# Impact Assessment, The Home Office

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| **Title:** Impact Assessment for Immigration and Nationality (Fees) Regulations 2021 - Removal of the 1961 Council of Europe Social Charter Fee Concession. | **Date:** 6 September 2021 |
| **IA No:** HO0395 **RPC Reference No:** N/A | **Stage:** FINAL |
| **Other departments or agencies:** N/A | **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)

| Net Present Social Value NPSV (£m) | 9.8 | Business Net Present Value BNPV | -34.5 | Net cost to business per year EANDCB (£m) | 7.5 |
|---|---|---|---|---|---|

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

Visa and immigration fees are set through Fee Regulations to ensure the Home Office has appropriate funding to provide an effective and sustainable Migration and Borders system and in support of the government policy objective to move towards 'self-funding' and reduce the burden on the taxpayer. Changes to visa and immigration fees require secondary legislation to be introduced. This IA assesses the impact of removing the Council of Europe Social Charter (CESC) fee concession.

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

The strategic objective is to support the implementation of the UK's new immigration system which aims that EEA and non-EEA citizens are treated equally, with the system prioritising the skills a person has to offer, not their citizenship. The Government's main policy objective on visa and immigration fees is that those who use and benefit directly from the system (migrants, employers and educational institutions) contribute towards its costs, reducing the contribution of the taxpayer. There is also an objective to simplify and align fees where entitlements are similar.

**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.

**Option 1** – **The Government's preferred option** is to remove the CESC fee concession. This would end the differential treatment of migrants from certain countries, creating a simplified immigration system which treats all migrants equally on work routes, where the CESC is applied.

| **Main assumptions/sensitivities and economic/analytical risks** | **Discount rate (%)** | 3.5 |
|---|---|---|

Baseline volumes are based on Home Office internal planning assumptions as set out in Table 1. Future volumes are uncertain, particularly due to the impact of Covid-19 and the introduction of new visa routes following EU Exit, which means that the volumes used in this IA may not match actual outturns in future published statistics. The impact of the changes on volumes are based on behavioural assumptions for individuals and businesses. The assumptions on price elasticity are set out in Table 2 and uncertainties surrounding volumes and behavioural assumptions are considered in the Sensitivity Analysis in Section F.

**Will the policy be reviewed?** Policy on fees and charges are reviewed regularly. **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: 13 September 2021

## Summary: Analysis & Evidence — Policy Option 1

**Description:** Impact Assessment for Immigration and Nationality (Fees) Regulations 2021 - Removal of the 1961 Council of Europe Social Charter Fee Concession. **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:** | 4.8 | **High:** | 14.9 | **Best:** | 9.8 | **Best BNPV** | -34.5 |

| **COSTS, £m** | **Transition** Constant | **Ongoing** Present Value | **Total** Present Value | **Average/year** Constant Price | **To Business** Present Value |
|---|---|---|---|---|---|
| **High elasticity/Low NPV** | 0 | 14.1 | 14.1 | 3.1 | 34.9 |
| **Low elasticity/High NPV** | 0 | 0 | 0 | 0 | 35.0 |
| **Best Estimate** | **0** | **7.1** | **7.1** | **1.5** | **35.0** |

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

Central estimates of monetised direct and indirect costs of removing the CESC fee concession: :

1) **UK Exchequer**: Reduction in tax revenue due to fewer visa applications, **£6.5 million.**

2) **Home Office**: Lost fee revenue due to fewer visa applications, **£0.2 million.**

3) **Government**: Lost IHS revenue due to fewer visa applications, **£0.3 million.**

Transfers: Increase in transfer of CoS revenue from businesses to the Government, **£35 million**. This is not included in the NPSV.

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

The monetised cost of migrant spending modelled in this IA covers the proportion of spending that accrues to the Government. There may be wider indirect costs to businesses that are not monetised but considered qualitatively.

| **BENEFITS, £m** | **Transition** Constant | **Ongoing** Present Value | **Total** Present Value | **Average/year** Constant Price | **To Business** Present Value |
|---|---|---|---|---|---|
| **High elasticity/ Low NPV** | 0 | 18.9 | 18.9 | 4.1 | 1.0 |
| **Low elasticity/ High NPV** | 0 | 14.9 | 14.9 | 3.2 | 0 |
| **Best Estimate** | **0** | **16.9** | **16.9** | **3.7** | **0.5** |

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

Central estimates of monetised direct and indirect benefits of removing the CESC fee concession:

1) **UK Exchequer:** Gain from lower public service provision costs, **£1.9 million.**
2) **Home Office:** Additional fee revenue from changes to visa fees, **£14.9 million.**
3) **Home Office:** Reduction in cost from processing fewer visa and CoS applications, **£0.2 million.**

Transfers: Decrease in transfer of ISC revenue from businesses to the Government, **£0.5 million**. This is not included in the NPSV.

