

<b>Title:</b> <b>Impact Assessment for the Immigration and Nationality (Fees) Regulations 2012</b>  <b>IA No:</b> HO0055  <b>Lead department or agency:</b> UK Border Agency  <b>Other departments or agencies:</b>	<b>Impact Assessment (IA)</b>		
	<b>Date:</b> 12/12/2011		
	<b>Stage:</b> Final		
	<b>Source of intervention:</b> Domestic		
	<b>Type of measure:</b> Secondary legislation		
<b>Contact for enquiries:</b> Charging Policy, UK Border Agency, Vulcan House Level 4, Sheffield PO Box 3468, S3 4WA			
<b>Summary: Intervention and Options</b>			<b>RPC Opinion:</b> Fit for Purpose

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?
£15.5	£0m	£0m	No
			Zero Net Cost

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

UK Border Agency must ensure that there are sufficient resources to secure the UK Border and reduce migration. Government intervention is necessary to ensure a balanced budget. The Home Office budget will be reduced by 23% in real terms by the financial year 14-15, and there will be fewer fee-paying migrants as policy change to limit on migration comes into effect. After efficiency savings of £500m over the current spending review period have been factored, at current fee levels, we estimate an income shortfall of £50m in the financial year 2012-13. To address this, and as part of the Spending Review, HM Treasury has agreed that an increased contribution is to be made by migrants who benefit directly from the services offered by the UK Border Agency.

**What are the policy objectives and the intended effects?**

The specific policy objective of this legislation is to generate sufficient income to ensure the UK Border Agency has a balanced financial plan for the financial year 2012-13. The objective is to ensure that the UK Border is secured and that public confidence in the immigration system is maintained. The Government's general policy objectives on UK Border Agency fees are: (1) that those who benefit directly from our immigration system (migrants, employers and educational institutions) contribute towards meeting its costs, reducing the obligation on the taxpayer; (2) that we simplify the fees system where possible, aligning fees where entitlements are similar; (3) that we set fees fairly, at a level that reflects the real value of a successful application to those who use the service.

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

Option 1: Do nothing, maintain fees at current levels. Reduce UK Border Agency's service provision to secure the UK Border and reduce migration.

Option 2: To increase fees from April 2012, to ensure the Border is secure. Combination of 2% flat rate increase and targeted increases to meet strategic fees policy objectives. Specific fees set out at Annex 3.

Option 3: To increase fees from April 2012, to ensure the Border is secure. Flat rate increase of 6% across all fees products. Specific fees set out at Annex 3.

**Option 2 is preferred. This gives the UK Border Agency greatest assurance that fees income will generate the revenue needed during the financial year 2012-13. This option is consistent with the Government's priority of reducing net migration to the UK, and also meets the UK Border Agency's general fees policy objectives.**

**Will the policy be reviewed?** It will be reviewed. If applicable, set review date: 04/2013

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> No	<b>&lt; 20</b> No	<b>Small</b> No	<b>Medium</b> No	<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:

DAMIAN GREEN

Date: 06.02.2012

# Summary: Analysis & Evidence

# Policy Option 2

Description: Increase fees by 2% with targeted increases to meet strategic chaging objectives for Tiers 1, 2 and sponsorship fees

## FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 5	Net Benefit (Present Value (PV)) (£m)		
			Low: -6.7	High: 41.0	Best Estimate: 15.5

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	5	6.1	47.9
High	0		0	0
Best Estimate	0		3.3	25.6

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

UKBA – lower revenue due to lower application volumes due to fee increase - £0.05m  
 UK Economy – reduced output due to lower volumes of people working in the UK - £25.6m

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

N/a

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	5	8.8	41.2
High	0		8.8	41.0
Best Estimate	0		8.8	41.1

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

UKBA – increase in revenue from applicants who continue to apply - £40.9m  
 UKBA – reduced processing costs from applicants who are deterred - £0.1m  
 UK Economy – lower costs associated with public service provision - £0.1m

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

Lower volumes of migrants entering the UK may have benefits in terms of improved social cohesion, reduced congestion and transport costs.

### Key assumptions/sensitivities/risks

Volumes are as forecast by UKBA – set out in annex 2.  
 Output – Lower volumes of workers result in lost output and this is not replaced by workers already in the UK. The Migration advisory committee recently published a paper on the analysis of migration with respect to impact assessments. The Government is currently considering how this may be reflected in future impact assessments. Public services – the cost of providing services to migrants is the same as providing services to UK residents.

Discount rate (%)

3.5

## BUSINESS ASSESSMENT (Option 2)

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

# Summary: Analysis & Evidence

# Policy Option 3

Description: Increase all fees on the common commencement date in April 2011, by a flat rate of 6%.

## FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 5	Net Benefit (Present Value (PV)) (£m)		
			Low: -6.5	High: 66.0	Best Estimate: 43.7

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	5	7.9	80.2
High	0		0	0
Best Estimate	0		1.8	23.2

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

UKBA – lower revenue due to lower application volumes due to fee increase - £0.15m  
 UK Economy – reduced output due to lower volumes of people working in the UK - £23.0m

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

N/A

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	5	14.4	73.7
High	0		14.1	66.0
Best Estimate	0		14.2	66.9

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

UKBA – increase in revenue from applicants who continue to apply - £66.0  
 UKBA – reduced processing costs from applicants who are deterred - £0.15m  
 UK Economy – lower costs associated with public service provision - £0.74m

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

Lower volumes of migrants entering the UK may have benefits in terms of improved social cohesion, reduced congestion and transport costs.

### Key assumptions/sensitivities/risks

Volumes are as forecast by UKBA – set out in annex 2.

Output – Lower volumes of workers result in lost output and this is not replaced by workers already in the UK. The Migration advisory committee recently published a paper on the analysis of migration with respect to impact assessments. The Government is currently considering how this may be reflected in future impact assessments. Public services – the cost of providing services to migrants is the same as providing services to UK residents.

Discount rate (%)

3.5

## BUSINESS ASSESSMENT (Option 1)

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

# Evidence Base (for summary sheets)

## A. Strategic Overview

### A.1 - Background

The UK Border Agency currently recovers approximately 36% of its total running cost through fees on visas, nationality and immigration applications. For 2012/13 the UK Border Agency estimates that 37% of its costs will be recovered through fees. The remainder of the costs are met by the UK taxpayer. In order to ensure that the system is fair and equitable, the government believe that it is right that those who use and benefit directly from the UK migration system make an appropriate contribution to meeting the costs and thereby reduce the burden on the UK taxpayer.

The Home Office budget will be reduced by up to 23% in real terms over the period of the recent Comprehensive Spending Review (CSR). Over the next four years, financial planning requires the UK Border Agency to deliver the maximum amount of fees income agreed with HM Treasury under the CSR. For 2012/13 it is £868 million; for 2013/14 it is £850 million; for 2014/15 it is £853 million. Any income generated above this amount is surrendered to HM Treasury's Consolidated Fund for Extra Receipts. If fees are retained at current levels, the impact of policy changes for limiting migration results in a forecast income shortfall of approximately £50m in the financial year 2012/13.

The UK Border Agency is already making significant efficiency savings – over £500m over the life of the Spending Review - but these will not be enough to offset the remaining income gap. To address the income shortfall and ensure there are sufficient resources to secure the UK Border and control migration, the Agency will need to increase fees for the financial year 2012/13.

In principle it is right that those who benefit most from the border and immigration system should bear a higher share of the burden of running the system than the 36% currently paid. Therefore the UK Border Agency continue to seek a shift in the funding provided by migrants to deliver the border and immigration system with a consequent reduction in the burden on UK taxpayers.

There are no realistic non-regulatory options that will ensure the UK Border Agency has sufficient resources to secure the UK Border. Significant efficiency savings are being made, and increasing the contribution made by the taxpayer is not an option in the current financial climate.

We set fees based on a number of factors, working within strict financial limits agreed with HM Treasury and Parliament. We currently set fees flexibly, setting some fees above the cost of delivery, to reflect the value of the product. Charging above the cost of delivery helps to raise the revenue required to fund the overall immigration system and to cross-subsidise fees below cost for certain other immigration routes where a lower fee supports wider government objectives (e.g. a lower short term visit visa fee maintains international competitiveness and supports tourism).

### A.2 - Groups Affected

No specific groups are affected by these changes, but all migrants wishing to come to or remain in the UK, for the purpose of visit, work, study, family, settlement, marriage or other reasons are required to pay the appropriate fee associated with their application.

### A.3 - Consultation

#### **Within Government**

The UK Border Agency work and will continue to work within strict financial limits agreed with HM Treasury. Our fees proposals, income envelope and cost base is set by HM Treasury.

The fee proposals are considered by the cross-Whitehall Fees Committee, made up of officials from Government Departments represented on the Home Affairs Committee, before the proposals are finalised. Proposals are assessed in the context of broader government objectives, including the UK's

attractiveness in key markets (such as visitors) to ensure we maintain a balance between the UK Border Agency's need to recover its costs, and keeping our fees at fair and sustainable levels. The proposals contained in this impact assessment have been agreed with other government departments.

