

# Impact Assessment, The Home Office

**Title:** Impact Assessment for Immigration and Nationality (fees) Order (Amendment) 2022

**IA No:** HO0407

**RPC Reference No:** N/A

**Other departments or agencies:** N/A

**Date:** 5 January 2022

**Stage:** FINAL

**Intervention:** Domestic

**Measure:** Secondary legislation

**Enquiries:**

feesandincomeplanning.requests@homeoffice.gov.uk

**RPC Opinion:** N/A

**Business Impact Target:** Not a regulatory provision

## Cost of Preferred (or more likely) Option (in 2021/22 prices)

<b>Net Present Social Value NPSV (£m)</b>	N/A	<b>Business Net Present Value BNPV</b>	N/A	<b>Net cost to business per year EANDCB (£m)</b>	N/A
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### What is the problem under consideration? Why is government intervention necessary?

A Fees Order sets out the scope for fee setting, including the types of services attracting fees and the maxima that may be charged, though the fees themselves are set via regulations. Visa and immigration fees are set every year through Fee Regulations to ensure that the Home Office has appropriate funding to provide effective Border, Immigration and Citizenship (BIC) services to those who use them and to move closer towards 'self-funding' and reduce the burden on the taxpayer. For some routes, the visa fee is already either at or very close to the maxima.

### What is the strategic objective? What are the main policy objectives and intended effects?

The strategic objective is to attract talent and take back control. The policy objective is to enhance the flexibility in setting fees at a level sufficient to support the effective operation of the Borders, Immigration and Citizenship system. The proposed maxima will ensure that the costs of operating the system can be fully taken into account when considering specific fee levels, and provide additional scope to ensure the charging structure is flexible enough to support evolving products and services. The objectives are set for one year and are measurable.

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

**Option 0** – Do nothing: no changes are introduced; fee maxima remain at current levels.

**Option 1** – Increase the fee maxima for the short-term visit visa by £35 and the student visa by £10.

**Option 1 is the Government's preferred option. This Fee Order will not directly impact fees charged. It is not an indication of the level of fees that may be set in the future.**

<b>Main assumptions/sensitivities and economic/analytical risks</b>	<b>Discount rate (%)</b>	3.5
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Baseline volumes are based on Home Office internal planning assumptions see Table 2 (sE.1.2). Volumes data used in this IA are highly uncertain and may not match actual outturns in future published statistics. The impact of increases in visa fees on volumes is based on assumptions of price elasticity of demand for visas, see Table 3 (sE.1.5). The analysis uses proxies of the price elasticity for visa demand available in the academic literature. Exchequer effects are based on assumed expenditure and associated tax contributions.

**Will the policy be reviewed?** Ongoing review

**If applicable, set review date:** N/A

*I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.*

Signed by the responsible Minister: \_\_\_\_\_ Kevin Foster \_\_\_\_\_ Date: \_\_\_\_\_ 11 January 2022 \_\_\_\_\_

# Summary: Analysis & Evidence

# Policy Option 1

## Description:

### FULL ECONOMIC ASSESSMENT

Year(s):	Price Base	2021/22	PV Base	2021/22	Appraisal	5	Transition	1
Estimate of Net Present Social Value NPSV (£m)						Estimate of BNPV (£m)		
Low:	N/A	High:	N/A	Best:	N/A	Best BNPV	N/A	

COSTS, £m	Transition Constant Price	Ongoing Present Value	Total Present Value	Average/year Constant Price	To Business Present Value
Low	N/A	N/A	N/A	N/A	N/A
High	N/A	N/A	N/A	N/A	N/A
Best Estimate	N/A	N/A	N/A	N/A	N/A

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

There is no impact of the Fee Order itself, indicative direct and indirect costs of a fee increase to the new maxima for visitor extensions and in-country students and their dependants in the central scenario are: **Direct:** 1) UK Exchequer (Fee Revenue): Lost fee revenue due to lower application volumes, £24 million. 2) UK Exchequer (IHS Revenue): Negligible reduction in revenue.

**Indirect:** 3) UK Exchequer: Foregone tax revenue resulting from a lower number of migrants in the UK, £42 million. 4) UK Universities: Reduced tuition fee revenue due to lower application volumes, £0.4 million. All costs are present values (PV) over five years.

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

There may be wider indirect costs to business of foregone spending by visitors and students which are not monetised. Negligible impacts on third party IHS payment processing firm are not quantified.

BENEFITS, £m	Transition Constant Price	Ongoing Present Value	Total Present Value	Average/year Constant Price	To Business Present Value
Low	N/A	N/A	N/A	N/A	N/A
High	N/A	N/A	N/A	N/A	N/A
Best Estimate	N/A	N/A	N/A	N/A	N/A

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

There is no impact of the Fee Order itself, indicative benefits of a fee increase to the new maxima in the central (best estimate) scenario are (all in present values (PV) over five years):

**Direct:** 1) UK Exchequer (Fee Revenue): Increased revenue from visa fee increase, £429 million, 2) Home Office: Reduced processing costs from applicants who are deterred, £33 million.

**Indirect:** 3) UK Exchequer: Negligible reduction in public service expenditure.

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

Social and community impacts including congestion are expected to be minimal given the short-term nature of visits and the very low expected changes in volumes of in-country students.

### BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m: N/A									
Cost, £m	N/A	Benefit, £m	N/A	Net, £m	N/A				
Score for Business Impact Target (qualifying provisions only) £m:					N/A				
Is this measure likely to impact on trade and investment?					N/A				
Are any of these organisations in scope?		Micro	N	Small	Y	Medium	Y	Large	Y
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)				Traded:	N/A	Non-Traded:	N/A		

### PEOPLE AND SPECIFIC IMPACTS ASSESSMENT (Option 2)

Are all relevant Specific Impacts included?	N/A	Are there any impacts on particular groups?	N/A
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## Evidence Base (for summary sheets)

### A. Strategic Objective and Overview

#### A.1 Strategic Objective

1. The strategic objective is to attract talent and take back control. The UK has left the EU and needs to have flexibility in setting fees at a level sufficient to support the aim of moving towards a self-funded immigration system. the effective operation of the Borders, Immigration and Citizenship system (BICs). The changes proposed will enable the department to ensure that the costs of operating the system can be fully taken into account when considering specific fee levels, and provide additional scope to ensure that the department's charging structure is flexible enough to support evolving products and services.

#### A.2 Background

2. The Government aims to move towards a self-funded immigration system, where the costs of front-line Border, Immigration and Citizenship operations are recovered through fees paid by those who use and benefit from the system. Currently, if fee income is insufficient to fund operating costs, the remainder is met from general taxation. To ensure that the system is sustainable, the Government believes it is fair that those who use and benefit directly from the UK migration system make an appropriate contribution to meeting its costs, thereby reducing the burden on UK tax payers.
3. The Immigration and Nationality (Fees) Order 2016 (the 2016 Order) sets the framework for border, immigration and nationality fees, including what categories of services can be provided and charged for, and the maximum amounts that can be charged for each category. Since implementation of the 2016 Order, a number of changes have been made through further secondary legislation to maintain the framework. The Government is now planning to increase the maximum fee level of a small number of visa products through an amendment to the 2016 Fee Order where they are at or close to the maxima. These increases are required so that there is sufficient flexibility for the Home Office to increase fees, if approved by HM Treasury and Parliament at a point in the future, and continue to support its ambition of a BICs that is funded by those who use it.
4. Fee levels are set within strict financial limits and are agreed with HM Treasury, cross-government departments and approved by Parliament via separate fees regulations. Fees are set in line with clear principles which balance a number of factors. In accordance with the Immigration Act 2014, these factors include 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. Other factors that may be used to set fees include the promotion of economic growth; comparable fees charged by other countries; and international agreements.
5. Within these criteria the Government will continue to consider the impact on the economy of changes to routes which promote economic growth and continue to attract those migrants and visitors who add significant value to the UK economy. This helps protect the economy, ensures migrants contribute towards the resources needed to fund the BICs, and minimises the burden on the taxpayer. There is a sensitive balance between setting fee levels to support economic growth whilst ensuring that the immigration system is properly funded.
6. Some visa fees are set above the cost of delivery, to reflect the value of the product or the wider costs of the immigration system, and to ensure that the Home Office can set some fees at below cost. Some fees are set at below cost to support International Agreements. The Department also waives fees in certain circumstances, for example, where individuals are destitute and need to access their Human Rights, for example, their right to a family life. Some fees are charged at cost to reflect the cost of delivery (or unit cost). Though not addressed within the impact assessment (IA), optional premium services charged above cost are offered to meet customer demands and to limit fee increases in other areas.

