

<b>Title:</b> <b>Impact Assessment for the Immigration and Nationality (Fees) Order 2015</b> IA No: HO 0139  <b>Lead department or agency:</b> <b>Home Office</b> <b>Other departments or agencies:</b>	Impact Assessment (IA)
	<b>Date:</b> January 2015
	<b>Stage:</b> Final
	<b>Source of intervention:</b> Domestic
	<b>Type of measure:</b> Secondary legislation
	<b>Contact for enquiries:</b> Fees & Income Planning Team, Home Office Corporate Services, c/o Vulcan House, Sheffield PO Box 3468, S3 4WA
<b>Summary: Intervention and Options</b>	<b>RPC Opinion: Not Applicable</b>

Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?
£335.3m	£ 0m	£0m	No
			Zero Net Cost

**What is the problem under consideration? Why is government intervention necessary?**

The Home Office must ensure that fees for immigration and nationality services contribute to the cost of running the immigration system. Only legislation will ensure that fees may be set so as to increase the contribution made by migrants and others who use and benefit most from these services, in line with government spending requirements. Government intervention is necessary to ensure a balanced Home Office budget.

This statutory instrument is required to set fees under the new legal framework introduced by the Immigration Act 2014. For all categories of immigration and nationality products, maximum fee levels must now be set. Maximum fee levels will provide reassurance on the future possible direction of immigration and nationality fees and will ensure there is sufficient flexibility to introduce new products and services more quickly in support of government objectives.

**What are the policy objectives and the intended effects?** To enable the Secretary of State to:

1. Set fees for immigration functions within the new legal framework, based on processing costs, entitlements, and specific policy objectives to ensure the immigration system is adequately funded.
2. Develop and extend charging arrangements for optional, premium services which help to meet customer demand, support economic growth and limit fee increases in other areas
3. Revise secondary legislation more quickly without reducing scrutiny
4. Simplify complex legislation giving consistent fee-charging powers for all services.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

Option 1: Do nothing, set the fees maximas at 2014/15 fee levels  
 Option 2: To set fee maxima as outlined in the schedule in annex 2 .

**Option 2 is preferred. This option will best ensure fees income delivers a balanced budget for financial year 2015-16. It best meets both the Home Office's fees policy objectives and also wider government objectives to protect the most economically sensitive routes from large fee increases.**

**Will the policy be reviewed?** It will be reviewed. **If applicable, set review date:** 01/2016

Does implementation go beyond minimum EU requirements?	N/A				
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	<b>Micro</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)	<b>Traded:</b> N/A		<b>Non-traded:</b> N/A		

**I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.**

Signed by the responsible Minister:

James Brokenshire Date: 29/01/2015

**Description: Introduce revised charging framework to meet strategic charging objectives for Home Office fees**
**FULL ECONOMIC ASSESSMENT**

Price Base Year 2015	PV Base Year 2015	Time Period Years 5	Net Benefit (Present Value (2015 PV)) (£m)		
			Low: 0.0	High:397.3	Best Estimate:335.3

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant)	Total Cost (Present Value)
Low	0.0	0.0	0.0
High	0.0	13.3	62.5
Best Estimate	0.0	4.0	18.8

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

Home Office – Lower revenue due to lower application volumes arising from fee increase - £2.8 million  
 UK Exchequer – Lost tax contribution from reduction in migrants - £16.0 million

**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)	Total Benefit (Present Value)
Low	0.0	0.0	0.0
High	0.0	97.4	456.1
Best Estimate	0.0	75.7	354.1

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

Home Office – Increased revenue from applicants who continue to apply - £339.4 million  
 Home Office – Reduced processing costs from applicants who are deterred - £2.7 million  
 UK Exchequer – Savings from lower public service provision - £11.7 million  
 Increased employment for UK residents - £0.3 million

**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 Home Office – set out in Annex 2. Migrant price elasticities are assumed to be as set out in Annex 3 (in-country PBS dependants and Tier 4 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. Exchequer 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 OITO?	Measure qualifies as
Costs: N/A	Benefits: N/A	Net: N/A	No	Zero cost

## Evidence Base (for summary sheets)

### A. Strategic Overview

#### A.1 - Background

For 2015/16 the Home Office estimates that just over half of the costs of front-line immigration and border operations will be recovered through fees. The remainder of costs are met from general taxation. To ensure that the system is fair and sustainable, the government believes it is right that those who use and benefit directly from the UK migration system make an appropriate contribution to meeting its costs, thereby reducing the call on UK tax payers.

Under the terms of the government's current Comprehensive Spending Review (CSR), it was agreed that there would be further reductions in the Home Office budget in 2015-16, and that as well as efficiency savings, (up to £450 million over the period of the Spending Review) an increased contribution would be sought from fees paid by migrants and others applying for immigration, nationality and related services. If fees are retained at current levels, after efficiency savings, the impact of policy changes for limiting migration result in a forecast income shortfall of up to approximately £100 million in the financial year 2015/16. Any income generated above the agreed amount is surrendered to HM Treasury's Consolidated Fund for Extra Receipts.

The additional income this generates will mean the Home Office can continue to improve the services it provides to migrants, and supporting economic growth, while reducing the contribution from general taxation. The Immigration Act 2014 supported this objective by providing a framework that is more flexible and transparent.

Fees are set within strict financial limits agreed with HM Treasury and Parliament. Fees are set in line with clear principles, balancing a number of complex factors. Prior to the Immigration Act 2014, these factors included the administrative costs of processing an application, the wider costs of the immigration system, and the benefits and entitlements of the product to a successful applicant. The Immigration Act 2014 extended the criteria that can be used to set fees, which now also include the following:

- the promotion of economic growth,
- comparable fees charged by other countries, and
- international agreements.

Within these criteria the Government aims 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 can support wider government objectives (e.g. a lower short term visit visa fee maintains international competitiveness and supports tourism). Optional, premium services, charged above cost, are offered to meet customer demands, support economic growth and to limit fee increases in other areas.

Significant efficiency savings are being made within the system, to deliver a value for money service. It is appropriate that the shortfall will be met by those who benefit from the service.

#### 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. To balance the budget, fees for the majority of products are likely to need to increase over the next 3 years. Groups affected will include:

1. In-country & overseas Points Based System (PBS) applicants and their dependants (spouses, partners and children).
2. Nationality applications for main applicants and dependants.
3. Both short term (up to 6 months) and long term visit visas (for multiple entries to the UK over two, five or 10 years).
4. Applications for leave to remain outside of PBS.
5. Applications for indefinite leave to remain.

6. Optional premium services that provide an alternative to the standard service (quicker decisions, faster/alternative border processing, consideration at alternative premises).

### **A.3 - Consultation**

#### *Within Government*

The Home Office works 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.

Fee proposals are assessed in the context of broader government objectives by a Cross-Whitehall Fees Committee, including the UK's attractiveness in key markets (such as visitors, business, education) to ensure a balance is maintained between keeping our fees at fair and sustainable levels and the Home Office's need to recover our operating costs. The proposals contained in this impact assessment have been agreed with other government departments, who consider the needs of a broad range of stakeholders.

#### *Public Consultation*

The Home Office ran a targeted consultation exercise between 12 November and 3 December 2013 on charging principles. The Home Office consulted specific stakeholder groups in key sectors such as business, education, tourism, and immigration legal advisors. The responses have been analysed and considered in producing these proposals, with findings broadly similar to those from the previous consultation undertaken in 2009. A response document was published on the government consultation website on 30 January 2014.

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 and received 98 responses<sup>1</sup>.

In response to the 2009 consultation, an overwhelming majority of respondents (over 90%) agreed that immigration and nationality fees should continue to be set flexibly, taking into account wider policy objectives. Parliament has affirmed this general principle in debates on Home Office charging legislation.

### **B. Rationale**

The UK Home Office want to make sure that the fees it charges 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 the Home Office needs to continue to keep fees under review to ensure sufficient revenue is generated to fully support the immigration system, maintain public confidence, and ensure that migration is managed for the benefit of the UK.

### **C. Objectives**

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

- That those who use and 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 options build on the existing Home Office fees policy and support broader UK government policy objectives (for example, to support growth, and reduce net migration to the UK while attracting the brightest and the best).

### **D. Options**

---

<sup>1</sup> 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/>.

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, the scope has been narrowed to considering two options:

**Option 1:** Do nothing, set the fees maximas at 2014/15 fee levels.

**Option 2:** To set fees maxima as outlined in annex 2, which gives maximum fees for each visa product for 2015/16.

Under both options (and each of the three scenarios under Option 2) fees are treated as remaining at their 2015/16 level throughout the period 2016/17-2019/20 (the end of the period considered in this Impact Assessment).

For products where forecast volumes are negligible (e.g. fees covered by the Council of Europe Social Charter) the impact is assumed to be zero. Finally the impact assessment has focused on the Home Office's mandatory standard postal application routes – it has 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 it does discuss 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.

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

### **General Assumptions and Data**

This IA has been developed to examine the economic costs and benefits of the 2015 Fees Order. It analyses fee options set out in section D.

The Risks section considers the impact of varying assumptions about the price sensitivity of applicants, their impact on public services and the length of time taken for the economy to adjust to changes in migrant flows.

