



# 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: 57.3	High: 53.4	Best Estimate: 53.3

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	0.5	2.4
High	0	0	-
Best Estimate	0	0.1	0.3

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

UKBA - Lower revenue due to lower application volumes arising from fee increase - £0.01m  
 UK Exchequer – Lost fiscal contribution from reduction in migrants - £0.25m

### 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	12.8	59.8
High	0	11.4	53.4
Best Estimate	0	11.5	53.6

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

UKBA – Increased revenue from applicants who continue to apply - £53.4m  
 UKBA – reduced processing costs from applicants who are deterred - £0.01m  
 UK Exchequer – Savings from lower public service provision - £0.18m

### 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
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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 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 £60 million in the financial year 2013/14.

The UK Border Agency is already targeting significant efficiency savings – up to £500 million 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. In-country PBS dependant (spouses, partners and children) applications – covers in-country dependants of Tiers 1, 2, 4 and 5 that apply to extend their leave to remain in the UK;
2. Indefinite Leave to Remain applications for main applicants and dependants;
3. Nationality Registration applications for main applicants and dependants.

## **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 changes in fees. This impact assessment reflects fees where the Agency charges more than the cost of the service in order to ensure that users of the immigration system (migrants and sponsors) pay an appropriate share<sup>1</sup> of the total costs of that system whilst also enabling some fees to be set below cost-recovery levels. Fees set below 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 represent a significant increase in real terms as it is broadly in line with inflation (Retail Price Index, 3.2% October 2012). 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.

This Impact Assessment examines costs and benefits of the specific fees options considered for:

1. In-country PBS dependant (spouses, partners and children) applications – covers in-country dependants of Tiers 1, 2, 4 and 5 that apply to extend their leave to remain in the UK;
2. Indefinite Leave to Remain applications for main applicants and dependants;
3. Nationality Registration applications for main applicants and dependants.

This covers all of the UK Border Agency's main charged services where the fee is set above cost and the proposed increase is above inflation<sup>2</sup>. According to government guidance<sup>3</sup>, where fees change in line with inflation, an impact assessment is not considered necessary. Thus we have limited the scope of this IA to only look at above inflation fee increases. An accompanying IA sets out the impacts of related fee changes to below-cost fee 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), although we have discussed the potential impacts and benefits of such services for those that take them up to illustrate the scale and type of benefits that may arise.

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<sup>1</sup> For 2013/14 the 'appropriate contribution' has been set at about 52% under the terms of the Home Office Spending Review.

<sup>2</sup> [http://www.hm-treasury.gov.uk/data\\_indic\\_index.htm](http://www.hm-treasury.gov.uk/data_indic_index.htm)

<sup>3</sup> Paragraph 36 - <http://www.bis.gov.uk/assets/BISCore/better-regulation/docs/l/11-1111-impact-assessment-guidance.pdf>

## D. Options

The different immigration routes and the complexity of inter-related factors involved means that there are a number of ways to model options within our flexible approach to charging. As this is a final stage impact assessment, 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.

**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 increases to meet strategic charging objectives for dependants, indefinite leave to remain and nationality registration as outlined below. All proposed fee increases under Option 2 are presented in Annex 3.

- **In-UK dependant applications**

At present, in UK dependant applications pay approximately 50% of the main applicants' fee for any given route if their application is submitted at the same time as the main application. We are proposing to increase this ratio from 50% to 75% from April 2013. In future, we will look to equalise dependant fees with those of the main applicant, as currently happens with visa applications. This will mean that all individuals within an application pay the same fee.

The dependant fee reflects the fact that each individual within any given application bears a processing cost to us as sometimes providing an independent set of valuable entitlements for the individual.

Our data shows that on average 16% of our leave to remain applications included one or more dependants. We will continue to monitor this. Increasing the contribution made for dependant applications is in line with all three charging policy objectives listed at section C, and will help reduce the scale of increases required across all fees products otherwise.

- **Indefinite Leave to Remain (ILR) applications**

We propose increasing the fee for applications for Indefinite Leave to Remain in the UK above the rate of inflation to £1051. This is to bring the fee into alignment with the Tier 1 Investor and Entrepreneur migrant fee. We believe the right to stay indefinitely in the UK is the most valuable entitlement of any product offered by the UK Border Agency. Hence it is right that the fee for this product should not be exceeded by any products for migrants staying temporarily in the UK. This increase helps achieve all three charging policy objectives set out at section C, and will help to reduce the scale of increases otherwise required across all fees products.

- **Nationality Registration**

Currently there are two main products offering a route to British citizenship – Naturalisation and Registration. Naturalisation is for adult foreign nationals who can demonstrate they meet the requirements to apply for British Citizenship. Registration is for children and British nationals who want to apply to be registered as British citizens. Both these routes provide the same benefits – the right to full UK citizenship, the right to a UK passport, to vote in UK elections etc. There are a small number of applications from individuals who receive status other than British citizen such as British subject, British overseas Territories Citizen, etc.

Currently two different fees are paid for Naturalisation and Registration applications, despite the benefits to the applicant being largely similar. We believe it is right that we should close the gap between fees for these products where the entitlements are similar. The lower fee should continue to apply for Registration applications where the entitlements received are fewer. Again, this increase helps achieve all three charging policy objectives set out at section C, and will help reduce the scale of increases otherwise required across all fees products

- **Other**

We also propose to consolidate the fee structure for optional premium services provided by the Agency in the UK. Rather than charging a variety of fees for different types of application, there will be a single additional premium to pay i.e. £375 for an application made in person. This will simplify our range of fees and make a contribution toward the UK Border Agency's financial requirements and policy objectives in 2013-14. As these are optional, premium services and will have no impact on the standard statutory services we provide, this change is not within the scope of this Impact Assessment.

