier 3 is for low-skilled workers, but has never been implemented. Tier 4 is for students, and Tier 5 is for temporary workers.

CHAPTER ONE: Why migration is crucial to Scotland's future prosperity

Population Projections

24. Inward migration brings benefits to Scotland's demography, economy and society.
25. The demographic benefits of migration are made clear in projections from NRS and ONS of Scotland's future population growth.⁴ Figure 1.1 demonstrates these projected trends.
26. There are projected to be more deaths than births in every year going forward. Each year for the next 25 years all of Scotland's population growth is projected to come from migration. UK Government policy and the impact of Brexit means that international migration to Scotland is projected to decline, further inhibiting Scotland's population growth.

Figure 1.1: Actual and projected natural change and net international and rest of UK migration in Scotland

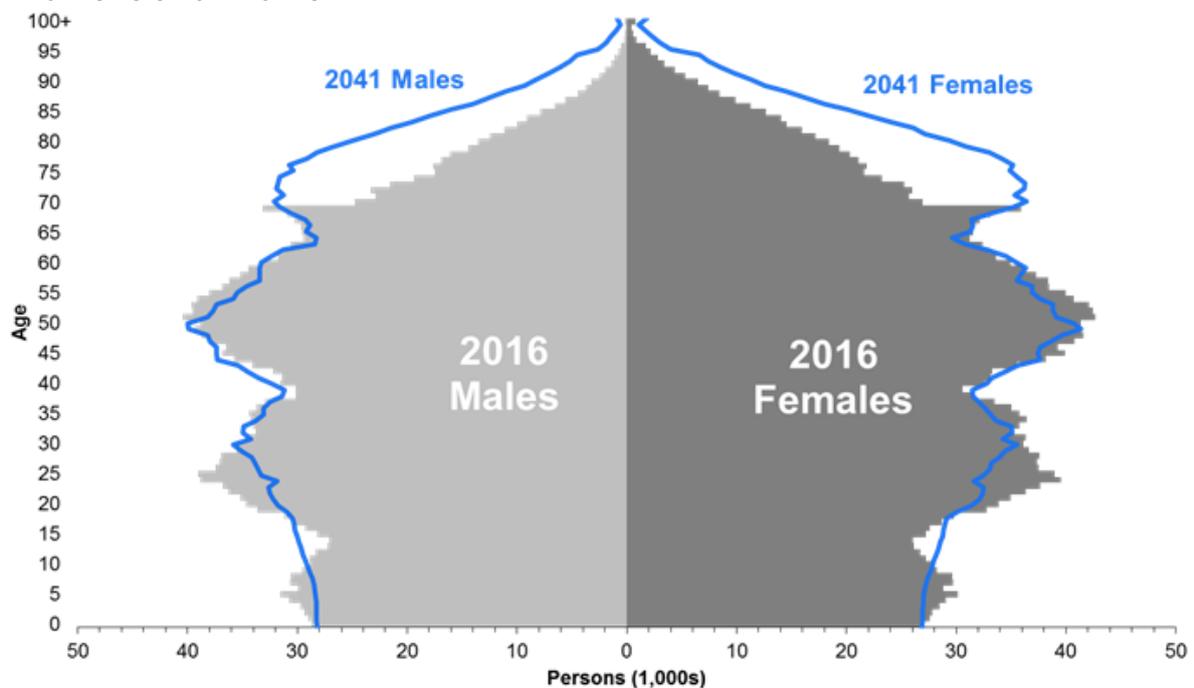


Source: Mid-year population estimates and National Population Projections (2016-based), National Records of Scotland, Office for National Statistics

⁴ 2016-based population projections were released in October 2017, covering the period 2016-2041. ONS and NRS also prepared variant scenarios to demonstrate the potential impact of reduced EU migration after Brexit on the population projections, include variants modeled on 50% and zero future EU migration.

27. The age profile of the population will also change, as Figure 1.2 shows. The proportion of the population of state pension age will increase by 25% in the coming years as the Baby Boomer generation reaches retirement. People aged 75 and over are projected to be the fastest growing age group in Scotland, increasing by 79% over the next 25 years.
28. The prospect of people in Scotland living longer, healthier lives is welcome, and increasingly many people of state pension age continue to work and contribute to the economy in that way. It is also the case that people in the oldest age categories become more likely to need access to health and social care services to support them in old age. Those essential public services will require a buoyant working age population.

Figure 1.2: Estimated and projected age structure of the Scottish population, mid-2016 and mid-2041



Source: National Population Projections (2016-based), National Records of Scotland

29. While we expect to see large increases in the proportion of the population of pensionable age, the working age population will grow only slightly, by around 1%, and the proportion of the population who are children will decline by 1.5%.

Box 1: National Performance Framework

The significance of population growth is recognized in the National Performance Framework, with a Purpose Target on Population to match average European (EU15)⁵ population growth over the period from 2007 to 2017. The population of Scotland has increased each year since 2001 and is now at its highest ever. For the latest year population growth for Scotland has been higher than that of the EU15 countries: in 2016 the average annual population growth rates since 2007 for Scotland and the EU15 were 0.5% and 0.41% respectively. Factors that contributed to this include increased inward migration to Scotland, particularly from the European Union, and low rates of population growth within the EU15.

Fiscal Forecasts

30. Demographic and economic benefits of migration to Scotland are directly linked through growth in the working age population and the impact on tax revenue.

31. The Scottish Fiscal Commission published their first Economic and Fiscal Forecasts in December 2017.⁶ The Commission's forecasts directly inform the Scottish Government's budget, particularly through forecasts of income tax receipts. The Commission highlighted that the outlook for income tax is driven by the outlook for earnings and employment. They find that varying levels of migration "have no direct impact on the growth rate of average nominal earnings," but that migration does affect employment level growth.

32. In their analysis, the Commission observed that:

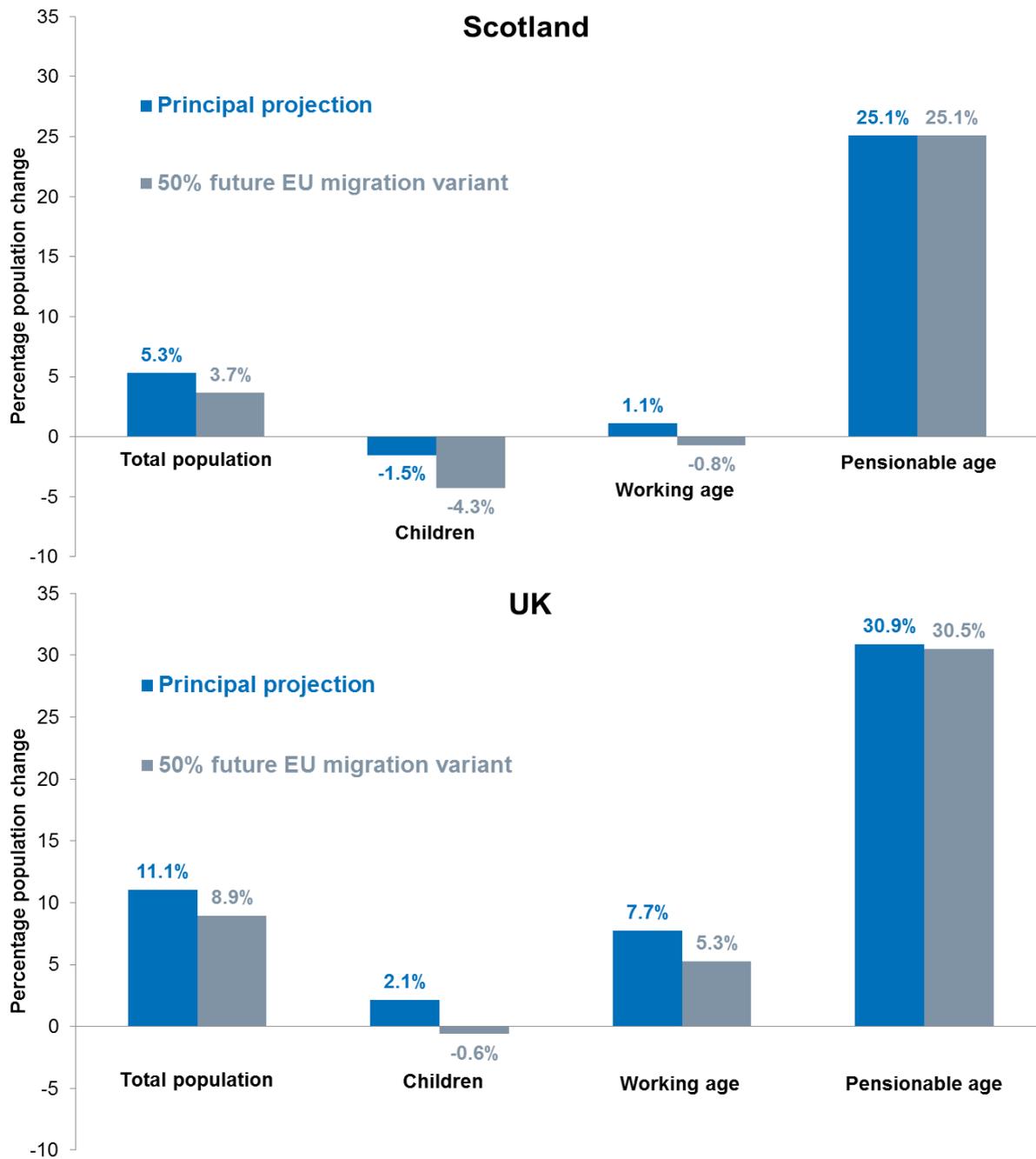
"The size of the population aged 16 to 64, which makes up most of the working age population, is very important for the economy and public finances. These individuals are more likely to be working and will be generating the highest tax receipts, for example, in income tax." – Scottish Fiscal Commission

33. Taking factors including the changing relationship between the UK and EU, demographic change and possible future policy changes into account, the Commission judged that the 50% less future EU migration variant of the population projections was appropriate for Scottish circumstances in preparing their forecasts. Figure 1.3 demonstrates how that variant affects the age structure of the population compared to the principal projections in Scotland and the UK. There is no change expected to the pension age population; the working age population will decline instead of grow and the number of children will decrease even further.

⁵ EU15 refers to the 15 Member States of the EU prior to the 2004 enlargement.

⁶ "Scotland's Economic and Fiscal Forecasts December 2017", available at fiscalcommission.scot/publications/scotlands-economic-and-fiscal-forecasts/scotlands-economic-and-fiscal-forecasts-december-2017/

Figure 1.3: Projected population by age group, 50% less future EU migration variant and principal projection, Scotland and UK, 2016-2041



Source: National Population Projections (2016-based), including additional variants using alternative European Union migration assumptions, National Records of Scotland, Office for National Statistics

34. This reflects both the greater significance of migration to Scotland's population growth relative to the rest of the UK, and the greater exposure Scotland faces to reduced inward migration as a consequence of UK policy changes. This outcome would severely impact Scotland's economic prospects.

Box 2: Population Change

There are three aspects of population change: fertility, or the number of births; mortality, or the number of deaths; and migration, or the number of people entering and leaving the country. The difference between the number of people entering and leaving the country is referred to as net migration. If the sum of births and people entering the country is greater than that of deaths and people leaving the country, the population will grow.

$$\text{(Births – Deaths) + (Immigration – Emigration) = Population Change}$$

Scotland aims to be the best place in the world to grow up, with a range of policy measures to support that including Baby Boxes, the Best Start grant and expanding childcare provision. There is some evidence that support for new parents can have a demographic effect as prospective parents factor that support in when making decisions on family planning. At the other end of the age spectrum, Scotland also aims to ensure that people live longer, healthier lives.