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

## **Public Consultation**

The UK Border Agency published a full public consultation on Charging for Immigration and Visa Applications on 1 September 2009 and contacted over 30,000 stakeholders. The consultation ran for 12 weeks until 1 December 2009 and we received a total of 98 responses. This represents the lowest response rate on a charging consultation, despite a high level of engagement and communication on behalf of the UK Border Agency. Due to the low response received, further consultation has not been carried out.

The formal Government response to the public consultation was published on 14 January 2010 at the UK Border Agency website  
<http://webarchive.nationalarchives.gov.uk/20100422120657/http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/consultations/charging09/>.

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

Our 2009 consultation continues to cover both the Agency's model for charging fees and all types of applications that we currently operate. If in future the UK Border Agency proposes to introduce an application type that is materially different in approach or make a significant change to the fees model that it operates, we would carry out a new consultation.

Several other public consultation exercises on fees and charging have taken place in recent years. A targeted consultation exercise on fees and charges to support the Points Based System and for biometric identity documents was held from 24 October to 9 November 2007. We consulted key stakeholders, based around – but not limited to – the membership of the UK Border Agency's existing stakeholder taskforces which include representative bodies and umbrella organisations. We set out a number of proposals in a letter sent to 493 bodies and individuals which received 132 written responses. We met with 119 individuals at consultation meetings. Further details are available on request. Feedback from this exercise was used to set fees for the new services first provided to migrants and sponsors under the Points Based System in 2008.

A full public consultation exercise on charging for immigration and nationality applications was undertaken from 30 October to 22 December 2006, supported by the publication of *A consultation on a new charging regime for immigration & nationality fees*. The consultation document was made available on the Home Office website and was also sent to 3,000 people. The formal Government response to the public consultation was published on 7 March 2007, and is published at: <http://webarchive.nationalarchives.gov.uk/20100422120657/http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/consultations/newchargingregime/>

The consultation established the principle that the UK Border Agency should operate a flexible pricing approach to setting fees for immigration services. This allows fees to be set in order to maintain competitiveness where needed, but also to ensure that the immigration system overall generates the revenue needed, rather than seeking to fund necessary improvements via general taxation. 87% of respondents to the consultation agreed we should set fees flexibly to take into account wider policy objectives and 79% agreed that new fees should reflect a range of factors, not only those of value to the migrant.

## **B. Rationale**



The UK Border Agency want to make sure that the fees we charge for nationality and immigration services are set at the correct levels to contribute adequately towards the costs of running the immigration system. The financial constraints on public spending mean we need to continue to act if we are to ensure the UK Border Agency can continue to generate sufficient revenue to operate effectively. We need to be able to fully support the immigration system, maintain public confidence, and ensure that migration is managed for the benefit of the UK. This is particularly important in 2012/13, due to the Olympics taking place in the UK. We also need to manage the risk to UK Border Agency's income so that we balance these factors with the interests of the general UK taxpayer.

### **C. Objectives**

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

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

These proposed increases build on the existing UK Border Agency fees policy and supports broader UK Government policy objectives (for example, to reduce net migration to the UK while attracting the brightest and the best). The UK Border Agency have used this opportunity to simplify the fee structure and better align some of the inconsistencies between in-UK and overseas fees for the same services.

The UK Border Agency has published two impact assessments on the proposed changes in fees. This impact assessment reflects fees where the Agency charges more than the cost of the service in order to ensure that users of the immigration system (migrants and sponsors) pay an appropriate share<sup>1</sup> of the total costs of that system whilst also enabling some fees to be set below cost-recovery levels. Fees set at below cost recovery levels are covered in an accompanying impact assessment.

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

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

1. Tier 1 in-UK applications
2. Tier 2 visa applications
3. Sponsorship under the Points Based System

This covers all of the UK Border Agency's main charged services where the fee is set above cost and the proposed increase is above inflation (5.2% CPI for the year ending Q3 2011<sup>2</sup>). For the majority of fees, an increase of 2% has been deemed sufficient to meet UKBA's financial requirements for 2012/13. This increase is marginal and does not result in a material impact on projected volumes of entrants. Furthermore, this increase does not reflect an increase in real terms as it is below inflation. According to HMG guidance<sup>3</sup>, where fees are changed at, or below, the rate of inflation, an impact assessment is not considered necessary, therefore in line with published guidance we have limited the scope of this impact assessment to only look at above inflation fee increases.

We have not included fees covered by the Council of Europe Social Charter and Tier 1 (Transition) applications. Volumes under these routes are negligible and we have therefore assumed them to be zero. Finally we have focussed on the Agency's mandatory postal application routes – we have not

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<sup>1</sup> For 2012/13 the 'appropriate contribution' has been set at about 37% under the terms of the Home Office Spending Review.

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

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

included optional premium services offered to those applicants as a variation of the standard service (e.g. same-day applications made at a Public Enquiry Office).

For most other charged services, we calculate that an approximate 2% increase is required to address the income shortfall in the financial year 2012-13. Unless stated otherwise, this increase has been spread equally across all fee streams, as this has been judged the fairest approach to all applicants.

## **D. Options**

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

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

**Option 2:** Increase fees on the common commencement date in April 2011; keep the overall percentage increase to a minimum (approximately 2%) across the board. The exceptions to this would be the targeted increases to meet strategic charging objectives for Tiers 1, 2 and sponsorship fees as outlined below. All proposed fee increases under Option 2 are presented in Annex 3.

- **Tier 1 in-UK applications**

The Tier 1 category allows highly skilled people to come to the UK to look for work or self-employment opportunities. Tier 1 General was closed to new applicants on 6 April 2011 but there is still a cohort of people who are in the UK under this category and have not yet reached the permanent settlement stage, thus they may extend their stay in their current category. We propose to increase the in-UK fee charged to this cohort by £500 to £1,500. Applications are expected to fall to zero on this product after 2012/13.

The 50% increase for in-UK applications is because the real value of a successful application is believed to be high; economic migrants under this route obtain a particularly good set of entitlements, which justify the higher fee. They are not required to have a confirmed job from a registered UK employer, and have full unrestricted access to the UK labour market. Furthermore, dependants under this route also get unrestricted access to the UK labour market. These entitlements are particularly valuable given the economic climate, since the route is closed to new applicants, and as most migrant workers are now required to have a job offer from a registered UK employer.

On 6 April 2011 we introduced a new Tier 1 exceptional talent scheme and now wish to introduce an equivalent fee for in-UK extensions of leave to remain in this category. We propose a fee of £1,020 for these applications, in line with the fee already charged for other subcategories of Tier 1.

We will introduce a fee of £700 for the new subcategory of Graduate Entrepreneurs. This route will provide Universities with the significant flexibility to sponsor entrepreneurs that graduate from their institutions. Migrants will have the entitlement to engage in business, undertake supplementary work and bring dependants. Given the uncertainties around this we will initially pilot the scheme and impose a limit of 1000 places in the first year

- **Tier 2 visa applications**

The Tier 2 category allows skilled migrants with job offers to fill gaps in the workforce that cannot be filled by settled workers.

We propose to increase the visa fee by £80 to £480 for overseas applicants for Tier 2 General, to bring the current fee into closer alignment with that charged in the UK, which will increase by 2% (£11) to £561. Over time, we will seek full alignment in line with the objective to simplify and align fees set out above.

We also propose to increase the fees by £50 to £400 for applications in the sub-category for Intra Company Transfers less than 12 months applications. For this sub category the visa and in-UK fees were previously aligned at £350. In contrast to Tier 2 General, the lower fee is to reflect the shorter length of leave associated with this route.

All migrants under the Tier 2 route obtain a good set of entitlements: they can work in the UK for an employer who has sponsored them and their dependants have unrestricted access to the labour market. We believe the proposed fees reflect the significant value of these entitlements, while moving towards our strategic aim of increased alignment between overseas and in-UK fees.

- **Sponsorship under the Points Based System**

Under the Points Based system, all migrants who enter the UK through Tiers 2 (skilled workers), 4 (students) and 5 (others e.g. temporary work) of the Points Based System will be brought in by a sponsor such as an employer or education institution. This sponsor needs to register with the UK Border Agency for a sponsor licence. Once registered, they can then sponsor migrants by issuing Certificates of Sponsorship (CoS) if operating under Tiers 2 and 5 or Confirmation of Acceptance of Studies (CAS) under Tier 4. The registration period lasts for four years after which the sponsor will need to reapply. The sponsor is therefore required to pay two fees, one for registering as a sponsor and one for each Certificate of Sponsorship they issue. This model of charging means that higher volume users of the system pay most, with the fees for sponsorship of additional migrants.

Under Tier 4, there is an additional mandatory registration step, the Highly Trusted Sponsor (HTS) status. This extra level of scrutiny for educational sponsors was introduced in 2010 in response to concerns about abuse in the education sector. In order to sponsor foreign students, an educational institution needs both the Tier 4 registration and the Tier 4 HTS status before they can issue a CAS.

Since the Points Based System was introduced in 2008 there have been no increases to the fees for sponsorship, despite increases in costs as additional compliance work by the UK Border Agency has been required. We now propose to increase the fees paid by large companies to register as Tier 2 sponsors by £525 to £1,500. This will better recover the costs involved in considering an application for registration. The effort required to support the issuing of a sponsor licence was previously understated, as only the case working decision was taken into account but there is also substantial supporting activity carried out by account managers to substantiate the sponsor license application. This involves visiting sponsor applicants at their own premises and carrying out compliance checks. For a large company, it is believed that £1500 for a four year licence still represents good value at less than £390 per year for a licence that entitles the employer to bring skilled migrant workers to the UK.

