



# Summary: Analysis & Evidence

# Policy Option 2

Description: Increase fees by 3% with targeted increases to meet strategic charging objectives for UKBA fees

## FULL ECONOMIC ASSESSMENT

Price Base Year 2012/13	PV Base Year 2012/13	Time Period Years 5	Net Benefit (Present Value (PV)) (£m)		
			Low: 22.4	High: 22.4	Best Estimate: 22.4

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	0	0
High	0	0	0
Best Estimate	0	0	0

### Description and scale of key monetised costs by 'main affected groups'

UK Exchequer – Lost fiscal contribution from reduction in migrants - £0m. No cost as the products in question are optional for individuals who already have an entitlement to be in the UK and wish to provide evidence of their status. Even if migrants are deterred from applying, they can still remain in UK and continue to make a fiscal contribution.

UKBA - Lower revenue due to lower application volumes arising from fee increase – revenue gain of £0.007m – this is a negative cost, thus a benefit, as certain fees have been reduced, leading to a rise in applicants, thus generating income, outweighing the fall in revenue from products seeing a rise in fee.

### Other key non-monetised costs by 'main affected groups'

If some migrants decide to leave the UK that were in employment, there may be some wider indirect impacts on their employers but these are expected to be negligible;

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	4.5	22.4
High	0	4.5	22.4
Best Estimate	0	4.5	22.4

### Description and scale of key monetised benefits by 'main affected groups'

UKBA – Increased revenue from applicants who continue to apply - £22.4m

UKBA – reduced processing costs from applicants who are deterred - £0.01m

UK Exchequer – Savings from lower public service provision - £0m - no cost as products in question are all related to nationality and EU migrants, so if migrants are deterred from applying, they can still remain in UK and can still benefit from public services.

### Other key non-monetised benefits by 'main affected groups'

If some migrants decide to leave the UK, there may be some wider benefits in terms of improved social cohesion, reduced congestion and transport costs, but these are expected to be negligible.

### Key assumptions/sensitivities/risks

Discount rate (%) 3.5

Volumes are as forecast by UKBA – set out in annex 2. Migrant price elasticities are assumed to be as set out in Annex 3 (in-country PBS dependants are assumed to be non-responsive to changes in fees; settlement and nationality applicants are expected to have some price sensitivity). Elasticity effects are based on the change in fees against the expected income of the applicant over the duration of stay in the UK. Fiscal effects are based on assumed income and direct and indirect tax contributions; unit costs of public service provision are estimated for migrants based on available evidence.

## BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: N/A	Benefits: N/A	Net: N/A	Yes	Zero Net Cost

# Evidence Base (for summary sheets)

## A. Strategic Overview

### A.1 - Background

For 2013/14 the UK Border Agency estimates that 52% of its costs will be recovered through fees. The remainder of the costs are met by the UK taxpayer. To ensure that the system is fair and equitable, the government believes it is right that those who use and benefit directly from the UK migration system make an appropriate contribution to meeting the costs and thereby reduce the burden on the UK taxpayer.

The UK Border Agency's taxpayer funding will reduce by up to 24% over the 5-year period of the current Comprehensive Spending Review (CSR). Over the CSR period, financial planning requires the UK Border Agency to deliver the maximum amount of fees income agreed with HM Treasury under the CSR. For 2012/13 it was £868 million; for 2013/14 it is £850 million; for 2014/15 it is £853 million. Any income generated above this amount is surrendered to HM Treasury's Consolidated Fund for Extra Receipts. If fees are retained at current levels, after cost reductions, the impact of policy changes for limiting migration results in a forecast income shortfall of approximately £60m in the financial year 2013/14.

The UK Border Agency is already targeting significant efficiency savings – up to £500m over the period of the Spending Review - but these will not be enough to offset the effect of budget cuts and falling application volumes. To address the budget shortfall and ensure there are sufficient resources to control migration for the benefit of the UK in a way that achieves value for money for the taxpayer, the Agency will need to increase fees for the financial year 2013/14.

In principle it is right that those who benefit most from the immigration system should contribute the most towards its running costs. Therefore, the UK Border Agency should seek to increase funding provided by migrants, though increased fees, to ensure it can continue to deliver its services while reducing the contribution from general UK taxpayers.

We set fees working within strict financial limits agreed with HM Treasury and Parliament. Fees are set in line with clear principles, to balance a number of complex factors. These include the benefits and entitlements given to an individual if an application were to be successful, the administrative cost of processing an application, and the government aim to limit fee increases on the most economically sensitive routes in order to continue to attract migrants and visitors who add significant value to the UK economy. Some fees are set above the cost of delivery, to reflect the value of the product. Charging above the cost of delivery helps raise the revenue required to fund the overall immigration system and to cross-subsidise fees below cost for certain other immigration routes where a lower fee supports wider government objectives (e.g. a lower short term visit visa fee maintains international competitiveness and supports tourism).

There are no realistic non-regulatory options that will ensure the UK Border Agency has sufficient resources to control migration for the benefit of the UK in a way that achieves value for money for the taxpayer. Significant efficiency savings are being made within the system, and increasing the contribution made by the taxpayer is not an option in the current financial climate.