Population growth through new births and prolonged life expectancy is therefore supported and encouraged by devolved policy. However, the age structure of the population is just as important – and perhaps even more so to Scotland – than the overall rate of growth. Scotland, like many developed Western countries, is aging rapidly, and does not have enough people of working age to replace those leaving the labour market as they grow older. Without more working age people, pressures on public services and tax revenue will increase.

Policy interventions that support new births and prolonged life expectancy do not of course immediately increase the working age population. Children do not become working age until 16 years after birth; people over the state pension age are considered to have left the working age population, albeit many remain active in the labour market. The only short-to-medium term measures to grow the working age population are increasing inward migration, or raising the state pension age.

Policy and control over these issues is reserved. Lower levels of migration, in particular from the EU, will result in slower population growth and will have a negative impact on the population sustainability of Scotland and on the working age population in particular.

As the population ages, there is projected to be an increase in the ratio of the number of people of pensionable age to the working age population. In order to maintain this ratio at its current level, the working age population would have to increase by 32,000 per year over the next 25 years.

Economic Growth

35. Migrants who come to Scotland tend to be well educated and highly skilled, help raise productivity and contribute to government revenue. Scottish Government analysis submitted to the Migration Advisory Committee (MAC) found that the average EU citizen in Scotland adds £10,400 to government revenue and £34,400 to GDP each year.⁷ There is some evidence that migration boosts long term GDP per capita, thereby increasing living standards, through diversity of skills and higher innovation activity.⁸
36. New economic modelling in this paper highlights the economic impact of reduced levels of migration. The modelling seeks to quantify the impact that lower migration post Brexit could have on the Scottish economy. It estimates that real GDP in Scotland will be 4.5% lower by 2040 than it would have been otherwise, as a result of lower migration. This is equivalent to a fall of almost £5 billion in GDP by 2040.
37. The impact across the rest of the UK of a corresponding reduction in migration is found to be smaller. Real GDP in the rest of the UK will be 3.7% lower by 2040 than it would have been otherwise, as a result of lower migration.
38. Scotland experiences a proportionally larger negative impact relative to the rest of the UK. The proportionately larger impact on Scotland is equivalent to £1.2 billion a year by 2040.
39. The modelling also suggests that if the UK Government was to meet its target to reduce net migration to the 'tens of thousands', real GDP would fall in Scotland by 9.3% compared to a fall in the rest of the UK of 7.6%.⁹
40. As well as contributing to employment level growth and GDP, there is evidence – set out in the technical annex - that migrants can also have a dynamic effect in helping to improve productivity. Migrant workers bring new skills and expertise and typically have high levels of entrepreneurship which helps lay the foundations for future economic growth.
41. The large number of EU and international students that come to study in Scotland also add to the diversity of our communities, enrich the learning experience and, in the case of those who can remain in Scotland, go on to contribute to economic prosperity.

⁷ This modelling was set out in the Scottish Government's response to the MAC call for evidence on the role of EEA workers in the UK labour market, published in November 2017, and in *Scotland's Place in Europe: People, Jobs and Investment*, published in January 2018.

⁸ See the literature overview in the Technical Annex

⁹ See the economic modelling in the Technical Annex.

42. The available evidence does not suggest that migration has a statistically significant impact on wages and employment opportunities for the non-migrant population. We have high levels of employment in Scotland and invest around £100 million per year in apprenticeships, flexible workforce development and individual training accounts.
43. The Programme for Government also committed to publishing an evidence-based discussion paper on employment setting out how the Scottish Parliament could more effectively tackle issues of low pay and poor working practices and protect workers' rights against any post-Brexit race to the bottom. A further discussion paper on social security and employment support will set out how a more comprehensive devolution of social security and employment support would allow the Scottish Parliament to deliver a more joined up system for those in and out of work; tackle poverty more effectively; and consider more fundamental options for long-term reform. We are committed to reducing barriers to employment but in addition to supporting the skills of those people currently resident in Scotland we also need to grow our workforce.

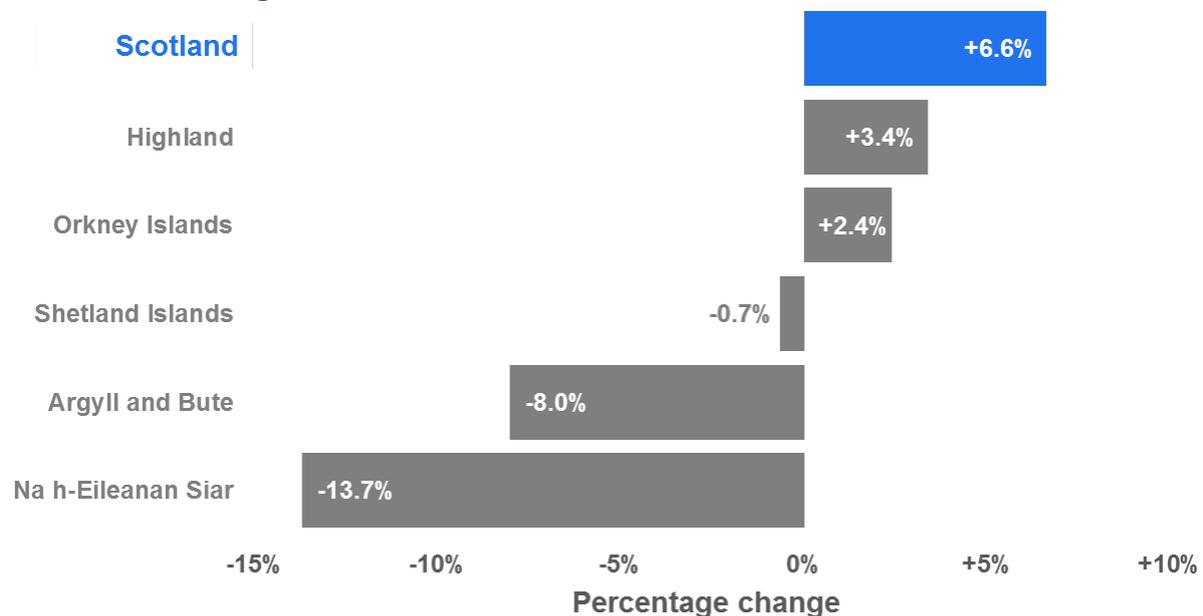
People and Places

44. Migration not only enhances our economic prospects and contributes to our demographic sustainability, it also enriches our culture and strengthens our society. Migrants contribute to a diverse, open and modern society and there is also some evidence to suggest that they increase qualities of tolerance, inclusiveness and openness to intercultural learning amongst Scottish citizens.¹⁰
45. Migration supports key places such as our rural communities, bringing a supply of labour to the rural economy and helping sustain essential public services including healthcare and schools. The importance of migration to rural communities and services was highlighted in both *Scotland's Place in Europe: People, Jobs and Investment*, and the Scottish Government submission to the MAC.
46. Ageing and declining rural populations heighten the need for migrants. For example, in the Highlands and Islands, the combination of lower levels of unemployment with growth in important sectors such as tourism and food and drink has attracted migrants to live and work in rural areas. Between 2005 and 2015, around 20% of total estimated population growth in the Highland Council area came from people born outside the UK.

¹⁰ Evidencing the social and cultural benefits and costs of migration in Scotland, Professor Rebecca Kay (CRCEES & GRAMNet) and Andrew Morrison (CSMP), 2013

47. Despite this in-migration of economically active people, the long-term trend in the Highlands and Islands remains one of an ageing demographic and out-migration of young people in search of educational and employment opportunities. In addition to this, many areas of the Highlands and Islands are projected to decline in population in the near future. Figure 1.4 shows that Na h-Eileanan Siar is projected to experience a decline in population of 13.7% between 2014 and 2039, which is the largest decrease for any council area in Scotland. All of the council areas in the Highlands and Islands region are projected to experience lower levels of population increase than Scotland as a whole. This emphasises the importance of migration for the sustainability of Scotland’s rural communities.

Figure 1.4: Projected percentage change in total population, Scotland and Highlands and Islands council areas, 2014-2039



Source: Sub-national Population Projections, 2014-based, National Records of Scotland

48. Although an ageing population as a welcome result of people living longer is a challenge the rest of the UK is also facing, the impact of any reduction in migration in the overall age profile of the country is of much greater significance to Scotland. Migrants tend to be younger than the rest of the population and more likely to be of working and child bearing age. They can therefore play an important role in boosting the overall population. This demonstrates the importance of migrant families who settle in Scotland, not just temporary workers. Evidence also suggests that school performance and pupil achievement may be enhanced by the presence of migrants in schools.¹¹

¹¹ The impacts of migrants and migration into Scotland, Scottish Government, 2016.

Principles for policy on migration

49. This chapter has made clear the demographic, economic and social benefits of migration to Scotland. It also highlights the negative impacts if migration was to fall. Given these factors, the Scottish Government believes that the rules and systems governing migration to Scotland should be managed in a way that supports these demographic, economic and social considerations.
50. There are many questions to consider and perspectives to reflect on when thinking about future migration policy. This paper suggests seven principles, described below, that attempt to capture these. For example, they aim to balance accessibility for migrants and employers with necessary control measures to ensure security and integrity of the system.
51. Considering the characteristics of policy and systems on future migration, the following principles should apply:
 - i. Migration policy should address the needs of all of Scotland, including those areas most at risk of depopulation.
 - ii. Migration policy should encourage long-term settlement in Scotland of people with the skills we need who will work, raise families and make a positive contribution to society.
 - iii. Scotland should be able to attract the best talent from Europe and across the world to work and study here without excessive barriers and our migration policy should support mobility, collaboration and innovation.
 - iv. Migration policy should support fair work, protecting workers rights, pay and access to employment and preventing exploitation and abuse.
 - v. People who are entitled to live in Scotland – both international migrants and UK citizens – should be able to bring close family with them and migrants should have access to services and support to encourage integration into communities.
 - vi. The migration system should be easy to access and understand and focused on what a prospective migrant can contribute, not on their ability to pay - therefore fees and charges should be proportionate.
 - vii. Migration should be controlled to deter and prevent abuse, fraud and criminal activity, including terrorism, human trafficking and other serious offences.

Box 3: Human Rights

Migration takes place within an international human rights framework that provides important legal protections. These safeguards are particularly strong within the current EU context. Existing EU law guarantees a wide range of fundamental rights and provides protection against discrimination and exploitation. Being in the EU also helps to underpin rights derived from sources such as the European Convention on Human Rights. Important obligations also exist in United Nations and Council of Europe treaties and International Labour Organisation conventions.

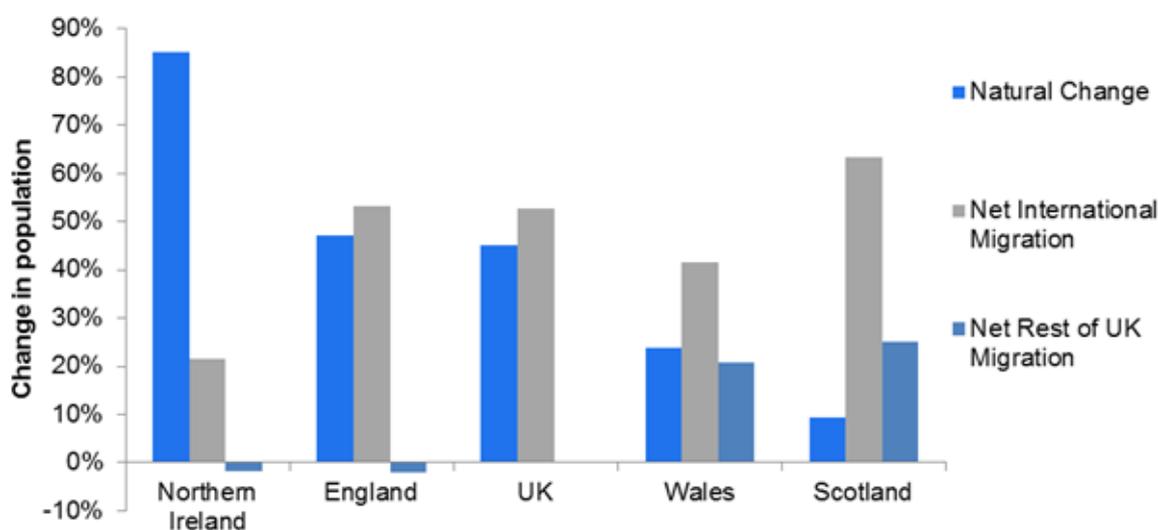
Brexit threatens to undermine many of the most important existing EU safeguards – affecting both EU citizens and third country nationals. For example, people from outside the EU who are married to EU citizens could in the future find it more difficult to come to the UK than they do at present. Brexit risks weakening other rights currently enjoyed by migrant workers, who will lose access to EU legal remedies and face greater uncertainty.