We propose to maintain the lower fees all other sponsors including small and medium sized enterprises, charities, educational institutions and the arts & entertainment industries. These licences will be priced at £500 for a four year licence. The lower fee is covered in the separate impact assessment for fees set below the cost of service delivery. Charging the higher fee for large employers will help us to continue to offer these concessions.

We also propose to pilot a new optional premium service for sponsors registered under Tiers 2 or 5 from 2012/13. This service has been introduced to better meet the needs of high volume business users of the immigration system and will include dedicated account management and additional support for customers. We propose that the fees for this will be £25,000 for large sponsors and £8,000 for small, medium enterprises. Full details of the pilot will be provided on the UK Border Agency website. As this will be an optional, premium service and will have no impact on the standard statutory services we provide, it is not included within the scope of this Impact Assessment.

**Option 3:** Increase all fees on the common commencement date in April 2011, by a flat rate of 6%. When this option was presented to other Government Departments at the Cross-Whitehall fees Committee, this option was discounted due to the higher impact on routes where we have a policy requirement to maintain a lower level of fee (principally the short term visit visa fee for tourists to the UK). Targeted increases are also seen to better address the charging policy aim of aligning fees overseas and in the UK. The costs and benefits are presented below.



In addition, there were a number of products where we charge a fee at or below the level of cost recovery because there are fewer benefits to applicants (e.g. an application to transfer existing conditions to a new passport). A 6% flat increase would have made these fees over cost, which would be outside the scope of our legal powers to charge over cost fees. And finally, a targeted approach was also deemed to be preferable than higher flat rate increases as this would limit the increases on several high value in-UK routes that have seen above-inflationary increases previously (particularly the fees to settle in the UK).

The preferred option is Option 2. Although option 3 has a higher NPV on this impact assessment (despite not being our preferred option), this is a partial picture caused by the complexity of fees legislation. The options also apply to fees charged at or below the level of cost (covered by separate legislation and impact assessed separately). A combined NPV, taking all products into account, is considered at section F below.

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

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

### **General Assumptions and Data**

A model has been developed to examine the **additional** costs and benefits to society and the economy of Options 2 and 3 compared with Option 1 over a five year period (2012/13 to 2016/17). Option 1 is denoted as the 'Do Nothing' option with no additional costs and benefits and is the baseline used for comparison. The expected volumes of applications under option 1 are given in annex 2.

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

### **Option 1 – Do nothing**

#### Baseline Volumes

The projected volumes for each product are set out in annex 2. The forecasts presented are UKBA internal planning assumptions for 2012/13 and may not match published volumes of products granted. These have been projected forward to provide application assumptions for future years, up until 2016/17. If fees are left unchanged, it is expected that application volumes will be as set out in annex 2.

#### Costs

- UK Border Agency will be unable to meet its financial planning requirements. The resulting £50m income gap will lead to a decline in service provision. Significant efficiency savings are already factored into the UK Border Agency's business planning, and the assumption is that additional any efficiency savings above this would necessarily lead to a reduction in service provision.
- In addition to the above risks, there are risks that the objectives of the fees policy will not be met.
  - The UK Border Agency will not be able to increase the proportion of the costs of the immigration system that are to be met by applicants.
  - It will also not be possible to simplify and align fees structures where the entitlements are similar.
  - Finally, fees cannot be altered to reflect the value of a successful application.

#### Benefits

There are no additional benefits under this option.

## Option 2 – Increase fees by 2% with targeted increases to meet strategic chaging objectives for Tiers 1, 2 and sponsorship fees

### Impact on Volumes

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

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

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

Given the uncertainty around the proxy elasticities from academic literature, we have also included a sensitivity analysis. We have assumed that the best case scenario is that suggested by our analysis, in that fee increases have no impacts on application volumes as indicated by the lack of statistically significant elasticities. The worst case scenario is assumed to be equal to doubling the proxy elasticities we have used. The elasticities used in the sensitivity analysis are also given in annex 4. We believe that the true effect of increasing fees for UKBA products lies within this range.

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

A wage elasticity of labour supply of 0.5 is used for the following products: Tier 1 visa and in-UK applications and Tier 2 visa and in-UK applications. A wage elasticity of 0.5 is consistent with previous fee impact assessments, and assumes that migrants demand UKBA products in order to supply labour in the UK. In the sensitivity analysis, an elasticity range of 0 to 1.1 was used, as indicated by available evidence in Annex 3.

We use the average annual salaries of main applicants to estimate the impact of fee changes upon applications by dependants, since this assumes that dependants are equally responsive to fee changes as main applicants. This assumption is likely to hold, since main applicants are likely to decide whether they wish for dependants to join them in the UK. In addition, dependants cannot come or remain in the UK, without a link to a main applicant.

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

#### Products giving entitlements to work in the UK - Firms

A wage elasticity of labour demand of -0.75 is used to estimate the impact on volumes of the proposed fee changes that sponsorship will generate. This is consistent with previous impact assessments and assumes that firms demand UKBA products in order to allow them to employ migrant labour. In the sensitivity analysis, an elasticity range of 0 to -1 was used, as indicated by available evidence in Annex 4.

The elasticities are applied to the expected output of migrant labour at each sponsor. This is calculated by multiplying the average wage of a migrant employee, according to the tier they enter the UK under,

the average length of stay in the UK and the average number of migrant employees per sponsor. The level of output for each type of sponsor is set out in annex 4.

Table 1 – Change in application and grant volumes as a result of the targeted change in fees under option 2.

Product	Application Volumes	Elasticity	Change in volumes	Change in grants
Tier 1 General - Extensions	27800	-0.5	65	60
Tier 1 General - Extensions Dependants	18100	-0.5	21	19
Tier 2 General Main Applicants	14600	-0.5	6	5
Tier 2 General Dependants	10000	-0.5	4	4
Tier 2 Sport and Ministers of Religion	700	-0.5	1	0
Tier 2 Sport and Ministers of Religion Dependants	500	-0.5	0	0
Tier 2 ICT < 12 Months	19500	-0.5	6	6
Tier 2 ICT > 12 Months	22400	-0.5	8	8
Tier 2 Large Sponsor Licence	6300	-0.75	2	2
Large Sponsor Licence Tier 2/4	200	-0.75	0	0
Large Sponsor Licence Tier 2/4/5	100	-0.75	0	0
Large Sponsor Licence Tier 2/5	500	-0.75	0	0
Source	UKBA Internal Planning	Academic Literature	Analysis	Analysis

Table 1 demonstrates that the expected change in volumes of applications and subsequent grants is expected to be small. The largest change, 60 grants per year, will affect Tier 1 extensions in the UK. Volumes on this route are expected to fall to zero after 2012/13.

The impacts on Tier 2 are expected to be very small; only 5 grants are expected to be deterred in the general route. This route covers shortage occupations, including public service occupations. Further small impacts are expected in the intra company transfer routes. Finally, it is thought that up to 2 large sponsor may not renew their sponsor licences and hence will no longer employ migrant workers. UKBA management information suggests that each large Tier 2 sponsor, sponsor on average 13 migrant workers. The total reduction in Tier 2 workers across all routes and sponsors is thought to be less than 50 workers per year. The small changes in volumes are negligible and mean there is unlikely to be a significant impact on any sector.

### **Costs and Benefits**

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

The **direct** costs and benefits are those that are clearly and immediately related to the change in volumes coming through the routes under consideration. The direct costs include reductions in UKBA income. The direct benefits, on the other hand, are dominated by a reduction in UKBA processing costs as application volumes fall.

The **wider, or indirect**, costs and benefits are those more closely associated with economic output and labour market activity. The wider costs, as agreed with the Better Regulation Executive, include the impact on GDP, through a reduction in the volume of workers in the UK and a reduction in tuition fees paid by overseas students. The wider benefits of a reduction in volumes relate to reduced pressure on public services and welfare benefits.

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

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

## **Direct Costs**

### **• UKBA Revenue**

There will be an impact on UKBA fee income if overseas applicants are deterred from applying for a visa. Annex 4 sets out the expected change in application volumes and the change in fees. It is estimated that UKBA revenue will fall by £11k in 2012/13 and £53k (PV) over a five year period.

## **Indirect Costs**

### **• UK Output**

The Home Office has published a series of impact assessments setting out the impacts on UK output as a result of a fall in people entering or remaining in the UK. The potential reduction in labour supply resulting from the decrease in volume of migrants, all else being equal, will reduce output compared to the counterfactual.

The assumptions used to calculate the lost income are set out in annex 5. Lost earnings have been calculated using the expected fall in volumes of applications granted, length of stay and expected annual earnings. This methodology has been applied to Tier 1, Tier 2 and sponsor products.

UK output is expected to fall by £10.7 m in 2012/13 and £25.6 m (PV) over the next four years.

It is important to note that this estimate takes no account of the potential adjustment of the economy and labour market to the reduction in working migrants in the UK. The MAC have been asked to report on the labour market impacts of migration and are due to report by the end of 2011. The conclusions of their report will be included in this IA before publication.