### A.2 - Groups Affected

All migrants wishing to come to or remain in the UK, for the purpose of visit, work, study, family, settlement, marriage or other reasons are required to pay the appropriate fee associated with their application. The fees for the majority of products will increase in line with inflation. The key products for which there are above-inflation increases are:

1. European residence documents; and
2. Various products issued routinely to evidence an individual's status in the UK, or to re-confirm a decision made by UKBA, at the applicant's request.

## **A.3 - Consultation**

### **Within Government**

The UK Border Agency work and will continue to work within strict financial limits agreed with HM Treasury. Our fees proposals and income and spending limits are agreed by HM Treasury.

The fee proposals are considered by the Cross-Whitehall Fees Committee, comprising officials from government departments represented on the Home Affairs Committee, before the proposals are finalised. Proposals are assessed in the context of broader government objectives, including the UK's attractiveness in key markets (such as visitors, business, education) to ensure we maintain a balance between keeping our fees at fair and sustainable levels and our need to recover our operating costs. The proposals contained in this impact assessment have been agreed with other government departments.

The fees package is finally signed-off (before it can be laid and debated in Parliament) through a formal Home Affairs Committee clearance process, which is a Cabinet Committee headed by the Deputy Prime Minister.

### **Public Consultation**

The UK Border Agency published a full public consultation on Charging for Immigration and Visa Applications on 1 September 2009 and contacted over 30,000 stakeholders. The consultation ran for 12 weeks until 1 December 2009 and we received a total of 98 responses. This represents the lowest response rate on a charging consultation, despite a high level of engagement and communication on behalf of the UK Border Agency.

The response to the public consultation was published on 14 January 2010 at the UK Border Agency website

<http://webarchive.nationalarchives.gov.uk/20100422120657/http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/consultations/charging09/>.

In response to the consultation, an overwhelming majority of respondents who replied (over 90%) agreed that UK Border Agency should continue to set fees flexibly by taking into account wider policy objectives, such as attracting specific groups of migrants that are beneficial to the UK. Parliament has affirmed this general principle in debates on the UK Border Agency's Charging legislation.

As the Agency's approach to charging fees has remained unchanged, further consultation has not been carried out. As well as the low response rate received, we are mindful that the most recent findings were in keeping with the results of previous public consultation exercises on immigration fees (a targeted exercise was completed in 2007 and a full exercise in 2006, with the response published at:

<http://webarchive.nationalarchives.gov.uk/20100422120657/http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/consultations/newchargingregime/>.)

The Agency's model for charging fees, covering all types of applications that we currently operate, remains in line with the approach consulted on previously. If in future the UK Border Agency proposes to introduce an application type that is materially different in approach or make a significant change to the fees model that it operates, we would carry out a new consultation.

## **B. Rationale**

The UK Border Agency want to make sure that the fees we charge for nationality and immigration services are set at appropriate levels to contribute adequately towards the costs of running the immigration system. The financial constraints on public spending mean we need to continue to keep fees under review if we are to ensure the UK Border Agency can continue to generate sufficient revenue to operate effectively. We need to be able to fully support the immigration system, maintain public confidence, and ensure that migration is managed for the benefit of the UK. We also need to manage the risk to UK Border Agency's income so that we balance these factors with the interests of the general UK taxpayer.

## C. Objectives

The government's policy objectives on charging for immigration are:

- That those who benefit directly from our immigration system (migrants, employers and educational institutions) contribute towards its costs, reducing the contribution of the taxpayer;
- That the fees system is simplified where possible, aligning fees where entitlements are similar;
- That fees are set fairly, at a level that reflects the real value of a successful application to those who use the service.

These proposed increases build on the existing UK Border Agency fees policy and supports broader UK government policy objectives (for example, to reduce net migration to the UK while attracting the brightest and the best).

The UK Border Agency has published two impact assessments on the proposed fees changes, covering the two separate statutory instruments legally required to amend the fees. This impact assessment reflects fees where the Agency charges at or less than the cost of the service. Fees set above cost recovery levels are covered in an accompanying impact assessment.

Where fees have been set below cost this is generally to support wider government objectives. For example on tourist visas, where the fee is set at roughly half the level of cost recovery to help encourage visitor numbers, and on PBS Sponsorship fees for small businesses and charities. This principle was tested and established during a full public consultation in 2006, and has been endorsed in subsequent consultations since then (in 2007 and 2009).

For the majority of fees, we calculate that an approximate 3% increase is required to address the budget shortfall in the financial year 2013-14. This increase is marginal and does not result in a material impact on projected volumes of entrants. Furthermore, the increase does not reflect a increase in real terms as it is broadly in line with inflation (Retail Price Index, 3.2% October 2012)<sup>1</sup>. According to government guidance<sup>2</sup>, where fees change in line with inflation, an impact assessment is not considered necessary, therefore in line with published guidance we have limited the scope of this impact assessment to only look at above inflation fee increases.

This Impact Assessment examines costs and benefits of the specific fees options considered for applications for European residence documents, which have been offered free of charge up to this point. It also covers fee changes linked to cost, where estimated costs have either decreased or increased beyond inflation.