Scotland's desire to uphold the highest standards, and to meet our international obligations in full, means the case for new powers is both persuasive and pressing. Human rights may already given effect to by the Scottish Parliament, but additional powers in areas such as migration would be needed if the Scottish Government is to take the full range of actions that are necessary. These new powers would be exercised in a way that ensures Scotland demonstrates leadership on human rights and continues to protect the interests of every member of Scottish society.

CHAPTER TWO: Why current migration policy is not appropriate for Scotland

52. The previous chapter demonstrated that growth in the population, in particular the working age population, can help mitigate demographic change and contribute to addressing rural fragility, sustainability of services and public finances more generally. Migration is essential to this, as all of Scotland's population growth over the next 25 years is projected to come from migration. Natural change from births and deaths will be negative in each year of the projection. This is unlike the rest of the UK, where natural change contributes significantly to population growth – it is projected to account for 39% of the UK's population increase between 2016 and 2041.
53. Since the year to mid-2007, Scotland has relied on migration for population growth more than any other constituent country of the UK as Figure 2.1 shows. Over this period 63% of Scotland's growth has been due to net international migration compared to 53% for the UK as a whole. A further 25% of Scotland's growth was due to net migration from the rest of the UK.

Figure 2.1: Natural change and net migration as proportion of change in population between mid-2006 and mid-2016



Source: Mid-Year Population Estimates, National Records of Scotland, Office of National Statistics

54. Scotland depends on inward migration to grow its population. Nevertheless, it is UK policy to reduce net migration to a target of ‘tens of thousands’ per year for the whole of the UK. The Home Affairs Committee at Westminster recently concluded that the net migration target “is not working” and observed that “net migration of non-EU migrants alone, which the Government can control regardless of whether the UK is in the EU or not, has consistently exceeded 100,000 since 2010.”¹²
55. There are also significant limitations in measuring the net migration target. While the migration system may influence the number of people coming to live here, it is more difficult to influence the number of people who choose to emigrate and move elsewhere. The main source of measuring international net migration is the International Passenger Survey (IPS). The quality of the IPS is variable with the estimates becoming less reliable when broken down for particular sub-groups or areas. Current estimates for Scotland and other parts of the UK have high levels of uncertainty due to the small sample size of the IPS.
56. The economic modelling in this paper makes clear, however, that the UK achieving its net migration target would be particularly damaging to Scotland. The migration patterns needed by Scotland include the long-term settlement of working age people who raise families here, while the UK focus is on reducing immigration and centres on relatively short-term work visas to address skills shortages.
57. The UK Government tightened many aspects of the immigration rules in 2012, and put new restrictions in place and obligations on public services and employers. This included withdrawing the post-study work visa route that replaced Fresh Talent and the imposition of additional maintenance and reporting requirements on international students. These measures were intended to combat perceived abuse by around 100,000 students overstaying their visa each year. Data published by ONS in August 2017 based on exit checks demonstrated that fewer than 5,000 students overstayed their visa in the previous year.
58. Students are also counted in the net migration target. International statistical standards require that students are included in reported migration figures, but there is no requirement that they are included in government targets on net migration.
59. These changes did not affect EU citizens directly. However, after the UK leaves the EU, free movement of people within the European Single Market is expected to be replaced by a more restricted migration policy for new EU arrivals, under UK law. Even without any announced policy changes, the impact is being felt.

¹² Immigration policy: basis for building consensus, January 2018

60. The ONS briefing paper "Migration since the Brexit vote"¹³ focuses on migration in the first full year since the outcome of the EU referendum. In that time, UK net migration fell by 106,000. This was the largest fall in any 12-month period since records began in 1964, and a reduction of around a third – although net migration remained significantly above the UK net migration target, at 230,000.
61. Ensuring ongoing access to labour from across the EU under free movement is of fundamental concern to many businesses across the Scottish economy, as highlighted in our paper *Brexit: What's at Stake for Businesses*.¹⁴ Firms have repeatedly told us that any restriction on the free movement of EU labour could negatively affect their businesses, especially if it were to involve new administrative or bureaucratic requirements that would impose or increase costs. For many smaller businesses, in particular, such restrictions would make the recruitment of essential staff practically impossible.
62. Many businesses, including in agriculture and horticulture, have also expressed concerns about the impact that the negative rhetoric against migration is having on individuals already in Scotland, or those who may be considering coming here - a concern that is shared by the Scottish Government. We know anecdotally that many businesses who rely on seasonal workers, for example, are finding it harder to recruit workers since the EU referendum.
63. Some sectors have a particular reliance on free movement of workers from Europe. There are approximately 17,000 EU citizens employed in the tourism sector in Scotland, 9.4% of the total workforce. There are also 11,000 EU citizens working in Scotland's creative industries, in proportions as high as 35% for some of the national performing companies. The Scottish Government's evidence to the MAC sets out in detail the positive impact of EU citizens on different sectors and the risk to those sectors if migration is restricted.
64. Economic models show that a decrease in labour supply as a result of lower levels of migration has a substantial negative impact on both the Scottish and the UK economy, but the impact on Scotland is greater. This is further evidence to support the case that a different approach to migration is required in Scotland.

¹³ Available at <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/articles/migrationsincethebrexitvotewhatschangedinsixcharts/2017-11-30>

¹⁴ Available at <http://www.gov.scot/Resource/0052/00525848.pdf>

UK Migration System

65. While immigration policy remains reserved, the Scottish Government will advocate for and attempt to influence change in the UK migration system to ensure Scotland's needs are met, as far as they can be, within UK policy.
66. There are changes to the UK-wide policy and systems that would benefit Scotland and other parts of the UK. We highlight five areas where UK Ministers should revise their policy:
 - net migration target;
 - family migration;
 - immigration skills charge;
 - Scotland shortage occupation list; and
 - post-study work visa.
67. The UK Government target to bring **net migration** down to the 'tens of thousands' is arbitrary, not based on evidence, feeds negative rhetoric about migration and contributes to the sense of the UK as a hostile environment for migrants. If the UK Government were to end free movement of people as they intend and actively pursued a migration policy intended to meet the net migration target, it could be deeply damaging to all of the UK and to Scotland in particular. Economic modelling in this paper suggests the GDP impact for Scotland of the UK reducing net migration in this way could be over £10 billion per year by 2040.
68. Scotland accepting only a proportionate share of the UK net migration target in that scenario would exacerbate the already significant demographic challenges the country faces and stifle economic growth. Therefore, as part of any future immigration scenario, the UK Government should abolish their net migration target; or, at the least, migration to Scotland should not be included within the target. In line with public opinion and as the Scottish Government set out in response to the MAC, if the UK Government maintains a net migration target then international students in the UK should also not be included in it.
69. The restrictions the UK Government has placed on **family migration** in recent years combined with an expansion of EU law rights for family members has created the paradoxical situation where EU citizens living in the UK, exercising treaty rights, have an easier pathway to bring their non-EEA family with them than do British nationals. The UK Government should continue to protect the rights of the family members of EU citizens after Brexit, and should take account of the value of family life by extending rights to the family members of UK citizens

70. The **Immigration Skills Charge** is an unhelpful burden on employers seeking access to skills and talent from across the world. The charge constitutes an additional bureaucratic and financial burden on Scottish businesses and employers should not be penalised for employing the skilled staff that they need. The application of the skills charge in Scotland should be discontinued.
71. The **Scotland Shortage Occupation List** is the only current element of the UK immigration system where there is any attempt to consider the different needs of Scotland relative to the rest of the UK. However, it is not a devolved responsibility¹⁵ – the Scottish Government has no formal role in determining what occupations are considered in shortage in Scotland. Scottish Ministers cannot currently commission the MAC to consider changes to the Scotland Shortage Occupation List. The Home Secretary makes that decision on the basis of advice from the MAC, and the MAC offers that advice in response to a commission from the Home Secretary. The Scottish Government contributes to this process, but only as a stakeholder and in the same way as any other individual or body can respond to MAC calls for evidence.
72. Therefore, while the shortage occupation list for sponsored work visas is in place, the UK Government should review the administrative procedures around it to give a formal role to the Scottish Government in commissioning and determining what occupations are in shortage in Scotland. In the longer term, there remains a question about whether the Shortage Occupation List is a helpful measure, or if there is a more systemic way to fix the problem it attempts to address.
73. As previously discussed, the success of Fresh Talent in Scotland from 2005 saw the **post-study work visa** mainstreamed into the UK immigration system in 2008. This was later withdrawn by the UK Government in 2012. The Smith Commission recommended reviewing that decision, suggesting that the UK and Scottish Governments work together to consider reintroducing the withdrawn route to post-study work for international graduates in Scotland, a position supported by universities, employers and all political parties in Scotland. The UK Government should respect the Smith process and the cross-party consensus that exists in Scotland, explored in Box 4, and reinstate the post-study work visa at the earliest opportunity.

¹⁵ The report of the All Party Group on Social Integration, *Integration Not Demonisation*, was incorrect to describe the Scotland Shortage Occupation List as representing a “level of control over immigration devolved to the Scottish Government.”

Box 4: Progress on Smith Commission recommendations

The report of the Smith Commission recommended that the Scottish and UK Governments work together to explore the possibility of reintroducing a post-study work route.

“The parties have agreed that the Scottish and UK Governments should work together to explore the possibility of introducing formal schemes to allow international higher education students graduating from Scottish further and higher education institutions to remain in Scotland and contribute to economic activity for a defined period of time.”

Following the publication of the Smith Report in December 2015, the Scottish Government has repeatedly sought to work with the UK Government to explore the possibility of reintroducing a post study work scheme. Scottish Ministers established a Working Group and Steering Group, with representation from all Scottish political parties, that put proposals and recommendations to the UK Government on how post-study work in Scotland could proceed. However, the UK Government remains reluctant to constructively discuss the reintroduction of such a route and has ruled out any movement without consultation or engagement with Scottish Ministers or stakeholders in Scotland.

The UK Government’s current post-study work offer is not adequate for Scotland. The ‘Low risk Tier 4 pilot’, which was extended in December 2017, simplifies the visa application process for international students studying a Masters’ course of 13 months or less at specified universities and extends the length of time they have to seek work from four to six months after completing their course. This falls far short of calls for a post study work route.

CHAPTER THREE: How a tailored migration system for Scotland could operate

74. This paper has set out the benefits to Scotland's economy that migration brings, and the requirement to maintain and increase net migration in order to sustain that economic contribution. It also addresses the different demographic challenge Scotland faces, which is more acute than other parts of the UK, and touches on the benefits to society of being an open, welcoming multicultural European nation, including the particular benefit that migrants bring to sustaining rural communities.
75. This builds on the Scottish Government response to the MAC call for evidence on the impact of migration on the UK labour market, published in November 2017.
76. The MAC will advise the Home Secretary of its findings and recommendations in a report by September 2018. The MAC stated their intention to look at regional systems of immigration in their call for evidence. We support this work to examine how devolution or differentiation can secure migration patterns of the sort that Scotland particularly needs and that are distinct from the rest of the UK: working-age people coming to the country to take up permanent work, and raise families here through long-term settlement in their communities.
77. Other groups including devolved administrations, Parliamentary committees, academics and think-tanks have signalled support for regional approaches to migration in the UK. Some of these perspectives are summarized in Box 5.