## **Direct Benefits**

### **• Increase in UKBA revenue**

Higher fees for out of country applicants will increase income to UKBA from those applicants that continue apply to come to the UK. The change in fees and potential application volumes are set out in annex 4. It is estimated that UKBA revenue will rise by £8.7m in 2012/13 and £40.9m (PV) over a five year period.

### **• Reduction in UKBA processing costs**

A fall in application volumes as a result of increased product fees will result in administrative savings for UKBA as processing costs fall. The cost of processing each application and the expected fall in volumes is set out in annex 2. It is estimated that UKBA processing costs will fall by £28k in 2012/13 and £44k (PV) over a five year period.

## **Indirect Benefits**

### **• Reduction in public service and welfare provision**

Change in fee levels should help reduce pressures on public services (health, education and criminal justice) by reducing the volume of people eligible to utilize them. Where there is a reduction in the volume of people coming to the UK, there will be a proportionate reduction in the costs of health, education and criminal justice, assuming migrants have the same costs as UK residents. Annex 6 sets out the assumptions and calculations used to estimate the savings.

The savings from a lower number of migrants are estimated to be £27k in 2012/13 and £70k (PV) over a five year period.

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

### Summary of costs and benefits

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

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

£m	2012/13	2013/14	2014/15	2015/16	2016/17	Total
<b>Benefits</b>						
Net Revenue raised from fee changes for those who continue to apply	£8.8	£8.5	£8.2	£7.9	£7.6	£41.0
Saving to UKBA from processing fewer applications	£0.0	£0.0	£0.0	£0.0	£0.0	£0.1
Savings to UK due to lower public service provision	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0
<b>Total benefits (PV)</b>	£0.0	£0.0	£0.0	£0.0	£0.0	£0.1
<b>Costs</b>						
Loss of revenue from fewer applications as a result of the fee change	£8.8	£8.5	£8.2	£7.9	£7.7	£41.1
Output loss from reduction in migrants coming to and remaining in the UK	£0.0	£0.0	£0.0	£0.0	£0.0	£0.1
<b>Total costs (PV)</b>	£10.8	£3.9	£3.8	£3.6	£3.5	£25.6
<b>Net benefit (PV)</b>	<b>-£2.0</b>	£4.6	£4.4	£4.3	£4.1	£15.5

### **In country transfers**

The Impact Assessment process is designed to measure the economic costs and benefits to the UK economy and economic actors within the UK only. Some of the fee increases will be paid by applicants inside the UK, and some by those outside of the UK. Payments made by applicants outside of the UK are counted as a benefit to the UK economy, but not as a cost to the migrant.

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

The values of these transfer payments are presented below:

Table 3 – Fee transfers from in country applicants to UKBA

Transfers	Central Estimate (PV) 2012/13 – 2016/17
Increase in UKBA fee income from in country applications	£34m
Additional cost of application fees to in country applicants	-£34m
<b>Total</b>	£0m

### **Wider Impacts**

#### **Impact on UKBA**

UKBA's annual income is estimated to rise by the increase in fees paid by both applicants within the UK and those applying from outside of the UK. This equates to £40.9 m (5 year PV) from applicants outside of the UK (presented in table 2] and £34 m (5 year PV) from applicants inside the UK (presented in table 3).



UKBA will also see a reduction in processing costs due to the volume of applications that are deterred both outside the UK and from inside the UK. This equates to £0.1m (5 year PV) in total.

The overall impact on UKBA is positive – income will increase by £41.1m PV) over the period 2012/13 to 2016/17.

### **Impact on Employers**

If a migrant worker is no longer wishes to come to the UK work then, under our current assumption that migrant workers do not displace non-migrant workers, the economy suffers a loss in output equal at least to the migrant wage. The loss will be greater if, as well as the wage, the economy (and the employer) also lose the additional value added by the worker, over and above the wage. This is sometimes referred to as “producer surplus”; the additional output that the worker provides for the employer over and above the output represented by the wage cost.

In our analysis we have treated the loss as limited to the wage, with no loss of producer surplus. This assumption is justified in each of the following cases:

- (i) the migrant labour is employed at the margin, where the wage of the worker in a competitive labour market is driven to equal the output produced, with no element of producer surplus; or
- (ii) the migrant labour has low value-added, meaning that the producer surplus, although not zero, is nevertheless very low.

We contend that the migrant workers affected by this policy change are indeed marginal, or have low value-added. They are marginal in the sense that their numbers are very low (80 Tier 1 and Tier 2 workers are expected to be deterred, along with 20 dependants) and in general, those deterred by a small increase in the fee level are likely to lie towards the lower-end of the earnings distribution. The overall impact on businesses is therefore expected to be relatively low as a reduction in output is offset by the reduction in wage expenditure.

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

Guidance issued by HM Government<sup>4</sup> on the one in one out methodology states that fees and charges are out of scope of OIOO. There is no additional administrative burden on firms. The impact on businesses due to a reduction in staff levels is discussed above.

### **Option 3 – Increase all products by 6%**

#### **Impact on volumes**

The volume impacts, costs and benefits of option 3 have been calculated using the same methodology as option 2. Annex 2 sets out the proposed increases in fees under option 3 and which impact assessment each product will fall into. The volumes affected are set out in annex 4.

The key area of difference between option 2 and option 3 is the proposed fee increases under option 3 exceed inflation so all products are included in the impact assessments. Option 2 only includes products where the fee increase is greater than inflation. This will distort the NPV as a greater range of products are considered under option 3.

#### **Direct Costs**

##### **• UKBA Revenue**

There will be an impact on UKBA fee income if overseas applicants are deterred from applying for a visa. Annex 4 sets out the expected change in application volumes and the change in fees. It is estimated that UKBA revenue will fall by £32k in 2012/13 and £150k(PV) over a five year period.

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

## Indirect Costs

### • UK Output

The assumptions used to calculate the lost income are set out in annex 5. Lost earnings have been calculated using the expected fall in volumes of applications granted, length of stay and expected annual earnings.

UK output is expected to fall by £5.6 m in 2012/13 and £17.47 m (PV) over the next four years.

It is important to note that this estimate takes no account of the potential adjustment of the economy and labour market to the reduction in working migrants in the UK. The MAC have been asked to report on the labour market impacts of migration and are due to report by the end of 2011. The conclusions of their report will be included in this IA before publication.

## Direct Benefits

### • Increase in UKBA revenue

Higher fees for out of country applicants will increase income to UKBA from those applicants that continue apply to come to the UK. The change in fees and potential application volumes are set out in annex 4. It is estimated that UKBA revenue will rise by £14.1 m in 2012/13 and £51.8m (PV) over a five year period.

### • Reduction in UKBA processing costs

A fall in application volumes as a result of increased product fees will result in administrative savings for UKBA as processing costs fall. The cost of processing each application and the expected fall in volumes is set out in annex 2. It is estimated that UKBA processing costs will fall by £35k in 2012/13 and £119k(PV) over a five year period.

## Indirect Benefits

### • Reduction in public service and welfare provision

Change in fee levels should help reduce pressures on public services (health, education and criminal justice) by reducing the volume of people eligible to utilize them. Where there is a reduction in the volume of people coming to the UK, there will be a proportionate reduction in the costs of health, education and criminal justice, assuming migrants have the same costs as UK residents. Annex 6 sets out the assumptions and calculations used to estimate the savings.

The savings from a lower number of migrants are estimated to be £161k in 2012/13 and £741k (PV) over a five year period.

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

### Summary of costs and benefits

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

**Table 4 - Summary of costs and benefits under option 3**

£m	2012/13	2013/14	2014/15	2015/16	2016/17	Total
<b>Benefits</b>						
Net Revenue raised from fee changes for those who continue to apply	£14.1	£13.6	£13.2	£12.7	£12.3	£66.0
Saving to UKBA from processing fewer applications		£0.0	£0.0	£0.0	£0.0	£0.2
Savings to UK due to lower public service provision	£0.2	£0.2	£0.1	£0.1	£0.1	£0.7
<b>Total benefits (PV)</b>	<b>£14.3</b>	<b>£13.8</b>	<b>£13.4</b>	<b>£12.9</b>	<b>£12.5</b>	<b>£66.9</b>
<b>Costs</b>						

Loss of revenue from fewer applications as a result of the fee change	£0.0	£0.0	£0.0	£0.0	£0.0	£0.2
Output loss from reduction in migrants coming to and remaining in the UK	£5.6	£4.6	£4.4	£4.3	£4.1	£23.0
<b>Total costs (PV)</b>	<b>£5.6</b>	<b>£4.6</b>	<b>£4.5</b>	<b>£4.3</b>	<b>£4.2</b>	<b>£23.2</b>
<b>Net benefit (PV)</b>	<b>£8.7</b>	<b>£9.2</b>	<b>£8.9</b>	<b>£8.6</b>	<b>£8.3</b>	<b>£43.7</b>

## In country transfers

As described above, the Impact Assessment process is designed to measure the economic costs and benefits to the UK economy and economic actors within the UK only. Increases in fees paid by applicants within the UK are regarded as a transfer payment, in that the fee is transferred from the applicant to UKBA.