7. A change to the Fees Order only sets the boundary by which a fee may be set up to. This IA explores an indicative increase up to the maxima. Fee changes can only be set by a negative fees regulation. The IA considers the overall impact of immigration and nationality fee changes. It estimates the overall costs and benefits to the UK economy. In line with previous Home Office analysis and following recommendations made by the Migration Advisory Committee (MAC); this IA considers the impact of the options on the welfare of the UK resident population. As the MAC acknowledges, the resident population is not simple to define. In this IA, the resident population is considered to be UK nationals and migrants who apply for naturalisation as British citizens.

### **A.3 Groups Affected**

8. The main groups affected are those migrants wishing to come to or extend their stay in the UK under one of the routes where the fee maxima is increasing. The fee migrants will pay will not be changing via the Fees Order amendment. This IA explores the indicative impact of increases were they to reach the new fee maxima.
9. The fee maxima for the student route determines the maximum fee which can be set for both the in-country and out of country student routes however, increasing the maxima is not relevant to the out of country route because the current fee is set significantly below the maxima. Therefore, this IA only quantifies the impact of the in-country student route change because given the large headroom between the current fee and the maxima for the out of country route, there is no reason to expect an impact of this change over the appraisal period.
10. The proposed changes considered in this IA involve increasing the fee order maxima on two routes. Therefore, the groups affected are the following:
  - Those applying for the short term (up to 6 months) visit fee maxima, including those applying to the two-year Chinese visa pilot.
  - Main applicants and dependents of the in-county student route.

### **A.4 Consultation**

11. At the end of 2013 the Home Office undertook a targeted consultation on charging principles in support of the framework set out in the Immigration Act 2014, which was approved by Parliament. Immigration and nationality fees continue to be set within this framework.
12. Fee proposals are assessed in the context of broader government objectives by officials from all relevant government departments. They consider a range of factors including the UK's attractiveness in key markets (such as tourism, business, and education) to ensure a balance is maintained between keeping fees at fair and sustainable levels and the Home Office's need to recover its operating costs in order to move towards a self-funded system. The proposals contained in this IA have been agreed in principle with other government departments.

## **B. Rationale for intervention**

13. The Home Office wishes to ensure that the fees it charges for immigration and nationality services are set at appropriate levels to contribute adequately towards the costs of running the BICs, as agreed as part of the Home Office's Spending Review settlement in 2015. The Home Office has continued to adopt this approach as a planning assumption to underpin the 2021 Spending Round settlement.
14. 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 forward its aims of reducing the taxpayer's

contribution to the running of the BICs, maintaining public confidence, and ensuring that migration is managed for the benefit of the UK.

**Table 1: Fees, fee maxima and headroom for fee increases for each route, £.**

Visa category	Current fee	Current maxima	Headroom	Proposed new Maxima
<b>Out of Country</b>				
Short term Visit Visa	95	95	0	130
Students- main applicants and dependents	348	480	132	490
<b>In-Country</b>				
Students- main applicants and dependents	475	480	5	490

Source: Home Office immigration and nationality fees.

15. With the 2019 Fee Regulations, the Home Office increased fees for the Short-term Visit Visa (STVV) up to the maximum level as set out in the 2016 Fee Order. Any further increase in STVV fees requires a change to the maximum level to provide further flexibility. The new maximum has been proposed at a level reflecting the current estimated unit cost for this type of visit visa of £130.
16. For in-country students, as Table 1 shows, the current maxima leave very little headroom to increase visa fees. It therefore, makes sense to increase the maxima to ensure that the route has sufficient headroom to enable modest fee increases in future if required, whether that be to provide additional funding, to reflect changing costs of the service or to enable fees to be consolidated to streamline the customer experience.
17. As noted in paragraph 9, there is significant headroom for the out of country student route which means that raising the maxima is unlikely to have any impact on the fee that is charged over the appraisal period. Therefore, the out of country student route will not be considered further in this IA.

## C. Policy objective

18. The Government's policy objectives on charging for immigration remain in line with objectives set out in previous Fee Orders and Regulations. These objectives apply for the entirety of the appraisal period and can be measured. They are:
  - Those who use and benefit directly from the system (migrants, employers and educational institutions) contribute towards its costs, reducing the contribution of the taxpayer.
  - The fees system is as simple as possible, aligning fees where entitlements are similar.
  - Fees are set in line with the appropriate powers contained in the Immigration Act.

## D. Options considered and implementation

### Option 0 – Do nothing

19. Under the do-nothing option visa fees would remain at their current level and not be increased. This option could mean the Home Office is unable to fund its BICs fully and move closer to its self-funding objectives, would require potentially additional taxpayer funding, or put increased pressure on other fee routes.

## Option 1 – Increase visa fee maxima

20. Under Option 1 there would be an increase in the maxima for the following routes:
- Short-term (up to 6 months) visas from £95 to £130, aligning the maximum fee with the estimated unit cost for the visa.
  - Student main applicants and all dependents from £480 to £490.
21. **This is the Government's preferred option** as it best meets the Government's objectives, in particular that those who use and benefit directly from the system contribute towards its costs, reducing the contribution of the taxpayer.

## E. Appraisal

22. The following section sets out the economic costs and benefits of the proposed change to visa fees for the two routes. Changes introduced with the 2021 Fee (Amendment) Order will not directly lead to changes in the actual fee levels, but rather increase the maximum level at which fees could be charged in the future. The analysis therefore considers, for illustrative purposes, the impact of raising visit visa fees up to the new maximum level set by the Fee Order to provide an indication of potential impacts. Similarly the analysis considers the potential impact of increasing the in country student fees to the maxima. Given headroom in out-of-country student fees it is assumed there is no impact from increasing the maximum fee. These are not an indication of the level of fees that may be set in the future.
23. Applications for visitor visas had been increasing in recent years and in the year ending March 2020, there were 2.6 million applicants for visitor visas.<sup>1</sup> Student visa applications have also been increasing, with volumes of visas granted (including dependants) reaching 300,000 in the year to March 2020. This was a 23 per cent increase on the previous year and the highest level since the year ending June 2011<sup>2</sup>. Since March 2020, international travel restrictions due to Covid-19 have caused a substantial decrease in the volume of visitor visa applications. In the year ending September 2021, there were 430,000 applications for visitor visas, 59 per cent fewer than the number in the previous year<sup>3</sup>. It is expected that visa applications will eventually return to pre-pandemic levels, but it is uncertain how long this will take. Volumes of in-country student applications have not been as affected by the COVID-19 travel restrictions
24. Recent international research<sup>4</sup> suggests that the experience of obtaining a visa, and in particular the cost, is one important factor in determining the country of choice for tourists, though not necessarily the most important. However, the complexity, speed and cost of the process for obtaining a UK tourist visa appear to be comparable to that of other similar destinations, including Australia, France and the US.
25. The analysis produces a net present social value (NPSV) assuming an increase in the visa fees from the current fee up to the maxima on a purely indicative date of Q1 of 2022/23. This is for illustrative purposes only and is by no means an indication of when and to what level fees may be changed. This IA uses central assumptions on the responsiveness of applicants to changes in visa fees (price elasticity of demand) and also produces a range around this central scenario using high and low elasticity assumptions, detailed in section E.1.5. Sensitivity analysis in Section G considers the impact on the NPSV of differing baseline volumes for each visa route.