Potential changes to the immigration system, and the inexactness of projection methods, mean that application forecasts are not considered to be accurate over a ten-year period. Impacts are therefore assessed over a five-year period. As with other IAs, impacts of the policy under consideration are likely to reach beyond the period considered by the IA, particularly in this case concerning migrants who would otherwise apply for permission to remain permanently in the UK. Were these impacts to be considered over a longer horizon, the impacts would be larger.

This assessment considers the impact of setting fees as outlined in Annex 2. This schedule of changes is currently being considered by cross-departmental committee, and while 2015/16 fees have not yet been agreed, the schedule outlined in Annex 2 is indicative of the fees that could be implemented within the range allowed by the Fees Order.

### **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. This impact assessment therefore focuses on the welfare of the resident population, defined as those who are already formally settled in the UK. The NPV includes the effects from any change in fiscal, public service, consumer and producer surplus and dynamic effects where practical, appropriate and proportionate, but excludes forgone migrant wages (net of taxes) as the benefit of those wages does not accrue to the resident population. 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 for 2015/16 are set out in Annex 2. These forecasts are Home Office internal planning assumptions for 2015/16 and may not match published volumes of products

granted. In absence of fee changes, subsequent years assume the same (ie 2015/16) baseline application volumes and as such future years' application volumes (both baseline and alternative) should be considered to be indicative.

### *Costs*

There are no additional costs under option 1.

Doing nothing would expose the Home Office to increased risk of generating insufficient income to meet the costs of operating an effective visa issuing system, a crucial part of the overall immigration system. There would be an increased risk of exceeding current charging powers as fees increased, constraining the Home Office's capacity to support government policy on growth, notably where as charging flexibly would otherwise have enabled the Home Office to offer concessions or quickly introducing new premium services for economically valuable migrants.

Doing nothing and maintaining fees at their current level would limit the Home Office's provision to change the level of fees for the benefit of the UK in a way that achieves value for money for the taxpayer, and to ensure high quality services capable of attracting the brightest and best migrants to the UK.

Significant efficiency savings are already factored into the Home Office's business planning, and the assumption is that any additional efficiency savings above those already identified 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.

### *Benefits*

There are no additional benefits under Option 1.

## **Option 2 – Set visa fee maxima as outlined in annex 2 for the period 2015/16-2017/18**

The level of fees under consideration in Option 2 are set out in Annex 2. Indicative fees for 2015/16 are set out, based (generally) on 5% price increases for 'growth' route products, and 12%, 14% or 16% price increases for 'non-growth' routes. Under the 'high' scenario, price increases may be as high as 16% for non-growth routes and 8% for growth routes (with some exceptions). Under both scenarios, fees remain flat in nominal terms from 2015/16.

While the actual levels of fees for 2015/16 have not yet been set, the 'high' scenario represents the maximum likely increase in price for each product, while the 'central' scenario gives a 'middle ground' increase (but should not be treated as a forecast of the final fee due to the requirement for cross-government committee consideration).

## **Impact on Application 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 deterrence of potential migrants from entering the UK. Modelling the economic impacts of fee increases, for the purpose of this IA, therefore revolves around applying estimates of the price sensitivity of demand for visas (the price elasticity of demand) to anticipated price changes and quantifying the impact of changes in visitor volumes to different sectors of the economy.

The Home Office has an ongoing programme of analysis investigating the relationship between visa fee changes and demand levels. While some of these analyses have identified statistically significant relationships, some of these appear counter-intuitive and they often lack stability when comparing different country pairs or time periods. The analysis has therefore not yet delivered estimates of the relationship between price and demand for visas that are robust enough for use in impact assessments.

As a proxy for the price elasticity of demand for Home Office products, this analysis therefore adapts the price elasticities of demand for other products using 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.

The 'Risk' section of this impact assessment includes consideration of the sensitivity of its findings to changes in assumed elasticities. The central 'best estimate' scenario uses the proxies suggested by the 2010 literature review,<sup>2</sup> with the low impact scenario assuming no reaction to price changes (zero elasticity) and the high impact scenario assuming that elasticities are twice as high as suggested by the literature. The elasticities used in the sensitivity analysis are also given in Annex 3.

#### *Work - Supply of Labour*

Some migrants demand visa products in order to supply labour in the UK. As stated above, attempts by the Home Office to find a statistical relationship between visa fees and migrating for work has not so far managed to establish a robust relationship. This combined with the fact that for the most part, the range of proposed increases to fees is small compared both to the current fee and to other costs associated with migrating to the UK from a visa country (including air fares and other costs of relocation), suggests that any impact on migration decisions would be small, or negligible.

However, for the sake of erring on the side of caution, this analysis assumes that even small fee changes will elicit a small change in aggregate migrant behaviours, and for the purpose of this IA any increase in costs of migration (for example an increase in visa fees) has been considered as being equivalent to a reduction in pay (i.e. pay received over the duration of the visit), and we have estimated the reduction in economic migrant volumes using estimates of the wage elasticity of labour supply, which measures the responsiveness of the supply of labour to changes in wages.

Assumptions used in the analysis here range from a low of zero response to change in wage to a high of 1.1 – a small reduction in labour supply as wages fall. Our central scenario assumes a very small reduction in labour supply resulting from the change in visa fee.

#### *Work - Demand for Labour*

Firms demand visa products in order to bring migrants to the UK to fill employment vacancies. The *wage elasticity of labour demand* is the responsiveness of the demand for labour due to changes in wages. Thus this is used to estimate the impact on volumes of the proposed fee changes for sponsorship.

#### *Study - Demand for Higher Education*

Migrant students demand student visa products in order to purchase education in the UK. *Price elasticity of demand for higher education* is the responsiveness of the demand for higher education due to changes in costs. International estimates for the price elasticity for higher education are used; as described in Annex 3 the central elasticity estimate is -0.5.

However, this elasticity represents the impact of an individual student to changes in the visa fee, and does not describe the response of international students in aggregate to increases in visa fees. Evidence suggests that places at UK institutions are oversubscribed by international students, and that the number of international students in higher education has continued to increase over time, suggesting that past increases in tuition costs, living expenses and visa fees haven't significantly damaged demand, and that marginal changes to students' visa fees will not affect universities' revenues. This can be because small changes in visa fees are inconsequential compared to the overall cost of studying in the UK or because places vacated by students deciding not to come to the UK will be filled by other international students. There is therefore assumed to be no impact of visa fee increases on the number of migrants coming to the UK to study in the central scenario.

The 'Risks' section considers the possibility that such places are taken by EEA students (who generate lower fee revenues for universities than non-EEA students) or remain open (generating no revenue for the educational institution).

#### *Visit - Demand for Air Travel*

---

<sup>2</sup> Elasticities based on the price sensitivity of demand for air travel are updated regularly based on table 2.1 in *UK Aviation Forecasts 2013* published by the Department for Transport available here: [www.gov.uk/government/publications/uk-aviation-forecasts-2013](http://www.gov.uk/government/publications/uk-aviation-forecasts-2013)

The *airfare elasticity of demand* is the responsiveness of the demand for air travel to changes in the cost of air travel. Estimates are taken from DECC figures, which give a range of estimates from no impact on visits to a small positive impact. This range of estimates has been used as a proxy for the price elasticity of demand for a trip to the UK, applied to the change in the price of visit visas.

### *Settlement and Nationality*

For settlement and nationality applicants, price sensitivity is assumed to be similar to that of migrants supplying labour. 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 Home Office products in order to supply labour in the UK.

The sensitivity analysis uses an elasticity range of 0 to -1.1, based on the evidence in Annex 3. It is likely 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. Furthermore, a one-off payment for the visa fee allows for a lifetime of access to the labour market, therefore potentially a lifetime of access to wages. Therefore the elasticity of -0.5 may overstate the responsiveness of an applicant to a fees change - it may well be much less responsive due to the possibility of a lifetime of earnings for a one-off fee. But the wide range is included to reflect the available evidence, the uncertainty, and the range of possible deterrence risks.

### *Dependants of PBS migrants*

For in-country PBS dependant applications, the central scenario assumes no price sensitivity of visa demand as applicants 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.

### *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 Annex 4). For in-country dependants of PBS migrants, this is taken to be the potential earnings of the main applicant who may pay for the cost of the dependant's fee. The elasticity assumption is applied to this to estimate the impact of fee changes on application volumes. Historic application-grant rates are used to estimate the impact on grant volumes (see Annex 4).

In the case of short term visitors, who aren't generally assumed to derive an income from their visit, the elasticity used is the price elasticity of demand for flights, to which changes in visa prices are applied (ie as increasing the cost of coming to the UK).

### *Impact on application and grant volumes*

Table 1 below presents the expected changes in application and grant volumes between 2015/16 and 2019/20 following fee changes in 2015/16. Where application volumes 'recover' over time, this is because earnings are predicted to increase over time while fee levels remain constant from 2015/16.