The values of these transfer payments under option 3 are presented below:

Table 5 – Fee transfers from in country applicants to UKBA

<b>Transfers</b>	<b>Central Estimate (PV) 2012/13 – 2016/17</b>
Increase in UKBA fee income from in country applications	£86m
Additional cost of application fees to in country applicants	-£86m
<b>Total</b>	<b>£0</b>

## Wider Impacts

### Impact on UKBA

UKBA's annual income is estimated to rise by the increase in fees paid by both applicants within the UK and those applying from outside of the UK. This equates to £66.0 m (5 year PV) from applicants outside of the UK (presented in table 4) and £86m (5 year PV) from applicants inside the UK (presented in table 5).

UKBA will also see a reduction in processing costs due to the volume of applications that are deterred both outside the UK and from inside the UK. This equates to £0.2m (5 year PV) in total.

The overall impact on UKBA is positive – net income will increase by £41m (PV) over the period 2012/13 to 2016/17.

### Impact on businesses

As explained on page 14, we have treated the loss of output as limited to the wage or level of expenditure in the case of tourist visitors, with no loss of producer surplus. This assumption is justified in each of the following cases:

- (i) the migrant labour is employed at the margin, where the wage of the worker in a competitive labour market is driven to equal the output produced, with no element of producer surplus; or
- (ii) the migrant labour has low value-added, meaning that the producer surplus, although not zero, is nevertheless very low.

The low volumes affected under this proposal lead us to believe that these assumptions are justified.

### One In One Out

Guidance issued by HM Government<sup>5</sup> on the one in one out methodology states that fees and charges are out of scope of OIOO. There is no additional administrative burden on firms. The impact on businesses due to a reduction in staff levels, or volume of students, is discussed above.

<sup>5</sup> <http://www.bis.gov.uk/assets/biscore/better-regulation/docs/o/11-671-one-in-one-out-methodology>

## F. Summary and Recommendations

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

<b>Option</b>	<b>Costs</b>	<b>Benefits</b>
2	£25.6/year	£41.1/year
3	£23.2m/year	£66.9m/year

Source: UKBA estimates

The Net Present Value calculation of option 2 is therefore £15.5m over 5 years. This equates to reduction of approximately 110 applications per year. The NPV range based on the above elasticity assumptions is -£6.4m to £42.6m. This equates to a fall in volumes of between 0 and 250 applications per year.

The Net Present Value calculation of option 3 is therefore £43.0m over 5 years. This equates to reduction of approximately 110 applications per year. The NPV range based on the above elasticity assumptions is -£6.8m to £64.0m. This equates to a fall in volumes of between 0 and 1550 applications per year.

As discussed above, this impact assessment only covers products where the fee charged is greater than the costs to UKBA of processing the application and where the fee increase is greater than inflation. The decision over the preferred option must take both this impact assessment and the costs recovery fees impact assessment and the impacts of fee increases of less than the rate of inflation into account. If all products were to be included in a single NPV, expected central NPV of option 2 would be £43.8m over five years. The central NPV of option 3 would be £40.0m over five years. As set out in the evidence base the NPV includes all of the factors considered, not just the impact on UKBA's income.

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

Option 3 has been discounted due to the higher impact on routes where we have a policy requirement to maintain a lower level of fee (principally the short term visit visa fee for tourists to the UK – assessed in the Cost recovery fees IA). Targeted increases were also seen to better address the charging policy aim of aligning fees overseas and in the UK. Option 3 is also outside of the UK Border Agency legal scope as some fees would become over cost recovery fees, despite the lower benefits to the applicant.

## G. Risks

### Option 2

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

For the high NPV scenario it is assumed that volumes are not affected by the fee changes. In this scenario, there is a net benefit of £41.0m (PV) over 5 years through additional revenue from fees.

For the low NPV scenario, we assume that volumes decrease to a greater extent than is assumed in the central estimates. We therefore assume the a elasticity of labour supply of 1.1 and an elasticity of labour demand of -1. UKBA's revenue from out of country applicants is estimated to increase by £40.1m (PV); its administrative costs are estimated to fall by £0.1m (PV). Nevertheless, UKBA's revenue is estimated to fall by £0.1m (PV) from potential out of country applicants who no longer apply

due to the fee increases, lost output due to fewer migrants working in the UK is estimated to cost £47.8m (PV). The overall NPV of the low NPV scenario is -£6.7m over 5 years.

Having done some initial work to estimate the responsiveness of application volumes to fee changes for various visa products, we found that fee changes have little impact upon application volumes. It therefore seems unlikely that the low scenario will be realised, since this assumes that application volumes are highly responsive to fee changes. However, UKBA recognises that this may change and has plans in place to assess the responsiveness of applicants to price over the longer term.

## **H. Enforcement**

No impact on enforcement.

## **I. Implementation**

The Government plans to implement these changes on the common commencement date of 6 April 2012, following Parliament's consideration of the related Statutory Instrument. Full details to applicants on how to apply and pay the new fees will be made available on the UK Border Agency's website:

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

## **J. Monitoring and Evaluation**

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

## **K. Feedback**

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

## **L. Specific Impact Tests**

We have liaised with the Home Office Strategic Diversity Action Team on producing a Policy Equality Statement (PES) in line with latest Government guidance. We agreed that as there are no newly identified impacts from these proposals, we will produce a PES alongside the impact assessment when we lay the Regulations in Parliament in February 2012.



# Annex 1. Specific Impact Tests

## Statutory Equality Duties

### Equality Impact Assessment

Please see section L in the evidence base.

## Economic Impacts

### Small Firms Impact Test

The only proposals which impact on firms directly in this impact assessment are the change in fee for large firms. As this applies only to large firms, small firms will not be affected.

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 negligible.

### Rural Proofing

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

## Annex 2: Proposed Fee Increases

The table below sets out the current fees and proposed fees for all UKBA products. Volumes are current **internal planning assumptions which are subject to change** as a result of external factors such as the economy and policy and operational changes. Volumes are stated in a range for Tier 4 students, as this cohort presents the greatest financial risk to us should the current policy review have a significant effect. The lower end of ranges is assumed for the low and central income modelling purposes, to give greatest financial assurance to Agency income forecasts. The high scenario uses the upper end of the planning range. Estimated costs to UKBA of processing each application are also given. We have produced two impact assessments to accompany the two pieces of legislation required to amend UKBA fees. The column to the right of the proposed fee column for each option in the table below sets out which impact assessment the change in fee is analysed in.

Products	Unit Costs	Planning assumption application volumes - 2012/13	Current Fee (£)	Proposed Fee (£) – option 2	Impact Assessment	Proposed Fee (£) – option 3	Impact Assessment
Visit visa - short	140	1,774,000	76	78		81	Cost Recovery Fees
Visit visa - long 2 year	140	175,000	265	270		281	Fees
Visit visa - long 5 year	140	75,000	486	496		515	Fees
Visit visa - long 10 year	140	26,000	702	716		744	Fees
Settlement	391	57,000	810	826		859	Fees
Settlement - Dependant Relative	458	2,500	1,814	1,850		1923	Fees
Settlement - Dependant Relative Of Refugee	458	-	-	458		458	458
Certificate of Entitlement	355	2,500	265	270		281	Cost Recovery Fees
Other Visa	163	54,000	265	270		281	Fees
Transit Visa	73	30,000	51	52		54	Cost Recovery Fees
Vignette Transfer Fee	163	4,000	100	102		106	Cost Recovery Fees
Tier 1 - Main Apps	432	2,000	800	816		848	Fees
Tier 1 - Dependants	432	4,500	800	816		848	Fees
Tier 1 Graduate Entrepreneur Route	432	1,000	-	700		700	
Tier 1 Exceptional Talent	432	3,000	800	816		848	Fees
Tier 2 Gen - Main Apps	250	15,000	400	480	Fees	424	Fees
Tier 2 Gen - Dependants		10,000	400	480	Fees	424	Fees
Tier 2 Sport & MOR - Main Apps	250	750	400	480	Fees	424	Fees
Tier 2 Sport & MOR - Dependants	250	500	400	480	Fees	424	Fees
Tier 2 ICT >12Mths - Main Apps & Deps	250	19,500	400	480	Fees	424	Fees
Tier 2 ICT <12Mths - Main Apps & Deps	227	22,000	350	400	Fees	371	Fees
Tier 4 - Main Apps	289	277,000 - 223,000	255	289	Cost Recovery Fees	270	Cost Recovery Fees
Tier 4 - Dependants	289	14,000 - 11,000	255	289	Cost Recovery Fees	270	Cost Recovery Fees
Short Term Student <12 Months Visa	140	14,000	140	143		148	Fees
Tier 5 Temp Work	206	10,000	190	194		201	Cost Recovery Fees
Tier 5 YM	206	21,000	190	194		201	Cost Recovery Fees
Naturalisation (UK Citizenship) Single	181	62,000	756	771		801	Fees
Naturalisation (UK Citizenship) Joint	272	17,000	1,134	1,157		1202	Fees
Naturalisation (UK Citizenship) Spouse	181	48,000	756	771		801	Fees
Nationality Registration Adult	181	150	540	551		572	Fees
Nationality Registration Minor	181	16,000	540	551		572	Fees
Nationality Registration Multiple Minor Main	272	13,000	810	827		859	Fees