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<sup>1</sup><https://www.gov.uk/government/publications/immigration-statistics-year-ending-march-2020/how-many-people-come-to-the-uk-each-year-including-visitors>

<sup>2</sup>Statistics relating to passenger arrivals since the COVID-19 outbreak, May 2021 - GOV.UK ([www.gov.uk](http://www.gov.uk))

<sup>3</sup>How many people come to the UK each year (including visitors)? - GOV.UK ([www.gov.uk](http://www.gov.uk))

<sup>4</sup>Perceptions of getting a visa to Britain Foresight – issue 163, VisitBritain

26. The IA applies a methodology broadly in line with that used for the IA for the Fee Order 2016<sup>5</sup>, the Impact Assessment for the Fee Regulations 2018<sup>6</sup> and the Impact Assessment for the Fee Regulations 2019<sup>7</sup>. The data, assumptions, and methodology used in the analysis are reviewed and updated where possible ahead of publication of each IA.

## **E.1 General assumptions and data**

### **E.1.1 Objective function**

27. In line with previous Home Office analysis and recommendations made by the Migration Advisory Committee (MAC)<sup>8</sup>, this IA considers the impact of raising visa fees on the welfare of the UK resident population. Besides the effect on government revenue and processing costs due to changes in visa fees, the NPSV calculation includes the fiscal impact of changes in the number of migrants.
28. As the MAC acknowledges, the resident population is not simple to define. In Home Office IAs that appraise changes to visa fees, the resident population are considered to be UK nationals and migrants who apply for naturalization as British citizens. In this IA, migrants entering the UK on either the short term visitor route or the in-country student route are not considered as UK resident population.

### **E.1.2 Volumes**

29. The future volume of applications for each visa product is based on Home Office internal planning assumptions, accounting the impact of Covid-19. These are Home Office internal estimates of expected applications over the appraisal period.<sup>9</sup> These volumes are used as the baseline against which the impact of proposed changes in visa fees are assessed. The estimates cover the period until 2024/25 and the IA assumes that the baseline volumes remain constant at 2024/25 levels across the final two years of the appraisal period to 2026/27.
30. The STVV volumes represent the estimated number of applications from countries which require a visa. Therefore, these volumes do not include EU, EEA or Swiss citizens nor those travelling from other non-visa countries as they can travel to the UK for holidays or short trips without needing a visa.<sup>10</sup> The student volumes represent all of those applying for the in-country student visa, including those on the doctoral extension route and the child student route for both EEA and non-EEA migrants.
31. As the figures are based on Home Office internal estimates, they should be considered as indicative, due to the uncertainty around estimates of future visa applicants' behaviour, particularly due to the impact of COVID-19. The main body of this IA accounts for the impact of COVID-19 on application volumes. While any potential future fee increase would be in an undetermined point in the future, these volumes represent the best current estimate of application volumes over this appraisal period. In the Sensitivity Analysis, this IA tests the impact on the NPSV if fees were to be raised whilst COVID-19 was no longer having any significant impact on volumes of visa applications.

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<sup>5</sup> [https://www.legislation.gov.uk/ukia/2016/10/pdfs/ukia\\_20160010\\_en.pdf](https://www.legislation.gov.uk/ukia/2016/10/pdfs/ukia_20160010_en.pdf)

<sup>6</sup> [http://www.legislation.gov.uk/ukia/2018/59/pdfs/ukia\\_20180059\\_en.pdf](http://www.legislation.gov.uk/ukia/2018/59/pdfs/ukia_20180059_en.pdf)

<sup>7</sup> [https://www.legislation.gov.uk/ukia/2019/75/pdfs/ukia\\_20190075\\_en.pdf](https://www.legislation.gov.uk/ukia/2019/75/pdfs/ukia_20190075_en.pdf)

<sup>8</sup> MAC (2012) "Analysis of the Impact of Migration"; January. <https://www.gov.uk/government/publications/analysis-of-the-impacts-of-migration>

<sup>9</sup> The internal estimates of expected applications do not account for the changes in visa fees introduced by the Fee Regulations 2021

<sup>10</sup> <https://www.gov.uk/guidance/visiting-the-uk-as-an-eu-eea-or-swiss-citizen>

**Table 2: Estimated baseline visa applications volumes for the period 2022/23 to 2026/27**

Visa type	2022/23	2023/24	2024/25	2025/26	2026/27
<b>Out of Country</b>					
Visit visa – short	1,510,000	2,030,000	2,330,000	2,330,000	2,330,000
Visit visa – short (Chinese)*	210,000	500,000	710,000	710,000	710,000
<b>In-Country</b>					
Student- main applicants	43,000	43,000	43,000	43,000	43,000
Student- dependants	5,000	5,000	5,000	5,000	5,000
<b>Total</b>	<b>1,770,000</b>	<b>2,580,000</b>	<b>3,090,000</b>	<b>3,090,000</b>	<b>3,090,000</b>

Source: Home Office internal analysis. Visit visa and total volumes rounded to the nearest 10,000. Student volumes rounded to the nearest 1,000. \*Two- year visit visas, sold at the price of a short-term visit visa under the Chinese visit visa pilot scheme.

### E.1.3 Fee levels

32. This IA measures the impact of increasing the visa fee for the two routes from the current fee up to the proposed increased fee maxima as set out in Annex 1, in the column entitled “Proposed Fee Order maxima 2021”. Annex 1 also shows the most recent estimates of unit costs for each visa category and further details on how unit costs are calculated. Unit costs remain unchanged from 2017/18 levels.
33. The options are as follows:
- **Option 0** – Under this option the standard visa fee for the two routes remain at the current level.
  - **Option 1** – Under this option STVV fees increase from £95 to £130 and the in-country student visa fee increases from £475 to £490.
34. **Option 1** represents a purely illustrative indication of the potential impact of a future rise in the visa fees up to the maximum permitted under the Fee Order. It does not represent an indication of the fee that may be set.

### E.1.4 Appraisal period

35. This IA provides illustrative scenarios on the impact of raising the visa fee for the two routes up to the proposed maximum level set by the Fee Order to provide an indication of potential impacts if such a change were to be made. This IA appraises the impact of such an increase being legislated for in Q1 2022/23 and remaining at that level for the following five years. However, at present there is no indication of whether and how future levels of visa fees will change, as these will be set year-on-year in future Fee Regulations. As such, this IA does not reflect the start date for any future change in the fee.

### E.1.5 Price elasticity of demand

36. The increase in visa fees could have an impact on the number of visa applications received each year by deterring some potential migrants from applying to enter the UK. This IA applies estimates on the responsiveness of demand for visas to the expected change in visa fee (price elasticity of demand for visa products) and quantifies the impact this has on the volume of applications for each visa product.
37. There is very limited academic research on the price elasticity of demand for visas. Indeed, Home Office internal research has not found any evidence of a statistically significant relationship between small changes in visa fees and the volume of applications for visa products. However, absence of



evidence does not necessarily imply that there is no relationship and for short term visit visas, an increase to the proposed fee maxima would represent a relatively significant 37 per cent increase.

38. To avoid the risk of underestimating the impact of the changes, the analysis uses estimates of price elasticity of demand available from the academic literature developed in similar contexts as proxies for the price elasticity of demand for visas. Annex 2 provides a high-level summary of the available literature and elasticity estimates used. Further detail can be found in the publication “A review of evidence relating to the elasticity of demand for visas in the UK” published in March 2020<sup>11</sup>.