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

Lower immigration to the UK may result in some wider benefits (better social cohesion and reduced housing/transport congestion). These impacts are expected to be small.

**BUSINESS ASSESSMENT (Option 1)**

| **Direct impact on business (Equivalent Annual) £m:** | | | | | |
|---|---|---|---|---|---|
| **Cost, £m** | 7.6 | **Benefit, £m** | 0.1 | **Net, £m** | **-7.5** |
| **Score for Business Impact Target (qualifying provisions only) £m:** | | | | | N/A |

| | |
|---|---|
| **Is this measure likely to impact on trade and investment?** | N |

| **Are any of these organisations in scope?** | **Micro** | Y | **Small** | Y | **Medium** | Y | **Large** | Y |
|---|---|---|---|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| What is the $CO_2$ equivalent change in greenhouse gas emissions? (Million tonnes $CO_2$ equivalent) | Traded: | N/A | Non-Traded: | N/A |

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

| **Are all relevant Specific Impacts included?** | N | **Are there any impacts on particular groups?** | N |
|---|---|---|---|

# Evidence Base (for summary sheets)

## A. Strategic Objective and Overview

### A.1 Strategic Objective

1. The overarching objective of this intervention is to support the implementation of the UK's new immigration system which treats EEA and non-EEA citizens equally, with the system prioritising the skills a person has to offer, not their citizenship. This intervention also supports the objective to ensure that those who use and benefit most from the immigration system contribute towards the cost of operating the system, reducing the burden on the UK taxpayer. Whilst also ensuring that we simplify and align fees whereever possible, where entitlements are similar.

### A.2 Background

2. The Government continues to move towards a self-funded immigration system, where the costs of front-line Migration and Borders operations are recovered through fees paid by those who use and benefit from the system, with the balance met from general taxation.
3. The Immigration and Nationality (Fees) Order 2016 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. Within the scope of the framework set out in the Immigration and Nationality (Fees) Order, Fee Regulations, such as those laid alongside this impact assessment (IA) are used to set the actual price charged.
4. Fee levels are set within strict financial limits and are agreed with HM Treasury, other-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 gained through a successful application. Other factors that may be used to set fees and provided for by the Act include the promotion of economic growth, comparable fees charged by other countries, and international agreements.
5. Within these criteria the Government continues to consider the impact on the economy of changes to routes which promote economic growth and attracts 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 a sustainable Migration and Borders system, 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 in some areas the Home Office can set some fees at below cost, where required for example in support of international agreements or to promote growth. 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. Though not addressed within the IA, optional premium services are charged above cost and are offered to meet customer demand and help to limit fee increases in other areas.
7. The Council of Europe's Social Charter (CESC) 1961 is an International Treaty with an integrated set of international standards concerning social rights and a mechanism for monitoring their implementation within states concerned. Article 18(2) of CESC contains an

obligation for countries that are signatories to make it easier for citizens to migrate for work reasons to other signatory countries. The UK had long standing arrangements in its legislation for the nationals of these countries applying for eligible work routes when making their visa application and for recruiting UK employers to qualify for a fee reduction., The UK has written to the Council of Europe to notify its formal denunciation of article 18(2) with effect from 26 February 2022. This will have the effect of the UK removing the current fee concession on the denunciation date. This IA considers the overall impact of the removal of the fee concession. It estimates the overall costs and benefits to the UK economy. It does not assess the impact of fee changes on the individual applicant, but rather, the impact on the UK, and results are therefore presented at an aggregated level.

### A.3 Groups Affected

8. The groups likely to be affected by this policy change are the following:
    - Individuals from countries who have ratified the 1961 Council of Europe Social Charter, applying for eligible work routes.
    - Businesses sponsoring those applicants.

### A.4 Consultation

9. At the end of 2013 the Home Office undertook a targeted consultation to inform the development of the charging principles now set out in the Immigration Act 2014. Immigration and nationality fees continue to be set within this framework.
10. 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 iand 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

11. The intervention to remove the fee concession is in support of the Government's policy objective to create a single global immigration system that treats EEA and non EEA citizens equally with the system prioritising the skills a person has to offer, not their citizenship. This intervention removes the preferential discount that the nationals of Council of Europe Social Charter 1961 Signatory countries and recruiting UK employers were given for work visa applications.