Similarly, we propose to introduce a new optional premium service for sponsors registered under Tier 4 of the Points Based System from 2013/14. This service has been piloted in 2012 and will be introduced to better meet the needs of high volume educational users of the immigration system and will include dedicated account management and additional support for customers. We propose that the fee for this will be £8,000 in line with the fee already charged for small businesses and charities under Tiers 2 and 5. Full details of the service will be provided on the UK Border Agency website. As an optional, premium service that will have no impact on the standard statutory services we provide, detailed modelling is not included within the scope of this Impact Assessment, although the potential effects are discussed to set out the scale and type of effect.

**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).

The preferred option is Option 2, which 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** economic costs and benefits 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 function**

In January 2012, the Migration Advisory Committee 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, and summarised below for the key groups affected. 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. It is assumed that application volumes will not change in future years. However, the impact in future years should be considered as indicative. If fees are left unchanged, it is expected that application volumes will be as set out in annex 2.

- In-country PBS dependants applications – approximately 20,000 per year
- Indefinite leave to remain applications – approximately 60,000 per year, of which: 50,000 main applicants and 12,000 dependants
- Nationality registration applications – approximately 40,000 per year

### Costs

UK Border Agency will be unable to meet its financial planning requirements. The resulting £60 million 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 fees by 3% with targeted increases to meet strategic charging objectives for in country dependant, ILR and Nationality Registration fees**

### **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.

All of the fees assessed within this impact assessment are for products applied for from migrants already in the UK. The impact will therefore depend on the extent to which migrants already in the UK will be deterred from applying to either extend their leave to remain, settle permanently or gain British citizenship, and the extent to which this might lead them to leave the UK.

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 on application volumes in previous years. It has not been possible to directly estimate the price elasticity of demand for all UKBA products due to the difficulties of finding statistically significant control variables. Furthermore, due to the lack of continuity data (owing in part to a number of policy changes which have happened in the recent past, effecting different migration 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. For settlement and citizenship applications other factors that may affect price elasticity are included, such as family links and expected duration of stay in the UK. 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.

Price Elasticity of demand for settlement and nationality products

For settlement and nationality applicants, we assume there is some price sensitivity in line with previous assumptions used on in-country migrants in work routes (the wage elasticity of supply) of -0.5. The rationale is that the majority of applicants would have been in the UK over 5 years before being eligible to apply for ILR or nationality and hence may be more likely to be in or want to work. A wage elasticity of -0.5 is consistent with previous fee impact assessments, in that it assumes 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 (based on the evidence in Annex 3). It is expected that the elasticity value would lie close to zero, as applicants would have invested time in the UK (five years) before being eligible to apply for leave or nationality, and by applying for settlement or nationality demonstrate they would like to remain in the UK indefinitely. But the wide range is included to reflect the available evidence, the uncertainty, and the range of possible deterrence risks.

Price Elasticity of demand for in-country dependants of PBS migrants

For in-country PBS dependant applications, we assume no price sensitivity to fee changes in the central case given they are already in the UK with their family member (the main PBS migrant), but assume some sensitivity in the worst case scenario to reflect the risk of some deterrence. In the sensitivity analysis, an elasticity range of 0 to -0.5 was used for in-country PBS dependants.

Annex 3 sets out a summary table of elasticity assumptions used. We believe that the true effect of increasing fees for UKBA products should lie within this range.

Methodology to estimate volume effects

The proposed change in fees is set against the expected earnings of these migrants for their expected duration of the stay in the UK (see Table 1 below). For in-country dependants of PBS migrants, this includes the potential earnings of the main applicant who may pay for the cost of the dependant's fee. The price elasticity assumption is then used to estimate the impact on application volumes. Historic application-grant rates are used to estimate the impact on grant volumes (see Annex 4).

Impact on application and grant volumes

Table 1, below, presents the expected change in application volumes and the expected change in volumes granted:

**Table 1: Estimated change in application and grant volumes for option 2: central scenario**

Product/Route affected	Application Volumes	Estimated Earnings through Duration of Stay (£ '000s)	Change in Fee (£)	Price Elasticity	Estimated decrease in application volumes	Estimated decrease in grant volumes
In country nationality (couple)	9,600	578	233	-0.5	2	2
In country nationality (individuals)	19,600	751	122	-0.5	2	1
In country nationality (by one or more children)	8,800	1,086	351	-0.5	1	1

In country nationality (for more than one child)	12,100	1,086	230	0	0	0
Indefinite Leave to Remain - Main Applicant	50,400	739	60	-0.5	2	2
Indefinite Leave to Remain - Dependent	11,900	1,063	292	0	0	0
Limited Leave Applications	12,700	23	153	0	0	0
Non-EEA national right to work (not T2 or T5)	600	46	153	0	0	0
Tier 1 Investor and Entrepreneur - dependent	2,300	94	278	0	0	0
Tier 2 Dependent	13,800	109	153	0	0	0
Tier 2 Dependent (intra-company transfer)	500	135	109	0	0	0
Tier 4 Dependent	700	19	108	0	0	0
Tier 5 Dependent	100	16	53	0	0	0
Source	<i>UKBA Internal Planning</i>	<i>LFS and Home Office Analysis</i>	<i>UKBA Income &amp; Charging</i>	<i>Academic Literature and HO assumptions</i>	<i>Modelling Analysis</i>	<i>Modelling Analysis</i>

Table 1 demonstrates that the change in application and grant volumes is expected to be small. This is because the change in fees is negligible compared to the estimated lifetime earnings of those affected (including their household expected earnings for in-country PBS dependants) – it is less than one per cent for all the products listed in Table 1.