**Table 1: Impact of fee changes on application and grant volumes**

		Applications (planning assumption)*	Estimated decrease in applications / grants vs 2015/16 baseline**				
		2015/16	2015/16	2016/17	2017/18	2018/19	2019/20
Out of Country	Visit Visa	2,346,000	4,040 / 3,550	3,900 / 3,420	3,760 / 3,300	3,620 / 3,180	3,490 / 3,060
Out of Country	Settlement	45,000	40 / 30	40 / 30	40 / 30	40 / 30	30 / 20
Out of Country	Other	45,000	60 / 60	60 / 50	60 / 50	60 / 50	50 / 50
Out of Country	PBS Tier 1/2	106,000	20 / 20	20 / 20	20 / 20	20 / 20	20 / 20
Out of Country	PBS Tier 4	253,000	- / -	- / -	- / -	- / -	- / -
Out of Country	PBS Tier 5	45,000	20 / 20	20 / 20	20 / 20	20 / 20	20 / 20
In Country	Settlement	205,000	20 / 20	20 / 20	20 / 20	20 / 20	20 / 20
In Country	Other	48,000	30 / 30	30 / 30	30 / 20	30 / 20	30 / 20
In Country	PBS Tier 1/2	81,000	10 / 10	10 / 10	10 / 10	10 / 10	10 / 10
In Country	PBS Tier 4	97,000	- / -	- / -	- / -	- / -	- / -
In Country	PBS Tier 5	1,000	- / -	- / -	- / -	- / -	- / -
In Country	Family Extension	113,000	170 / 80	160 / 80	160 / 80	150 / 80	150 / 70
In Country	Sponsor	487,000	110 / 90	100 / 90	100 / 80	100 / 80	90 / 80

Source: Home Office Analysis

\* Figures rounded to the nearest thousand

\*\* Figures rounded to the nearest ten.

“Zero” results relate to categories with extremely low volumes and/or elasticities

Table 1 demonstrates that the change in application and grant volumes is expected to be small for most products relative to the number of applications received. This is because the change in fees is small compared to the estimated lifetime earnings of those affected (including their household expected earnings for in-country PBS dependants).

### Maximum 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. The direct costs include reductions in Home Office income due to reductions in volumes whereas the direct benefits are dominated by an increase in Home Office income due to price rises.

The **wider/indirect** 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 accurately to quantify and/or monetise but they have been described where possible. These have not all been estimated as the resource required to do so accurately would be disproportionate to the impact, given the low potential volumes of individuals affected.

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

#### Home Office Revenue

There will be an impact on Home Office fee income if applicants are deterred from applying for an immigration or visa product.

Table 1 outlines the expected change in application volumes and Table 6 in Annex 2 outlines the change in fees. It is estimated that Home Office revenue will fall by £2.8 million (2015 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. As set out under "Objective function", the NPV of the policy presents only the impact on the welfare of UK residents, thus lost wages accruing to migrants are not included. A reduction in the volume of those who are settled applying for nationality should not impact on wages, as declining to apply for nationality (due to an increase in the fee) does not mean the applicant needs to leave the country – in order to apply for nationality they would necessarily already have indefinite leave to remain.

### *Impacts on the Exchequer*

The estimated deterrence of low numbers of migrants reduces exchequer income through lower indirect and direct tax revenues. The direct and indirect tax contribution of migrants can be calculated using their estimated average gross earnings, current income tax rates and assumptions around indirect tax rates (see Annex 5). Using the estimated reduction in grant volumes multiplied by the employment rate and the average exchequer impact, the overall impact is expected to be around £16.0 million (2015 PV) over 5 years as a result of deterring around 4,000 migrants per year (less than 0.1 per cent of all migrants in the relevant visa categories).

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, as the impact of this is very small. Estimates of labour market displacement are included in the section 'increased opportunities for UK residents' below, which estimates the wage impact of increased UK employment associated with reduced volumes of migrant workers.

## **Direct Benefits**

### *Increase in Home Office revenue*

Higher fees across all products will increase income to the Home Office from those that continue to apply. The change in fees and potential application volumes are set out in Table 1. It is estimated that Home Office revenue will rise by £339.4 million (2015 PV) over a five year period.

### *Reduction in Home Office processing costs*

A fall in application volumes as a result of increased product fees will result in administrative savings for the Home Office 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 Home Office processing costs will fall by around £2.7 million (2015 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 in the UK, then 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, including in Table 14 the public service impacts attributed to different migrant categories

The savings from fewer migrants are estimated to be £11.7 million (2015 PV) over a five year period.

## Increased employment opportunities for UK residents

If a migrant who would have been gainfully employed in the labour market is deterred from applying to come as a result of the fee increase, then they may be replaced by a UK resident when they depart the UK or are deterred from entering the UK. The Home Office's working assumptions are that in normal economic circumstances (or economic upturn):

- skilled migrants entering the UK labour market do not displace native workers
- for every 100 low skilled migrants entering the UK labour market, 15 native workers will be displaced, although this effect dissipates over time and the displaced workers will be fully re-employed within 3 years.

This is based on a literature review of the impacts of migration on UK native employment published jointly by the Home Office and the Department for Business, Innovation and Skills.<sup>3</sup>

The Central assumption in this Impact Assessment is therefore that for every 100 low skilled migrants departing from the UK or deterred from entering, 15 additional UK workers will enter employment or self employment. Skill levels are inferred from visa application category and while some element of the displacement effect is expected to last from one year to the next, it is expected to diminish over time, having dissipated completely within 3 years.

The impact of variations to this assumption is discussed in the section titled "Risks" in this document; Annex 7 discusses the displacement assumption itself and its sources.

When monetising this impact, the typical (median) wage applicants to each visa type is adjusted to account for the approximated employment rate, as not all may be in employment. This adjusted wage is then applied to each applicant deterred to produce a monetary value of the increased employment opportunities for UK residents. Annex 7 outlines a description of the findings and application in impact assessments.

Summing the number of UK residents gaining employment over 5 years of fee changes, then taking into account the employment-adjusted earnings of the typical applicant for each product, the benefit to UK residents from increased employment opportunities is around £0.3 million (2015 PV) over the period 2015/16-2019/20.

As the majority of the decreases in migrant flows arise from settlement and non-student leave to remain visas, there may be some short-run adjustment costs to employers affected, but these are not possible accurately to monetise with the available evidence. Therefore any upskilling costs to businesses are not estimated, though 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 workers, thus minimising any upskilling costs.

## Summary of costs and benefits

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

**Table 2 Costs and Benefits Summary (2015/16 PV)**

Present Values	2015/16	2016/17	2017/18	2018/19	2019/20	NPV
<b>Benefits</b>						
Net Revenue raised from fee changes for those who continue to apply	£75.3m	£71.4m	£67.7m	£64.2m	£60.8m	£339.4m
Saving to UKBA from processing fewer applications	£0.6m	£0.6m	£0.5m	£0.5m	£0.5m	£2.7m
Savings to UK due to lower public service provision	£3.0m	£2.7m	£2.5m	£2.1m	£1.4m	£11.7m
Increased employment opportunities for UK residents	£0.0m	£0.1m	£0.1m	£0.1m	£0.1m	£0.3m
<b>Total benefits (PV)</b>	<b>£79.0m</b>	<b>£74.8m</b>	<b>£70.8m</b>	<b>£66.8m</b>	<b>£62.7m</b>	<b>£354.1m</b>
<b>Costs</b>						
Loss of revenue from fewer applications as a result of the fee change	£0.7m	£0.6m	£0.6m	£0.5m	£0.5m	£2.8m
Exchequer loss from reduction in migrants coming to and remaining in the UK	£3.9m	£3.6m	£3.3m	£2.9m	£2.2m	£16.0m
<b>Total costs (PV)</b>	<b>£4.6m</b>	<b>£4.3m</b>	<b>£3.9m</b>	<b>£3.4m</b>	<b>£2.6m</b>	<b>£18.8m</b>
<b>Net benefit (PV)</b>	<b>£74.4m</b>	<b>£70.5m</b>	<b>£66.9m</b>	<b>£63.4m</b>	<b>£60.1m</b>	<b>£335.3m</b>

Source: Home Office Analysis

Figures rounded to the nearest £0.1 million

<sup>3</sup>Occasional Paper 109 *Impacts of migration on UK native employment: an analytical review of the evidence* available at: [www.gov.uk/government/publications/impacts-of-migration-on-uk-native-employment-an-analytical-review-of-the-evidence](http://www.gov.uk/government/publications/impacts-of-migration-on-uk-native-employment-an-analytical-review-of-the-evidence)

## 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 therefore feature in this IA as benefits to the UK, but the corresponding costs to the migrants themselves are not reflected in this analysis.

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 the Home Office. This represents a cost to the applicant but a benefit to the Home Office. 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.