For products where forecast volumes are negligible (e.g. fees covered by the Council of Europe Social Charter) we have assumed them to be zero. Finally we have focused on the Agency's mandatory standard postal application routes – we have not included optional or premium services offered to applicants as a variation of the standard service (e.g. same-day applications made in person).

Unless stated otherwise, the 3% increase has been applied equally across all fee streams, as this has been judged the fairest approach to all applicants.

## D. Options

The different immigration routes and the complexity of inter-related factors involved means that there is a number of ways to model options within our flexible approach to charging. To keep this impact assessment workable, we have narrowed this scope to considering two options:

**Option 1:** Do nothing, maintain fees at current fee levels, seek further efficiencies and / or reduce service provision.

<sup>1</sup> [http://www.hm-treasury.gov.uk/data\\_indic\\_index.htm](http://www.hm-treasury.gov.uk/data_indic_index.htm)

<sup>2</sup> Paragraph 36 - <http://www.bis.gov.uk/assets/BISCore/better-regulation/docs/l/11-1111-impact-assessment-guidance.pdf>

**Option 2:** Increase fees on the common commencement date in April 2013; keep the overall percentage increase to a minimum (approximately 3%) across the board. The exceptions to this would be the targeted fee increase for European residence documents and changes for cost recovery fees as outlined below. All proposed fee increases under Option 2 are presented in Annex 2.

- **European residence documents**

The UK Border Agency currently issue a range of European residence documents free of charge: Registration Certificates, Residence Cards and Permanent Residence documents are issued for EEA nationals and their family members exercising free movement rights in the UK. Derivative Residence Cards are issued for non-EEA nationals who have a right of residence in the UK which derives directly from the Treaty on the Functioning of the European Union. EEA nationals, their family members and those with derivative rights are not required to register for documentation but many do apply, particularly non-EEA family members, so that they have a means to evidence their right to reside in the UK.

It is in line with the objectives and principles set out at section C above that those with rights under EU law should make a contribution towards the running costs of the immigration system, reducing the contribution of the UK taxpayer.

The fee for documents issued under the Free Movement Directive is limited by Article 25 (2) of the Directive that states European residence documents “*shall be issued free of charge or for a charge not exceeding that imposed on nationals for the issuing of similar documents*”.

This means we cannot use usual fee setting criteria (such as cost and entitlement) for Registration Certificates, Residence Cards, Permanent Residence documents and Derivative Residence Cards. The fee we charge must be comparable with the fee for an equivalent document issued to British nationals. Equivalence of documents has been considered against criteria of security features, the format and layout, the validity of the document, the costs which it incurs, its purpose, and finally the legal status, if any, which the document confirms.

For most Member States this is fairly simple as they charge their own nationals for mandatory identity cards and levy the same charge on documents issued under the Directive to EEA nationals and Family Members.

In the UK, we identified two legally ‘similar documents’ - the British Nationality Status Letter (£88) and the British Passport (£72.50), although there are some differences in format and use. We have also cross-referred to the British Driver’s Licence (£50) and the Biometric Residence Permit (£56.20), although these are not strictly comparable (the driver’s licence is not an immigration, identity or nationality document and the Biometric Residence Permit is issued only to third country nationals).

We consider that £55 strikes a defensible and proportionate balance between partial cost recovery for these documents, the charges British nationals pay for Passports or Status Letters which have some different features to the Euro documentation and the charges British nationals and third country nationals pay for a Driving Licence and BRP respectively which are not legally similar documents but which are used for similar practical purposes in everyday life, opening bank accounts for example.

- **Cost Changes**

The UK Border Agency sets several fees at cost recovery levels where the product offers fewer benefits and entitlements to a successful applicant. Typically these are for products issued routinely to evidence an individual’s status in the UK, or to re-confirm a decision made by UKBA, at the applicant’s request.

Unit costs are estimated each year based on forecast volumes and overall administrative costs. These are kept under review and where there are changes, fees set at cost recovery are adjusted in line. This year there are adjustments in line with cost to the fees for renunciation of nationality, status letters for nationality / non acquisition of nationality, transfer of conditions, no time limit stamps and travel documents (certificate of travel). Full details of changes are set out at the table at Annex 2.

**Options previously considered:** An additional option considered during policy development was to increase all fees on the common commencement date in April 2013, by a flat rate of 8%. When this option was presented to other government departments at the Cross-Whitehall Fees Committee, this option was discounted due to the higher impact on routes where we have a policy requirement to maintain a lower level of fee (principally the short term visit visa fee for tourists to the UK). Targeted increases are also seen to better address the charging policy objectives stated at section C above.

In addition, a targeted approach was also deemed preferable than higher flat rate increases as this would limit the increases on several high value in-UK routes that have seen above-inflationary increases previously (particularly the fees to settle in the UK).

Option 2 gives UK Border Agency the necessary assurance in financial planning whilst also minimising the impact on routes where the Agency has a preference for a lower fee. Option 2 is in the best interest of the UK tax payer, who may need to cover any financial shortfall. By ensuring the UK Border Agency has the necessary resources, this Option also supports government's policy to reduce net migration.