### Impact on migrant volumes in the UK

Of the groups affected, only those deterred from applying for settlement may actually leave the UK. Applicants for nationality will already be settled in the UK, and therefore would not need to leave the UK if they did not apply for British nationality. The overall estimated impact on migrant volumes in the UK is therefore estimated to be less than 5 per year.

### 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 headings – the direct costs and benefits, and the indirect or “wider” costs and benefits.

The **direct** costs and benefits are those that are clearly and immediately related to the change in volumes coming through the routes UK 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 UKBA product. Table 1 outlines the expected change in application volumes and the change in fees. It is estimated that UKBA revenue will fall by £2k in 2013/14 and £9.5k (PV) over a five year period.

## **Indirect Costs**

• **Impacts on migrant income** – if there is a reduction in the volume of migrants extending their stay or settling in the UK, there is a potential reduction in migrant households' income, as some of them may have been in employment in the UK. Evidence on non-EEA dependent migrant employment and earnings suggests an employment rate of around 38 per cent and average earnings of around £6,100 per annum (LFS 2012 Q2). Evidence on non-EEA main migrant employment and earnings suggests an employment rate of around 81 per cent and average earnings of around £23,100 per annum. Under these assumptions, and assuming only 2 migrants may leave the UK per year, the cumulative impact of lost income (net of taxes) to those people who may have remained in the UK is estimated at around £22,000 in 2013/14. As set out on page 8, the NPV of the policy presents only the impact on the welfare of UK residents, thus lost wages accruing to migrants are not included.

### **• Impacts on the Exchequer**

As a result of the reduction in wage income from deterred migrants, there would be a resultant reduction in the potential fiscal contribution of migrants to the Exchequer, which would have a negative impact on UK residents and is thus included in the NPV. The direct and indirect tax contribution of family migrants can be calculated using their estimated average gross earnings, current income tax rates and assumptions around indirect tax rates (see annex 5). With expected earnings of those that work of around £23,100 per annum, the average tax contribution would be approximately £9,400 per person. Using the estimated reduction in grant volumes multiplied by the employment rate and fiscal impact, the overall impact is expected to be around £250,000 (PV) over 5 years (this measure counts the lost fiscal contribution from migrants cumulatively across 5 years).

It is important to note that this estimate takes no account of the potential adjustment of the economy and labour market to the reduction in working migrants in the UK. The MAC have reported on the labour market impacts of migration. The precise assumptions to use in IAs have not yet been agreed but will be included in this IA before publication. In any case, given the estimated volume effects, any impacts would be insignificant.

## **Direct Benefits**

### **• Increase in UKBA revenue**

Higher fees for in-country PBS dependant applications, settlement applications and naturalisation applications will increase income to the UK Border Agency from those that continue to apply. The change in fees and potential application volumes are set out in table 1. It is estimated that UKBA revenue will rise by £11.4 million in 2013/14 and £53.4 million (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 £2k in 2013/14 and almost £10k (PV) over a five year period.

## Indirect Benefits

### • Reduction in public service and welfare provision

If there is a reduction in the volume of migrants extending their stay or settling in the UK this could help reduce pressures on public services by reducing the volume of people eligible to utilize them. The cost of all services provided by the state can be allocated to each individual in the UK, on the assumption that consumption is the same as a UK resident. Annex 6 sets out the assumptions and calculations used to estimate the savings.

The savings from a lower number of migrants are estimated to be £13,000 in 2013/14 and almost £179,000 (PV) over a five year period.

There will also be benefits associated with reduced burdens on other public services such as transport, local council services and congestion. It is not possible to accurately quantify these impacts.

### Summary of costs and benefits

Table 2 below sets out a summary of the key monetised costs and benefits.

**Table 2: Summary of costs and benefits of option 2**

(£ million)	2013/14	2014/15	2015/16	2016/17	2017/18	Total
<b>Benefits</b>						
Net Revenue raised from fee changes for those who continue to apply	£11.4	£11.0	£10.7	£10.3	£10.0	£53.4
Saving to UKBA 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	£0.1	£0.2
<b>Total benefits (PV)</b>	£11.4	£11.1	£10.7	£10.3	£10.0	£53.6
<b>Costs</b>						
Loss of revenue from fewer applications as a result of the fee change	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0
Fiscal loss from reduction in migrants coming to and remaining in the UK	£0.0	£0.0	£0.1	£0.1	£0.1	£0.3
<b>Total costs (PV)</b>	£0.0	£0.0	£0.1	£0.1	£0.1	£0.3
<b>Net benefit (PV)</b>	£11.4	£11.0	£10.6	£10.3	£9.9	£53.3

## 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 in Table 3 below:

**Table 3: Summary of transfers from in-country resident applicants to UKBA, option 2**

Transfers	Central Estimate (PV) 2013/14 – 2017/18

Increase in UKBA fee income from in-country applications	£49 million
Additional cost of application fees to in-country applicants	-£49 million
<b>Total</b>	<b>£0 million</b>

## **Wider Impacts**

### **Impact on UKBA**

UKBA's annual income is estimated to rise by the increase in fees paid by applicants. This equates to £53.4 m (5 year PV) from applicants who are not yet considered UK residents (presented in table 2) and £49 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 reduction in processing costs due to the volume of applications that are deterred both outside the UK and from inside the UK. This equates to £0.0m (5 year PV) in total.

The overall impact on UKBA is positive – income will increase by £102.4m PV) over the period 2013/14 to 2017/18.