## C. Policy objective

12. The Government's policy objectives on charging for immigration remain in line with objectives set out in previous Fee Orders and Regulations, 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.
13. Denouncing the fee concession will ensure that Council of Europe 1961 Signatory countries and non-signatory countries are treated equally in terms of the fees that are charged for work visa applications and employer sponsorship fees.

## D. Options considered and implementation

**Option 0 – Do nothing**

14. Under the do-nothing option visa fees would remain at their current level as the CESC fee concession will remain in place. This would mean the continued differential treatment of applicants from countries who have ratified the treaty, but with no legal basis for doing so, given that the UK has notified formal denunciation of Article 18(2) from 26 February 2022. This would leave the Home Office open to legal challenge from that date.

**Option 1 – Remove the CESC fee concession**

15. Under Option 1, the CESC fee concession offered to certain migrants on eligible work visa routes would be removed as the UK will have denounced Article 18(2) and is therefore no longer obliged to offer the concession under international law. This would involve removing the £55 discount on work visas and the offer of a free certificate of sponsorship for businesses hiring migrants from countries who have ratified the treaty.

16. **This is the Government's preferred option** as it best meets the Government's objectives.

# E. Appraisal

17. The following section sets out the economic costs and benefits of the proposed changes. Specifically, the removal of the £55 visa fee discount and removing the offer of a free certificate of sponsorship for certain migrants on eligible visa routes.

18. Most EU member states are signatories of the Treaty which means that the removal of the concession will affect the majority of EU workers applying for UK work visas. However, migrants from five countries (Bulgaria, Estonia, Lithuania, Romania and Slovenia) are not eligible for the discount as they are not signatories. Migrants applying for work visas from these ineligible countries represent 4 per cent of all EU work volumes.

19. This policy change will also impact a small number of non-EU migrants. Turkey and North Macedonia are CESC Treaty signatories which means following the denunciation, nationals from these countries who apply for eligible UK work visas will no longer qualify for the discount. This impact is likely to be small as skilled workers from Turkey and North Macedonia represent around 1.3 per cent of all non-EU work visa applications.

20. The earliest the policy can take effect is six months after denouncing the treaty; 26 February 2022. The analysis produces a net present social value (NPSV) assuming the fee concession will end in Q1 of 2022/23.

21. For the purposes of the analysis, it is assumed that visa fees for the routes affected will remain constant over the appraisal period at current 2021/22 levels. However, this does not represent a statement of policy as future fees policy remains under constant review.

22. The IA applies a methodology broadly in line with that used for the IA for the Fee Order 2016[1], the IA for the Fee Regulations 2018[2] and the IA for the Fee Regulations 2019[3]. The data, assumptions, and methodology used in the analysis have been reviewed and updated where possible.

[1] https://www.legislation.gov.uk/ukia/2016/10/pdfs/ukia_20160010_en.pdf
[2] http://www.legislation.gov.uk/ukia/2018/59/pdfs/ukia_20180059_en.pdf
[3] https://www.legislation.gov.uk/ukia/2019/75/pdfs/ukia_20190075_en.pdf

## E.1 General assumptions and data

### E.1.1 Objective function

23. In line with previous Home Office analysis and recommendations made by the Migration Advisory Committee (MAC),[4] this IA considers the impact of removing the CESC fee concession 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.
24. 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 is considered to be UK nationals and migrants who apply for naturalization as British citizens. In this IA migrants entering the UK under work routes, until they seek settlement, are not considered as part of the UK resident population.

### E.1.2 Volumes

25. The current CESC treaty impacts the following work routes for main applicants only:
    - Global Talent.
    - Innovator.
    - Start Up.
    - Skilled Work.
    - Intra-Company Transfer.
    - NHS Visa.
    - Graduate Route.
    - Tier 5 (excluding YMS).
26. The baseline volume of applicants for each visa product is based on Home Office internal planning assumptions. These are Home Office internal estimates of expected applications, not withstanding the policy change under consideration in this IA, over the appraisal period[5]. These volumes are used as the baseline against which the impact of proposed changes in visa fees are assessed.
27. 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 and the impact of EU Exit on applications from the EU.
28. EEA volumes for the Intra-Company Transfer route are especially uncertain and no specific estimate has been produced which can be included in this Impact Assessment. As such the estimates for this route below consider eligible non-EEA volumes only. There may be some EEA Intra-Company Transfer volumes included in the Skilled Worker volumes, however it is not possible to differentiate the two and it is still likey that the true volume for this route will be higher than set out here. Therefore, the subsequent economic impact from this route may be an underestimate. This is highlighted in more detail in the risks section, H. Currently, the EEA Intra-Company Transfer volumes for are relatively low. In 2021 they were 278 and 529 in Q1 and Q2 respectively. If they remain at these low levels then the impact of their exclusion on the NPSV should be relatively low, however it is likely that Covid-19 is currently supressing volumes.