## **E. Appraisal (Costs and Benefits)**

### **General Assumptions and Data**

A model has been developed to examine the **additional** costs and benefits to society and the economy of Option 2 compared with Option 1 over a five year period (2013/14 to 2017/18). Option 1 is denoted as the 'Do Nothing' option with no additional costs and benefits and is the baseline used for comparison. The expected volumes of applications under Option 1 are given in annex 2.

This impact assessment covers a period of five years. This is because UKBA produce volume forecasts for the upcoming financial year which are extrapolated into future years. Potential changes to the immigration system and inexactness of projection methods mean that these are not considered to be accurate over a ten year period.

### **Objective**

In January 2012, the Migration Advisory Committee (MAC) published a report on the impacts of migration and recommended that migration policy impact assessments should concentrate on the welfare of the resident population. The NPV in this impact assessment therefore aims to focus on the welfare of the resident population - defined as those who are already formally settled in the UK. The NPV should include the effects from any change in fiscal, public service, consumer and producer surplus and dynamic effects where practical, appropriate and proportionate, but should exclude forgone migrant wages (net of taxes) as the benefit of those wages accrue to the migrant. Wider impacts on UK GDP and non-residents are identified and quantified where possible alongside political and social considerations, as these all affect the policy decision and should be given appropriate consideration in the overall assessment.

### **Option 1 – Do nothing**

#### Baseline Volumes

The projected volumes for each product are set out in annex 2. The forecasts presented are UKBA internal planning assumptions for 2013/14 and may not match published volumes of products granted. These have been projected forward to provide application assumptions for future years, up until 2017/18. If fees are left unchanged, it is expected that application volumes will be as set out in annex 2.

- European Residence Permits – approximately 99,000 per year

#### Costs

UK Border Agency will be unable to meet its financial planning requirements. The resulting £60m income gap will lead to a decline in service provision. Significant efficiency savings are already

factored into the UK Border Agency's business planning, and the assumption is that any additional efficiency savings above this would necessarily lead to a reduction in service provision such as reducing the amount of compliance checking undertaken and/or extending the time taken to process applications.

In addition to the above risks, there are risks that the objectives of the fees policy will not be met.

- The UK Border Agency will not be able to increase the proportion of the costs of the immigration system that are to be met by applicants.
- It will also not be possible to simplify and align fees structures where the entitlements are similar.
- Finally, fees cannot be altered to reflect the value of a successful application.

### Benefits

There are no additional benefits under this option.

## **Option 2 – Increase most fees by 3%, introduce £55 fee for European residence documentation.**

### **Impact on Volumes**

The UK competes with other countries for tourists, students and workers, thus it is possible that increasing fees in the UK may encourage substitution effects in that applicants may apply to other countries or may not apply at all. The impact of raising fees stems primarily from the potential deterrence of productive migrants from entering the UK. Modelling the economic impacts of fee increases, for the purpose of this IA, therefore revolves around estimating the extent to which demand for applications is impacted by fees, or the price elasticity of demand.

The Home Office have monitored the impact of fee changes upon application volumes for previous rounds of fee changes and have found that fees have not had a statistically significant impact upon application volumes in previous years. It has not been possible to directly estimate the price elasticity of demand for UKBA products due to the difficulties of finding statistically significant control variables. Furthermore, due to the lack of continuity in data (owing in part to a number of policy changes which have happened in the recent past, effecting individual visa routes) it is not possible to reliably disaggregate the impact of fees on visa products from other variables such as economic conditions and policy changes.

It is therefore considered more appropriate to proxy the price elasticities of demand for these products using elasticity estimates from academic literature, such as the wage elasticity of labour supply (for work routes). The latest literature review was undertaken in 2010 and further details of the studies used can be found in Annex 3.

Given the uncertainty around the proxy elasticities from academic literature, we have also included a sensitivity analysis. We have assumed that the best case scenario is that suggested by our analysis, in that fee increases have no impacts on application volumes as indicated by the lack of statistically significant elasticities. The worst case scenario is assumed to be equal to doubling the proxy elasticities we have used. The elasticities used in the sensitivity analysis are also given in Annex 3. We believe that the true effect of increasing fees for UKBA products lies within this range.

### *Products giving entitlements to work in the UK - Individuals*

A wage elasticity of labour supply of 0.5 is used for all products considered in this IA. A wage elasticity of 0.5 is consistent with previous fee impact assessments, and assumes that migrants demand UKBA products in order to supply labour in the UK. In the sensitivity analysis, an elasticity range of 0 to 1.1 was used, as indicated by available evidence in Annex 3.

Annex 4 presents the earnings and length of stay assumptions applied to the elasticities described to estimate the reduction in applications for UKBA products caused by the fee change. Table 1, below, presents the expected change in application volumes and the expected change in volumes granted.



Table 1 – Change in application and grant volumes due to the targeted change in fees under Option 2.