### **Impact on Employers**

#### Potential Costs

It is estimated there will be no direct cost to business as no new regulatory burden is being introduced. There is only a change in the fee level for products which are levied on individuals not on businesses, and 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. Guidance issued by HM Government on the one in one out (OIOO) methodology states that fees and charges are out of scope of OIOO. There is no additional administrative burden on firms.<sup>4</sup>

However there may be small indirect impacts on employers if the fee increases make in-country migrants decide to leave the UK rather than pay the higher fee and if those migrants that leave were in employment. The RPC has expressed that such impacts should be considered carefully in IAs to understand the potential impact on business.

Analysis of previous fee changes (up to April 2012) suggested that demand for in-country settlement applications was not affected by fee increases, so it could be assumed that in-country migrants are price inelastic. However, based on the methodology and assumptions used in previous fee IAs, that assumes some price sensitivity to fee changes, it is estimated that **less than 5 migrants might leave the UK** per year. The majority of those modelled to be affected are either migrants that are already settled in the UK that are applying for nationality. This is a voluntary product and such migrants would still be able to remain in the UK even if they are deterred from applying for nationality. So there would be no impact on their employers if they did work or on the marginal hires of employers in the UK.

Of those that might be deterred from applying for settlement or other in-country products, evidence from the LFS suggests the non-EEA main migrant employment rate is around 80%. Therefore, of the overall number deterred (and required to leave the UK); it is possible only between 0 and 4 may be in employment. The number of businesses potentially affected (the suggested metric to be used for non-monetised assessment of businesses) could therefore be between 0 and 4 per year, i.e. negligible. Even under higher price elasticity assumptions (the worst case in the IA), where we assume in-country PBS dependants are price sensitive, the estimated volume of migrants that might decide to leave the UK that may have been in employment is between 3 to 20 (evidence from the LFS suggests the non-EEA dependant employment rate is around 38%).

Such a small change in volumes is not expected to pose any significant wider costs to business, for example associated with lost producer surplus, lost output, or any other adjustment to changes in migrant employment such as up-skilling of resident workers. If those affected are towards the lower end of the earnings and skills distribution, they may be more likely to be replaced by native low-skilled

<sup>4</sup> <http://www.bis.gov.uk/assets/biscore/better-regulation/docs/o/11-671-one-in-one-out-methodology>

workers where they are considered to be substitutes. In these circumstances, however, and given the low volume of migrants affected, there should be no up-skilling costs to businesses as the skill level of those affected is low. There may be some short-run adjustment costs to employers affected, but these are not possible to accurately monetise with the available evidence and are likely to be minimal.

### 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 below-cost fees for products such as small sponsor licenses, and particularly for visit visas - products that will attract visitors to the UK that are beneficial for UK business and tourism.

In addition, there is the possibility of a small direct benefit to business (an OUT under OIOO) to be achieved from the voluntary premium service product proposed for Tier 4 sponsors. This service has been piloted in 2012 and will be introduced to better meet the needs of high volume educational users of the immigration system and will include dedicated account management and additional support for customers, including priority treatment on post-licence casework, monthly management information reports on CAS allocation and outcome of student applications; and student eligibility checks. We are also seeking to introduce: enhanced SMS – management information on post-licence casework; pre-audit compliance health-checks; pre-paid HTS application; and sponsor awareness events / access to working group. We propose that the fee for this will be £8,000 in line with the fee already charged for small businesses and charities under Tiers 2 and 5. Full details of the service will be provided on the UK Border Agency website when finalised. As an optional, premium service that will have no impact on the standard statutory services we provide, so sponsors should only take this up where it is beneficial.

Of the 150 sponsors who we are piloting the service with we expect around two thirds to take it up when it is launched. We would also expect a similar take up rate with other parts of the Tier 4 sector such as independent schools, but we would expect a smaller percentage take up from private colleges.

### **Impact upon Business – One In One Out**

One-in, One-out (OIOO) guidance states that fees and charges are out-of-scope of the OIOO rule, 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. There is the potential for a small OUT to be achieved if large Tier 4 sponsors voluntarily opt for the new premium service product that will reduce their administrative burdens.

### **Other wider effects**

There may be a number of wider impacts if there is a reduction in the volume of migrants in the UK. As the expected volumes affected are small, such effects are expected to be negligible, and would depend on the characteristics of those that may leave the UK. As set out in the MAC (2012) Analysis of the Impacts of Migration report, such effects may include:

- wider impacts on GDP per capita and the dynamic effect of migration on growth and investment;
- wider impacts on congestion, housing, transport, crime and social cohesion.

These effects cannot be accurately monetised given the available evidence, but the potential effects of the fee changes on these areas are expected to be minimal.

## **F. Summary and Recommendations**

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

<b>Table H.1 Costs and Benefits</b>		
<b>Option</b>	<b>Costs</b>	<b>Benefits</b>
<b>2</b>	£0.26 million	£53.6 million
Source: UKBA estimates		

The Net Present Value calculation of Option 2 is therefore £53.3 million over 5 years. This equates to reduction of approximately 7 applications per year.

The NPV range is £53.4 million to £57.3 million. This equates to a fall in volumes of between 0 and 77 applications per year.

The NPV in the low scenario is based on assumptions that mean lower additional UK Border Agency income. In the low scenario, the fee changes are expected to lead to a greater fall in demand (due to higher elasticity assumptions), and thus a smaller increase in UK Border Agency income, relative to the central and high scenarios. However, the greater fall in demand also leads to a larger net benefit in terms of fiscal and public service impacts associated with fewer migrants in the country. This means the NPV in the low scenario is higher than the NPV in the central and high scenarios.