Nationality Registration Multiple Minor Deps	181	18,000	270	276		286	Fees
Renunciation of Nationality	181	700	225	230		239	Fees
Nationality Reissued Certificate	91	800	86	88		91	Cost Recovery Fees
Nationality Right of Abode	181	1,500	162	165		172	Cost Recovery Fees
Status Letter (Nationality)	91	200	86	88		91	Cost Recovery Fees
Non-Acquisition Letter (Nationality)	91	7,000	86	88		91	Cost Recovery Fees
Nationality Correction to Certificate	91	1,000	86	88		91	Cost Recovery Fees
ILR Postal - Main	255	60,500	972	991		1030	Fees
ILR Postal - Deps	255	19,000	486	496		515	Fees
ILR Dependant Relative Postal	299	700	1,814	1,850		1923	Fees
LTR Other Postal Main	308	40,000	550	561		583	Fees
LTR Other Postal Deps	308	7,000	275	281		292	Cost Recovery Fees
Transfer of Conditions Postal Main	229	18,000	216	220		229	Cost Recovery Fees
Transfer of Conditions Postal Deps	229	4,000	108	110		114	Cost Recovery Fees
Travel Documents Adult (CoT)	249	9,000	238	243		238	
Travel Documents Adult CTD	159	11,000	78	79		77.5	
Travel Documents Child (CoT)	159	500	149	152		119	
Travel Documents Child CTD	113	3,000	49	50		49	
Replacement BRP	37	2,000	37	38		39	Fees
Residual FLR BUS Postal - Main	148	50	1,000	1,020		1060	Fees
Residual FLR BUS Postal - Dependants	148	50	500	510		530	Fees
Employment LTR outside PBS Postal - Main	253	100	550	561		583	Fees
Employment LTR outside PBS Postal - Dependants	253	50	275	281		292	Fees
Tier 1 Gen - Postal Ext Main	181	28,000	1,000	1,500	Fees	1060	Fees
Tier 1 Gen - Postal Ext Deps	181	18,000	500	750	Fees	530	Fees
Tier 1 Inv & Ent - Postal First App - Main	181	250	1,000	1,020		1060	Fees
Tier 1 Inv & Ent - Postal First App - Deps	181	200	500	510		530	Fees
Tier 1 Inv & Ent - Postal Ext Main	181	250	1,000	1,020		1060	Fees
Tier 1 Inv & Ent - Postal Ext Deps	181	200	500	510		530	Fees
Tier 1 - Exceptional Talent	181	-	-	1,020	Fees	1060	Fees
Tier 2 - Postal First App Main (Gen)	160	20,000	550	561		583	Fees
Tier 2 - Postal First App Deps (Gen)	160	8,000	275	281		292	Fees
Tier 2 - Postal First App Main (Sports/MoR)	160	350	550	561		583	Fees
Tier 2 - Postal First App Deps (Sports/MoR)	160	300	275	281		292	Fees
Tier 2 - Postal Ext Main (Gen)	160	5,000	550	561		583	Fees
Tier 2 - Postal Ext Deps (Gen)	160	2,000	275	281		292	Fees
Tier 2 - Postal Extn - Main (ICT >12 months)	160	4,000	550	561		583	Fees
Tier 2 - Postal Extn - Deps (ICT >12 months)	160	4,000	275	281		292	Fees
Tier 2 - Postal Extn - Main (ICT <12 months)	160	1,300	350	400	Fees	371	Fees
Tier 2 - Postal Extn - Deps (ICT <12 months)	160	1,200	175	200	Fees	186	Fees
Tier 2 - Postal Extn - Main (Sports/MoR)	160	450	550	561		583	Fees
Tier 2 - Postal Extn - Deps (Sports/MoR)	160	400	275	281		292	Fees

Tier 4 - Postal First App Main	259	6,000 -5,000	386	394		409	Fees
Tier 4 - Postal First App Deps	259	800- 650	193	197		205	Cost Recovery Fees
Tier 4 - Postal Ext Main	259	98,000 - 80,000	386	394		409	Fees
Tier 4 - Postal Ext Deps	259	13,000- 10,500	193	197		205	Cost Recovery Fees
Tier 5 - Postal Main	196	200	190	194		201	Fees
Tier 5 - Postal Deps	196	-	95	97		101	Cost Recovery Fees
Tier 4 - Permission to Change Course	160	12,000	160	160		170	Fees
Tier 2 Large Sponsor Licence	1,531	6,000	1,025	1,500	Fees	1087	Cost Recovery Fees
Tier 2 Small Sponsor Licence	1,531	9,900	310	500	Cost Recovery Fees	329	Cost Recovery Fees
Tier 4 Sponsor Licence	1,531	2,200	410	500	Cost Recovery Fees	435	Cost Recovery Fees
Tier 5 Sponsor Licence	1,531	2,000	410	500	Cost Recovery Fees	435	Cost Recovery Fees
Large Sponsor Licence Tier 2/4	1,531	190	1,025	1,500	Fees	1087	Cost Recovery Fees
Large Sponsor Licence Tier 2/4/5	1,531	80	1,025	1,500	Fees	1087	Cost Recovery Fees
Large Sponsor Licence Tier 2/5	1,531	460	1,025	1,500	Fees	1087	Cost Recovery Fees
Large Sponsor Licence Tier 4/5	1,531	-	410	500	Cost Recovery Fees	435	Cost Recovery Fees
Small Sponsor Licence Tier 2/4	1,531	550	410	500	Cost Recovery Fees	435	Cost Recovery Fees
Small Sponsor Licence Tier 2/4/5	1,531	120	410	500	Cost Recovery Fees	435	Cost Recovery Fees
Small Sponsor Licence Tier 2/5	1,531	730	410	500	Cost Recovery Fees	435	Cost Recovery Fees
Small Sponsor Licence Tier 4/5	1,531	50	410	500	Cost Recovery Fees	435	Cost Recovery Fees
Highly Trusted Sponsor Licence	1,531	2,000	410	500	Cost Recovery Fees	435	Cost Recovery Fees
Sponsor Action Plan	1,531	-	1,000	1,500	Fees	1060	Cost Recovery Fees
Tier 2 COS	153	78,000	175	179		186	Fees
Tier 5 COS	13	26,000	10	13	Cost Recovery Fees	11	Cost Recovery Fees
Tier 4 CAS	13	373,000	10	13	Cost Recovery Fees	11	Cost Recovery Fees

## Annex 3: Elasticity assumptions

Table 3a below sets out the elasticities used to analyse the impact of the changes in fees on different types of products. Subsequent tables (3b – 3e) set out the academic papers used to justify the inclusion of these elasticities. Figure 3f sets out the reasons why the elasticity used to estimate student products has been amended from that suggested by the literature.

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

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

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

Source	Estimate of wage elasticity of labour supply*	Measure
R. E Lucas and L. A. Rapping, "Real Wages, Employment and Inflation", <i>Journal of Political Economy</i> , 77 (1969).	Short run: 1.12 – 1.13 (95% significance) Long-run: -0.07 – 0.58	Change in real wages on labour supply using US data 1929-1965
Y. Chang and S. Kim, "On the aggregate labour supply", <i>Federal Reserve Bank of Richmond Economic Quarterly Volume 91/1 Winter 2005</i> .	1.0	Aggregate labour supply elasticity
L. Osberg and S. Phipps, "Labour Supply with Quantity Constraints: Estimates from a Large Sample of Canadian Workers", <i>Oxford Economic Papers, New Series, Vol. 45, No. 2. (Apr., 1993), pp. 269-291</i> .	Between +0.1 and -0.1	Wage elasticity of labour supply in the Canadian Labour Market
P. Bingley and G. Lanot, "The Incidence of Income Tax on Wages and Labour Supply", <i>National Centre for Register-based Research (NCRR), Version 5.002 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 3c: 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.

**Table 3d: Empirical studies of the price elasticity of demand for higher 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 The Journal of Higher Education, 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." American Economic Review, (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 Compared." Paper presented to the Econometric Society, December, 1970.	Between -1.058 and -0.6414	Used Campbell and Siegel's data and split up for public and private sectors
Hoernack, 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 3e: Empirical study of the air fare elasticities of demand for foreign business flights to the UK**

Source	Estimate of price elasticity of demand	Measure
UK Air passenger demand and CO2 forecasts, DFT, 2009	0.0	Econometric study of air fare elasticity of demand