**Table 3 Summary of transfers from in-country resident applicants to the Home Office, option 2 (2015 PV)**

Present Values	2015/16	2016/17	2017/18	2018/19	2019/20	NPV
<b>Transfer benefits</b>						
Increase in Home Office fee income from in-country applications	£14.1m	£13.4m	£12.7m	£12.0m	£11.4m	£63.6m
Saving to individuals from submission of fewer applications	£6,000	£6,000	£5,000	£5,000	£4,000	£26,000
<b>Total transfer benefits</b>	<b>£14.1m</b>	<b>£13.4m</b>	<b>£12.7m</b>	<b>£12.0m</b>	<b>£11.4m</b>	<b>£63.7m</b>
<b>Transfer costs</b>						
Loss in Home Office revenue from fewer applications	£6,000	£6,000	£5,000	£5,000	£4,000	£26,000
Increase in individuals' costs from in-country applications	£14.1m	£13.4m	£12.7m	£12.0m	£11.4m	£63.6m
<b>Total transfer costs</b>	<b>£14.1m</b>	<b>£13.4m</b>	<b>£12.7m</b>	<b>£12.0m</b>	<b>£11.4m</b>	<b>£63.7m</b>
<b>Net impact</b>	<b>£0.0m</b>	<b>£0.0m</b>	<b>£0.0m</b>	<b>£0.0m</b>	<b>£0.0m</b>	<b>£0.0m</b>

Source: Home Office Analysis

Figures rounded to the nearest £0.1 million

## Wider Impacts of Option 2

### Impact on Home Office

Following fee increases, the Home Office's annual income from immigration and visa fees is estimated to increase by £339.4 million (5 year PV, 2015 base) from applicants who are not yet considered UK residents (presented in Table 2) and £63.6 million (5 year PV, 2015 base) from applicants who are already settled in the UK and are thus considered UK residents (presented in Table 3).

The Home Office 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 around £2.7 million (5 year PV, 2015 base).

The overall impact on Home Office is positive: income will increase by £403.1 million (5 year PV, 2015 base including revenues from UK residents) over the period 2015/16 to 2019/20. This assumes that fees are set in accordance with the 'central' scenario.

### Impact on Employers

#### Potential Costs

It is estimated there will be no direct regulatory cost to business as no new regulatory burden is being introduced. There is only a change in the fee level for products which are primarily levied on individuals. There may be an increase in the cost of sponsorship products purchased by businesses. Guidance issued by HM Government on the One-in Two-out (OITO) methodology states that fees and charges are out of scope of OITO. There is no additional administrative burden on firms.<sup>4</sup>

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.

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

These impacts are assumed to be small, making the cost of generating accurate estimates of their impact disproportionately high.

### Impact upon Business – One-In Two-Out

One-in, Two-out (OITO) guidance states that fees and charges are out-of-scope of the OITO rule, thus would not affect the Home Office OITO balance.

### 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 (an expected reduction of 4,000 immigrants per year, with average earnings of around £8,000) 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:

- small impacts on GDP per capita and the dynamic effect of migration on growth and investment.
- Small 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 – the change in migrant volumes resulting from the fee changes is very low. With a total economic output around £30 million per year, even with multiplier effects in growth and investment, “wider effects” from the loss of these 4,000 migrants will not be of the same order of magnitude as the £335.3 million NPV of the quantified effects of the policy, so will not affect conclusions drawn on the basis of these figures.

## F. Summary and Recommendations

Table 4 outlines the costs and benefits of the proposed changes.

**Table 4 Costs and Benefits (2015 PV)**

Total Costs	Total Benefits	Net Benefit
£18.8m	£354.1m	£335.3m

Source: Home Office Analysis

Figures rounded to the nearest £0.1 million

The Net Present Value calculation is therefore £335.3 million over 5 years. Compared to planning assumption volumes for 2015/16, this equates to a reduction of approximately:

- 4,500 applications in 2015/16
- 4,400 applications in 2016/17
- 4,200 applications in 2017/18
- 4,100 applications in 2018/19
- 3,900 applications in 2019/20

Most of the reduction is in applicants to the 6 month visit visa

This assessment of costs and benefits is based on implementing the indicative increase in fees, for all products, as set out in the Fees Order. Whilst in reality the actual change in fee may vary across products and at different points in time, assessing the impact of these increases provides a central estimate of the costs and benefits based on the current assumptions; inclusion of the maximum fee increase as a part of the high estimate gives a clear picture of the expected upper limit to impacts.

## G. Risks

### Option 2

Table 5 describes the assumptions associated with each of the main scenarios described in this Impact Assessment – each of these areas, and its individual impact on outcomes, is discussed below. In the interest of drawing the widest reasonable range of outcomes between the high and low scenarios, these scenarios vary all input assumptions together for the summary findings.

The headline results of the core scenarios are:

- Under the 'low' scenario, the impact of fee changes is estimated to be £0.0 million (ie no change - 5 year PV, 2015 base)
- Under the 'Central' scenario, it is estimated to be £335.3 million (5 year PV, 2015 base)
- Under the 'High' scenario, it is estimated to be £393.7 million (5 year PV, 2015 base)

**Table 5: Summary of scenario assumptions**

	Scenario		
	Low	Central	High
<b>Fee increases</b>	No increase	Central increase	Maximum increase
<b>Visa demand elasticity</b>	Low	Central	High
<b>Displacement (low skilled workers)</b>	0%	15%	30%
<b>Displacement (high skilled workers)</b>	0%	0%	0%
<b>Displacement duration</b>	1 year	3 years	5 years
<b>Education institutions</b>	No loss	No loss	Loss of some international tuition
<b>Public service costs</b>	Low	Central	High

### *Fee increases*

Fee increases account for the majority of the difference between outcomes in the different scenarios. Under the low increase scenario, fees are assumed to remain unchanged (ie from the 2014/15 level) for the period 2015/16-2020/21; under the central scenario, they are assumed to increase typically by 5% for 'growth route' products and by 12%, 14% or 16% for 'non-growth route' products. Under the high scenario, fees for 'growth route' and 'non-growth route' products are assumed to increase by up to 8% and up to 16% respectively.

Keeping all other assumptions at their 'central scenario' level:

- 'Low' fee increases generate a net policy impact of £0.0 million (5 year PV, 2015 base)
- 'High' fee increases generate a net policy impact of £397.0 million (5 year PV, 2015 base)

### *Visa demand elasticity*

Annex 3 discusses the consensus in academia on the sensitivity of economic agents' decisions to variations in the costs of activities like employment (and so implicitly their response to changes in visa fees affecting the effective cost of those activities).

Table 8 gives the elasticity rates associated with low, central and high elasticity scenarios. Keeping all other assumptions at their 'central scenario' level:

- 'Low' elasticities increase the net impact of the policy to £339.6 million (5 year PV, 2015 base)
- 'High' elasticities reduce the net impact of the policy to £332.0 million (5 year PV, 2015 base)

### *Displacement rate and duration*

Annex 7 discusses what assumptions are made regarding replacement of migrant workers deterred from entering the UK (or exiting early) by native workers and the way in which these assumptions feed into this analysis. Keeping all other assumptions at their 'central scenario' level:

- If displacement effects are removed from the analysis (no additional UK workers enter employment as a result of fewer migrants entering or remaining in the UK) the net impact of fee changes falls to £335.0 million (5 year PV, 2015 base)
- If the displacement rate for low skilled workers is 30% instead of 15%, the net impact of fee changes rises to £335.6 million (5 year PV, 2015 base)
- If displacement effects are assumed to last 1 year (instead of 3), the net impact of fee changes falls to £335.2 million (5 year PV, 2015 base)
- If displacement effects are assumed to last 5 years, the net impact of fee changes rises to £335.4 million (5 year PV, 2015 base)

### *Replacement of international students (UK Education sector costs)*

The central scenario assumes that international students who do not attend UK educational institutions as a consequence of visa fee increases are replaced one-for-one by other international students. In order to measure the impact of varying this assumption, it is necessary to assume that students' reduce

their demand for education in response, so these two scenarios use 'high' elasticities, but keep every other assumption at its 'central' level:

- If international students are replaced by other EEA or UK national students, the net impact of fee changes falls from £332.0 million to £328.7 million (5 year PV, 2015 base)
- If international students' places remain open, the net impact of fee changes falls from £332.0 million to £325.0 million (5 year PV, 2015 base)

#### *Public service costs*

This impact assessment attributes to different categories of migrants the components of public spending (policing crime, education, health and social service) appropriate to their visa category, at the levels at which they are 'consumed' by the average UK national. They will not include items to which non-residents are not entitled (so no cost will be attributed to visitors on tourist visas for unemployment benefits, for example). The difference between the 'High' and 'Low' scenario is the inclusion of welfare costs (which may be less relevant for large numbers of migrants, who in general will have lower entitlement to welfare payments than the native population) and the 'Central' scenario takes the mid-point of these.

- Under the 'Low' scenario, public spending costs average £1,500 per migrant;
- Under the 'Central' scenario they average £2,100 per migrant;
- Under the 'High' scenario they average £2,600 per migrant.

These figures are averages based on the volumes of different types of migrants applying for visas and the respective individual costs found in Table 14

Naturally when fewer migrants enter or remain in the UK, public spending falls by a small amount. Keeping all other assumptions at their 'central scenario' level:

- If public spending is assumed to be at the 'Low' level, the net impact of fee changes falls to £332.6 million (5 year PV, 2015 base)
- If public spending is assumed to be at the 'High' level, then net impact of fee changes rises to £338.1 million (5 year PV, 2015 base)

#### **H. Enforcement**

No impact on enforcement.