As discussed above, this impact assessment only covers products where the fee charged is greater 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 costs recovery fees impact assessment. 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.

## **Distributional Impact**

The main groups affected by the fees changes are in-country PBS dependants, settlement applicants and nationality applicants, but all would be required to pay the appropriate fee for their application. Indicative distributional impacts of these fee increases according to income can be found in annex 7. Impacts by gender and nationality are assessed in the policy equality statement produced in line with latest government guidance.

## **G. Risks**

### **Option 2**

Sensitivity analysis has been undertaken by re-estimating the NPVs with different assumptions for the elasticities.

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 53.3 million (PV) over 5 years through additional revenue from fees.

For the low NPV scenario, we assume that volumes decrease to a greater extent than is assumed in the central estimates. We therefore assume an elasticity of labour supply of -1.1 (-0.5 for dependents). In this scenario, there is a net benefit of £57.3 million (PV) over 5 years through additional revenue from fees.

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. It therefore seems unlikely that the low scenario will be realised, since this assumes that application volumes are highly responsive to fee changes. 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 from 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 regime 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 [Include link to publication of PES]

## 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	98700	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. Elasticities used for dependent applications are not included in Table 3a as these were not derived from academic literature. Rather, they were derived from Home Office analysis on the likely response by dependents from changes to dependent fees. Such responses were deemed to yield a best case and central elasticity of 0, and a worst case value of -0.5.

**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 <u>supply</u> labour in the UK. The wage elasticity of labour <u>supply</u> 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 (NCCR), Version 5.002 31 October 2000</i>	-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
In country nationality (couple)	2	84%	-0.5	23100	25
In country nationality (multiple people)	2	84%	-0.5	23100	32.5
In country nationality (by one or more children)	1	84%	-0.5	23100	47
In country nationality (for more than one child)	0	84%	0	23100	47
Indefinite Leave to Remain - Main Applicant	2	95%	-0.5	23100	32
Indefinite Leave to Remain - Dependent	0	95%	0	23100	46
Limited Leave Applications	0	84%	0	23100	1
Non-EEA national right to work (not T2 or T5)	0	97%	0	23100	2
Tier 1 Investor and Entrepreneur - dependent	0	89%	0	32500	2.9
Tier 2 Dependent	0	92%	0	43700	2.5
Tier 2 Dependent (inter company transfer)	0	99%	0	67400	2
Tier 4 Dependent	0	86%	0	13500	1.4
Tier 5 Dependent	0	97%	0	15900	1

## Annex 5. Methodology for calculating fiscal and income losses.

### Migrant earnings

The impact assessment assesses the impact on migrant's income and the fiscal impact on the UK. In line with the MAC report (2012), the NPV of the IA focuses on UK resident welfare, so only the fiscal impacts have been included. This fiscal impact is based on earnings for each migrant relative to the product being analysed. Wages have been calculated as follows:

- Nationality and settlement applicants salaries have been obtained from LFS 2012 Q2 data on the employment weighted median wage of non-EEA applicants. Tier 1 salaries have been obtained from a UKBA survey of migrants on the Highly Skilled Migrant Programme (HSMP) at the further leave to remain stage (Q1 2007). While different criteria were used for the HSMP compared to the Tier 1 General route, this is the latest available data. Tier 1 migrants are not required to report their salaries to UKBA. This data has been updated using September 2012 ONS data on the average weekly earnings index.
- Tier 2 salary data has been obtained from UK Border Agency management information. This is the latest available data, and was used by the Migration Advisory Committee in its report on proposed changes to settlement policy for Tier 1 and 2 migrants<sup>5</sup>. This was also updated by September 2012 ONS data on the average weekly earnings index.
- Tier 4 salary data was taken from the weighted average salaries of median tuition fees for International students in 2012/13 (both undergraduate and postgraduate).
- Tier 5 salary data was obtained from LFS 2012 Q2 data on wages of those aged 21-26, who are nationals of Australia, Canada, Japan, New Zealand and Monaco. This is in order to proxy salary data for the Youth Mobility Scheme, which accounts for half of all Tier 5 out of country visas.
- For the purposes of estimating the impact on demand, dependents' salaries have been assumed equal to the main applicant salaries, as the main applicant will in all likelihood be paying the increase in fee for a visa for a dependent.

It is assumed that those applying for nationality do not yield a fiscal loss if deterred from applying due to a fees increase. This is because nationality products are optional and applicants can still remain in the UK even if they do not apply, thus still contributing to the Exchequer. It is also assumed that dependents do not yield a fiscal loss, as in the central scenario, their elasticity is equal to zero, meaning they will apply regardless of the fee increase. Thus there will be no deterred applicant and thus no fiscal loss. Based on this, only main applicants for settlement yield a loss to the exchequer from deterred applications. This is shown in the table below:

Product	Lost fiscal contribution from fewer migrants (£)	Decrease in Grants	Total fiscal contribution loss
In country nationality (couple)	0	2	
In country nationality (multiple people)	0	1	
In country nationality (by one or more children)	0	1	
In country nationality (for more than one child)	0	0	
Indefinite Leave to Remain - Main Applicant	£9,400	2	£18,000
Indefinite Leave to Remain - Dependent	0	0	
Limited Leave Applications	0	0	
Non-EEA national right to work (not T2 or T5)	0	0	
Tier 1 Investor and Entrepreneur - dependent	0	0	
Tier 2 Dependent	0	0	
Tier 2 Dependent (inter company transfer)	0	0	
Tier 4 Dependent	0	0	
Tier 5 Dependent	0	0	

<sup>5</sup> (<http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/settlement-restrictions-workers/>).