Box 5: Summary of other UK perspectives

The **Home Affairs Committee** at Westminster published a report in January 2018 entitled '*Immigration policy: basis for building consensus*' that sought to identify principles for future migration policy. It noted the MAC commission to consider regional approaches to migration.

The **Institute for Public Policy Research Commission on Economic Justice** published '*An immigration strategy for the UK: Six proposals to manage migration for economic success*' in December 2017. The paper called for a comprehensive rethink to meet the need of the economy, and concluded that geographical flexibility should be built into the migration system.

Common Weal's report on '*A Scottish approach to immigration post-Brexit*', published November 2017, highlights that the economic imperative for more inward migration to address demographic challenges, which is common to the whole of the UK, is particularly stark in Scotland.

The **Welsh Government** paper '*Brexit and Fair Movement of People*', published September 2017, set out that reform of UK migration policy is required to recognise the distinct needs of Wales, where the Welsh Government has a stronger role in determining how future migration to Wales would be managed.

The **Westminster All-Party Parliamentary Group on Social Integration** said in their report '*Integration not Demonisation*', published August 2017, that responsibility for migration should be devolved and the UK Government should look at introducing a regionally-led migration system with region-specific visas.

The **House of Lords Economic Affairs Committee** recommended in their report on '*Brexit and the Labour Market*', published in July 2017, that the UK Government develop a new migration policy for post-Brexit and saw merit in a regional migration system for Scotland and London.

The **Scottish Affairs Committee** at Westminster published a report in November 2016, '*Demography of Scotland and Implications for Devolution*', which underlined the need for tailored migration policies.

The **PWC** report '*Regional Visas: A unique immigration solution?*', published in October 2016, found that a regional approach to migration in the UK could boost the economy overall and increase the integration of migrants within their local community. The report explores the possibility of creating a regional visa system.

78. A degree of consensus exists already on the long-term challenge of population growth and the benefit to Scotland of differentiation in the immigration system. The discussion that needs to happen now should build on this and recognise the risks to Scotland of reduced immigration through leaving the EU and ending free movement and through further restrictions within the UK immigration system.
79. This chapter will discuss options for future migration and explores the following key scenarios:
- How Scotland can continue to benefit from EU migration.
 - How devolution of some aspects of migration could start to meet Scotland's most acute needs.
 - How a regional migration system for the UK, to meet our full range of needs, could operate.

Free Movement of People

80. Short of full EU membership, the position of the Scottish Government is that Scotland and the UK's interests are best served by continued membership of the European Single Market and Customs Union, allowing them to continue to benefit from free movement of people. This was explored in *Scotland's Place in Europe*, published in December 2016, which also set out how free movement of people could continue in Scotland even if the UK were to leave the Single Market. This policy was reinforced in *Scotland's Place in Europe: People, Jobs and Investment*.
81. Free movement of people does not mean the unrestricted movement of people. *Scotland's Place in Europe: People, Jobs and Investment* also examined the rules that govern free movement and the measures that Member States can take to protect their social assistance systems from undue burdens, limiting access to certain benefits, and to refuse rights and even remove EU citizens in cases of abuse, criminality and threats to public policy, public security and public health. Under the accession treaties Member States can also limit the numbers of workers they admit to their territory from the new Member State, for a period of time.

Box 6: Scotland's Place in Europe: People, Jobs and Investment

The Scottish Government published new analysis in January 2018 of the implications for Scotland's economy if the UK exits the European Union. The paper, *Scotland's Place in Europe: People, Jobs and Investment*, demonstrates the benefits Single Market membership has delivered and could deliver in future, and also sets out in detail the adverse economic consequences of a hard Brexit, which will undermine Scotland's economic prospects.

To minimize the adverse impact of Brexit on growth and jobs, the UK Government must prioritise our continued membership of the European Single Market and Customs Union as it embarks on what will be the most crucial set of international negotiations of recent years.

Inward migration is key to growing Scotland's population, particularly the working age population and in turn our economic performance. We know that EU citizens in Scotland have a younger age profile than the Scottish population as whole. 61% of EU citizens living in Scotland are under 35 years of age compared to 42% for Scotland as a whole. EU citizens are helping to grow our economy and address skills shortages within key sectors. We know that 77% of EU citizens are in employment compared with an overall rate for Scotland of 73% and EU citizens account for over 5% of all employment in Scotland. Rural areas are also more reliant on EEA workers. Free movement has been essential, with skilled and unskilled labour fulfilling diverse needs across our economy.

Economic modelling in *Scotland's Place in Europe: People, Jobs and Investment* found that on average each additional EU citizen working in Scotland contributes a further £34,400 in GDP, and £10,400 in government revenue. These results are likely to understate the full positive impact of EU citizens in the Scottish economy. EU citizens make a vital contribution to the public sector in Scotland, including in NHS Scotland where they fill skilled vacancies in hard-to-recruit specialisms and geographical regions. Many EU citizens work in social care, in roles that may be low-skilled or relatively low paid and so would likely fall below the thresholds in the non-immigration system.

However, EU citizens should not be seen as just workers. Their contribution to the communities in which they live, and to wider Scottish society and culture is significant and must also be recognised. EU citizens are not just colleagues and co-workers they are also friends and in many cases family - people who have chosen to build a future in Scotland and to bring their families up here and become part of the communities within which they live and work.

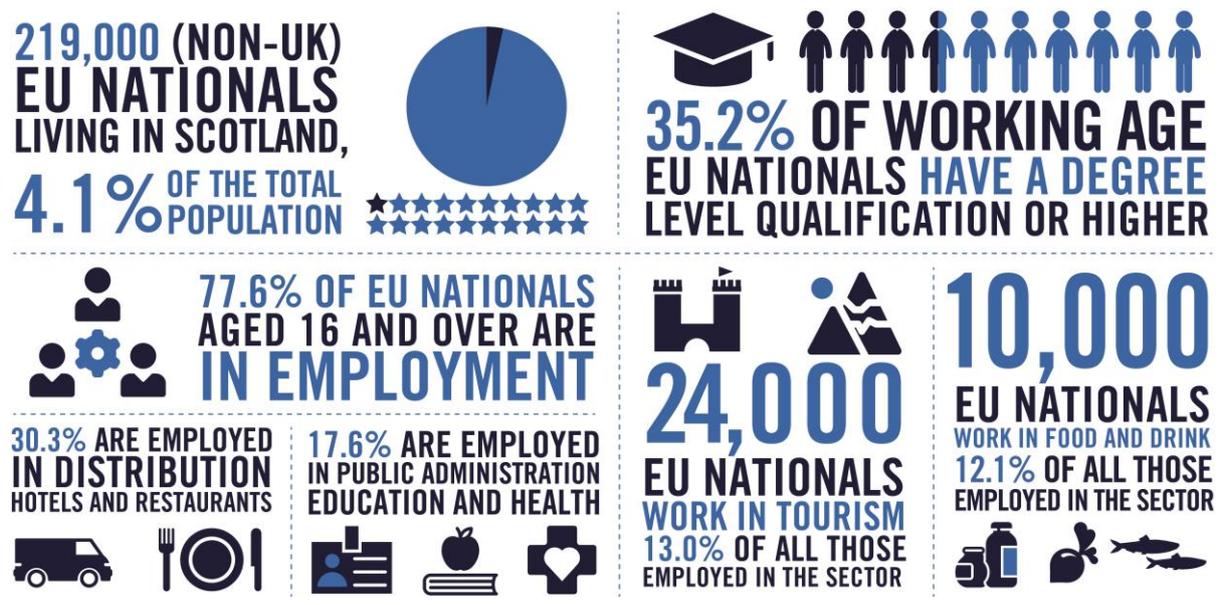
Freedom of movement within the EU enriches Scotland's culture. Artists from around the EU are able to bring their work to Scotland and EU citizens can travel freely to Scotland to experience our unique culture and world-leading festivals. Creative industries have been the fastest growing sector of the UK economy over the last two decades and it is important that Scotland's cultural and creative industries companies are able to recruit the talent and skills that they need from as wide a pool

as possible. This allows our home grown talent to seize opportunities and gain new skills and perspectives from working across the EU.

Despite Scotland and the UK's best interests being served by continuing to benefit from freedom of movement, the UK Government has set out its intention to end free movement of people in the spring of 2019. As part of any transition to a new system the UK Government will need to clarify the status of the 219,000 EU citizens who are currently resident in Scotland (and many more elsewhere in the UK), as well as the rights of EU citizens who may be looking to work, live and study here after the spring of 2019.

82. The Scottish Government will, through discussion with the UK Government on EU exit negotiations, press the case that this is the 'least-bad option' and should be the outcome the UK seeks in leaving the EU.
83. If the UK Government, in leaving the EU, takes Scotland out of the European Single Market and Customs Union, the Scottish Government will want to maintain as many of the benefits of free movement of people as possible. The UK Government has already recognized it would not be appropriate for future migration from the EU to be subject to the current UK immigration rules. It is expected to publish an Immigration White Paper setting out proposals for the transition period after the UK leaves the EU, and possibly further information on plans for EU migration after 2021. The future migration regime for EU citizens should replicate as far as possible the current system of free movement. Sector-specific schemes and caps would also be an inappropriate solution to what is a whole-workforce, whole-economy issue: such a policy solution would not be sufficiently responsive to future needs and emerging sectors.
84. If the future EU migration scheme for the whole of the UK does not replicate the benefits of free movement of people, the Scottish Government would seek to have new powers on migration devolved to the Scottish Parliament to ensure that, for future EU citizens coming to Scotland, their experience is the same as free movement within Europe and they are able to continue to live and work in Scotland as they do currently.
85. Free movement of people is more than just a migration system, however, and *Scotland's Place in Europe* established how we would seek to maintain the reciprocal rights that UK nationals enjoy through their EU citizenship if the UK were to leave the single market.

Figure 3.1: Infographic on the contribution of EU citizens to Scotland



Devolution within the UK Framework

86. We present this approach to encourage discussion within Scotland, and with the UK Government, about how to respond now to the clear and growing need for a different solution for Scotland. It would not address all of the issues the evidence identifies, nor would it give effect to a fully regionally differentiated migration system. But it would give Scottish Ministers some ability to address the most acute issues Scotland faces and would represent a milestone towards more comprehensive devolution by building institutional capacity and capability in the Scottish public sector.
87. The UK Government and the Scottish Government could, through bilateral negotiation, reach agreement on limited devolution within the current UK immigration system. This section explores how devolution within the existing framework of the UK points-based system, in a way that restricts migrants to living in Scotland and enables Scottish Ministers to determine criteria and thresholds, could start to meet Scotland's needs. It also addresses how the Scottish Government would work in partnership with the UK Government and agencies on control and enforcement of migration.
88. There are a number of legal mechanisms to give effect to such limited devolution, including Section 30 or Section 63 Orders under the Scotland Act 1998, or primary legislation at Westminster with the consent of the Scottish Parliament as necessary.
89. The Scottish Government believes that the Scottish Ministers, accountable to the Scottish Parliament, should have the power to control migration to ensure that it plays an appropriate part in ensuring Scotland's demographic sustainability and economic growth. Therefore, as previously stated, Scotland should not be constrained by the UK net migration target. Equally it would not be appropriate for Scotland to be allocated a quota under the UK system, or a cap on the number of visas it could issue, driven by the UK net migration target. Box 7 explores why this would be problematic.

Box 7: Immigration Caps

As well as the overall net migration target, current UK policy sets limits within visa categories. Under Tier 2, employers generally require a certificate for each skilled migrant they wish to recruit from outside Europe, and there are 20,700 available each year issued in monthly allocations. If a monthly cap is reached, applications are scored and prioritised based on salary, qualification level and shortage occupation status. In practice this means that employers who pay the highest salaries, whatever the job they are recruiting for, are able to access the international talent they need.