#### **I. Implementation**

The Home Office plans to implement new fees from the government common commencement date of 6 April 2015, following Parliament's consideration of the related Statutory Instrument and laying of the fees regulations. Full details to applicants on how to apply and pay the new fees will be made available on the Home Office's website: [www.ukba.homeoffice.gov.uk](http://www.ukba.homeoffice.gov.uk) which will soon be fully replaced by [www.gov.uk](http://www.gov.uk)

#### **J. Monitoring and Evaluation**

The effectiveness of the new fees regime will be monitored by the Home Office's Fees and Income Planning 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**

The Home Office will produce a Policy Equality Statement alongside the impact assessment when the Regulations are laid in Parliament in March 2015.

## **Annex 1. Specific Impact Tests**

### **Statutory Equality Duties**

#### *Equality Impact Assessment*

Please see section L above.

### **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.

#### *Rural Proofing*

The Home Office does not have data on the likely UK geographic al 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

Table 6 sets out the current fees for existing products alongside the 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 of processing each application are also given.

**Table 6 Assumed salaries / air fares; unit costs; current and proposed fees (2015/16 to 2015/16)**

In-/out-country	Product	Salary / air fare	Unit Costs 2014/15	Current Fee	Fee 2015/16-2019/20		
					Low	Central	High
Out of country	Visit visa - short	£700	£122	£83	£83	£85	£85
Out of country	Visit visa - long 2 year	£2,800	£122	£300	£300	£315	£324
Out of country	Visit visa - long 5 year	£5,000	£122	£544	£544	£571	£588
Out of country	Visit visa - long 10 year	£6,800	£122	£737	£737	£774	£796
Out of country	Family route to settlement	£23,600	£592	£885	£885	£1,009	£1,027
Out of country	Settlement - Dependant Relative	£23,600	£592	£1,982	£1,982	£2,259	£2,299
Out of country	Settlement - Refugee Dependant Relative	£23,600	£592	£378	£378	£592	£592
Out of country	Certificate of Entitlement	£23,600	£592	£289	£289	£335	£335
Out of country	Other Visa	£23,600	£166	£289	£289	£335	£335
Out of country	Transit Visa	£700	£156	£30	£30	£32	£32
Out of country	Vignette Transfer Fee	£23,600	£166	£109	£109	£126	£126
Out of country	Replacement BRP Overseas	£23,600	£166	£72	£72	£84	£84
Out of country	Tier 1 – Entrepreneur, standard – Main	£33,000	£298	£874	£874	£918	£944
Out of country	Tier 1 – Entrepreneur, standard – Dependant	£33,000	£298	£874	£874	£918	£944
Out of country	Tier 1 – Investor, standard – Main	£33,000	£298	£874	£874	£918	£1,136
Out of country	Tier 1 – Investor, standard – Dependant	£33,000	£298	£874	£874	£918	£1,136
Out of country	Tier 1 - Exceptional Talent Postal - Main	£33,000	£298	£874	£874	£562	£918
Out of country	Tier 1 - Exceptional Talent Postal - Deps	£33,000	£298	£874	£874	£562	£918
Out of country	Tier 1 Graduate Entrepreneur Route -	£33,000	£298	£310	£310	£326	£335
Out of country	Tier 1 - General- Dependents	£33,000	£298	£874	£874	£918	£944
Out of country	Tier 2 Main Apps	£45,800	£160	£514	£514	£564	£564
Out of country	Tier 2 Dependents	£45,800	£160	£514	£514	£564	£564
Out of country	Tier 2 ICT <12Mths - Main Apps & Deps	£68,400	£160	£428	£428	£449	£462
Out of country	Tier 4 - Main Apps	£27,000	£358	£310	£310	£326	£335
Out of country	Tier 4 - Dependents	£27,000	£358	£310	£310	£326	£335
Out of country	Short Term Student <12 Months Visa	£27,000	£122	£150	£150	£158	£162
Out of country	Tier 5 Temp Work	£10,800	£98	£208	£208	£218	£225
Out of country	Tier 5 YM	£10,800	£98	£208	£208	£218	£225
In country	Naturalisation (British Citizenship) (Single)	£23,600	£218	£826	£826	£925	£958
In country	Naturalisation (UK Citizenship) Joint	£23,600	£218	£826	£826	£925	£958
In country	Naturalisation (UK Citizenship) Spouse	£23,600	£218	£826	£826	£925	£958
In country	Nationality (British Citizenship) Registration adult	£23,600	£218	£743	£743	£833	£862
In country	Nationality (British Citizenship) Registration child	£23,600	£218	£669	£669	£749	£776
In country	Renunciation of Nationality	£15,200	£218	£144	£144	£223	£223
In country	Nationality Reissued Certificate	£23,600	£158	£85	£85	£162	£162
In country	Nationality Right of Abode	£23,600	£218	£144	£144	£223	£223
In country	Nationality Reconsiderations	£23,600	£218	£80	£80	£80	£80
In country	Status / non acquisition letter (Nationality)	£23,600	£158	£85	£85	£162	£162
In country	Nationality Correction to Certificate	£23,600	£158	£85	£85	£162	£162
In country	ILR Postal - Main	£23,600	£433	£1,093	£1,093	£1,550	£1,585
In country	ILR Postal - Deps	£23,600	£433	£1,093	£1,093	£1,550	£1,585
In country	LTR Non Student Postal Main	£23,600	£293	£601	£601	£685	£697
In country	LTR Non Student Postal Deps	£23,600	£293	£601	£601	£685	£697
In country	Transfer of Conditions Postal Main	£23,600	£179	£107	£107	£183	£183
In country	Transfer of Conditions Postal Deps	£23,600	£179	£107	£107	£183	£183
In country	No Time Limit Stamp - Postal Main	£23,600	£254	£104	£104	£260	£260
In country	No Time Limit Stamp - Postal Deps	£23,600	£254	£104	£104	£260	£260
In country	Travel Documents Adult (CoT)	£23,600	£374	£246	£246	£382	£382
In country	Travel Documents Adult CTD	£23,600	£105	£69	£69	£72	£72
In country	Travel Documents Child (CoT)	£23,600	£239	£157	£157	£244	£244
In country	Travel Documents Child CTD	£23,600	£75	£46	£46	£46	£46
In country	Replacement BRP	£23,600	£90	£40	£40	£46	£46
In country	Employment LTR outside PBS Postal - Main	£23,600	£293	£601	£601	£685	£697
In country	Employment LTR outside PBS Postal - Dependents	£23,600	£293	£601	£601	£685	£697
In country	Tier 1 – Entrepreneur, standard – Main	£33,000	£362	£1,093	£1,093	£1,148	£1,180
In country	Tier 1 – Entrepreneur, standard – Dependant	£33,000	£362	£1,093	£1,093	£1,148	£1,180
In country	Tier 1 – Investor, standard – Main	£33,000	£362	£1,093	£1,093	£1,400	£1,421
In country	Tier 1 – Investor, standard – Dependant	£33,000	£362	£1,093	£1,093	£1,400	£1,421
In country	Tier 1 - Exceptional Talent Postal - Main	£33,000	£362	£1,093	£1,093	£562	£1,148
In country	Tier 1 - Exceptional Talent Postal - Deps	£33,000	£362	£1,093	£1,093	£562	£1,148
In country	Tier 1 - Graduate Entrepreneur Postal - Main	£21,500	£427	£422	£422	£443	£456
In country	Tier 1 - Graduate Entrepreneur Postal - Deps	£21,500	£427	£422	£422	£443	£456
In country	Tier 2 - Postal Main	£45,800	£260	£601	£601	£651	£651
In country	Tier 2 - Postal Dep	£45,800	£260	£601	£601	£651	£651
In country	Tier 2 - Postal Main (ICT <12 months)	£68,400	£278	£428	£428	£449	£462
In country	Tier 2 - Postal Deps (ICT <12 months)	£68,400	£278	£428	£428	£449	£462
In country	Tier 4 - Postal Main	£27,000	£233	£422	£422	£443	£456
In country	Tier 4 - Postal Deps	£27,000	£233	£422	£422	£443	£456
In country	Tier 5 - Postal Main	£10,800	£275	£208	£208	£218	£225
In country	Tier 5 - Postal Deps	£10,800	£275	£208	£208	£218	£225
In country	Tier 4 - Permission to Change Course	£14,800	£233	£160	£160	£186	£186
In country	Tier 2 Large Sponsor Licence	£327,900	£2,241	£1,476	£1,476	£1,476	£1,476
In country	Tier 2 Small Sponsor Licence	£23,600	£2,241	£536	£536	£536	£536
In country	Tier 4 Sponsor Licence	£23,600	£2,241	£536	£536	£536	£536
In country	Tier 5 Sponsor Licence	£23,600	£2,241	£536	£536	£536	£536
In country	Multiple Tier	£80,700	£2,241	£940	£940	£940	£940
In country	Highly Trusted Sponsor Licence	£2,885,100	£2,241	£536	£536	£536	£536
In country	Sponsor Action Plan	£140,400	£2,241	£1,476	£1,476	£1,476	£1,476
In country	Tier 2 COS	£44,300	£179	£184	£184	£193	£199
In country	Tier 5 COS	£10,800	£21	£14	£14	£21	£21
In country	Tier 4 CAS	£14,800	£21	£14	£14	£21	£21
Non-resident	EEA1	£12,200	£69	£55	£55	£65	£65
Non-resident	EEA2	£12,200	£69	£55	£55	£65	£65
Non-resident	EEA3	£12,200	£69	£55	£55	£65	£65
Non-resident	EEA4	£12,200	£69	£55	£55	£65	£65