Product	Application Volumes	Elasticity	Decrease in application volumes	Decrease in grants
Renunciation of Nationality	600	-0.5	0	0
Status of nationality confirmation	300	-0.5	0	0
Transfer of valid multi entry visa from expired to new passport (Main applicant)	3800	-0.5	-3	-3
Transfer of valid multi entry visa from expired to new passport (Dependant applicant)	500	0	0	0
Evidence of endorsement of ILR (Main applicant)	6700	-0.5	-5	-4
Evidence of endorsement of ILR (Dependant applicant)	800	0	0	0
Certificate of Identity to assist people who have been declined a passport by own national authorities (Adult)	4200	-0.5	1	0
Certificate of Identity to assist people who have been declined a passport by own national authorities (Child)	400	0	0	0
European Residence documents	98700	-0.5	46	31
Source	UKBA Internal Planning	Academic Literature	Analysis	Analysis

Table 1 demonstrates that the expected change in volumes of applications and subsequent grants is expected to be small. The largest change, 31 grants per year, will affect European residence documents.

The impacts on other products are expected to be very small and positive in some cases. This is where the products are set at a fee equal to the unit cost and the unit cost has fallen meaning the fee charged for the products has fallen. This is expected to marginally increase demand.

### **Costs and Benefits**

In the following sections, the expected impacts are set out. The estimated volume impacts of the policy framework are translated into monetary values for inclusion in the cost-benefit analysis under two broad headings – direct costs and benefits on the one hand, and indirect, or “wider”, costs and benefits on the other.

The **direct** costs and benefits are those that are clearly and immediately related to the change in volumes coming through the routes under consideration. Whilst the direct costs include reductions in UKBA income, the direct benefits are dominated by an increase in UKBA income due to price rises.

The **wider** costs and benefits are those more closely associated with the wider economy, labour market activity, public services, innovation, trade and investment. The wider benefits of a reduction in volumes of migrants in the UK relate to reduced pressure on public services, reduced congestion pressures and improvements in social cohesion. Many of these effects are difficult to accurately quantify and/or monetise but they have been described where possible, but not assessed in detail given the low potential volumes affected and hence the proportionality of the assessment.

There are a number of **transfers** presented in the document. Transfer payments may change the distribution of income or wealth, but do not give rise to direct economic costs, thus they are not counted in the appraisal. Transfers include payment of additional fee by migrants not yet considered as UK residents such as those applying for UK citizenship.

The following sections describe in more detail how costs and benefits have been calculated, and summarises the results. In general the method is straightforward: total costs and benefits are the product of a change in volume and an estimated unit cost or benefit, adjusted for the particular impact being considered. Changes in volumes of applications have been used to calculate the direct costs and benefits. However, changes in applications granted have been used to calculate the indirect impacts, as these costs and benefits apply only to the volume of people deterred from entering or remaining in the UK, not the volumes deterred from applying. The grant rate for each product affected is set out in annex 4.

The key costs and benefits associated with Option 2 are set out below:

## Direct Costs

### • UKBA Revenue

There will be an impact on UKBA fee income if applicants are deterred from applying for a product. Annex 4 sets out the expected change in application volumes and Annex 2 sets out the change in fees. It is estimated that UKBA revenue will not fall, but rise by £1k in 2013/14 and £7k (PV) over a five year period. This negative cost (thus a benefit) arises as fees have fallen for some products in line with falling unit costs, thus increasing demand and revenue, exceeding the revenue lost from those products seeing a fees increase and a fall in demand and revenue.

## Indirect Costs

### • Migrant income and impacts on the exchequer

There will be no impact on either migrant income or the UK exchequer from changes in the volumes of applications for products covered in this impact assessment, as the migrant's entitlement to work in the UK will not be affected. Thus they can continue to work in the UK.

## Direct Benefits

### • Increase in UKBA revenue

The introduction of fees for European residence permits will increase income to UKBA from those applicants that continue to apply. The change in fees and potential application volumes are set out in annex 2. It is estimated that UKBA revenue will rise by £4.8m in 2013/14 and £22.4m (PV) over a five year period.

### • Reduction in UKBA processing costs

A fall in application volumes as a result of increased product fees will result in administrative savings for UKBA as processing costs fall. The cost of processing each application is set out in annex 2 and the expected fall in volumes is set out in annex 4. It is estimated that UKBA processing costs will fall by £3k in 2013/14 and £14k (PV) over a five year period.

## Indirect Benefits

### • Reduction in public service and welfare provision

There will be no impacts on public services or welfare as the number of people in the UK will remain the same. The products covered in this impact assessment are optional and a migrant will be entitled to remain in the UK if they choose not to apply.

### Summary of costs and benefits

The table below sets out a summary of the key monetised costs and benefits.

**Table 2 – Summary of costs and benefits under Option 2**

	2011/12	2012/13	2013/14	2014/15	2015/16	Total
<b>Benefits</b>						
Increase in revenue from raising fees	£4.8	£4.6	£4.5	£4.3	£4.2	£22.4
Saving from processing fewer applications	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0
Savings to UK due to lower public service provision	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0
<b>Total Benefits</b>	£4.8	£4.6	£4.5	£4.3	£4.2	£22.4
<b>Costs</b>						
Loss in revenue from fewer applications	-£0.0	-£0.0	-£0.0	-£0.0	-£0.0	-£0.0
Lost fiscal contribution from reduction in migrants coming/	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0

remaining in the UK						
<b>Total Costs</b>	<b>-£0.0</b>	<b>-£0.0</b>	<b>-£0.0</b>	<b>-£0.0</b>	<b>-£0.0</b>	<b>-£0.0</b>
<b>Net benefit (PV)</b>	<b>£4.8</b>	<b>£4.6</b>	<b>£4.5</b>	<b>£4.3</b>	<b>£4.2</b>	<b>£22.4</b>

### In country transfers

The Impact Assessment process is designed to measure the economic costs and benefits to the UK economy and UK residents. A migrant is considered to be a UK resident at the point of permanent settlement in the UK. Until this point, the IA process treats them as non UK residents as explained on page 7. The fee increases paid by applicants that are non-residents and those paid by applicants outside of the UK are counted as a benefit to the UK economy, but not as a cost to the migrant.