For much of 2017, applications were within the monthly caps. In December 2017, the cap was reached, resulting in the salary threshold for a certificate jumping from £20,800 to £55,000. This meant that, without warning, many Scottish employers were unable to recruit from overseas, despite otherwise complying with all the rules. For example, the starting salary for a teacher is £27,438 while the top of the main grade teaching scale is £36,480.

Such caps are part of efforts by the UK Government to limit immigration. Restricting migration arbitrarily in this way, which takes no account of the need for skilled migrants in particular locations and occupations, creates uncertainty for applicants and employers, increases costs and ultimately may deter new investment. This demonstrates why the Scottish Government would not want caps or quotas imposed by the UK Government on new systems to support migration to Scotland.

90. There are a range of possible outcomes where negotiation with the UK Government could arrive at a mutually-agreeable solution. In the short term, the priority for the Scottish Government is a mechanism to attract high value migrants who can contribute to Scotland. This could operate under the UK immigration system with powers devolved to Scottish Ministers, accountable to the Scottish Parliament, to determine and vary criteria and thresholds according to Scotland's needs. This might include, for instance salary, assets, education, skills, age, language level or affinity with Scotland in order to ensure that the characteristics and volume of migrants entering the country under this route would be in keeping with defined economic and demographic requirements. This could take similar form to the previous points-based system 'General Migration' visas which are no longer issued by the UK Government.

91. Recognising the importance of family life in the migration system is also a priority, through visa routes that enable both migrants and UK nationals to be able to live in Scotland with their family. The Scottish Government believes that international migrants who are able to bring their family with them are more likely to integrate into communities, and contribute to the long-term demographic change that Scotland needs. Therefore, to support any Scottish visa within the point-based system, Scottish Ministers would also seek control over policy on being accompanied or joined by family members within Scotland.
92. UK policy is more restrictive than Scottish Ministers consider necessary on entry of non-EEA spouses and family members of UK nationals, as previously observed. If an individual is entitled to live and work in Scotland – whether through UK or Irish citizenship or having leave to remain in the UK – they should be able to bring close family to also live and work here, subject to proportionate measures to ensure abuse, fraud or other criminal behavior is not being perpetrated.
93. To further support employers, it may also be appropriate for decision-making on which professional groupings feature on the Scotland Shortage Occupation List to be reconsidered, with responsibility to decide what sits on the Scottish list resting with Scottish Ministers. In reviewing that list, the Scottish Government could consider advice either from the MAC, or, if appropriate, from a new independent migration adviser for Scotland.
94. If a Scotland-specific visa were to be created within the UK immigration system, prospective migrants and sponsoring employers would still have a choice about which route through the immigration system to pursue. Individuals who meet the requirements of any of the other visas within the UK points-based system who wish to live or work in Scotland would be free to do so, while retaining the flexibility to resettle elsewhere within the UK. No barriers to movement between Scotland and the rest of the UK would be created for UK nationals or for those who are resident in the UK under the UK immigration rules. The Scottish approach would be an option open to migrants and employers that may meet individual needs by offering different eligibility criteria in one aspect, with different restrictions in another.
95. Scottish Ministers under this scenario would therefore exercise concurrent competence with UK Ministers on immigration matters. Scottish and UK Ministers currently share competence on issues such as economic support and there are other areas, including international development, where Scottish Ministers have the ability to act through agreement with the UK Government in an otherwise reserved area of policy.

Residence

96. Scotland wants to attract people from the UK, Europe and the rest of the world who will live and work here for the long term, and who will raise families to grow the future working age population that will pay taxes to fund the essential public services that society – and especially an increasingly aging society – demands.
97. The demographic pressures in the rest of the UK are less pronounced, and many communities, particularly in England, have larger migrant populations than are typically found in Scotland, or have experienced more rapid growth in migrant populations than typically experienced in Scotland. That has led to different requirements for and perspectives towards migration across the UK.
98. It is possible therefore that some communities in other parts of the UK, and their respective elected representatives and governments, would seek assurance that the devolution of migration powers to Scotland aimed at increasing net migration in Scotland, would not then lead to migrants entering Scotland with the intention of relocating and settling elsewhere in the UK.
99. In short, Scotland wants migrants to live in Scotland, with the ability to visit the rest of the UK within the Common Travel Area; and the rest of the UK might also expect those migrants to stay in Scotland. Therefore, whatever the nature of devolution or differentiation, a central feature of Scottish migration policy would be to restrict migrants to living in Scotland as a condition of entry for the duration of the time they are under immigration control. How a residence restriction is defined and enforced would need to be agreed with the UK Government, but there are existing frameworks (for example, the arrangements that govern eligibility for higher education support) that could prove instructive and demonstrate the feasibility of such an approach.
100. The definition and application of residence restrictions as a visa condition would require further discussion. Similarly, restrictions on employment, including the balance between the importance for businesses of wider labour mobility against the demands of the labour market beyond Scotland would need further exploration.

Control & Enforcement

101. The Scottish Government would accept, under this approach, that border control and enforcement remain the responsibility of the UK Government, through Border Force and Home Office Immigration Enforcement, with the involvement and engagement of relevant Scottish and UK law enforcement and intelligence agencies. Scottish Ministers also accept there is a reasonable requirement for a common standard across the UK on questions of good character, criminality and related matters in the migration system. They would therefore exercise their devolved decisions on migration under the UK framework of general grounds for refusal, subject to the necessary engagement between the Scottish and UK Governments on determining those grounds.
102. Procedures that the UK Government has put in place already require employers and public services to check the immigration status of employees and service users. Such mechanisms would help ensure that migrants entering the UK through this route are compliant with the conditions of their visa, including restricting residence to Scotland.
103. Any migration system has the potential to be targeted for abuse, but partnership working between governments and agencies to ensure proper enforcement of immigration rules and conditions of entry can manage and limit that potential. This is what we propose by establishing a Scottish system either within or parallel to the UK system.
104. Partnership working in this way already exists within the Common Travel Area. Both the UK and Ireland operate their own migration systems in which UK visa holders are able only to live and work in the UK, and Irish visa holders are able only to live and work in Ireland. This does not compromise the principle of free movement within the Common Travel Area. The UK Government has already committed to maintaining the Common Travel Area after the UK leave the EU.

Administration

105. In many areas of recent devolution, we have delivered new services in partnership with departments and agencies of the UK Government. For instance, HM Revenue and Customs collects Scottish income tax, and the Department for Work and Pensions has been closely involved in work to devolve social security benefits. There are areas in relation to migration where such partnership working should continue, including in the role of Border Force on control and enforcement at ports of entry. However, there are areas where Scottish Ministers would seek changes from the UK approach or would seek to have a Scottish public body with a lead role in delivery.

106. We would explore through discussion with the UK Government arrangements for receiving, processing and issuing visas with the Scottish residence restriction. It would be possible for Civil Servants in the Home Office or UK Visas and Immigration to process and make decisions on applications under a Scottish scheme where Scottish Ministers have set policy and immigration rules. However, it might be difficult for UK immigration staff to service both UK and Scottish Government policies in the longer term, especially when policy aims are likely to diverge significantly.
107. The Scottish Government will therefore consider further whether a Scottish public body should be identified to receive, process and make decisions on behalf of Scottish Ministers under any devolved Scottish migration system. This body would also assume collection of fit-for-purpose data from the system to support dedicated monitoring and evaluation of the characteristics, flows and impacts of migrants to Scotland that will support policy decisions and help better inform public debate. This body would set fees and charges for that service on the principle of full cost recovery rather than seeking to raise revenue.

Devolved Immigration Systems

108. The previous section tested how relatively limited devolution of powers to the Scottish Parliament could operate. This would not represent a fully devolved or regionally differentiated approach to migration, but it could form the core of wider subsequent devolution. Scottish Ministers, accountable to the Scottish Parliament, could take further control over migration to Scotland allowing the Scottish Parliament to design and implement a new system for all categories of migration. A points-based migration system is one that many territories, including the UK, have adopted. While the Scottish Government remains open to considering other approaches, a variation of a points-based system is likely to be the most effective at ensuring migration policy meets Scotland's needs.
109. Differentiated or regional approaches to migration are neither novel nor unusual in the international context. Both Canada and Australia operate devolved regional control, to address specific economic and demographic circumstances, within a national framework.
110. Both countries operate points-based systems that have a focus on permanently growing their populations through inward migration. However, the federal governments of both recognized that the limited dispersal patterns of new migrants were contributing to increased inequality between regions. In order to widen the benefits of migration, both Canada and Australia have encouraged and enabled regional governments to devise special programmes to attract migrants to areas beyond their primary urban centres. This process is supported by strong and well-established relationships and dialogue on migration between federal and province or state governments.

111. Canada operates a points-based migration system with a strong regional element to account for the differences in population and economic structure of Canada's provinces. All ten provinces of Canada (and two of its three territories) have bilateral agreements on migration with the federal government which take into account specific provincial requirements. Most of these include agreements on Provincial and Territorial Nominee Programmes, which were established in the 1990s to counter the historical tendency of migrants to settle in the bigger cities.
112. Under the Canada-Quebec Accord, the province of Quebec has more control than the other provinces over migration, with sole responsibility for the selection of migrants who apply for permanent residence in Quebec. The federal government remains responsible for their admission. In addition, Quebec's consent is required for the admission of temporary migrants into the province, for example international students, temporary workers and visitors entering Quebec to receive medical treatment.
113. Quebec offers various routes for different types of migrants that broadly mirror federal programmes. However, Quebec essentially operates a separate points system, with different weighting that places more emphasis on factors that are seen to facilitate integration into Quebecois society, such as knowledge of the French language.
114. Australia also seeks to grow its population in more remote areas through regional flexibilities in its points based system. The Australian Government works with state and territory governments to offer a range of State Specific and Regional Migration initiatives which include varying criteria that recognise the specific needs of rural and regional areas and are designed inter alia to address regional skill shortages, and to ensure that the intake of skilled migrants into Australia is spread across the country. These initiatives are designed to encourage migrants to settle in regions of low population density or economic growth.
115. There is some commonality with Scotland's situation in relation to the rest of the UK. We need people to settle in Scotland, to make their homes here, to bring their families and to contribute to our long term future prosperity. UK Ministers have suggested that they want future migration to be short term with individuals returning to their country of origin. These are fundamentally different priorities and it is difficult for one approach to meet both needs.
116. The Scottish Government is also sensitive to the potential impact that retaining international skills in Scotland could have on development within an individual's own country of origin. Not all migrants will wish to settle in Scotland permanently; many will return to their home country to put into practice the experience they have gained from living and working in Scotland, just as individuals born in Scotland should have the opportunity to build and develop their skills by studying, working or living overseas.

117. The UK is making plans for a migration system to replace free movement of people after leaving the EU. That is not as desirable as maintaining free movement of people through continued membership of the European Single Market and Customs Union. The upcoming Immigration Bill therefore presents an opportunity to fundamentally rethink the whole UK system, in a way that recognises the different requirements and aspirations of different parts of the UK, through an approach that includes regionalization of migration policy at the earliest design stages.
118. The Scottish Government has advanced proposals, and will enter into a discussion with interested parties across Scotland, on what is right for Scotland's particular future migration requirements. The Scottish Government is not alone in recognising that the one-size-fits-all approach of the UK immigration system does not meet the needs of many parts of the country. Our proposals for greater devolution to allow for a separate Scottish approach present an opportunity to engage and work in partnerships beyond Scotland, and to advocate for regional differentiation to the UK immigration system as a whole.