Source: Home Office Analysis  
Salaries / air fares rounded to the nearest £100

**Table 7 Estimated decrease in application and grant volumes, 2015/16 to 2019/20**

Product	2015/16 applications (planning assumption)	Estimated decrease in application volumes					Estimated decrease in grant volumes				
		2015/16	2016/17	2017/18	2018/19	2019/20	2015/16	2016/17	2017/18	2018/19	2019/20
Visit visa - short	1,982,000	3,490	3,360	3,240	3,130	3,010	3,030	2,920	2,820	2,710	2,610
Visit visa - long 2 year	218,000	400	380	370	350	340	370	360	350	330	320
Visit visa - long 5 year	90,000	90	80	80	80	80	80	80	80	80	70
Visit visa - long 10 year	30,000	20	20	20	20	20	20	20	20	20	20
Family route to settlement	42,000	40	40	30	30	30	30	30	30	20	20
Other Visa	45,000	60	60	60	60	50	60	50	50	50	50
Transit Visa	26,000	50	50	50	40	40	40	40	40	40	40
Tier 2 Main Apps	30,000	10	10	10	10	10	10	10	10	10	10
Tier 2 Dependants	32,000	10	10	10	10	10	10	10	10	10	10
Tier 2 ICT <12Mths - Main Apps & Deps	36,000	10	10	10	10	10	10	10	10	10	10
Tier 4 - Main Apps	212,000	-	-	-	-	-	-	-	-	-	-
Tier 5 Temp Work	23,000	10	10	10	10	10	10	10	10	10	10
ILR Postal - Main	38,000	10	10	10	10	10	10	10	10	10	10
LTR Non Student Postal Main	96,000	170	160	160	150	150	80	80	80	80	70
Transfer of Conditions Postal Main	4,000	-	-	-	-	-	-	-	-	-	-
No Time Limit Stamp - Postal Main	16,000	20	20	20	20	20	20	20	20	20	20
Tier 2 - Postal Main	37,000	10	10	10	10	10	10	10	10	10	10
Tier 4 - Postal Main	85,000	-	-	-	-	-	-	-	-	-	-
Tier 2 COS	99,000	10	10	10	10	10	10	-	-	-	-
Tier 5 COS	56,000	30	30	30	30	30	30	20	20	20	20
Tier 4 CAS	320,000	70	70	70	60	60	60	60	60	50	50

**Source: Home Office Analysis**

Rounding: 2015/16 baseline applications rounded to nearest 1,000; other volumes rounded to nearest 10

Categories suppressed where change in applications rounds to zero

Where a nil decrease in applications and grants is shown, this will be either because the elasticity is assumed to be zero, or the forecast volume of applications in 2014/15 is (close to) zero.

### Annex 3: Elasticity assumptions

Table 8 sets out the elasticities used to analyse the impact of the changes in fees on different types of products. Table 9, Table 10 and Table 11 set out the academic papers used to deduce these elasticity estimates. Elasticities used for dependent applications are not included in

Table 8 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 8 Elasticities used to analyse the impact of changing fees**

<b>Elasticity</b>	<b>Justification</b>	<b>Products</b>	<b>Magnitude</b>		
			<b>Best case</b>	<b>Central</b>	<b>Worst case</b>
Wage elasticity of labour supply	Migrants demand Home Office 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.	<i>Tier 1</i> visa, in-country, extensions; <i>Tier 1 Post-Study</i> visa, in-country and extensions; <i>Tier 2 General</i> visa, in-country, extensions; <i>Tier 2 ICT/Sports/MOR</i> visa, in-country, extensions; <i>Tier 5 Youth Mobility and Temporary Worker</i> visa, in-country, extensions.	0	0.5	1.1
Wage elasticity of labour demand	Firms demand Home Office products in order to bring migrants to the UK to fill employment vacancies. The wage elasticity of labour <u>demand</u> is thus used to estimate the impact on volumes of the proposed fee changes for sponsorship.	Sponsor Action Plan; Tiers 2, 4 and 5 Certificates of Sponsorship; Sponsor Licences	0	-0.75	-1
Price elasticity of demand for higher education	Migrant students demand Home Office student products in order to purchase education in the UK. Price elasticity of demand for higher education is used as a proxy for migrant price elasticity of demand for all types of education accessed through Tier 4.	Tier 4 visa, in-country, extensions	0	-0.5	-1
Price elasticity of demand for air travel	The airfare elasticity of demand is used as a proxy for price elasticity of demand for a trip to the UK.	Visit visa – short; visit visa – 2 year, 5 year, 10 year; Other Visa	0	-0.46	-1
No evidence	None.	Settlement visa; Settlement; Certificate of Entitlement; Transit Visa; Vignette Transfer Fee; Call-Out/Out of Hours Fee; Naturalisation; Nationality Registration; Renunciation of Nationality; Nationality Reissue Certificate; Nationality Right of Abode; Nationality Reconsiderations; Status Letter (Nationality); Non-acquisition Letter (Nationality); Indefinite	0	-0.5	-0.5

		Leave to Remain main applications; Leave to Remain non-student; Transfer of Conditions; Travel Documents; Residual Further Leave to Remain; Employment Leave to Remain outside PBS; Highly Trusted Sponsor Licence.			
--	--	---	--	--	--

**Table 9 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 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.

**Table 10 Empirical studies of the price elasticity of demand for education**

Source	Estimate of price elasticity of demand	Measure
Tuition Elasticity of the Demand for Higher Education among Current Students: A Pricing Model Glenn A. Bryan; Thomas W. Whipple <i>The Journal of Higher Education</i> , Vol. 66, No. 5. (Sep. - Oct., 1995), pp. 560-574.	Between -0.12 to -0.3	Elasticity of demand for HE in a small private liberal arts college in Ohio, from increases in tuition fees between \$6000 to \$8000
Campbell, R. and B. Siegel. "The Demand for Higher Education in the United States, 1919-1964." <i>American Economic Review</i> , (June, 1967), pp. 482-94.	-0.44	Aggregate demand for attendance in 4-year institutions in the US from 1927 – 63
Hight, J. "The Supply and Demand of Higher Education in the U.S.: The Public and Private Institutions	Between -1.058 and -0.6414	Used Campbell and Siegel's data and split up for public and private sectors

Compared." Paper presented to the Econometric Society, December, 1970.

Hoenack, S., W. Weiler, and C. Orvis. "Cost-Related Tuition Policies and University Enrollments." mimeo., Management Information Division, University of Minnesota, 1973.

Between -1.811 to -.837

Private demand for the University of Minnesota, using longitudinal data from 1948-72.

**Table 11 Empirical studies of the wage elasticity of labour demand**

Source	Estimate of wage elasticity of demand	Measure
The relationship between employment and wages. HMT, January 1985	Between -0.1 and -0.5	Econometric studies reviewed: elasticity of labour demand to changes in the real wage
David Metcalf (2004), "The impact of the National Minimum Wage on the Pay Distribution, Employment and Training," The Economic Journal, 114, March, C84-86.	-0.3	Elasticity of demand for labour in the first 5 years following introduction of the NMW in the UK.
Taeil Kim and Lowell Taylor (1995), "The employment effect in retail trade of California's 1988 minimum wage increase."	Between -0.7 and -0.9	Elasticity of demand for labour in California's retail trade.

Source for Airfare Elasticity of Demand: [DfT study - UK Air Passenger Demand and CO2 Forecasts \(2009\)](#)

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

Table 12 Estimated fall in annual applications caused by the fee change (Central Scenario)

Product	Decrease in applications vs 2015/16 baseline					Grant Rate	Central Elasticity	Stay (years)
	2015/16	2016/17	2017/18	2018/19	2019/20			
Visit visa - short	3,490	3,360	3,240	3,130	3,010	87%	-0.6	1
Visit visa - long 2 year	400	380	370	350	340	94%	-0.6	2
Visit visa - long 5 year	90	80	80	80	80	97%	-0.6	3
Visit visa - long 10 year	20	20	20	20	20	98%	-0.6	5
Family route to settlement	40	40	30	30	30	75%	-0.5	3
Other Visa	60	60	60	60	50	90%	-0.5	1
Transit Visa	50	50	50	40	40	92%	-0.7	0
Tier 2 Main Apps	10	10	10	10	10	96%	-0.5	2
Tier 2 Dependants	10	10	10	10	10	96%	-0.5	2
Tier 2 ICT <12Mths - Main Apps & Deps	10	10	10	10	10	99%	-0.5	1
Tier 4 - Main Apps	-	-	-	-	-	92%	0.0	2
Short Term Student <12 Months Visa	-	-	-	-	-	79%	0.0	1
Tier 5 Temp Work	10	10	10	10	10	91%	-0.5	1
Tier 5 YM	10	-	-	-	-	98%	-0.5	2
ILR Postal - Main	10	10	10	10	10	94%	-0.5	32
LTR Non Student Postal Main	170	160	160	150	150	49%	-0.5	1
Transfer of Conditions Postal Main	-	-	-	-	-	98%	-0.5	1
No Time Limit Stamp - Postal Main	20	20	20	20	20	88%	-0.5	2
Tier 2 - Postal Main	10	10	10	10	10	96%	-0.5	2
Tier 4 - Postal Main	-	-	-	-	-	91%	0.0	2
Tier 2 COS	10	10	10	10	10	84%	-0.8	2
Tier 5 COS	30	30	30	30	30	84%	-0.8	1
Tier 4 CAS	70	70	70	60	60	84%	-0.8	2

Source: Home Office Analysis

Rounding: Change in application volumes : nearest 10

Categories suppressed where change in applications rounds to zero

Where a nil decrease in applications and grants is shown, this will be either because the elasticity is assumed to be zero, or the forecast volume of applications in 2014/15 is (close to) zero.