Increases in fees paid by applicants considered residents in the UK, such as nationality applicants, are regarded as a *transfer* payment, in that the fee is transferred from the applicant to UKBA. This represents a cost to the applicant but a benefit to UKBA. Transfer payments may change the distribution of income or wealth, but do not give rise to direct economic costs, thus they are not counted in the appraisal of direct economic costs and benefits.

The values of these transfer payments are presented below:

Table 3 – Fee transfers from settled in country applicants to UKBA

<b>Transfers</b>	<b>Central Estimate (PV) 2013/14 – 2017/18</b>
Increase in UKBA fee income from in country applications	<b>-£0.1</b>
Additional cost of application fees to in country applicants	£0.1
<b>Total</b>	£0m

### Wider Impacts

#### Impact on UKBA

UKBA's annual income is estimated to rise by the increase in fees paid by applicants.. This equates to £22.4m (5 year PV) from applicants who are not yet considered UK residents (presented in table 2) and £0.1 m (5 year PV) from applicants who are already settled in the UK and are thus considered UK residents (presented in table 3).

UKBA will also see a marginal reduction in processing costs of less than £1000 per annum due to the low volume of applications that are deterred. This equates to £0.0m (5 year PV) in total.

The overall impact on UKBA is positive – income will increase by £22.4m (5 year PV) over the period 2013/14 to 2017/18.

#### Impact on Employers

It is estimated there will be no direct cost to business as no new regulatory burden is being introduced. The fee increases are for products applied for by individuals not businesses. There is no above-inflation change in fees for some of the more business-related products such as Tier 2 main applicant products, sponsor licenses or visit visas. There is no additional administrative burden on firms.

There are unlikely to be any indirect impacts on employers if the fee increases outlined in this impact assessment deter people from applying. The products covered are voluntary and migrants would still be able to remain in the UK even if they are deterred from applying. Assuming migrants did not leave the UK, there would be no impact on their employers if they did work, or on the marginal hires of employers in the UK.

#### Potential benefits

One of the reasons the proposed policy option was preferred to other options considered, such as a flat 8% increase in fees across all products, was because it would mean UKBA can continue to offer discounted fees for products such as sponsor licenses for small businesses, and particularly for visit visas - products that will attract visitors to the UK that are beneficial for UK business and tourism.

### Impact upon Business – One In One Out

Regulatory guidance issued by HM Government to government departments states that fees and charges are out-of-scope of the OIOO rule<sup>3</sup>, thus would not affect the Home Office OIOO balance. In line with previous Regulatory Policy Committee opinions on immigration fees, the measures are considered as regulatory (an 'IN') given the potential for wider indirect effects on business, but with a zero direct cost to business.

## F. Summary and Recommendations

The table below outlines the costs and benefits of the proposed changes.

Table H.1 Costs and Benefits		
Option	Costs	Benefits
2	£0.0m/year	£22.4m/year
Source: UKBA estimates		

The Net Present Value calculation of Option 2 is therefore £22.4m over 5 years. This equates to a reduction of approximately 31 application grants per year for European residence permits and an increase of approximately 7 application grants for other products where the unit costs and thus fee has fallen.

As discussed above, this impact assessment only covers products where the fee charged is less than the costs to UKBA of processing the application and where the fee increase is greater than inflation. The decision for the preferred option must take into account both this impact assessment and the linked impact assessment for above cost fees. If both impact assessments were to be combined in a single NPV, expected central NPV of Option 2 would be £75.7 million over five years. As set out in the evidence base the NPV includes all of the factors considered, not just the impact on UKBA's income.

The preferred option is Option 2. This gives UK Border Agency greater assurance in financial planning whilst also minimising the impact on routes where the Agency has a preference is for a lower fee. Option 2 is in the best interest of the UK tax payer, who may need to cover any financial shortfall. This option also supports government policy to reduce net migration.

## G. Risks

### Option 2

Sensitivity analysis has been undertaken by re-estimating the NPVs with different assumptions for the elasticities. However, the volumes affected are so small that there is no significant change in the NPV from changing the elasticities. All of those affected would not be expected to leave the UK if they do not apply for the product listed, meaning there are no public service or fiscal impacts, merely the impact on UKBA fee income.

For the high NPV scenario it is assumed that volumes are not affected by the fee changes. In this scenario, there is a net benefit of £22.4m (PV) over 5 years through additional revenue from fees.