Box 8: Asylum

Scotland has a long history of welcoming asylum seekers and refugees, from all over the world. We maintain that they should be integrated from day one, and not just when leave to remain has been granted; and that the overall experience for asylum seekers coming to Scotland is more humane and in line with our values and the importance we place on human rights and equality. We want Scotland to be recognised as a good global citizen – able to welcome those seeking sanctuary, to support those in need and to deal effectively and humanely with those who do not have a case to stay.

Scotland's refugee integration strategy, *New Scots*, has provided a clear framework for all those working towards refugee integration. It assists in co-ordinating the work of the Scottish Government and its partner organisations and others in the public, private and third sectors. A refresh of *New Scots* was launched in January 2018, shortly after Scotland celebrated resettling 2,000 Syrian refugees since October 2015. This milestone, reached ahead of schedule, is part a commitment to take a fair and proportionate share of the total number of Syrian refugees that come to the UK.

We have special obligations to those seeking asylum, and the number of asylum seekers relative to economic or family migrants in Scotland is low. We have therefore not addressed future policy changes to the asylum system in this paper.

CONCLUSION

119. This paper has argued that migration provides significant benefit to Scotland's demography, economy and society, and has presented evidence to support that. It builds on the substantial evidence and analysis published in the Scottish Government response to the recent MAC call for evidence; in *Scotland's Place in Europe*; and in *Scotland's Place in Europe: People, Jobs and Investment*, released in January 2018.
120. Long-term demographic trends reflected in official population projections will see the proportion of the population of state pension age rise, with the over-75 age group increasing significantly. There will be more deaths than births in every year of the projection period, up to 2041. All of Scotland's projected population growth will come from inward migration - but long-term international migration is expected to decline after Brexit, inhibiting Scotland's population growth.
121. Migrants also contribute to economic growth, bringing new skills and perspectives to the labour market, raising productivity and increasing innovation. They play a vital role in our key sectors and public services. Scottish Government economic modelling shows that each EU citizen working in Scotland adds £34,400 to GDP on average, and contributes £10,400 in government revenue. New economic modelling in this paper shows the negative impact to Scotland's economic prospects as a consequence of reduced migration, and the potential economic gains if migration was sustained.
122. Just as importantly, migrants make a positive contribution to Scottish society. They help sustain communities in rural Scotland, and help ensure that Scotland is an open, modern European nation.
123. What Scotland needs from policy and systems on migration is different from the rest of the UK. Current UK policy to restrict migration, and the potential consequences of a hard Brexit, have thrown this into relief and make the case more urgent for a different approach in Scotland. Whatever the outcome of the EU withdrawal negotiations and the shape of our new relationship with the EU, and however UK policy changes in future, significant differences remain between Scotland and other parts of the UK. The evidence clearly illustrates Scotland's distinctive challenges in relation to demography and the age structure of the population, the fragility of rural communities and the role of migration in helping mitigate those challenges.
124. These differences therefore require a different policy response in Scotland than elsewhere in the UK. Policy and systems that might be appropriate for other parts of the UK are not appropriate for Scotland. The case for a different approach in Scotland, with new powers for the Scottish Parliament to control migration to meet Scotland's needs, is clear.

TECHNICAL ANNEX

Box 9: Summary of Technical Annex

This Technical Annex sets out new economic modelling quantifying the potential effect of a Brexit driven reduction in migration on both the UK and Scotland economies, and the relative importance of such a reduction in migration to Scotland's economy compared to the rest of the UK.¹⁶

Assumptions on extent of reduction in migration: In order to estimate the economic impact, it is necessary first to consider what the level of migration could be if recent migration trends continued and then second to consider what the level of migration could be after Brexit.

Historic trends show variability in net overseas migration but in 2016 the figure was 22,900.

There are a number of alternative projections for net overseas migration in future years. We take the high migration variant migration projection to represent the level of migration if recent migration trends continued. The level of net long-term international migration in Scotland associated with this projection is 15,500 per year. (It should be noted that this is below the levels seen in recent years.)

We then take the principal projection to represent the level of migration in the event of Brexit. Net long-term international migration in Scotland associated with this projection is 7,000 per year.

The difference between these two projections – approximately 8,500 per year – is what we take as the Brexit-driven reduction in migration.

Given the uncertainty over such an outcome, other projections are also possible and this is discussed in the sensitivity analysis. The approach for the rest of the UK adopts the same assumptions, that is, uses the difference between the ONS high migration variant and the principal projection to represent the level of Brexit-driven reduction in migration.

Model: A dynamic computable general equilibrium model (CGE) of the Scottish economy and the rest of the UK economy was used to examine the net additional economic impact by modelling a decrease in labour supply (a reduction in the working age population).

Findings: Our modelling estimates that real GDP in Scotland will be 4.5% lower by 2040 than it would have been otherwise, as a result of the Brexit-driven reduction in migration. This is equivalent to a fall of almost £5 billion per year in GDP by 2040.

¹⁶ The rest of the UK includes England, Wales and Northern Ireland.

The impact across the rest of the UK is found to be smaller. Real GDP in the rest of the UK could be 3.7% (£47.5 billion) lower by 2040 as a result of the Brexit-driven reduction in migration.

Scotland experiences a proportionally larger negative impact relative to the rest of the UK. This is because Scotland relies more heavily on migration to grow its working age population than the rest of the UK, which enjoys higher levels of natural population growth. The proportionately larger impact on Scotland is equivalent to £1.2 billion per year by 2040.

Implications: The modelling confirms that Scotland will suffer a proportionately larger negative economic impact as a result of the Brexit-driven reduction in migration. This is because of the different demographic profile of Scotland compared to the rest of the UK.

Therefore lower migration represents a specific risk to Scotland and suggests that UK-wide migration policy may not fit Scottish economic needs.

Further modelling set out in this Technical Annex shows that if a different approach to migration policy in Scotland leads to higher levels of migration then a growing labour force could boost the economy.

This Technical Annex also provides an overview of the key literature on the impact of migration on the economy. It then builds on the findings from the literature review to set out new economic modelling showing how lower migration as result of Brexit will impact on the Scottish economy and the rest of the UK respectively.

Overview of literature on the contribution of migration to economic growth: Productivity, skills, and innovation

Most of the economic literature on migration finds that, overall, migrant workers have a positive effect on the host country and can contribute to higher economic growth.

This growth can be achieved through incoming migrants providing a boost to the labour supply, thereby expanding the productive capacity of the economy, resulting in higher levels of economic activity and employment, making the economy as a whole more competitive. As well as adding to the supply side of the economy (expansion in the labour force), migrants also contribute to increased demand for goods and services in the economy (as migrants are also consumers).

Recent Scottish Government modelling undertaken for the response to the MAC looked at the economic contribution of EU citizens to the Scottish economy. This work found that on average, each additional EU citizen working in Scotland contributes a further £34,400 in GDP. As there are approximately 128,400 EU citizens employed in Scotland, this analysis implies that the total contribution of EU citizens working in Scotland is approximately £4.42 billion per year. Migrants also make a contribution to tax revenues – the modelling shows that each additional EU citizen working in Scotland contributes £10,400 in government revenue.

A review of the wider economic literature suggests that migrants who move for economic reasons are likely to pay more in taxes than they receive in benefits.¹⁷ This means that the host country receives a fiscal contribution from their employment.

There is also evidence that these workers can also have a dynamic effect in helping to improve productivity. Migrant workers bring new skills and expertise into the country, they provide additional resources to help ensure that businesses can manage skills and staffing shortages, and typically have high levels of entrepreneurship which helps lay the foundations for future economic growth.¹⁸

There are a number of sources outlining the positive economic benefits of skilled migrants. For example, a summary of the available evidence by the Bank of England suggests that EU workers may have filled skill gaps or specialised in different tasks. Specifically at the firm level, the Bank points to research by Rolfe et al (2013)¹⁹ that found that employers in the pharmaceuticals, IT, banking and universities sectors recruited from outside the UK in order to fill skills gaps that exist in the resident population, and to complement the skills of non-migrants.

Work by Ortega and Peri (2014) finds evidence that migration boosts long term GDP per capita, through increased diversity of skills and through higher innovation activity.²⁰ In-migration is found to have both direct effects on company productivity as well as indirect impacts by raising the productivity of the native human capital through transfer of know-how.

This study also provides evidence that as well as the direct boost to productivity; the resident population may also gain via any indirect effects of skilled immigration on productivity. These positive benefits may arise through enhanced specialisation of procedures, job creation in complementary tasks, and wider dynamic effects on the labour market

More recent work by Ottovanio et al (2016)²¹ finds a productivity and general export promotion effect of immigrants. The study also finds that immigrants promote bilateral exports across service industries to their countries of origin, with an economic magnitude near the upper range of estimates found with respect to goods trade.

¹⁷ This is particularly true for recent EU migrants. See Wadsworth et al (2016) Brexit and the Impact of Immigration on the UK

¹⁸ EU membership and the Bank of England -

<http://www.bankofengland.co.uk/publications/Documents/speeches/2015/euboe211015.pdf>

¹⁹ Migration and productivity: employers' practices, public attitudes and statistical evidence, Rolfe, Rienzo,

Lalani, and Portes (2013).

²⁰ Ortega and Peri (2014)

²¹ Ottovanio et al (2016) Immigration, Trade and Productivity in Services: Evidence from UK Firms

Furthermore, available evidence²² has suggested that migration does not appear to have had a statistically significant impact on the average wages and employment opportunities of the UK-born population in periods when the economy is strong, although there is some evidence of labour market displacement when the economy is in recession.

The available evidence for the UK indicates that any adverse wage effects of migration are likely to be greatest for resident workers who are themselves migrants. Evidence also suggests that displacement effects dissipate over time, as the labour market adjusts.

Modelling the economic impact of lower working age population on the economies of Scotland and the rest of the UK

Economic modelling

The economic modelling uses a macroeconomic model of the Scottish and the rest of the UK economy. The type of model used is known as a dynamic computable general equilibrium (CGE) model. CGE models take account of the inter-dependencies between different sectors, agents (private sector, government and households) and markets in the economy.

We use the Scottish Government's own CGE model, which has itself previously been used to model a range of economic policies, with variations of the model used in similar studies by academic institutions.²³ A description of the model can be found on the Scottish Government website.²⁴

Our framework models Scotland and the rest of the UK simultaneously. This is vital as Scotland and the rest of the UK experience different demographic projections and any economic spill-over effect from Scotland into the rest of the UK and vice versa is captured within the model. Additional details of the model and the underlying assumptions are presented in a technical addendum at the end of the Annex.

Lower migration leads to a reduction in the working age population which in turn contracts the supply-side capacity of the economy. As this is a permanent shift, the economy converges to a new equilibrium, characterised by a lower level of economic activity and employment. The reduction in labour capacity allows wages and prices to adjust in such a way that the economy as a whole becomes less competitive, causing exports to fall.

The negative impact on the economy leads to lower household consumption, investment and real GDP. Given that Scotland relies more heavily on migration to grow its working age population than the rest of the UK, Scotland experiences a greater negative impact on all these economic variables than the rest of the UK.