## Fiscal Impacts

Assumptions were taken largely from ONS, HMRC and Understanding Society (2012), as well as previous papers on the fiscal impact of immigration, to estimate the fiscal contribution migrants might make.

Direct taxes include Income Tax, Council Tax and National Insurance Contributions. Income tax rates were applied by threshold values (HMRC, 2012). The average contribution made according to income quintile is calculated for council tax. (ONS, 2012, The effect of taxes and benefits on household income 2010/11).

Indirect tax is paid on items of expenditure and includes VAT, any duties paid on products (alcohol, fuel), licenses (driving, television) any other duties and estimated intermediate taxes (ONS, 2011, How indirect taxes can be regressive and progressive) Robust data on migrant specific expenditure are not available and there is significant uncertainty about their spending patterns. Indirect tax contributions will depend on their tastes and preferences and characteristics. As this is not known, the average proportion of indirect tax for the main applicant's income quintile was used.

The estimate provided of a migrant's final fiscal contribution covers only tax contributions and does not account for any positive impact they have on the provision of public service and the productivity of native workers, however, this may be offset by their consumption of public services and any displacement of native workers that may result from immigration.

The low, central and high models are based on published tax compliance rates (HMRC). Whilst full compliance is unlikely, assuming migrants' characteristics to be the same as natives', the high estimate assumes full compliance as it is the highest possible rate.

## Annex 6

### Impact on Public Services

Home Office impact assessments have previously attempted to estimate the impact of migrants on health, education, criminal justice and welfare benefits using a bottom up approach which aims to identify consumption of specific services. However, these estimates present only a partial picture of the impacts and may be biased in that unidentified consumption may substantially alter the picture. For this reason a top down approach, which aims to allocate all public spending to each person in the UK, is preferred. This annex sets out the preferred approach, which aims to estimate the impact on public services a change in the number of migrants arriving or remaining in the UK. This figure can be used to quantify the change in migration in impact assessments (IAs).

#### Allocation of Public Expenditure

A top down approach to allocating public spending to individuals assumes that consumption is broadly similar for all individuals included in the calculation. This approach has been documented in the relevant literature. (Glover et al, 2000 and NIESR, 2011) HM Treasury document total levels of public spending (total managed expenditure (TME)) in the Public Expenditure Statistical Analyses (PESA) 2011. This documents the total level of public spending categorised into the following categories of function of government spend:

- general public services
- defence
- public order and safety
- economic affairs
- environment protection
- housing and community amenities
- health
- education
- social protection
- EU transactions.

#### Simple calculation

This allows public expenditure to be allocated to each individual in the UK. The analysis assumed 62.3 million individuals in the UK, from the ONS statistical bulletin of National population projections (2011). Per head costs are calculated as being the sum of total spending on each element of public services, divided by the total UK population, and does not vary across characteristics or groups. This method gives an estimated spend per person, including children, in the UK of £11,300 per person.

#### Public Goods

However, this figure includes public goods which means it may not be reasonable to assume that excluding a migrant from the UK could have a marginal impact of £11,300 on public finances. Instead it is sensible to exclude costs associated with public goods, as the cost of extending or removing coverage to one additional migrant is zero as public goods are not attributable to any one individual in the population.

Public goods are defined as non-rival and non-excludable. To be non-rival it must be that the consumption of a good by one individual does not reduce the ability of others to consume that good. A non-excludable good means that once the good is provided it is impossible for any individual to opt out. An example of a public good may be national defence. Once national defence is provided for the country an individual is unable to opt out of it. Whether they wish to be defended or not, they will be defended as it is not possible to protect the country without also protecting everyone in it. However it is also true that one individual who receives the protection of national defence, does not reduce the defence of others. Thus the good is non-rival and non-excludable.

The characteristics of a public good mean that the marginal cost of providing the good to one additional person is zero. As such it is sometimes debated that the cost of that good, which is attributable to a single individual, should also be zero. For this reason estimate B in table 1 provides the estimated cost of public spending per person excluding those goods deemed to be public goods. The excluded spending includes items such as general public spending, research and development, defence, pollution and other environmental spending, and street lighting.



In addition to excluding these public goods, spending on public debt transactions and EU payments have also been excluded. This is because these are obligations which cannot be opted out of and are not always directly attributable to the current population. Thus on a similar principle to a public good they are not incurred on a per person basis and would not be affected by one additional migrant. Removing these categories reduces the average impact of a marginal individual in the UK to £9,100 per year. However, this does not control for differing characteristics of migrants and how these characteristics may affect use of public services.

The exclusion of public goods from the cost calculation is one that could be contested. It is possible to suggest that the migrant population in total is non-marginal and therefore the costs of migrants as a whole are not zero. However, as the IA approach is to estimate the impact of a marginal change in migrant volumes, the use of a zero marginal cost would be more appropriate. Similarly some previous methods have not excluded debt transactions, or have only excluded part of them. The reasoning in these methods is that there is still some benefit gained from the large infrastructure projects that incurred the debt. However, this is complex to calculate the remaining benefit and apportion the debt payments appropriately and it is doubtful whether the presence of migrants per se has affected the demand for such capital investment, so debt transactions have been excluded.

### **Welfare and Benefits**

Allocating public expenditure to the individuals in the population includes welfare and benefit expenditure. However, most migrants will not be eligible to claim welfare and benefits until they have been in the UK for at least five years and they have formally been granted settlement in the UK. For this reason it is prudent to exclude welfare and benefit expenditure for migrants who have been in the UK for less than five years and who will not be eligible to claim. Estimate C in table 1 provides an estimated cost per person excluding public goods and welfare of £5,800 per person. For migrants who have been in the UK longer than five years and have settled here, welfare expenditure should be included, meaning estimate B is more appropriate.