## Annex 5. Methodology for calculating exchequer impact.

### Migrant earnings

The impact assessment assesses the impact on migrant's income and the exchequer impact on the UK. In line with the MAC report (2012), the NPV of the IA focuses on UK resident welfare, so only the exchequer impacts have been included. This exchequer 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 2014 Q2 data on the employment weighted median wage of non-EEA applicants. Tier 1 salaries have been obtained from a Home Office 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 Home Office. This data has been updated using July 2014 ONS data on the average weekly earnings index.
- Tier 2 salary data has been obtained from Home Office 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 July 2014 ONS data on the average weekly earnings index.
- Tier 4 salaries are inferred from international students' costs of living.<sup>6</sup>
- Tier 5 salary data was obtained from LFS 2014 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 exchequer 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 exchequer 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 exchequer loss. Based on this, only main applicants for settlement yield a loss to the exchequer from deterred applications. This is shown in the

---

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

<sup>6</sup> International students' earnings are not, on average, sufficient to be subject to direct taxation (which is therefore assumed to be £0) and are a poor predictor of indirect taxation; expenditure (ie cost of living) is therefore used in place of earnings to predict indirect taxation for students

Table 13 Estimated exchequer impacts on the UK

Product	Per person annual fiscal contribution
Visit visa - short	£300
Visit visa - long 2 year	£300
Visit visa - long 5 year	£300
Visit visa - long 10 year	£300
Family route to settlement	£2,900
Settlement - Dependant Relative	£2,900
Settlement - Refugee Dependant Relative	£2,900
Certificate of Entitlement	£9,500
Other Visa	£9,500
Tier 1 – Entrepreneur, standard – Main	£12,600
Tier 1 – Entrepreneur, standard –Dependant	£2,900
Tier 1 – Investor, standard – Main	£12,600
Tier 1 – Investor, standard – Dependant	£2,900
Tier 1 - Exceptional Talent Postal - Main	£12,600
Tier 1 - Exceptional Talent Postal - Deps	£2,900
Tier 1 - General- Dependants	£2,900
Tier 2 Main Apps	£17,300
Tier 2 Dependants	£2,900
Tier 2 ICT <12Mths - Main Apps & Deps	£28,400
Tier 4 - Main Apps	£3,100
Tier 4 - Dependants	£2,900
Short Term Student <12 Months Visa	£3,100
Tier 5 Temp Work	£4,200
Tier 5 YM	£4,200
ILR Postal - Main	£9,500
LTR Non Student Postal Main	£9,500
Replacement BRP	£9,500
Employment LTR outside PBS Postal - Main	£9,500
Tier 1 – Entrepreneur, standard – Main	£12,600
Tier 1 – Investor, standard – Main	£12,600
Tier 1 - Exceptional Talent Postal - Main	£12,600
Tier 1 - Graduate Entrepreneur Postal - Main	£8,500
Tier 2 - Postal Main	£17,300
Tier 2 - Postal Main (ICT <12 months)	£28,400
Tier 4 - Postal Main	£3,100
Tier 5 - Postal Main	£4,200
Tier 2 COS	£16,500
Tier 5 COS	£4,200

Source: Home Office Analysis

Rounding: nearest £100

Categories suppressed where change in exchequer contribution rounds to zero

Note: categories with nil exchequer contribution are omitted

### Exchequer Impacts

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

Direct taxes include Income Tax, Council Tax and National Insurance Contributions. Income tax rates were applied by threshold values (HMRC, 2014/15). The average contribution made according to income quintile is calculated for council tax. (ONS, 2014, The effect of taxes and benefits on household income 2012/13).

Indirect tax is paid on items of expenditure and includes VAT, any duties paid on products (alcohol, fuel), licences (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 exchequer 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) 2014. 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 64.5 million individuals in the UK, from the ONS statistical bulletin of national population projections (2014). 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 is 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. 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 14 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/ 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 £9,200 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 14 provides an estimated cost per person excluding public goods and welfare of £5,700 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 £1,500 per person, which excludes public goods and welfare expenditure as well as health, education and social services expenditure and estimate E of £5,000 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 14 Summary of the per head cost of public services consumed by a migrant (2014/15 price terms)**

<b>Total spend per capita</b>	£11,300
<b>Total excluding public goods</b>	£9,200
<b>Total excluding public good and welfare</b>	£5,700
<b>Total excluding public goods, health, education, social services and welfare</b>	£1,500
<b>Total excluding public goods, health, education and social services</b>	£5,000

Source: based on National Population Projections 2012-based Statistical Bulletin, ONS, (2013) and Public Expenditure Statistical Analyses (PESA), HM Treasury, Table 5.2, (2013).

Rounding: nearest £100

### 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>7</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 2013/14 prices using the change in public expenditure since 2009/10, then uprated to 2014/15 prices using the GDP deflator. 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 15 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 2013/14 prices and estimate E given in Table 14. 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 15 Aggregate costs for health, education and social services**

	Expenditure per head		
	Min	Mid	Max
<b>Whole population</b>	£5,450	£7,180	£8,910
<b>Non-migrants</b>	£5,510	£7,240	£8,970
<b>All migrants</b>	£5,260	£6,990	£8,720

Source – NIESR (2011) based on APS analysis and Public Expenditure Statistical Analyses (PESA), HM Treasury, Table 5.2, (2014). Uplifted to 2014/15 prices.

Rounding: nearest £10

The values in Table 15 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. This IA uses a range of estimated calculations for different types of migrants.

<sup>7</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 Displacement Assumptions

### Displacement

Labour market displacement occurs when employment opportunities in the UK that could be filled by UK natives (UK born or UK nationals) are instead filled by migrants (foreign born or foreign nationals). The Government commissioned the Migration Advisory Committee (MAC) to analyse the impact of displacement on the UK labour market, culminating in a report<sup>8</sup> in January 2012. Building on this, the Home Office and the Department for Business, Innovation and Skill published a literature review<sup>3</sup> on the impacts of migration on UK native employment. This Annex sets out how these reports' findings have been applied in this impact assessment.

The assumptions that are used in this Impact Assessment, and described below, reflect the current Home Office position and are not a cross-Government consensus.

### Rate of Displacement

This IA uses displacement assumptions building on those derived from MAC (2012), which sought to estimate the association between migration and the native employment rate in Great Britain, between 1975 and 2010, using the Labour Force Survey. Natives were defined as UK-born individuals. The headline result suggested that a one-off increase of 100 in the inflow of working-age non-EU born migrants is associated with a reduction in native employment of 23 people (this is based on analysis of data spanning 1995 to 2010). The MAC report implied that this result held in all periods, including both economic growth and contraction.

The Home Office / BIS literature review concluded that:

- There is relatively little statistically significant evidence of migrants' displacement of UK natives from the labour market in periods when the economy has been strong, but some evidence for some labour market displacement in recent years when the economy was in recession.
- Displacement effects are also more likely to be identified in periods when net migration volumes are high, rather than when volumes are low – so analyses that focus on data prior to the 2000s are less likely to find any impacts. Where displacement effects are observed, these tend to be concentrated on low skilled natives.
- This suggests that the labour market adjusts to increased net migration when economic conditions are good. But during a recession, and when net migration volumes are high as in recent years, it appears that the labour market adjusts at a slower rate and some short-term impacts are observed.
- To date there has been little evidence in the literature of a statistically significant impact from EU migration on native employment outcomes, although significant EU migration is still a relatively recent phenomenon and this does not imply that impacts do not occur in some circumstances.
- The evidence also suggests that where there has been a displacement effect from a particular cohort of migrants, this dissipates over time – that is, any displacement impacts from one set of new arrivals gradually decline as the labour market adjusts, as predicted by economic theory.

Further analysis has led to the working assumption that a one-off inflow of 100 low skilled working-age migrants will displace 15 native workers from employment (so 15% of such migrants take jobs that would otherwise have gone to native workers) and that an 100 high skilled migrants will not displace any native workers from employment.

Table 16 lists the full set of displacement assumptions currently used in Home Office analyses.

---

<sup>8</sup> MAC (2012) Analysis of the impacts of migration.