<sup>3</sup> <http://www.bis.gov.uk/assets/biscore/better-regulation/docs/o/11-671-one-in-one-out-methodology>

For the low NPV scenario, we assume that volumes decrease to a greater extent than is assumed in the central estimates. We therefore assume the elasticity of labour supply of 1.1. This is expected to reduce application grants by approximately 50 per year. As there are no fiscal or public service impacts, the overall NPV of the low NPV scenario remains at £22.4m over 5 years.

Having done some initial work to estimate the responsiveness of application volumes to fee changes for various visa products, we found that fee changes have little impact upon application volumes. However, UKBA recognises that this may change and has plans in place to assess the responsiveness of applicants to price over the longer term.

## **H. Enforcement**

No impact on enforcement.

## **I. Implementation**

The UK Border Agency plans to implement these changes on the government common commencement date of 6 April 2013, following Parliament's consideration of the related Statutory Instrument. Full details to applicants on how to apply and pay the new fees will be made available on the UK Border Agency's website:

[www.ukba.homeoffice.gov.uk](http://www.ukba.homeoffice.gov.uk)

## **J. Monitoring and Evaluation**

The effectiveness of the new fees will be monitored by the UK Border Agency Charging Policy team and will cover in year checks of volumes and revenue, used to inform the annual review of fees.

## **K. Feedback**

Information gained from the monitoring process will be fed back into the annual review of fees.

## **L. Specific Impact Tests**

We have liaised with the Home Office Strategic Diversity Action Team on producing a Policy Equality Statement (PES) in line with latest government guidance. As there are no newly identified impacts from these proposals, the UK Border Agency will produce a PES alongside the impact assessment when we lay the Regulations in Parliament in February 2013.

# Annex 1. Specific Impact Tests

## Statutory Equality Duties

### Equality Impact Assessment

Please see section L in the evidence base.

## Economic Impacts

### Small Firms Impact Test

A reduction in migrant workers as a result of the fees proposals may affect small firms. However, the volumes expected to be deterred from coming to the UK are very small and we expect any impacts on firms and sectors to be nil or negligible. None of the proposals in this impact assessment impact small firms directly.

### Rural Proofing

UKBA does not have data on the likely UK geographical location of the migrants deterred from applying to come to the UK. It is assumed that migrants are distributed evenly, thus there is no disproportionate impact on rural areas.

## Annex 2: Proposed Fee Increases

The table below sets out the current fees for UKBA products alongside any proposed fee increases. Volumes are **internal planning assumptions which are subject to change** as a result of external factors such as the economy and policy and operational changes. Estimated unit costs to UKBA of processing each application are also given. We have produced two impact assessments to accompany the two separate pieces of legislation required to amend UKBA fees. The column to the far right of the table below sets out which impact assessment the fee increase is analysed in. Only real terms fee increases (above inflation) are impact assessed. To simplify, optional premium products and products with low forecast volumes are excluded, as per section C.

Products	Unit Costs (£)	Planning assumption volumes - 2013/14	Current Fee (£)	Proposed Fee (£) Option 2	Impact Assessment
Visit visa - short	136		78	80	
Visit visa - long 2 year	136		270	278	
Visit visa - long 5 year	136		496	511	
Visit visa - long 10 year	136		716	737	
Settlement	407		826	851	
Settlement - Dependant Relative	407		1,850	1,906	
Settlement - Refugee Dependant Relative	407		458	407	
Certificate of Entitlement	407		270	278	
Other Visa	163		270	278	
Transit Visa	99		52	54	
Vignette Transfer Fee	207		102	105	
Replacement BRP Overseas	136		70	72	
Tier 1 - Main Apps	295		816	840	
Tier 1 - Dependants	295		816	840	
Tier 2 Main Apps	207		480	494	
Tier 2 Dependants	207		480	494	
Tier 2 ICT <12Mths - Main Apps & Deps	207		400	412	
Tier 4 - Main Apps	244		289	298	
Tier 4 - Dependants	244		289	298	
Short Term Student <12 Months Visa	136		140	144	
Tier 5 Temp Work	158		194	200	
Tier 5 YM	158		194	200	
Naturalisation (UK Citizenship) Single	187		771	794	
Naturalisation (UK Citizenship) Joint	281	9600	1,157	1,390	Fees
Naturalisation (UK Citizenship) Spouse	187		771	794	
Nationality Registration Adult, minor & other	187	19600	551	673	Fees
Nationality Registration Multiple Minor Main	281	8800	827	1,178	Fees
Nationality Registration Multiple Minor Deps	187	12100	275	505	Fees
Nationality Right of Abode	187		165	170	
Renunciation of Nationality	187	600	229	187	Cost Recovery Fees
Status / non acquisition letter (Nationality)	94	300	88	94	Cost Recovery Fees
ILR Postal - Main	403	50400	991	1,051	Fees
ILR Postal - Deps	403	11900	496	788	Fees
LTR Non Student Postal Main	281		561	578	
LTR Non Student Postal Deps	281	12700	281	434	Fees