²² <http://www.gov.scot/Resource/0050/00508814.pdf>

²³ Lisenkova et al., 2010. Publication available at <https://strathprints.strath.ac.uk/15441/>

²⁴ A brief description of the Scottish Government CGE model can be found here <http://www.gov.scot/Topics/Economy/Publications/Introduction-to-CGE-modelling>

Assumptions on extent of reduction in migration

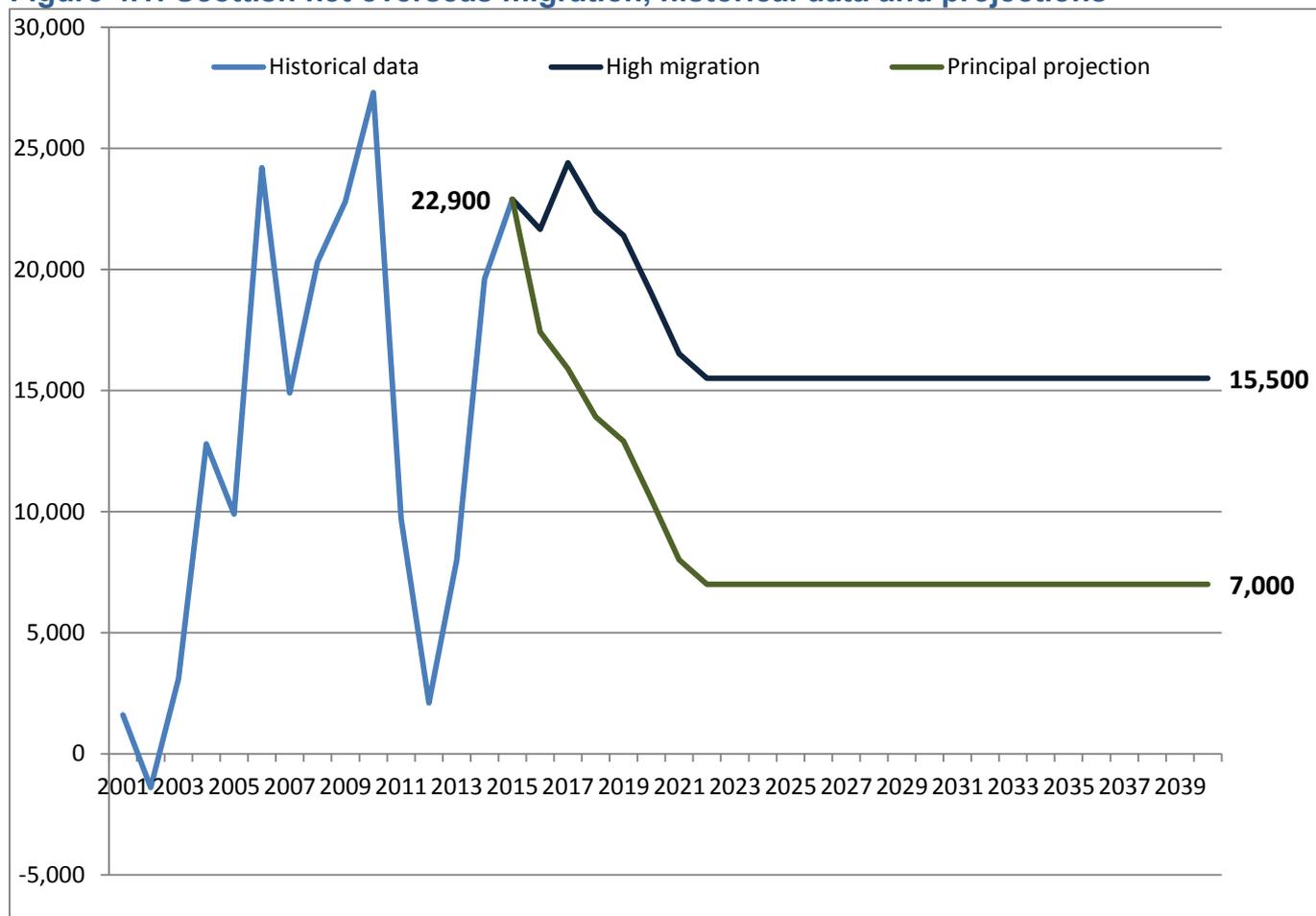
As set out in the main paper, Scotland has a markedly different demographic profile both in terms of trends and also in terms of projections.

In order to estimate the economic impact, it is necessary first to consider what the level of migration could be if recent migration trends continued; and then to consider the level of migration after the UK leaves the EU. This is done as follows:

- Historic trends show variability in net overseas migration but in 2016 the figure was 22,900.
- There are a number of alternative projections for net overseas migration in future years²⁵ and the chart below summarises these.
- We take the NRS overseas migration projection known as the ‘high migration projection’ to represent the level of migration if recent migration trends continued. The long-term level of migration associated with this projection is 15,500 a year. It should be noted that the level of net overseas migration associated with this projection is below the levels seen in recent years. For example, the 15,500 is a 32% reduction from the levels of overseas net migration to Scotland reached in 2016. Similarly, it is well below the increase of 32,000 a year in working age population which Scotland would need to maintain dependency ratio at its current level.
- We then take the NRS overseas migration projection, known as the ‘principal projection’ to represent the level of migration in the event of Brexit. The long-term level of migration associated with this projection is 7,000 a year.
- The difference between these two projections – approximately 8,500 a year for Scotland and 72,000 a year for the rest of the UK – is the level of Brexit driven reduction in migration
- Given the uncertainty over such an outcome, other projections are also possible. This is analysed in the sensitivity analysis.
- The approach for the rest of the UK adopts the same assumptions, that is, uses the difference between the ONS ‘high projection’ and the ‘principal projection’ to represent the level of Brexit-driven reduction in migration.

²⁵ Given the continuing uncertainty around the future UK migration policy, migration to Scotland and the rest of the UK can be subject to considerable variability. As in previous Scottish Government analysis such as the analysis presented in Scotland’s Place in Europe: People, Jobs and Investment, the ONS principal population projection is used to describe the future demographic path in Scotland and the rest of the UK. This is also in line with the decision taken by the Office for Budget Responsibility (OBR) which as a result of the Brexit vote changed its central demographic scenario from the high migration to principal projection for its five year economic forecast²⁵ reflecting lower migration.

Figure 4.1: Scottish net overseas migration, historical data and projections



The Brexit driven reduction in migration is then simulated through the economic model and the size of the shocks are estimated by calculating the percentage change in working age population between the two projections.

In our simulation, we model changes in the number of people of working age from 2018 to 2040. As highlighted in the table below, Scotland experiences a larger decrease in working age population than the rest of the UK.

Table 4.1: Change in working age population for Scotland and the rest of UK

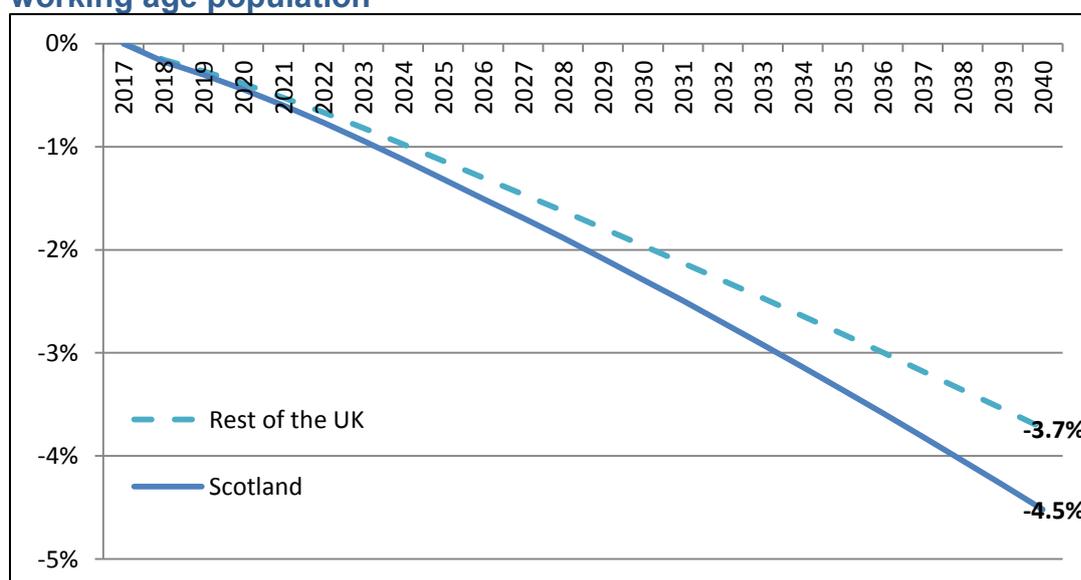
| | 2018 | 2022 | 2027 | 2032 | 2037 | 2040 |
|----------------|---------|----------|----------|----------|------------|------------|
| Scotland | -11,000 | -40,000 | -77,000 | -115,000 | -156,000 | -183,000 |
| rest of the UK | -93,000 | -344,000 | -660,000 | -980,000 | -1,316,000 | -1,533,000 |

Key findings

The key findings of this analysis measuring the impact of a Brexit driven reduction in migration are presented below.

- Our modelling estimates that real GDP in Scotland will be 4.5% lower by 2040 than it would have been otherwise, as a result of Brexit-driven reduction in migration. This is equivalent to a fall of almost £5 billion a year in GDP by 2040.
- The impact across the rest of the UK is found to be smaller. Real GDP in the rest of the UK could be 3.7% (£47.5 billion) lower by 2040 as a result of Brexit-driven reduction in migration.
- The Brexit driven reduction in migration produces negative impacts on Scottish GDP which are proportionately greater than for the rest of the UK. The larger economic cost faced by Scotland is equivalent to £1.2 billion a year by 2040.
- Therefore a Brexit driven reduction in migration represents a specific risk to Scotland and suggests that a UK-wide migration policy may not fit Scottish economic needs.
- Figure 4.2 shows the economic impact of lower working age population in Scotland and the rest of the UK as a result of the Brexit driven reduction in migration.

Figure 4.2: Change in real GDP, Scotland and rest of the UK from lower working age population



This decrease in the working age population would also have a proportionately larger impact on tax revenue raised in Scotland than in the rest of the UK. The analysis shows that the reduction in revenue would be 3.5% (£1.5 billion) in Scotland compared to 2.7% (£12 billion) in the rest of the UK by 2040.

Sensitivity analysis: alternative assumptions on the extent of reduction in migration

As noted above, there are alternative projections for overseas migration. We therefore undertake sensitivity analysis to explore the economic impact of these alternative projections on the Scottish and rUK economies.

The two sensitivity analyses we explore are based on the '50% EU migration projection'²⁶ and the 'low migration projection'.²⁷ These replace the 'principal projection' in the base case analysis. That is to say, the first sensitivity analysis models the difference between the 'high migration projection' and the '50% EU migration' projection and the second sensitivity analysis models the difference between the 'high migration projection' and the 'low migration projection'. These differences represent the reduction in migration from Brexit and as such both these sensitivity analyses result in even lower levels of migration than under the base case analysis.

The 50% EU migration projection assumes that EU migration will decrease by half from 2018 onwards reaching a long-term level of 4,300 a year. The difference in net overseas migration between the high migration and the 50% EU migration projection is approximately 11,200 a year. This outcome may occur if migration from the EU to the UK falls substantially as a result of Brexit. The Scottish Fiscal Commission made the judgment to use the demographic variant of 50% reduction in EU migration for the purpose of producing five year economic and fiscal forecast for Scotland.²⁸ In the report accompanying its forecast the Scottish Fiscal Commission stated *"given the potential impact of changes in the UK's relationship with the EU, the Commission's judgement is that a lower migration assumption is more appropriate. Therefore the Commission uses the ONS 50% EU migration variant projection"*.

The low migration projection assumes that overseas migration to the UK will fall and reach 85,000 a year by 2022. This is consistent with the UK Government target to reduce net migration to the tens of thousands. Under this scenario, Scotland is projected to experience negative long-term overseas migration equal to 1,500 migrants a year. This means 1,500 more people a year would leave Scotland than arrive from overseas. The difference in net overseas migration between the high and the low migration is close to 17,000 a year.

²⁶ ONS (2017). Source:
<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/datasets/z1zippedpopulationprojectionsdatafilesuk>

²⁷ ONS (2017). Source:
<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/datasets/z1zippedpopulationprojectionsdatafilesuk>

²⁸ For more details: <http://www.fiscalcommission.scot/publications/scotlands-economic-and-fiscal-forecasts/scotlands-economic-and-fiscal-forecasts-december-2017/>

The economic impact of lower migration is presented in table 4.2.