### **Visit visas**

39. For visit visas the analysis uses estimates of price elasticity of demand for airfare available in the academic literature as a proxy for the price elasticity of demand for a visit to the UK. The price elasticity of demand for airfare is the responsiveness of the demand for air travel to changes in the price of air travel.
40. The estimate of airfare used in this analysis is a weighted average of the average cost of airfare for ordinary and business visits. This is a revision to the methodology of previous IAs, which used the estimate for visitor airfares only. However, as the visa fee remains a small part of the aggregate cost of travel this is likely to have had only a small impact on volumes affected.
41. The elasticity identified for visitor visas has been used to produce a range around the NPSV impact of this policy; the elasticity assumptions used are detailed in Table 3. The central scenario uses an elasticity estimate of -0.35, based primarily on the DfT estimates of price elasticity of demand to changes in airfares for foreign leisure and business sectors.<sup>12</sup> The low scenario uses an estimate of zero and the high scenario an estimate of -0.7, double the central case. The change in the price of a visit visa has been applied to the typical airfare paid by visitors coming to the UK from visa-paying countries.

### **Student visas**

42. International students demand student visa products in order to purchase education in the UK. Therefore, the reduction in migrant volumes entering the UK for study-related reasons as a result of changes to study-related visa fees, could be estimated by applying estimates of the price elasticity of demand for higher education to the overall costs of undertaking higher education in the UK.
43. The elasticities identified in the academic literature have been used to produce a range around the NPSV impact of this policy; the elasticity assumptions used are detailed in Table 3. A central scenario would assume an inelastic reduction in the demand for higher education as a result of changes in visa fees. The elasticity value was chosen from the study most consistent with international students coming to the UK (Conlon, Ladher and Halterbeck, 2017)<sup>13</sup> where a weighted average of -0.4 was calculated as a central estimate. A low scenario should assume a zero response to the change in price, while the high scenario should use an elasticity of -0.8.

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<sup>11</sup> <https://www.gov.uk/government/publications/a-review-of-evidence-relating-to-the-elasticity-of-demand-for-visas-in-the-uk>

<sup>12</sup> An internal academic literature review was used to tailor the estimates from the DfT's UK aviation forecasts 2017 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/781281/uk-aviation-forecasts-2017.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/781281/uk-aviation-forecasts-2017.pdf)

<sup>13</sup> <https://www.hepi.ac.uk/wp-content/uploads/2017/01/Hepi-Report-91-Screen.pdf>

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

Elasticity	Justification	Products	Magnitude		
			Low	Central	High
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 – all lengths	0	-0.35	-0.7
Price elasticity of demand for higher education	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 the student route.	Student visa Confirmations of Acceptance for Studies (CAS)	0	-0.4	-0.8

Source: [A review of evidence relating to the elasticity of demand for visas in the UK](#)

### E.1.6 Grant Rates

44. The baseline volumes set out in Table 2 represent application volumes. However, not all applications are granted, and will not lead to an issued visa. This IA uses internal Home Office management information for the period 2019/20 for the proportion of visa applications that were granted over that year for each route, and uses this as an assumption for the full appraisal period.
45. Specifically, this IA assumes the following proportions of visa applications are granted:
  - Visit visa (6-months) – 78 per cent.
  - Visit visa (2-year Chinese visitor pilot) – 93 per cent.
  - In-country Student: Main Applicants – 90 per cent.
  - In-country Student: Dependants – 88 per cent.

## E.2 Costs and benefits

46. The proposed changes will generate direct benefits for the Home Office. Revenues will be higher from those applicants that continue to apply despite higher fees. There may also be an indirect behavioural impact that results from the increase in fees, a reduction in demand for visas. This is estimated through the application of assumptions on the elasticity of demand for visas to the price. Most of the indirect costs and benefits of the proposed policy arise as a consequence of the effect on volumes. Central and High elasticity estimates are presented below, and in all instances except the increase in Home Office revenue, the impact in the low elasticity scenario is zero.

### E.2.1 Volumes

47. Table 4 shows the estimated effect of price elasticity of demand on visa applications and Table 5 shows the effect on visa granted using central elasticity assumptions for Option 1. In all cases, under the low elasticity scenario, the change in applications and grants is zero, and under the high elasticity scenario, the change in applications and grants is double the values set out in the tables below.
48. An increase in visa fees up to the maximum is expected to have relatively small impacts on visa applications and visas granted. This is largely because the price of a visa is a small proportion of the expected cost of travel or study for migrants. For migrants on the STVV route, the 37 per cent change in visa fee represents on average a 7 per cent change in the cost of visiting the UK. The impact on in-country student volumes is particularly small because baseline volumes on this route are low and the illustrative fee change only represents a 5 per cent increase in the fee. Also, the change in fee

as a percentage of the total cost of extending study in the UK is less than 1 per cent. This explains why there is a negligible change in visa applications and visas granted under this route.

49. Under **Option 1**, the reduction in both STVV product applications represents no change in the low elasticity scenario, a 2 per cent reduction in the total number of visa applications in the first year of the appraisal period in the central case, up to a 4 per cent reduction in the high elasticity scenario.

**Table 4: Option 1 – Estimated reduction in visa applications (Central case)**

	Estimated change in applications compared to baseline				
	2022/23	2023/24	2024/25	2025/26	2026/27
<b>Out of Country</b>					
Visit visa – short	-40,400	-52,700	-58,500	-56,700	-55,000
Visit visa – short (Chinese)*	-500	-1,200	-1,700	-1,600	-1,600
<b>In-Country</b>					
Student main applicants	~	~	~	~	~
Student dependants	~	~	~	~	~
<b>Total</b>	<b>-41,000</b>	<b>-53,900</b>	<b>-60,200</b>	<b>-58,300</b>	<b>-56,600</b>

Source: Home Office Analysis. Rounding: Volumes rounded to the nearest 100.

\*These are two-year visit visas, sold at the price of a short-term visit visa under the Chinese visit visa pilot scheme. ~ represents volumes of less than 10.

**Table 5: Option 1 – Estimated reduction in visas granted (Central case)**

	Estimated change in grants compared to baseline				
	2022/23	2023/24	2024/25	2025/26	2026/27
<b>Out of Country</b>					
Visit visa – short	-31,500	-41,100	-45,700	-44,200	-42,900
Visit visa – short (Chinese)*	-500	-1,100	-1,600	-1,500	-1,500
<b>In-Country</b>					
Student main applicants	~	~	~	~	~
Student dependants	~	~	~	~	~
<b>Total</b>	<b>-32,000</b>	<b>-42,200</b>	<b>-47,300</b>	<b>-45,700</b>	<b>-44,400</b>

Source: Home Office Analysis. Rounding: Volumes rounded to the nearest 100.

\*These are 2-year visit visas, sold at the price of a short-term visit visa under the Chinese visit visa pilot scheme. ~ represents volumes of less than 10.

50. The range of elasticities identified in Table 3 have been used to produce a range of the NPSV impact of the policy. Unit costs of processing a visa application are outlined in Annex 1. Unit costs are assumed to stay flat in nominal terms over the appraisal period as these costs are reviewed year-on-year and do not necessarily grow in line with inflation.

## E.2.2 Direct Costs

### Loss of Home Office revenue

51. A reduction in visa applications (as a consequence of the assumed response of migrants behaviour to the increased cost of a visa) is assumed to result in lost Home Office revenue. This loss in revenue is calculated by multiplying the baseline fee by the reduction in the volume of applicants to capture

the income that will no longer accrue as a result of the behavioural response. The cost of increasing the fee to the maxima set out in the Order would be up to £48 million with a central estimate of £24 million (PV, 2021/22 prices) over the five-year appraisal period for **Option 1**. This is almost completely derived from a reduction in STVV applications as any loss in Home Office revenue caused by reductions of in-country student volumes is negligible at less than £0.1 million over the five-year appraisal period.