### **Wider Services**

This approach assumes that consumption is the same for all individuals. However, migrants and the native population are unlikely to be a homogenous group with identical patterns of consumption. Consumption is likely to vary by age, gender, family composition and other factors such as income and ethnicity. The recent report on the impacts of migration by the Migration Advisory Committee (2012) has presented new evidence on the social impacts of migration. The MAC commissioned NIESR to provide top down estimates on health, education and social services expenditure for different migrant groups.

Given that health, education and social services expenditure figures which take these characteristics into account are available, we have excluded these from our simple estimate. This gives two estimates of general public expenditure. Estimate D of £1,400 per person, which excludes public goods and welfare expenditure as well as health, education and social services expenditure and estimate E of £4,700 per person, which includes welfare and benefit expenditure while excluding public goods, health, education and social services. These wider estimates should be added to the estimates of health, education and social services expenditure which have been adjusted to account for age and other characteristics of specific migrant groups.

Table 1: Summary of the per head cost of public services consumed by a migrant

		£
A	Total spend per capita	11,200
B	Total excluding public goods	9,100
C	Total excluding public goods and welfare	5,800
D	Total excluding public goods, welfare, health, education & social services	1,400
E	Total excluding public goods, health, education & social services	4,700

Source: based on National Population Projections 2010-based Statistical Bulletin, ONS, (2011) and Public Expenditure Statistical Analyses (PESA), HM Treasury, Table 5.2, (2011).

### **NIESR**

NIESR (2011) were commissioned to provide an estimate of migrants' consumption of education, health and social service. Estimates have been produced for all migrants, defined as those born outside of the

UK, according to their key characteristics, on the assumption that age is the most powerful characteristic that drives consumption of public expenditure. NIESR estimated the proportion of the population that are migrants in each of the migrant groups of interest using the Annual Population Survey (APS). The APS identifies families, including children living at home. For some migrant groups, NIESR have given a narrow and broad definition<sup>6</sup> which will allow the creation of a range of costs for each type of migrant.

The population estimates were combined with PESA data for 2009/10 to estimate consumption per individual. These figures have been uplifted to 2011/12 prices using the change in public expenditure since 2009/10. These estimates can be added to the wider estimates (D and E) described above to give an overall estimate for cost to the public services per migrant in the UK.

### Health

The evidence in the literature concludes that migrants in general are unlikely to pose a disproportionate burden on health services. There is strong evidence for lower impacts for Tier 1 and 2 work migrants, who are generally young and healthy. Expenditure on healthcare is much higher for elderly adults. NIESR base their estimates on the proportion of migrants and non migrants in the population, their gender and age, meaning estimates for migrants are lower than those for the non migrant population.

### Education

The literature is unclear on the impact of migration on the provision of education. The main negative impacts concern children with poor English language skills and pupils arriving or leaving mid year. On the other hand, there is evidence of a positive relationship between children with English as an additional language and attainment. These data suggest that consumption exceeds non migrant groups for some migrants groups. This is the case for economic migrants, primarily due to larger family sizes, but not for Tier 4 migrants due to low volumes of accompanying children.

### Social Services

There is little evidence on migrants' use of social services, and most skilled migrants and students will be unlikely to make many demands. This would not be the case for family migrants, from poorer backgrounds, or asylum seekers necessarily, although evidence suggests there is a lack of awareness and thus use amongst these groups. However, demand may increase over time. Estimates have been adjusted by the age of migrant groups and suggest that on average use of social services by the migrant population is much lower than for non migrants.

Table 3 sets out the overall costs for public service consumption used in this IA. These consist of the values suggested by NIESR for health, education and social services expenditure uplifted to 2011/12 prices and estimate E given in Table 1. Estimate E is used as it is appropriate to include welfare payments as the applicants affected by these fee increases would otherwise have reached settlement in the UK.

Table 3 – Aggregate costs for health, education and social services.

	£ per head - Min	£ per head - Central Estimate	£ per head - Max
Whole population	5,190	6,840	8,490
Non-migrants	5,240	6,890	8,540
All migrants	5,050	6,700	8,350

Source – NIESR (2011) based on APS analysis and Public Expenditure Statistical Analyses (PESA), HM Treasury, Table 5.2, (2009). Uplifted to 2011/12 prices.

The values in table 3 can be used to quantify the impacts on public expenditure of marginal changes in the level of migrants arriving or remaining in the UK. Over the medium to long-run, it is expected that the migrant's pattern of consumption of service will converge to that of a UK resident.

<sup>6</sup> In the narrow definitions, migrants are included if they cannot be included in any other group. For example, economic migrants includes those working in the UK but only if they are not as full time student or if their partner's status could not allow them to work. The broad definition includes all migrants who may be in each category. For example, all employed migrants are treated as economic migrants regardless of their student or partner's status.

## Annex 7

### Analysis of Distributional Impact

No specific groups are affected by the fees changes, but 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 lead option is a 3% increase across all fees (from 2012/13 levels), along with targeted increases relating to in country dependent applications, applications for Indefinite Leave to Remain and applications for UK citizenship. This section analyses the distributional impacts of these fee increases according to income. Impacts by gender and nationality are assessed in the policy equality statement.<sup>7</sup>

Household income is a more relevant factor than individual income, especially for the products assessed here. The application fee for dependent products is unlikely to fall on the dependent themselves. It is more likely to fall on the household unit that includes both the main applicants and all household dependents. The ONS publish household income in the UK by quintile for all households in the UK in The Effects of Taxes and Benefits on Household Income. These income distributions include income, welfare payments and direct taxes.