Table 4.2: Impact on Scottish and rest of the UK (rUK) real GDP of lower migration relative to the high migration projection

| | 2020 | | 2030 | | 2040 | |
|--|----------|-------|----------|-------|----------|-------|
| | Scotland | rUK | Scotland | rUK | Scotland | rUK |
| Base case 'Principal projection' | -0.4% | -0.4% | -2.3% | -2.0% | -4.5% | -3.7% |
| '50% reduction EU migration' projection | -0.6% | -0.5% | -3.1% | -3.0% | -6.2% | -5.9% |
| 'Low migration projection' | -0.9% | -0.8% | -4.7% | -4.0% | -9.3% | -7.6% |

Under the 50% reduction in EU migration scenario, Scottish real GDP is lower by 6.2% (£6.8bn) and 'rUK' real GDP by 5.9% (£75.4bn) than it would have been the case if Scotland and the rest of the UK followed a path of high migration. This outcome presents a more pessimistic outcome on both Scotland and the rest of the UK than our original analysis. In the worst case scenario of low migration, Scottish real GDP is lower by 9.3% (£10.2 billion) and the rest of the UK real GDP by 7.6% (£96.3 billion).

The overall conclusion of this sensitivity analysis is that, the more pessimistic the projections of working age population are, the larger the negative impact on the economy of Scotland and the rest of the UK.

The economic boost to the Scottish economy if higher levels of migration could be achieved

Further modelling is undertaken to demonstrate the economic benefits that would flow if Scotland could achieve higher levels of migration under three scenarios.

We simulate three scenarios based on a long-term annual increase in net overseas migration of 5%²⁹, 10%³⁰ and 20%³¹ above the level of overseas migration assumed in the high migration projections for Scotland. Under these three scenarios, overseas net migration would reach 16,000, 17,000 and 19,000 a year respectively. These levels of migration are still lower than the net overseas migration of 22,900 reached in 2016. In addition, the three scenarios are still below the increase of 32,000 a year in working age population which Scotland would need to maintain its dependency ratio at the current level. In our modelling, we assume no change in the level of overseas migration to the rest of the UK.

Increasing Scotland's working age population would have a positive impact on the economy. Higher migration results in a growing working age population which leads to more economic activity and employment. The economic impact of pursuing these demographic trajectories can be seen in the graph below.

Higher levels of overseas migration of 5%, 10% and 20% leads to a long-term increase in real GDP equal to 0.4% (£0.5bn), 0.8% (£0.9bn) and 1.6% (£1.8bn). Moreover the increase in economy activity has a positive impact on real Government revenues which rise by 0.3% (£0.2bn), 0.7% (£0.3bn), and 1.4% (£0.6bn) respectively. If Scotland were to follow the path of net overseas migration set out in the base case of 'principal projection' then the benefits of achieving the level of higher migration of these three scenarios would be even greater.

The conclusion is that if further migration powers could achieve higher levels of migration into Scotland then our economic modelling suggests that a growing labour force would have a positive economic impact.

²⁹ ONS (2017). Source:

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/adhocs/0078395increasetohighmigrationvariantprojectionforscotlandmid2016tomid2116>

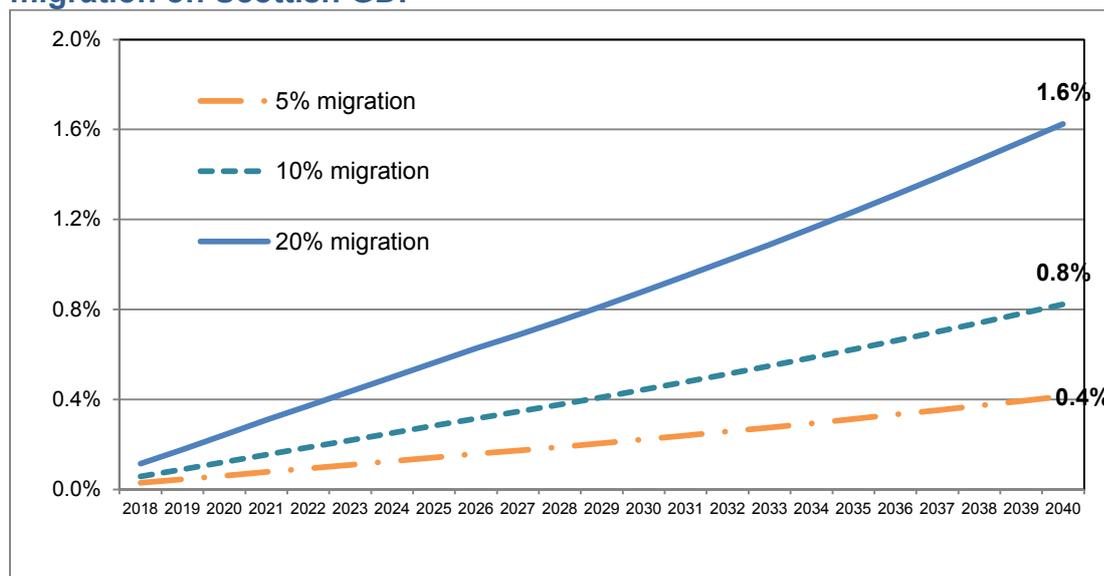
³⁰ ONS (2017). Source:

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/adhocs/00784010increasetohighmigrationvariantprojectionforscotlandmid2016tomid2116>

³¹ ONS (2017). Source:

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/adhocs/00784120increasetohighmigrationvariantprojectionforscotlandmid2016tomid2116>

Figure 4.3: Impact of an increase in working age population due to higher migration on Scottish GDP



Conclusion

The economic literature suggests that migrant workers can fill skill gaps, complement the skills of domestic workers and help drive productivity improvements in the economy.

Migration can also help mitigate the demographic pressures arising as a result of Scotland's aging population. Scotland has a markedly different demographic profile from the rest of the UK and migration has been crucial in turning around Scotland's trend of population decline. Migration will only be more important as our population continues to age, particularly in boosting the working age population.

The vote to leave the European Union therefore adds an additional headwind to Scotland's demographics. The economic impact of Brexit driven reduction in migration is estimated to be equal to a reduction in real GDP of 4.5% in Scotland and 3.7% in the rest of the UK by 2040. Such a reduction would also result in a decline in Government revenue of 3.5% in Scotland and by 2.7% in the rest of the UK.

The sensitivity analysis also highlights that if the projection followed the UK net migration target GDP would have been even lower. By 2040 real GDP would fall by 9.3% in Scotland and 7.6% in the rest of the UK.

The economic modelling shows that lower migration has substantial negative consequences on both the Scottish and the rest of the UK economies. However, given the considerable larger negative impact on Scotland's economy, there is a strong economic case for additional immigration powers in Scotland. This appears to be the best way to mitigate the negative impact that demographic changes are likely to have on Scotland's economy.

If further immigration powers could achieve higher levels of migration into Scotland then our economic modelling suggests that a growing labour force would have a positive economic impact. For example, if overseas migration were to increase by 5%, 10% and 20%, in 2040 real Scottish GDP would rise by 0.4%, 0.8% and 1.6% respectively.

Table 4.3: Summary of the modelling results - Impact on Scottish and rest of the UK real GDP of changes in migration in 2040

| Scotland | | | | |
|----------------------|---------|------------------------|----------|------------------------|
| | GDP (%) | Government Revenue (%) | GDP (£) | Government Revenue (£) |
| <i>Base case -</i> | -4.5% | -3.5% | -£4.9 bn | -£1.5bn |
| <i>50% EU</i> | -6.2% | -4.7% | -£6.8bn | -£2bn |
| <i>Low migration</i> | -9.3% | -7.2% | -£10.2bn | -£3.1bn |
| <i>20%</i> | 1.6% | 1.4% | £1.8bn | £0.6bn |
| <i>10%</i> | 0.8% | 0.7% | £0.9bn | £0.3bn |
| <i>5%</i> | 0.4% | 0.3% | £0.5bn | £0.2bn |

| Rest of the UK | | | | |
|-----------------------|---------|------------------------|----------|------------------------|
| | GDP (%) | Government Revenue (%) | GDP (£) | Government Revenue (£) |
| <i>Base case -</i> | -3.7% | -2.7% | -£47.5bn | -£12bn |
| <i>50% EU</i> | -5.9% | -4.4% | -£75.4bn | -£21.8bn |
| <i>Low migration</i> | -7.6% | -5.6% | -£96.3bn | -£27.8bn |

Modelling Assumptions

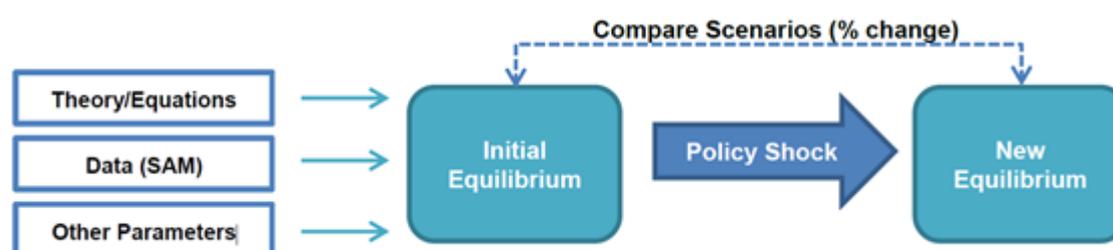
As with all economic models, a set of assumptions are made about how the economy adjusts to the shock applied. The key assumptions made are:

- all labour is homogenous. This means new entrants in the labour market work the same number of hours and have the same productivity level and skill set as those already in the labour force;
- wage bargaining takes place, where real wages are a decreasing function of unemployment levels; and
- the Government aims to balance its fiscal balance. Any fluctuations in government revenue will be reflected in changes in government expenditure. As the tax base contracts, less can be collected in revenue, reducing public sector expenditure. This is consistent with the idea that any decrease in labour supply will be seen as a permanent reduction of Government services such as health and education. As a result the Government would adjust and reduce its expenditure.

The Model

CGE models³² are large-scale simultaneous equation models which combine General Equilibrium theory with real economic data to derive computationally the economic impact of policies or shocks. We model the changes in demographics by shocking labour supply for 25 years consecutively. We do not shock the model in any other respect, and as such future policy changes are not modelled.

Figure 4.4: Diagram of CGE Modelling



Computable general equilibrium (CGE) models take into account the interdependencies between different sectors, agents and markets in the economy. This allows analysis to shed light on the wider economic impact of policies, revealing combined direct and indirect effects of shocks.

³² A detailed description of the Scottish Government single-region CGE model can be found at: <http://www.gov.scot/Topics/Economy/Publications/Introduction-to-CGE-modelling>

The model is made up of numerous structural equations which describe the behaviour of different agents in the economy, such as households, firms and government. Households and firms aim to maximize their objective functions subject to some constraints, whilst government aims to maintain the chosen fiscal closure.

In absence of any economic shocks, the model is in steady state equilibrium. In this equilibrium, demand equals supply in every market and markets clear. After an economic shock, the economy falls out of equilibrium and imbalances occur across the economy. As a result of market clearing conditions, all markets adjust across time until a new equilibrium is achieved. Unlike many CGE models, the Scottish Government CGE model accounts for non-market clearing of the labour market, allowing for unemployment in the model.

The dataset which forms the backbone of the CGE model is the Social Accounting Matrix (SAM). It captures the flows of all economic transactions which take place in the economy in a single year. Its primary data sources are the Input-Output tables and the national accounts, complemented by a range of other data on tax, income and expenditure.

In the Two-Region Scottish Government CGE Model, the rUK economy is treated as endogenous to the Scottish economy. This difference from the Single-Region CGE model allows for economic shocks to reverberate across the entire UK economy, reflecting the interdependencies that exist between the Scottish and rUK economies. This model is calibrated using a SAM for Scotland, and a SAM for rUK. Shocks can be imposed on either the Scottish or rUK economy independently, or combined.



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