### **Loss of Immigration Health Surcharge revenue**

52. The Immigration (Health Charge) Order 2015 requires that temporary migrants who make an immigration application to come to the UK for more than six months, or who apply to extend their stay in the UK, make a direct contribution to the NHS via payment of an immigration health surcharge (IHS). As such, IHS revenue is unaffected by changes to visitor visas (with a maximum 6 month stay) but a reduction in visa applications for the in-country student route would result in lost IHS revenue. If the fees were to increase to the maxima set out in the fee Order, the lost IHS revenue would be negligible at less than £0.1 million over the five-year appraisal period.

### **E.2.3 Indirect Costs**

#### **Loss to the exchequer**

53. Any reduction in the number of migrants in the UK may result in a loss to the Exchequer from reduced fiscal contributions due to a reduction in spend. For visitors, this is calculated using the average spend of a visitor during their stay in the UK of £1,450 in 2019/20, uprated to £1,500 in 2021/22 prices<sup>14</sup> and thus the relevant indirect tax contribution lost in the event that a visitor is deterred by the higher visit visa fees.
54. For students the loss to the exchequer is calculated using a bottom-up approach to estimate the expected contribution to direct and indirect taxes from students based on individual characteristics and data on their earnings and spending patterns. The methodology and assumptions follows the approach set out in previous Fee Regulations IAs with the estimated central per student revenue impacts uprated to 2021/22 prices.<sup>15</sup> The results are then applied to the reduction in in-country student volumes to get the total loss in Exchequer revenue from the change in student volumes.
55. If the fees were to increase to the new maxima, the loss to the exchequer would be up to £83 million with a central estimate of £42 million (PV, 2021/22 prices) over the five-year appraisal period. Changes to the short term visit visa route make up the majority of this loss, reductions in in-country students contributes a loss of around £0.2 million over the five-year appraisal period.

#### **Loss of tuition fee revenue**

56. A reduction in visa applications for in-country students (as a consequence of the assumed response of visitor's behaviour to the increased cost of a visa) is assumed to result in loss of tuition fee revenue. Estimates of tuition fee revenue are based on HESA data on tuition fee revenue from non-UK students.<sup>16</sup> If the fees were to increase up to the maxima proposed in the Order, the loss is estimated to be up to £0.7 million with a central estimate of £0.4 million (PV, 2021/22 prices) over the five-year appraisal period.

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<sup>14</sup> Home Office internal analysis of [TravelPac 2019 data](#), uprated to 2021/22 prices

<sup>15</sup> [The Immigration and Nationality \(Fees\) \(Amendment\) \(No. 3\) Regulations 2020 \(legislation.gov.uk\)](#)

<sup>16</sup> [What is the income of HE providers? | HESA](#)

## E.2.4 Direct Benefits

### Increase in Home Office revenue

57. An increase in visa fee would be expected to generate an increase in Home Office revenue from the applicants that continue to apply. This benefit is calculated as the change in visa fees times the new volume of applicants following the behavioural response. If fees were to increase to the new maxima, the estimated benefit to the Home Office from increased revenue is estimated to be between £420 million and £438 million with a central estimate of £429 million in the central case (PV, 2021/22 prices) over the five-year appraisal period.
58. The majority of additional revenue comes from the STVV route. For in-country students the benefit is estimated at £3 million in the under each of the three scenarios (PV, 2021/22 prices). The revenue impact under **Option 1** represents the highest possible additional revenue that could be raised from STVV fees, under current volume assumptions, as the fee is modelled to increase up to the proposed fee maximum.

### Reduction in Home Office processing costs

59. A reduction in migrants in the UK as a result of the elasticity effect on visa applications would result in a reduction in Home Office processing costs. This is calculated by multiplying the published unit cost for each product as set out in Annex 1 by the reduction in volumes. The administrative saving is estimated to be up to £65 million with a central estimate of £33 million (PV, 2021/22 prices) over the five-year appraisal period, if fees were to increase to the new maxima. Virtually this entire saving is derived from changes to the STVV route as the savings from in-country students is negligible at less than £0.1 million over the 5 year appraisal period.

### Reduction in IHS processing costs

60. A reduction in visa applications would result in a reduction in IHS processing costs falling to appointed third party business. However, these are of a scale too small to effectively quantify in this IA.

## E.2.5 Indirect Benefits

### Reduction in public expenditure

61. A reduction in in-country student visa applications would result in a reduction in expenditure on public services such as healthcare and education as fewer people would use such services. The methodology and assumptions follows the approach set out in previous Fee Regulations IAs with the estimated central per student revenue impacts updated to 2021/22 prices.<sup>17</sup> As the change in the volume of in-country students is small, if fees were increased to the maxima set out in the Order, the savings in expenditure on public services would be negligible at less than £0.1 million (PV, 2021/22 prices) over the five-year appraisal period.

## F. Summary of results

62. The results for **Option 1** are summarised in Table 6. Note that figures may not sum due to rounding. All estimates presented below and in the tables are subject to uncertainty, and should be treated as indicative of the scale of impacts, not precise predictions of actual impacts.

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<sup>17</sup> [The Immigration and Nationality \(Fees\) \(Amendment\) \(No. 3\) Regulations 2020 \(legislation.gov.uk\)](#)

63. The central estimate for the NPSV of the policy is £396 million (5-year PV, 2021/22 prices). Under the low elasticity scenario applicants do not have any behavioural response to a fee increase, which means that the only impact of the fee increase is the additional fee revenue. Under these assumptions, the NPSV of the policy increases to £438 million (5-year PV, 2021/22 prices). Under the high scenario, where applicants have a stronger behavioural response to fee increases, compared to the central scenario, the NPSV the policy reduces to £354 million (5-year PV, 2021/22 prices).
64. The NPSV comprises of the costs and benefits for the short term visit visa and the in-country student routes. The NPSV for the STVV route lies in the range of £352 and £434 million with a central estimate of £393 million (5-year PV, 2021/22 prices). For in-country students, the NPSV lies in the range of £2 and £3 million with a central estimate of £3 million (5-year PV, 2021/22 prices). These estimates are all based on an indicative option where visa fees for the routes are increased up to the maxima proposed by the fee order, and are presented as an illustrative example.
65. An increase in the visa fee for the in-country students would result in a reduction in tuition fee revenue due to the behavioural response to a fee change. Therefore, if fees were to be raised up to the maxima proposed in the Fee Order, the BNPV is estimated to be up to £0.7 million with a central estimate of £0.4 million (PV, 2021/22 prices) over the five-year appraisal period. The EANDCB would be zero as the only quantified business costs are indirect costs.

**Table 6: Cost and benefits of Option 1 under central assumptions, £ million.**

<b>Present Values (2021/22 prices)</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>NPV</b>
<b>Benefits</b>						
Revenue raised from fee changes	60	85	98	95	92	<b>429</b>
Saving to BICs from processing fewer applications	5	7	7	7	6	<b>33</b>
Reduction in public service expenditure	~	~	~	~	~	~
<b>Total benefits (PV)</b>	<b>65</b>	<b>91</b>	<b>105</b>	<b>102</b>	<b>98</b>	<b>462</b>
<b>Costs</b>						
Loss of fee revenue from fewer applications	-4	-5	-5	-5	-5	<b>-24</b>
Exchequer loss from reduction in migrants coming to and remaining in the UK	-5	-8	-10	-10	-9	<b>-42</b>
Loss of tuition fee revenue	~	~	~	~	~	<b>-0.4</b>
Loss of IHS revenue	~	~	~	~	~	~
<b>Total costs (PV)</b>	<b>-9</b>	<b>-13</b>	<b>-15</b>	<b>-15</b>	<b>-14</b>	<b>-66</b>
<b>Net Impact (PV)</b>	<b>56</b>	<b>78</b>	<b>90</b>	<b>87</b>	<b>84</b>	<b>396</b>

Source: Home Office internal analysis, 2021. Figures are rounded to the nearest £1 million. ~ represents the impact being negligible.