Transfer of Conditions Postal Main	147	3800	220	147	Cost Recovery Fees
Transfer of Conditions Postal Deps	147	500	110	147	Cost Recovery Fees
No Time Limit Stamp - Postal Main	147	6700	220	147	Cost Recovery Fees
No Time Limit Stamp - Postal Deps	147	800	110	147	Cost Recovery Fees
Travel Documents Adult (CoT)	257	4200	238	257	Cost Recovery Fees
Travel Documents Child (CoT)	164	400	149	164	Cost Recovery Fees
Replacement BRP	38		37	38	
Employment LTR outside PBS Postal - Main	281		561	578	
Employment LTR outside PBS Postal - Dependants	281	600	281	434	Fees
Tier 1 Inv & Ent - Postal - Main	351		1,020	1,051	
Tier 1 Inv & Ent - Postal - Deps	351	2300	510	788	Fees
Tier 1 - Graduate Entrepreneur Postal - Main	482		700	721	
Tier 1 - Graduate Entrepreneur Postal - Deps	482	30	350	541	Fees
Tier 2 - Postal Main	225		561	578	
Tier 2 - Postal Dep	225	13800	281	434	Fees
Tier 2 - Postal Main (ICT <12 months)	187		400	412	
Tier 2 - Postal Deps (ICT <12 months)	187	500	200	309	Fees
Tier 4 - Postal Main	238		394	406	
Tier 4 - Postal Deps	238	700	197	305	Fees
Tier 5 - Postal Main	222		194	200	
Tier 5 - Postal Deps	222	100	97	150	Fees
Tier 2 Large Sponsor Licence	1545		1,500	1,545	
Tier 2 Small Sponsor Licence	1545		500	515	
Tier 4 Sponsor Licence	1545		500	515	
Tier 5 Sponsor Licence	1545		500	515	
Multiple Tier	1545		500	515	
Highly Trusted Sponsor Licence	1545		500	515	
Sponsor Action Plan	1545		1,500	1,545	
Tier 2 COS	154		179	184	
Tier 5 COS	14		13	14	
Tier 4 CAS	14		13	14	
EEA	82		NA	55	Cost Recovery Fees



## Annex 3: Elasticity assumptions

Table 3a below sets out the elasticities used to analyse the impact of the changes in fees on different types of products. Table 3b sets out the academic papers used to justify the inclusion of these elasticities.

**Table 3a: Elasticities used to analyse the impact of changing fees**

Elasticity	Justification	Products	Magnitude		
			Best case	Central	Worst case
Wage elasticity of labour supply	Migrants demand UKBA products in order to supply labour in the UK. The wage elasticity of labour supply is thus used to estimate the impact on volumes of the proposed fee changes. e.g. an increase in fee is a reduction in expected wage, so should reduce labour supply.	Tier 1 visa, in-country, extensions, and dependants; Tier 1 Post-Study visa, in-country and extensions; Tier 2 General visa, in-country, extensions and dependants; Tier 2 ICT/Sports/MOR visa, in-country, extensions and dependants; Tier 5 Youth Mobility and Temporary Worker visa, in-country, extensions and dependants.	0	0.5	1.1

**Table 3b: Empirical studies of the wage elasticity of labour supply**

Source	Estimate of wage elasticity of labour supply*	Measure
R. E Lucas and L. A. Rapping, "Real Wages, Employment and Inflation", <i>Journal of Political Economy</i> , 77 (1969).	Short run: 1.12 – 1.13 (95% significance) Long-run: -0.07 – 0.58	Change in real wages on labour supply using US data 1929-1965
Y. Chang and S. Kim, "On the aggregate labour supply", <i>Federal Reserve Bank of Richmond Economic Quarterly Volume 91/1 Winter 2005</i> .	1.0	Aggregate labour supply elasticity
L. Osberg and S. Phipps, "Labour Supply with Quantity Constraints: Estimates from a Large Sample of Canadian Workers", <i>Oxford Economic Papers, New Series, Vol. 45, No. 2. (Apr., 1993), pp. 269-291</i> .	Between +0.1 and -0.1	Wage elasticity of labour supply in the Canadian Labour Market
P. Bingley and G. Lanot, "The Incidence of Income Tax on Wages and Labour Supply", <i>National Centre for Register-based Research (NCRR), Version 5.002</i> 31 October 2000	-0.4	Elasticity of labour supply in the Danish Labour Market

\*Note that the estimated wage elasticity of labour supply includes negative values indicating backward sloping or backward bending labour supply curve. This is due to the income effect outweighing the substitution effect. For a higher wage, individuals can decrease labour supply and enjoy the same level of consumption.

## Annex 4: estimated fall in annual applications caused by the fee changes

### Option 2

Product	Change in Applications	Grant Rate	Central Elasticity	Average Annual Earnings	Average Length of stay
Renunciation of Nationality	0	84%	-0.5	14500	32
Status of nationality confirmation	0	84%	-0.5	23100	29
Transfer of valid multi entry visa from expired to new passport	-3	84%	-0.5	23100	2
Transfer of valid multi entry visa from expired to new passport	0	84%	0	23100	2
Evidence of endorsement of ILR	-5	95%	-0.5	23100	2.3
Evidence of endorsement of ILR	0	95%	0	23100	2.3
Certificate of Identity to assist people who have been declined a passport by own national authorities	1	0%	-0.5	23100	2
Certificate of Identity to assist people who have been declined a passport by own national authorities	0	0%	0	23100	2
European Residence Documentation	12	67%	-0.5	12500	4.7