Table 16 Displacement rate assumptions for different types of migrants in different economic circumstances

Economic context	Migrant Type	Scenario		
		Lower bound	Best estimate	Upper bound
Normal conditions	Skilled workers	0%	0%	0%
	Low skilled workers	0%	15%	30%
Severe downturn	Skilled workers	0%	0%	10%
	Low skilled workers	10%	30%	50%

### Length of Displacement

In implementing the volume of displacement, a key consideration is the tentative association in MAC (2012) that only those migrants who have been in the UK for less than 5 years are associated with displacement, not those who have been in the UK for over five years. This is not directly applicable to IA's, which show impacts annually. Therefore, without further evidence to suggest otherwise, displacement is assumed to diminish equally each year over a five year period, for each particular cohort of migrants. It is also assumed that those who are removed from the UK may have already spent a period of time here and may be associated with a lower level of displacement. However, the length of time here is not known. It is assumed that migrants would have been in the UK for between 0 and 5 years. For this reason, this IA assumes for the 'Central' scenario that displacement effects last for 3 years, for the 'Low' scenario that the effect lasts only 1 year and for the 'High' scenario that they last for 5 years.

### Displacement by Cohort

It is important to note that this tracking over time of displacement is measured per cohort of immigrants. In any year that there is an inflow of migrants, these are classed as one cohort specific to that year (or any other time period being analysed). The following year, there will be another inflow of migrants, and whilst these add to the existing stock of migrants, they are an individual cohort specific to year 2. When displacement is measured over time, it is done so per cohort. This means that moving from one year to the next, there will be a new cohort arriving, but the previous year's cohort will have its own diminishing effects still occurring.

### Illustrative Example

This can be seen in Table 17, which sets out a very basic approach as an illustrative example to analysing the impact of displacement, over time, per cohort, with a 5-year effect duration:

Working through Table 17: each year, from year 1 through to year 6, sees a number of workers entering the UK; the number of workers entering in year 1 (200) belong to cohort year t (t reflects a cohorts first year); so looking **only** at year 2, the number entering in year 2 (300) belong to cohort year t (as this is their first year), and the cohort which entered in year 1 become part of cohort t-1; in year 3, those who entered in year 2 will become part of cohort year t-1, and those who entered in year 1 will become part of cohort year t-2; as the effect of displacement declines over time, a particular years cohort will displace fewer UK natives as that cohort progresses through time; so the 200 migrants in year 1 will displace 30 natives in year 1, 12 in year 2, 9 in year 3, 6 in year 4, 3 in year 5, and 0 in year 6.

Table 17 Illustrative Example of the Impact of Displacement (5-year displacement assumed)

		Migrants present in:					
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Arrival year	t	200	300	250	600	400	200
	t-1		200	300	250	600	400
	t-2			200	300	250	600
	t-3				200	300	250
	t-4					200	300
	t-5						200
<b>Sum</b>		200	500	750	1350	1750	1950
		Assumed displacement of native workers (%)					
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Arrival year	t	15%	15%	15%	15%	15%	15%
	t-1		12%	12%	12%	12%	12%
	t-2			9%	9%	9%	9%
	t-3				6%	6%	6%
	t-4					3%	3%
	t-5						0%
		Assumed displacement of native workers (#)					
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Arrival year	t	30	45	37.5	90	60	30
	t-1		24	36	30	72	48
	t-2			18	27	22.5	54
	t-3				12	18	15
	t-4					6	9
	t-5						0
<b>Sum</b>		30	69	92	159	179	156

Note: volumes are purely illustrative.

### Replacement

Whilst the above outline of displacement is considered to be a cost, a benefit would arise if measuring the impact of migrants leaving the UK, or migrants deterred from coming to the UK. This is known as a *replacement* effect. MAC (2012) tentatively suggests that any reduction in native employment associated with migrant inflows is equal to an increase in native employment associated with equivalent migrant outflows. Furthermore, as it is not known for how long migrants who leave the country were in the country, the central estimate is that they stayed here for 3 years, and this is taken into account when assessing the replacement effect (essentially, a migrant leaving after staying for 3 years will permit replacement of fewer UK residents than a migrant leaving after staying for only 1 year).

### Application to this IA

The policy changes considered in this IA result in both a reduced inflow of migrants, and an increased outflow of migrants currently residing in the UK. Thus there will be the occurrence of replacement. The assumption is that from the number of low skilled immigrants that leave the UK that were employed, 15% of the employment vacated will be filled by UK natives.

Table 18 outlines the assumptions used to calculate the monetary value of replacement based on applicable visa products.

**Table 18 Wages and Employment rate**

Product	Estimated decrease in grants vs 2015/16 baseline					Median wage (working)	Employment rate	Median wage (all)
	2015/16	2016/17	2017/18	2018/19	2019/20			
Family route to settlement	30	30	30	20	20	£68,000	84%	£24,000
Settlement - Dependant Relative	-	-	-	-	-	£85,000	41%	£7,000
Tier 1 – Entrepreneur, standard – Main	-	-	-	-	-	£110,000	90%	£33,000
Tier 1 – Entrepreneur, standard – Dependant	-	-	-	-	-	£99,000	41%	£7,000
Tier 1 – Investor, standard – Main	-	-	-	-	-	£110,000	90%	£33,000
Tier 1 – Investor, standard – Dependant	-	-	-	-	-	£107,000	41%	£7,000
Tier 1 - Exceptional Talent Postal - Main	-	-	-	-	-	£110,000	90%	£33,000
Tier 1 - Exceptional Talent Postal - Deps	-	-	-	-	-	£107,000	41%	£7,000
Tier 1 Graduate Entrepreneur Route - Dependants	-	-	-	-	-	£68,000	41%	£7,000
Tier 1 - General- Dependants	-	-	-	-	-	£63,000	41%	£7,000
Tier 2 Main Apps	10	10	10	10	10	£111,000	84%	£46,000
Tier 2 Dependants	10	10	10	10	10	£107,000	41%	£7,000
Tier 4 - Main Apps	-	-	-	-	-	£45,000	28%	£2,000
Tier 4 - Dependants	-	-	-	-	-	£59,000	41%	£7,000
Tier 5 Temp Work	10	10	10	10	10	£8,000	84%	£11,000
Tier 5 YM	-	-	-	-	-	£22,000	72%	£11,000
LTR Non Student Postal Main	80	80	80	80	70	£24,000	84%	£24,000
LTR Non Student Postal Deps	-	-	-	-	-	£24,000	41%	£7,000
Employment LTR outside PBS Postal - Main	-	-	-	-	-	£24,000	84%	£24,000
Employment LTR outside PBS Postal - Dependants	-	-	-	-	-	£24,000	41%	£7,000
Tier 1 – Entrepreneur, standard – Main	-	-	-	-	-	£110,000	90%	£33,000
Tier 1 – Entrepreneur, standard – Dependant	-	-	-	-	-	£99,000	41%	£7,000
Tier 1 – Investor, standard – Main	-	-	-	-	-	£110,000	90%	£33,000
Tier 1 – Investor, standard – Dependant	-	-	-	-	-	£107,000	41%	£7,000
Tier 1 - Exceptional Talent Postal - Main	-	-	-	-	-	£110,000	90%	£33,000
Tier 1 - Exceptional Talent Postal - Deps	-	-	-	-	-	£107,000	41%	£7,000
Tier 1 - Graduate Entrepreneur Postal - Main	-	-	-	-	-	£21,000	83%	£21,000
Tier 1 - Graduate Entrepreneur Postal - Deps	-	-	-	-	-	£21,000	41%	£7,000
Tier 2 - Postal Main	10	10	10	10	10	£112,000	84%	£46,000
Tier 2 - Postal Dep	-	-	-	-	-	£101,000	41%	£7,000
Tier 2 - Postal Main (ICT <12 months)	-	-	-	-	-	£26,000	84%	£68,000
Tier 2 - Postal Deps (ICT <12 months)	-	-	-	-	-	£26,000	41%	£7,000
Tier 4 - Postal Main	-	-	-	-	-	£41,000	28%	£2,000
Tier 4 - Postal Deps	-	-	-	-	-	£46,000	41%	£7,000
Tier 5 - Postal Main	-	-	-	-	-	£9,000	72%	£11,000
Tier 5 - Postal Deps	-	-	-	-	-	£11,000	41%	£7,000

Source: Home Office analysis

There is a zero decrease for in-country dependent and Tier 4 applications, as it is assumed these are not responsive to fees changes, as explained earlier.

Employment rates are sourced from LFS 2014 Q2.

Rounding: nearest 10 / nearest £1,000

Table 19 outlines the estimates of the replacement methodology applied to this IA.

**Table 19 Employment impacts of migrants leaving the UK, 2015/16 to 2019/20**

	2015/16	2016/17	2017/18	2018/19	2019/20
Reduction in migrant workers vs base year	30	30	20	20	20
Additional UK residents employed	-	10	10	10	10

Source: Home Office analysis

Rounding: nearest 10

Table 19 outlines the volumes leaving the UK each year. The cumulative volumes takes into account the replacement rate of 15% and also factors in the diminishing rate of replacement each year for cohorts from the previous years, this is progressively cumulative, as recall that cohorts from previous years have an impact that declines over time. In other words, 15% of employment vacated by outgoing migrants in a particular year will be filled by natives; the following years will see some more natives taking up employment vacated by that particular cohort of leaving migrants, but at a reduced rate. Overall, this results in increased employment for UK residents, as the volume leaving the UK rises each year. The central estimate shown here assumes that replacement effects last on average for 3 years following the decrease of migrants.