**Table 7: Comparison of cost and benefits of Option 1 under central, low and high elasticity assumptions, £ million.**

Present Values – Five-year appraisal period (2020/21 prices) Price elasticity of visa demand assumptions	Low elasticity / High NPSV	Central NPSV	High elasticity / Low NPSV
<b>Benefits</b>			
Revenue raised from fee changes	438	429	420
Saving to BICs from processing fewer applications	~	33	65
Reduction in public service expenditure	~	~	~
<b>Total benefits (PV)</b>	<b>438</b>	<b>462</b>	<b>486</b>
<b>Costs</b>			
Loss of revenue from fewer applications as a result of the fee change	~	-24	-48
Exchequer loss from reduction in migrants coming to and remaining in the UK	~	-42	-83
Loss of tuition fee revenue	~	-0.4	-0.7
Loss of IHS revenue	~	~	~
<b>Total costs (PV)</b>	<b>0</b>	<b>-66</b>	<b>-132</b>
<b>Net Present Social Value (NPSV)</b>	<b>438</b>	<b>396</b>	<b>354</b>

### Value for money (VfM)

66. Under the central assumptions, the benefit-cost ratio (BCR) of **Option 1** is 7. The BCR falls to 3.7 in the high elasticity scenario, and is not calculable in the low elasticity scenario as costs are estimated at zero. This means that if visa fees were to be increased up to the maxima for the routes considered, the estimated benefits would significantly outweigh the estimated costs across our scenarios.

### Place-based analysis

67. When migrants arrive in the UK, they are free to travel wherever they wish. However, the main quantified impacts of migration are accrued to central government, rather than being distributed across the country. Tourism also tends to be more prevalent in certain areas. For instance, in 2019 London had more visitors than the rest of England combined<sup>18</sup>. This means that the impacts of the potential changes to migration set out in this IA may be felt more in certain areas than others.

### Impact on small and micro-businesses

68. If fees were raised to the new maxima, there would be no estimated direct impact on small and micro-businesses. There could be some indirect impacts if reduced visitor numbers cause reduced demand for businesses, however this impact not likely to be significant as changes in volumes are likely to be small, in the range of 0 to 4 per cent.

<sup>18</sup>Travel trends estimates: overseas residents in the UK - Office for National Statistics (ons.gov.uk)

## G. Sensitivity Analysis

### Volumes

69. The main body of this IA accounts for the impact of COVID-19 on application volumes. While any potential future fee increase would be in an undetermined point in the future, these volumes represent the best current estimate of application volumes over this appraisal period. This Sensitivity Analysis tests the impact on the NPSV if fees were to be raised whilst COVID-19 was no longer having any significant impact on volumes of visa applications.
70. In this purely illustrative scenario, changes to visa fees are not made until volumes have recovered to the volumes indicated for 2024/25 under the Home Office internal planning assumptions used in the main body of this IA. As such, this does not represent a specific set of years, but rather captures the change in overall NPSV of the policy over a hypothetical five years with increased volumes. These adjustments are purely indicative
71. The same methodology is the applied to these revised assumptions as in the main body of the IA to generate an updated range of NPSVs, including considering the behavioural response of the increases in fees to generate reductions in volumes.

**Table 8: Estimated visa applications volumes for using the Covid-19 unadjusted volumes**

Visa type	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Out of Country</b>					
Visit visa – short	2,330,000	2,330,000	2,330,000	2,330,000	2,330,000
Visit visa – short (Chinese)*	710,000	710,000	710,000	710,000	710,000
<b>In-Country</b>					
Student- main applicants	43,000	43,000	43,000	43,000	43,000
Student- dependants	5,000	5,000	5,000	5,000	5,000
<b>Total</b>	<b>3,090,000</b>	<b>3,090,000</b>	<b>3,090,000</b>	<b>3,090,000</b>	<b>3,090,000</b>

Source: Home Office internal analysis. Rounding: Visit visa volumes and total volumes rounded to the nearest 10,000. Student volumes rounded to the nearest 1,000.

\*These are 2-year visit visas, sold at the price of a short-term visit visa under the Chinese visit visa pilot scheme

72. Using these volumes and keeping all other assumptions constant, the NPSV in the central case would rise by £56 million to £452 million (PV, 2021/22 prices) over the five year appraisal period and it would lie in the range of £404 and £501 million.
73. The NPSV for an increase in the STVV fee has risen by £57 million to £450 million (PV, 2020/21 prices) and it now lies in the range of £402 and £499 million.
74. The NPSV for an increase in the in-country student visa fee remains relatively unchanged at £3 million (PV, 2020/21 prices) and it still lies in the range of £2 and £3 million.

## H. Proportionality

75. The analysis presented in this IA builds on the analysis produced for the 2016 Fee Order IA, the 2018 Fee Regulations IA and the 2019 Fee Regulations IA. The two notable changes (which are discussed in E.1.5) are the assumptions used to estimate the cost of airfare and the elasticity estimates for price elasticity of demand for airfare. These updated assumptions have also been used in the Updating the Immigration Health Surcharge 2020 IA and the Immigration and Nationality (Fees) (Amendment) (No. 3) Regulations 2020 IA.



76. While the 2016 Fee Order IA covered a full Spending Review period from 2016/17 to 2020/21, this IA only provides illustrative analysis for a future increase to the maxima proposed in the Fee Order for the STVV and in-country student visa. Illustrative analysis is appraised over a five-year period.

## I. Risks

77. The main assumptions used in this IA are set out in sections E.1.1 to E.1.6. The main identified risks with the analysis are:

- Internal Home Office analysis has not found evidence of a significant relationship between small increases in visa fees and visa demand. Absence of evidence does not necessarily imply there is no relationship and for visit visas, an increase in the fee up to the maxima would represent a larger increase in the fee compared to recent increases. Therefore, the estimate of a potential negative effect on visa demand is presented, which may oversate the actual impact.
- The analysis quantifies the impact of potential increases in visa fees using proxies of the price elasticity for visa demand available in the academic literature. For visit visas, the IA uses estimates of price elasticity of demand for airfare and for in-country students, estimates of price elasticity of demand for higher education are used. These are not specific estimates of the responsiveness of demand for visas to changes in visa fees, therefore, results are uncertain and should be considered indicative.
- The demand for visas can be influenced by many factors. For visit visas, the estimates of price elasticity of demand for airfare are applied to the combined airfare cost and the visa fee. However, this does not account for other factors that affect the total price of a trip to the UK, including the visa fee, as well as for example living costs, accommodation costs and exchange rate movements between UK sterling and the currency of the country of origin. For student visas, as well as UK fee levels, there are many external determinants of demand including the exchange rate and fee levels charged by competitor countries<sup>19</sup>. Therefore, it is likely that this analysis has not accounted for all possible determinants of visa demand.
- Baseline volumes for the two visa routes are based on Home Office internal estimates and should be considered as indicative. There is a risk that these estimates fail to represent actual volumes, particularly due to the uncertain impact of COVID-19. Any potential fee increase would happen at an underdetermined point in the future which means that it is uncertain whether COVID-19 will have an impact on application volumes. Sensitivity analysis has been carried out to test the impact of a fee increase occurring when COVID-19 no longer has an impact on volumes.
- This IA provides an illustrative scenario on the impact of raising visa fees for the two routes up to the proposed maximum level set by the Fee Order to provide an indication of potential impacts. The IA appraises the impact of such an increase coming into effect in Q1 of 2022/23, however if there is a future fee increase, it is unknown when this will be. Therefore, the implementation date is only indicative and does not reflect the implementation date for any future change in the fee. This means that it is likely that the illustrative start date used in this IA will differ from the actual date of any future policy coming into effect, which could have an impact on the NPSV.
- The fiscal impact of students is uncertain. This IA uses a marginal approach of measuring the impact of migration policy on the UK Exchequer and therefore excludes fiscal spend and revenue components that are unlikely to vary according to the number of individuals moving to the UK. Under the marginal approach, newly arrived migrants are assumed to have little or no impact on spending on services such as pure public goods, debt interest and EU

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<sup>19</sup> <https://www.hepi.ac.uk/wp-content/uploads/2017/01/Hepi-Report-91-Screen.pdf>

transactions, or on revenue streams such as capital gains tax, inheritance tax and gross operating surplus. However, they are assumed to have an impact on congestible public goods and taxes paid by businesses such as corporation tax and business rates. These assumptions are uncertain and the true fiscal impact of such a migrant may differ, either positively or negatively. Due to low volumes of in-country students and their dependents, the impact of different assumptions on which element of revenue and spend are apportioned to migrants has a negligible effect on results which is why fiscal sensitivity analysis is not included in this IA.