Table 1 – Household Income Equivalised<sup>8</sup> Distribution

	Range - Household Income £		Average Disposable Income
	Bottom	Top	
1	0	14363	10693
2	14363	19737	17039
3	19737	26193	22705
4	26193	37649	31335
5	37649	High	58690

Source – ONS, Effects of Taxes and Benefits on Household Income 2010/11

Household income distributions for migrant groups are not currently available. The UK income distribution given in table 1 is obtained from the Living Costs and Food Survey and published by the ONS. Data is available by basic household characteristics such as employment or number of children but not by characteristics which would allow us to identify migrants such as nationality, country of birth or length of time in the UK.

The Labour Force Survey (LFS) does provide data by characteristics which allow us to identify migrants but it cannot be used to identify household income. This is because earnings questions are asked only in wave 1 and 5 and only to employed people. Earnings questions also have a high level of non response. In addition the LFS is weighted at the individual level and the dataset does not allow different weights to be applied to different members within the household.

The lack of available data means it is not possible to assess the impact of these fee increases on migrant groups. However, the following section assesses which groups will be affected by the changes and where they may fall on the income distribution.

#### **In UK Dependent fee changes**

The proposal to increase dependent fees for in UK dependent applications will primarily affect PBS migrants. In the twelve months to September 2012, UKBA granted 53,000 applications to PBS dependents out of total dependent grants of 62,000.<sup>9</sup> These are migrants who are extending their stay in the UK. Table 2 sets out the number of grants under each route.

Table 2 – Number of grants of extensions in the twelve months to September 2012.

Dependents	Decisions	Grants
PBS Tier 1	25000	22600
PBS Tier 2	18600	17800
PBS Tier 5	200	200
PBS Tier 4	14500	12600

Source – Immigration Statistics July – September 2012

<sup>7</sup> Reference?

<sup>8</sup> OECD Equivalence scale. Adjusts income to account for standard of living for different sized households.

<sup>9</sup> Immigration Statistics July – September 2012

Recent policy changes are likely to mean that the number of in country extensions fall in future years. Tier 1 and Tier 2 routes have been tightened resulting in fewer people entering the UK under these routes. The volume of Tier 1 extensions and associated dependents will be much lower in future years as the general route and post study work has been closed, meaning there are no new entrants into these routes. UKBA do not hold data on average income of Tier 1 migrants.

Tier 2 migrants are required to have a sponsor in the UK, implying that main applicants will be employed. A report by the Migration Advisory Committee<sup>10</sup> in 2011 suggested that a Tier 2 general migrant earns an average of £44,500. This puts the average Tier 2 general migrant in the highest income quintile when compared to the UK income distribution. If the figures are adjusted for a Tier 2 household having children<sup>11</sup>, they fall to quintile 4. This excludes any welfare or tax effects and any income by dependents which could increase household earnings.

Tier 4 migrants entering the UK in future will only be able to bring dependents if they are enrolled at a postgraduate course at university. This is expected to reduce volumes of dependents applying to extend their stay in future years. However, student households are likely to be at the lower end of the earnings scale which could put Tier 4 households in lower income quintiles.

### Settlement

Applications for indefinite leave to remain are usually on employment or family routes. In the twelve months to September 2012, UKBA granted 132,100 applications for settlement. Almost half were to applicants in the UK for reasons of employment and 34% for family reasons. Employment migrants will have entered the UK on either Tier 1 or Tier 2 or precursor routes. Although we have no data on Tier 1 earnings, Tier 2 migrants are likely to be higher income deciles as explained above.

Table 3 – Settlement grants in the twelve months to September 2012

Route	Grants	%
Employment	65300	49%
Asylum	11300	9%
Family formation and reunion	45000	34%
Other	10500	8%
Total	132100	

Source – Immigration Statistics July – September 2012

Sponsors of family migrants are likely to be at the lower end of the earnings scale. The Home Office family migration evidence base<sup>12</sup> suggests that sponsors earn on average £1,200 per month post tax. This can be equated to £17,500 per year gross, although this takes no account of benefits or other deductions. The same publication also suggested that family spouse migrants can expect to earn £14,100 or £6,600 for male and female migrants respectively. This suggests that a family migrant household could expect to be earning between £24,100 and £31,600, placing them in quintile 3 or 4 of the UK income distribution. Adjusting these figures to account for children<sup>13</sup> could reduce family household to the 2nd or 3<sup>rd</sup> quintile. Settlement applications from family members are expected to fall significantly from 2014 onwards as the probationary period for family migrants has been extended from two years to five years from July 2012.

### Nationality

Data is not available on the previous immigration route for nationality applicants. However, it is likely that applicants will have a similar profile to settlement applicants.

### Conclusion

With the exception of Tier 4 dependents, it is likely that those affected by the fee increases assessed in this impact assessment will fall in the upper quintiles of the UK income distribution. However, accurate income distributions for migrant groups are not available, so these results should be presented as indicative.

<sup>10</sup>MAC - Settlement Report - November 2011 <http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/settlement-restrictions-workers/>

<sup>11</sup> Adjustment assumes two children and uses OECD equivalised scale.

<sup>12</sup> Home Office (2012) Family Migration evidence base. Available from - <http://www.homeoffice.gov.uk/publications/science-research-statistics/research-statistics/immigration-asylum-research/occ94/occ94?view=Binary>

<sup>13</sup> Adjustment assumes two children and uses OECD equivalised scale.