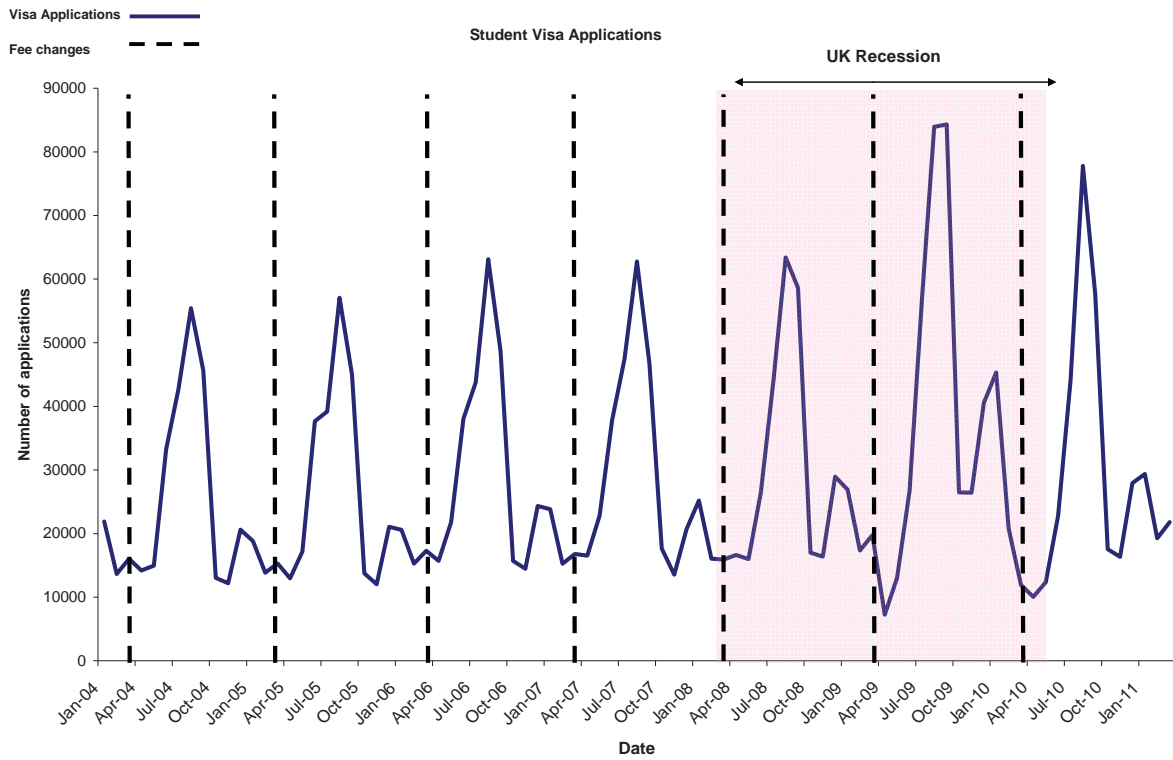
The UK Border Agency has also sought to use its own evidence base in conjunction with that drawn from other sources by comparing estimates from the literature with our data. Where it is very clear that the elasticities are inappropriate, they have been amended them to reflect more closely what our evidence suggests. Although it has not been possible to construct any elasticities due to difficulties in finding statistically significant control variables, application data suggests Tier 4 application volumes are unresponsive to fee changes, and have risen year upon year in spite of changes in fees. This is logical given that the marginal impact of visa fees, when compared to the overall costs incurred by foreign students is relatively small.

#### Tier 4 Evidence

Whilst it has been agreed that the above elasticities are appropriate proxies for elasticities of demand, we found that, based on the data, it was very clear that student visas were unresponsive to fee changes, and have a very inelastic demand function.

For this reason, we amended our sensitivity analysis to reflect a low and central case estimate of 0.0, and a high estimate of -1. The below graph shows clearly, that seasonal student application have continued to rise yearly in spite of successive fee rises.

**Fig 3f. Student Visa Applications Jan 04 – Mar 11**



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

### Option 2

Product	Change in Applications	Grant Rate	Central Elasticity	Average Annual Earnings	Average Length of stay
Tier 1 General - Extensions	65	92%	-0.5	37200	2.9
Tier 1 General - Extensions Dependants	21	89%	-0.5	6500	2.9
Tier 2 General Main Applicants	6	86%	-0.5	44500	2.3
Tier 2 General Dependants	4	90%	-0.5	6500	2.3
Tier 2 Sport and Ministers of Religion	1	86%	-0.5	30200	1.8
Tier 2 Sport and Ministers of Religion Dependants	0	90%	-0.5	6500	1.8
Tier 2 ICT < 12 Months	6	96%	-0.5	66400	2
Tier 2 ICT > 12 Months	8	96%	-0.5	66400	1
Tier 2 Large Sponsor Licence	2	84%	-0.75	550000	2
Large Sponsor Licence Tier 2/4	0	84%	-0.75	120000	2
Large Sponsor Licence Tier 2/4/5	0	84%	-0.75	120000	2
Large Sponsor Licence Tier 2/5	0	84%	-0.75	360000	2

### Option 3

Product	Change in Applications	Grant Rate	Central Elasticity	Average Annual Earnings	Average Length of stay
Visit visa - long 2 year	0	86%	0	2400	1
Visit visa - long 5 year	0	86%	0	5200	1
Visit visa - long 10 year	0	86%	0	12000	1
Settlement	8	76%	-0.5	6500	2.8
Settlement - Dependant Relative	0	76%	-0.5	6500	6.7
Other Visa	5	94%	-0.5	20300	1.4
Replacement BRP Overseas	0	79%	-0.5	20300	2
Tier 1 - Main Apps	0	79%	-0.5	37200	2.7
Tier 1 - Dependants	0	87%	-0.5	6500	2.7
Tier 1 CESC - Main Apps	1	79%	-0.5	37200	2.7
Tier 1 CESC - Dependants	0	87%	-0.5	6500	2.7
Tier 1 Exceptional Talent	0	79%	-0.5	37200	2.7
Tier 2 Gen - Main Apps	6	86%	-0.5	44500	2.3
Tier 2 Gen - Dependants	4	90%	-0.5	6500	2.3
Tier 2 Sport & MOR - Main Apps	1	86%	-0.5	30200	1.8
Tier 2 Sport & MOR - Dependants	0	90%	-0.5	6500	1.8
Tier 2 ICT >12Mths - Main Apps & Deps	6	96%	-0.5	66400	2
Tier 2 ICT <12Mths - Main Apps & Deps	8	96%	-0.5	66400	1
Tier 2 CESC - Main Apps	0	86%	-0.5	43000	2.3
Tier 2 CESC - Dependants	0	90%	-0.5	6500	2.3
Short Term Student <12 Months Visa	0	85%	0	16500	1
Naturalisation (UK Citizenship) Single	1	96%	-0.5	0	29
Naturalisation (UK Citizenship) Joint	0	96%	-0.5	0	25
Naturalisation (UK Citizenship) Spouse	1	96%	-0.5	0	30
Nationality Registration Adult	0	96%	-0.5	0	18
Nationality Registration Minor	0	96%	-0.5	0	47
Nationality Registration Multiple Minor Main	0	96%	-0.5	0	47
Nationality Registration Multiple Minor Deps	0	96%	-0.5	0	47
Renunciation of Nationality	0	96%	-0.5	0	32
ILR Postal - Main	1	96%	-0.5	20300	32
ILR Postal - Deps	0	96%	-0.5	6500	46
ILR Postal CESC Main	0	96%	-0.5	20300	35
ILR Postal CESC Deps	0	96%	-0.5	6500	36
ILR Dependant Relative Postal	0	96%	-0.5	6500	47

LTR Non Student Postal Main	11	84%	-0.5	20300	1
Replacement BRP	0	0%	-0.5	20300	2
Residual FLR IED Postal - Main	0	84%	-0.5	20300	2
Residual FLR IED Postal - Dependants	0	84%	-0.5	6500	2
Residual FLR BUS Postal - Main	0	84%	-0.5	20300	2
Residual FLR BUS Postal - Dependants	0	84%	-0.5	6500	2
Employment LTR outside PBS Postal - Main	0	94%	-0.5	20300	2
Employment LTR outside PBS Postal - Dependants	0	97%	-0.5	6500	2
Tier 1 Gen - Postal First App - Main	0	92%	-0.5	37200	2.9
Tier 1 Gen - Postal First App - Deps	0	89%	-0.5	6500	2.9
Tier 1 Gen - Postal Ext Main	65	92%	-0.5	37200	2.9
Tier 1 Gen - Postal Ext Deps	21	89%	-0.5	6500	2.9
Tier 1 Inv & Ent - Postal First App - Main	0	92%	-0.5	37200	2.9
Tier 1 Inv & Ent - Postal First App - Deps	0	89%	-0.5	6500	2.9
Tier 1 Inv & Ent - Postal Ext Main	0	92%	-0.5	37200	2.9
Tier 1 Inv & Ent - Postal Ext Deps	0	89%	-0.5	6500	2.9
Tier 2 - Postal First App Main (Gen)	1	92%	-0.5	43000	2.5
Tier 2 - Postal First App Deps (Gen)	0	93%	-0.5	6500	2.5
Tier 2 - Postal First App Main (ICT >12 months)	0	92%	-0.5	66400	2
Tier 2 - Postal First App Deps (ICT >12 months)	0	93%	-0.5	6500	2
Tier 2 - Postal First App Main (Sports/MoR)	0	92%	-0.5	30200	1.6
Tier 2 - Postal First App Deps (Sports/MoR)	0	93%	-0.5	6500	1.6
Tier 2 - Postal Ext Main (Gen)	0	92%	-0.5	43000	2.5
Tier 2 - Postal Ext Deps (Gen)	0	93%	-0.5	6500	2.5
Tier 2 - Postal Extn - Main (ICT >12 months)	0	92%	-0.5	66400	2
Tier 2 - Postal Extn - Deps (ICT >12 months)	0	93%	-0.5	6500	2
Tier 2 - Postal Extn - Main (Sports/MoR)	0	92%	-0.5	30200	1.6
Tier 2 - Postal Extn - Deps (Sports/MoR)	0	93%	-0.5	6500	1.6
Tier 2 - Postal CESC Main	0	92%	-0.5	43000	2.3
Tier 2 - Postal CESC Deps	0	93%	-0.5	6500	2.3
Tier 4 - Postal First App Main	0	85%	0	16500	1.4
Tier 4 - Postal Ext Main	0	85%	0	16500	1.4
Tier 5 - Postal Main	0	76%	-0.5	6000	1
Tier 4 - Permission to Change Course	0	85%	0	16500	1.4
Tier 2 COS	1	84%	-0.75	0	2