## J. Direct costs and benefits to business calculations

78. If fees were to be raised up to the maxima proposed in the Fee Order, the BNPV is estimated to be up to £0.7 million with a central estimate of £0.4 million (PV, 2021/22 prices) over the five year appraisal period. The EANDCB would be zero as there are no quantified direct costs to business.

## K. Wider impacts

79. In *'The UK's future skills-based immigration system'*, the Government set out a framework for assessing the impact of migration policy.<sup>20</sup>
80. Migrants play an important role in the economy. The impact of proposals that affect the number of migrants coming to, or leaving, the UK will be dependent on which migrants are in scope; their characteristics such as their age, income, health and wealth; and the nature of any proposal (for example, who may come to the UK and what they do whilst here). These factors combine to determine the size of the impact on the UK economy. The analysis assesses these impacts on the resident population and UK economy under the following broad categories:
- Macroeconomic impacts (for example, economic output, economic output per head, and the impact on the Exchequer);
  - Labour market outcomes (for example, the ability of firms to hire migrant workers);
  - Spill-over impacts on resident population (for example, cultural exchange or congestion/inflation impacts in local areas); and
  - Policy design impacts on users of the system (individuals, businesses and the Government).
81. Some of these categories are inter-related, such as the link between labour market outcomes and macroeconomic impacts, while some are harder to quantify than others, such as the spill-over impacts of 'cultural exchange'. Of these, only the impact on users of the system is quantified in the main body of this IA.
82. The expected reduction in volumes is relatively low. In the central case, total visas granted for short term visit visas may reduce by around two per cent each year of the appraisal period while the change in volume of in-country students is even smaller. While not negligible, this reduction is small compared to the total number of visas granted. Therefore, the macroeconomic effects as well as labour market and spill-over impacts on resident population are likely to be small. Moreover visitors, which make up the majority of the total visa applications considered in this IA, are by definition short-term, and are likely to have a smaller impact on the above than long-term migrants, and in particular workers.

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<sup>20</sup> The UK's future skills-based immigration system, HMG, 2018

## Labour market outcomes

83. Short-term visitors are ineligible to work in the UK and so will not have any impact on the labour market. The negligible impact on in-country student volumes alongside restrictions on hours they can supply labour in term time, should mean that the impact on labour supply is also limited. In their 2018 report<sup>21</sup>, the MAC provide evidence that migrants have limited impact on the wider labour market beyond labour supply such as displacement, productivity, investment and training. As such, when combined with the comparatively small change in in-country student volumes, it is likely these wider labour market impacts are also limited.

## Macroeconomic impacts

84. The proposed changes may lead to a reduction in the number of overseas migrants to the UK and therefore lower total migrant spending. For visitors, the quantification of the costs of a reduction in total visitor spending includes only the reduction in exchequer revenue as a result of lower indirect tax contributions. It should be noted that this quantification does not make further adjustments on VAT refunds that certain migrants are entitled to<sup>22</sup>, and therefore it is likely to be an over-estimate. The analysis does not include the lost spending elsewhere in the economy because visitors may spend on goods and services offered by foreign businesses operating in the UK as well as UK businesses. In the absence of further evidence on the extent to which visitor spending accrues to UK resident population, the IA does not monetise the effect that this forgone spending has on the resident population. Also, the foregone spending from business visitors could be an under-estimate as their spending could result in increased output for the UK. However, this cannot be quantified. The fiscal spend from short term visitors is zero as it is assumed visitors will not use public services such as health care and education.
85. When assessing the fiscal revenue impact of students, estimates only include the direct and indirect tax contributions from student migrants and their dependents themselves. The analysis does not account for any impact that migrants have on the fiscal contribution of the resident population which could occur if salaries were to be affected. For fiscal spend from student migrants a marginal approach is used which assumes newly arrived migrants have little to no impact on spending on services such as pure public goods, debt interest and EU transactions and revenue streams such as capital gains tax, inheritance tax and gross operating surplus. However, they are assumed to have an impact on congestible public goods and taxes paid by businesses such as corporation tax and business rates. It is possible there could be other wider impacts of a change in student volumes which this IA does not account for, yet these are likely to be negligible due to the very small change in in-country student volumes.

## Spill-over impacts on resident population

86. Migration, and changes in migration flows, can have impacts on communities. Community impacts include access to local housing, congestion, access to public services, environmental impacts and crime. These are particularly difficult to quantify, as the MAC has found. Previous MAC analysis<sup>23</sup> considered the impact of migration on cohesion and integration and found at a national level there is limited scope for quantification and monetisation of impacts, although it was suggested analysis at a local level may provide a clearer picture of impacts.

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<sup>21</sup> Migration Advisory Committee, EEA migration in the UK: Final report. September 2018.  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/741926/Final\\_EEA\\_report.PDF](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/741926/Final_EEA_report.PDF)

<sup>22</sup> <https://www.gov.uk/guidance/refunds-of-uk-vat-for-non-uk-businesses-or-eu-vat-for-uk-businesses#sect4>

<sup>23</sup> Migration Advisory Committee, Analysis of the Impacts of Migration. January 2012.  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/257235/analysis-of-theimpacts.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/257235/analysis-of-theimpacts.pdf)

87. In its report on EEA migration to the UK,<sup>24</sup> the MAC considered the impact of migration on crime and wellbeing. The report did not find any evidence of migration having an impact on crime. This was found to be the case in either direction; namely migrants are not more likely to be either perpetrators or victims of crime than the resident population. The MAC acknowledged the impact of migration on wellbeing is particularly challenging, given the subjective nature of well-being. The MAC did not find evidence suggesting migration has had a negative impact on subjective wellbeing.
88. Overall, the evidence has not found causal links between migration and community impacts, and this will be especially true for the short-term migrants considered in this IA. The literature stresses the difficulty of doing this and it has focused on a qualitative discussion of the potential impacts. Community impacts are likely to vary at the local level and be subjective in nature.

## **L. Trade Impact**

89. The Fee Order does not introduce changes to visa fees, it proposes to increase the maximum level at which the visa routes can be charged in the future. Changes to the level of visa fees requires secondary legislation to be introduced.
90. As the Fee Order does not introduce changes to visa fees, it is not expected to have any direct impact on trade or investment. Should visit visa fees increase up to the proposed maxima as proposed by the Fee Order, and as modelled in the IA as an illustrative example, there may be an indirect impact on trade or investment through a reduction in business visitors to the UK. Research suggests that business visits have a positive impact on trade and investment.<sup>25</sup> However, the impact would only affect visitors from countries that require a visit visa to enter the UK.<sup>26</sup> Internal Home office analysis of 2018 IPS data suggests that over 90 per cent of business visits to the UK in 2018 came from non-visa nationals. Business visitors' resident in EEA countries make most visits to the UK, with only the US in the top 10 countries of residence for number of business visitors.<sup>27</sup> In addition, compared to ordinary visitors, business visitors may be expected to be less sensitive to changes in visa fees as suggested by the evidence used in the impact assessment on the airfare elasticity of demand.<sup>28</sup> Any trade impact from a reduction in in-country student volumes is likely to be negligible as volume changes are so small.

## **M. Monitoring and evaluation (PIR if necessary), enforcement principles**

91. The Home Office reviews fees and charges for immigration and nationality applications annually. The Home Office also monitors application trends, and officials from all relevant government departments consider proposals to amend fee levels to ensure they do not adversely impact on the UK economy.

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<sup>24</sup> Migration Advisory Committee, EEA migration in the UK: Final report. September 2018.  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/741926/Final\\_EEA\\_report.PDF](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/741926/Final_EEA_report.PDF)

<sup>25</sup> The value of international business travel – A report for GMTTC, Oxford Economics (2016)

<sup>26</sup> <https://www.gov.uk/guidance/immigration-rules/immigration-rules-appendix-v-visitor-rules>

<sup>27</sup> International Passenger Survey (IPS) travelpac 2018

<sup>28</sup> UK Aviation Forecasts; Department for Transport; 2017

## N. Annexes

### Annex 1 – Unit costs

Table A.1, Unit costs and fee maxima, (£ and %).

Visa Products, £	Estimated 2020/21 Unit Cost (£)	Current visa fee, 2020/21 (£)	Current maximum, 2016 Fee Order (£)	Proposed Fee Order maximum 2021, (£)	Percentage change (%) in Fee maxima
<b>Out of Country</b>					
Visit visa – short	130	95	95	130	37
Visit visa – short (Chinese)	130	95	95	130	37
Students- main applicants and dependants	153	348	480	490	2
<b>In-Country</b>					
Students - main applicants and dependants	252	475	480	490	2

### Unit costs calculation

The unit cost is the calculated estimate of the full financial cost for providing a service, including direct costs and relevant local and central overheads (for example, accommodation, HR, Finance and IT), plus depreciation, cost of capital employed, and other factors that are in connection to immigration and nationality, such as operational policy.

The approach the Home Office uses to calculate the published unit costs for all UK visa, immigration and citizenship services considers the entire forecast cost of the relevant chargeable functions, including all related indirect costs. Weightings are then used, based on operational business planning data, to apportion the total cost across the range of services and products.

Unit costs may be influenced by changes in the way that applications in certain routes are processed from year to year, for example where additional checks are introduced or required, or by changes elsewhere within the overall system which impact on the weighting calculations and therefore the amount apportioned to any individual service.

The Home Office publishes all immigration fees and unit costs on GOV.UK<sup>29</sup>.

<sup>29</sup> [Visa fees transparency data - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

## Annex 2- Elasticity Assumptions

The following tables set out the elasticities used to analyse the impact of the changes in fees on different types of products and the academic papers from which these elasticities are taken. These are set out in more detail in the paper “*A review of evidence relating to the elasticity of demand for visas in the UK*”, published on Gov.uk<sup>30</sup>. Elasticities used for dependent applications are not included in Table A3.2 as these were not derived from academic literature; rather, they were derived from Home Office analysis on the likely response by dependants from changes to dependant fees. Such responses were deemed to yield a best case and central elasticity of zero, and a worst-case value of -0.3.

The term ‘elasticity’ measures the responsiveness of demand for a product after a change in a product’s own price. The elasticity assumption used here should be interpreted as the proportional decrease in visa applications (the demand) for a 1 per cent decrease in expected income over the total duration of the visa due to the increase in visa fee (the price). For example, if the increase in visa fee represents a 2 per cent decrease in total expected income and elasticity is assumed to be -0.5, then volumes would reduce by -0.5 x 2 per cent = -1 per cent.

**Table A3.1: Empirical studies of the price elasticity of demand for tourism**

Source	Estimate of price elasticity of demand	Measure
Deese, W. (2013) <i>Determinants of inbound travel to the United States. US International Trade Commission. No. 2013-02A.</i>	Between -0.316 and -0.391	Travel price elasticity based on travellers to the US from 50 countries from 1990 to 2010.
Pham, T. D., Nghiem, S., & Dwyer, L. (2017) ‘ <i>The determinants of Chinese visitors to Australia: A dynamic demand analysis</i> ’, <i>Tourism Management</i> , vol. 63, issue C, pp. 268-276.	Short-run: -4.4 Long-run: -6.4	Price elasticity of demand for Australian tourism from Chinese visitors from 1991 to 2014.
Schiff, A. & Becken, S. (2011) ‘ <i>Demand elasticity estimates for New Zealand tourism</i> ’, <i>Tourism Management</i> , Elsevier, vol. 32(3), pp. 564-575.	Between -1.75 and -0.26	Price elasticity of demand estimates for New Zealand tourism from various countries from 1997 to 2007.

<sup>30</sup> [A review of evidence relating to the elasticity of demand for visas in the UK - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

**Table A3.2: Empirical studies of the price elasticity of demand for education**

Source	Estimate of price elasticity of demand	Measure
Conlon, G.P., Ladher, R., Halterbeck, M. (2017). <i>The determinants of international demand for UK higher education</i> . Final report for the Higher Education Policy Institute and Kaplan International Pathways. London Economics.	Undergraduate: -0.33 in first year, -0.22 in second year (lagged effect) Postgraduate: -0.21	Price elasticity of demand for UK higher education from international students in 189 countries from 2000 to 2015.
Dearden, L., Fitzsimons, E. & Wyness, G. (2011) <i>The impact of tuition fees and support on university participation in the UK</i> (No. W11/17). IFS Working Papers.	-0.14	Elasticity estimate for UK higher education participation from 1992 to 2007 for those eligible for their first year of university.
Gallet, C. (2007) 'A comparative analysis of the demand for higher education: results from a meta-analysis of elasticities', <i>Economics Bulletin</i> , vol. 9(7), pp. 1-14.	-0.6	Mean tuition elasticity from a sample of 60 studies published between 1967 and 2004 from the US and rest of the world.
Hemelt, S.W. & Marcotte, D.E. (2011) 'The Impact of Tuition Increases on Enrollment at Public Colleges and Universities', <i>Educational Evaluation and Policy Analysis</i> , vol. 33(4), pp. 435-457.	Between -0.02 and -0.25	Elasticity estimates for total headcount in US higher education from 1991 to 2006.
Leslie, L.L. & Brinkman, P.T. (1987) 'Student price response in higher education: The student demand studies', <i>The Journal of Higher Education</i> , vol. 58(2), pp. 181-204.	-0.73	Corresponding price elasticity estimate for higher education in the US, based on a standardised sample of 25 studies conducted from 1967 to 1982.

## Impact Assessment Checklist

Mandatory specific impact test - Statutory Equalities Duties	Complete
<p data-bbox="124 275 539 311"><b>Statutory Equalities Duties</b></p> <p data-bbox="124 331 1267 427">The public sector equality duty requires public bodies to have due regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations in the course of developing policies and delivering services. [<a href="#">Equality Duty Toolkit</a>]</p> <p data-bbox="124 504 1270 853">The Secretary of State’s public sector equality duty has been considered in the course of developing the changes set out in this amendment to the Immigration and Nationality (Fees) Order 2016. As this instrument only amends the maximum amount that can be charged for a visa, and not the fee level itself, the Home Office consider that there will be no impacts on individuals with protected characteristics as a result of this amendment. Any changes to actual fees charged (which would need to be made through a subsequent amendment to the Immigration and Nationality (Fee) Regulations 2018) will be supported by a full Equality Impact Assessment.</p> <p data-bbox="124 929 679 965"><b>The SRO has agreed these findings.</b></p>	<p data-bbox="1337 600 1390 636"><b>Yes</b></p>