## Annex 5. Methodology for calculating output losses.

### Loss of Output

The loss in output to the UK economy from fewer migrants working in the UK has been estimated by assuming migrants' output is equal to their foregone income. Wages have been calculated as follows:

- Tier 1 salaries have been obtained from a UKBA survey of migrants on the Highly Skilled Migrant Programme (HSMP) at the further leave to remain stage (Q1 2007). While different criteria were used for the HSMP compared to the Tier 1 General route, this is the latest available data. Tier 1 migrants are not required to report their salaries to UKBA.
- Tier 2 salary data has been obtained from UK Border Agency management information. This is the latest available data, and was used by the Migration Advisory Committee in its report on proposed changes to settlement policy for Tier 1 and 2 migrants.  
(<http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/settlement-restrictions-workers/>)
- Loss of output for sponsorship products is assumed to be equal to the average volume of migrants sponsored for each type of sponsor multiplied by the average wage for that type of migrant.
  - Wages for Tier 2 migrants are explained above.
  - Universities UK<sup>6</sup> produce an estimate of tuition fees for overseas students (Tier 4) in UK universities. A weighted average tuition fee has been applied to the expected fall in application grants and length of stay.
  - More than 2/3 of Tier 5 migrants are those working on the youth mobility scheme. This is used as a proxy wage for all tier migrants. Youth mobility workers must be aged 21-26 and from Australia, Canada, Japan, New Zealand and Monaco. The Labour Force Survey (LFS) has been used to identify these workers and estimate their annual wage.
  - Unemployment rates from the LFS for those coming to the UK to work have been applied to these earnings to calculate the expected earnings per year per migrant.
  - Assumptions on length of stay per product application have also been applied to calculate the expected earnings per deterred application. (See table in annex 5.)

The table below gives the per annum unit costs associated with each deterred applicant.

<b>Product</b>	<b>Average loss in output from fewer migrants (£)</b>	<b>Average length of Stay</b>	<b>Total Output loss per deterred Grant (rounded)</b>
Tier 1 General - Extensions	£37,200	2.9	£108,000
Tier 1 General - Extensions Dependants	£6,500	2.9	£19,000
Tier 2 General Main Applicants	£44,500	2.3	£102,000
Tier 2 General Dependants	£6,500	2.3	£15,000
Tier 2 Sport and Ministers of Religion	£30,200	1.8	£54,000
Tier 2 Sport and Ministers of Religion Dependants	£6,500	1.8	£12,000
Tier 2 ICT < 12 Months	£66,400	2	£133,000
Tier 2 ICT > 12 Months	£66,400	1	£66,000
Tier 2 Large Sponsor Licence	£550,000	2	£1,100,000
Large Sponsor Licence Tier 2/4	£120,000	2	£240,000
Large Sponsor Licence Tier 2/4/5	£120,000	2	£240,000
Large Sponsor Licence Tier 2/5	£360,000	2	£720,000

<sup>6</sup> <http://www.universitiesuk.ac.uk/PolicyAndResearch/PolicyAreas/Data-Analysis/International-student-tuition-fees/Pages/Survey-Results-2011-2012.aspx>



## Annex 6

### Impact on Public Services – Healthcare, Education, Criminal Justice System and Welfare

The presence of migrants in the UK places additional pressure on the provision of public services in the UK. We have attempted to quantify the impacts of a reduction in migrants as a result of the policy proposals set out in this impact assessment on healthcare, education and the criminal justice system.

#### Health

In general, lower levels of migrants entering and settling in the UK might be expected to reduce the total demand for healthcare, although the extent will depend on the characteristics of migrants arriving, and those prevented from arriving. Individuals can have very differing healthcare needs – the old and the very young for example have, on average, high costs, while working age adults have much lower costs.

Those applying to come to the UK in 2010 are distributed by age in the following table. We assume that this age breakdown holds over time.

Table A4.1 – Breakdown of migrants by type and age breakdown 2010

Inflow	All	Work	Dependant	Study	Other
All ages	100%	100%	100%	100%	100%
Under 15	5%	0%	24%	2%	0%
15-24	42%	29%	14%	66%	42%
25-44	46%	62%	53%	32%	42%
45-59/64	6%	9%	8%	0%	5%
60/65 and over	2%	1%	1%	0%	11%

Source – ONS IPS Statistics – Reason for migration and age of migrant

To estimate the effect of the policies contained in option 2 on health care costs we inflate Hospital and Community Health Services (HCHS) per capita expenditure by age (1999-00, England)<sup>7</sup> by the increase in overall HCHS expenditure in England, and we assume that these per capita costs stay constant over the reference period. The figures we derive are as follows:

Table A4.2 – Expenditure on Healthcare by age (£)

under 5	1,913
5 to 15	446
16 to 44	790
45 to 64	1,107
65 to 74	2,287
75 to 84	4,057
over 84	6,360

It is assumed that migrant stay in the UK as set out in annex 4.

We have used the volumes figures outlined in annex 4 combined with the length of stay assumptions and HCHS costs to calculate the estimated reduction in healthcare costs resulting from a decrease in migrants. Where the age bands do not compute with the healthcare ranges we have assumed that ages are equally distributed within the bands.

#### Education

The policy proposals are expected to affect public and private schools through a reduction in the number of family migrants and their dependants who will require education in the UK.

Increasing the robustness pre entry requirements may result in fewer pupils, and a lower proportion with English as an Additional Language (EAL)<sup>8</sup> than would otherwise have been the case; this may help ease delivery and funding pressures.

<sup>7</sup> See: [http://www.ohe.org/page/knowledge/schools/appendix/nhs\\_cost.cfm](http://www.ohe.org/page/knowledge/schools/appendix/nhs_cost.cfm)  
<sup>8</sup> Note that not all migrant pupils have EAL and not all pupils with EAL are migrants.

It is assumed that dependants and family migrants follow the age distribution set out in table A4.1. On advice from the Department of Education (DfE), we have assumed a participation rate of 100% for children aged 5 – 15 and 67% for children aged 16-18.

The cost per year per pupil is expected to be £5,310; this is based on DfE’s published revenue funding per school pupil 2010/11 plan for pupils aged 3 to 19.<sup>9</sup> This amount does not include capital spending and is the best available estimate of the variable costs associated with education. We have assumed that the unit funding will stay constant during the reference period. However the spending review announced that unit funding will need to fall and therefore the cost savings are overestimated in this respect, but it is uncertain by how much. Schools and colleges may have already committed most of the resources allocated to them in advance of the start of the academic year (on staffing contracts for example) so resource savings in the first and second year may be limited. For this reason we have introduced a time lag of one year for effects to be realised after policy implementation.

We have assumed that children of ODWs mainly attend state schools. Over time, 7% of children in the UK attend private and independent schools. We have assumed this holds for children of ODWs. Costs at independent schools and higher education institutions may differ, and revenue may be lost at independent schools.

The participation age will rise to 17 in 2013 and to 18 in 2015; the figures in this IA do not consider the impact of this change and will therefore underestimate the benefits in this respect. The IA has also assumed the current participation rate for those aged between 16 and 18 will remain constant, but this may be subject to change over time. Schools and colleges may also counter the effect of fewer migrant students by recruiting more UK or EU students, aged over sixteen. This would lower the estimated cost savings of the policy.

### ***Criminal Justice System***

Reducing the volume of people entering the UK and being allowed to remain here could lead to reductions in expenditure on the criminal justice system. We have used data from the Offending Crime and Justice Survey 2006<sup>10</sup> and the Offending Crime and Justice Survey 2003<sup>11</sup>, to estimate the likelihood that an individual of a certain age would commit a crime by crime type.

Neither the police or the criminal justice sector record activity by nationality or migrant status. Thus we have assumed that the propensity of non-EU migrants entering under the family route to commit crime is the same as that of British nationals of the same age group.

We used 2006 criminal justice costs by crime type<sup>12</sup> inflated to 2011 prices and the propensity to commit crime to obtain the estimates shown below for the annual cost of crime per person dependant on age.

Table A5.4 – The annual unit criminal justice costs of crime by age.

Age Band	Unit Cost Per Annum
10-15	£251
16-23	£283
23-45	£74

We estimate that reducing the volume of migrants through increasing fees, and taking expected length of stay into account, could result in small savings to the criminal justice system.

9 (<http://www.education.gov.uk/rsgateway/DB/TIM/m002012/NSRStatsJuneGDP140809.xls>)

10 <http://rds.homeoffice.gov.uk/rds/pdfs08/hosb0908.pdf>

11 <http://rds.homeoffice.gov.uk/rds/pdfs05/hors275.pdf>

12 <http://rds.homeoffice.gov.uk/rds/pdfs05/rdsolr3005.pdf>