[4] MAC; "Analysis of the Impact of Migration"; January 2012. https://www.gov.uk/government/publications/analysis-of-the-impacts-of-migration

[5] These internal estimates of expected applications do not account for the changes in visa fees introduced by the Fee Regulations 2021

29. Table 1 shows the estimated volume of applicants affected by the removal of the fee concession over the appraisal period. The vast majority of these applications are from EU countries, while Non-EU volumes represent just 3 per cent of the total volumes shown in Table 1. The individual EEA and non-EEA volumes for the routes affected are shown in Annex 1. Historic data[6] can be used to understand how the forecasted visa application volumes compare to past trends.

**Table 1: Estimated visa applications volumes for the period 2022/23 to 2026/27.**

| Visa type | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| **Out of Country** | | | | | |
| Global Talent Visa~ | 1,000 | 1,100 | 1,100 | 1,100 | 1,100 |
| Skilled worker Visa | 17,200 | 24,000 | 23,300 | 22,600 | 22,100 |
| Intra-Company Transfer* | 270 | 330 | 360 | 360 | 360 |
| NHS Visa | 1,900 | 2,600 | 2,500 | 2,400 | 2,400 |
| Tier 5 | 6,200 | 9,700 | 9,700 | 9,700 | 9,700 |
| **In Country** | | | | | |
| Skilled Worker LTR | 4,700 | 10,400 | 17,900 | 24,700 | 28,700 |
| Intra-Company Transfer* | 130 | 130 | 130 | 130 | 130 |
| Graduate Route | 8,700 | 13,700 | 15,200 | 14,000 | 14,200 |
| NHS LTR | 400 | 1,000 | 1,600 | 2,100 | 2,400 |

Source: Home Office internal analysis. Intra-Company Transfer volumes rounded to the nearest 10 and all other volumes rounded to the nearest 100. ~ Global Talent volumes include volumes for the Innovator and Start Up routes. * includes eligible non-EEA volumes only.

30. Given the uncertainty surrounding these volumes, sensitivity analysis is carried out in section F to test the impact on the NPSV of the volumes being higher or lower than the ones set out in Table 1.

### E.1.3 Fee levels

31. This IA measures the impact of removing the CESC fee concession and therefore, the impact of nationals of CESC signatory countries paying higher total fees and introducing a Certificate of Sponsorship fee on work routes for these migrants. Annex 2 shows the current and proposed visa fees for all routes affected. It is assumed that visa fees for the routes affected will otherwise remain constant over the appraisal period at current 2021/22 levels.

- For Unsponsored Work Routes (Global Talent, Innovator, Start-Up and Graduate Route), migrants will no longer have a £55 discount applied to their application fee
- For Sponsored Long Term Work Routes (Skilled worker, Intra-Companny Transfer, NHS Visa, T2 (Minister of Religion) and T2 (Sportsperson), migrants will no longer have a £55 discount applied to their application and businesses hiring these migrants will need to pay the £199 CoS fee in line with the fees charged for other nationals.
- For Sponsored short term work routes, migrants will no longer have a £55 discount applied to their application fee and businesses hiring these migrants will need to pay a £21 CoS fee, in line with the fees charged for other nationals

32. Annex 2 also sets out the current estimate of the unit cost to the Home Office of processing each application for each visa category and further details on how unit costs are calculated. Unit

[6] List of tables - GOV.UK (www.gov.uk)

costs remain unchanged from 2017/18 levels and are assumed to remain constant over the appraisal period.

### E.1.4 Appraisal period

33. This IA appraises the impact of the removal of the CESC fee concessions coming into effect in Q1 2022/23 and assumes fees will remain at that level for the following five years. However, at present there is no indication of whether and how future visa fees will change, as these will be set year-on-year in future Fee Regulations. As such, this IA is by no means a reflection of visa fees for the next five years. The appraisal period for this IA is five years rather than the standard 10 years because fees are reviewed regularly so any impact beyond this time horizon is likely to be too uncertain. This is consistent with previous fee and immigration health charge (IHS) analysis the Home Office has produced.

### E.1.5 Price elasticity of demand

34. The increase in visa fees caused by the removal of the CESC fee concession 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 and CoS fee (price elasticity of demand for visa products) and quantifies the impact this has on the volume of applications for each visa product.
35. This IA considers the responsiveness of demand to changes in fees of both individuals and businesses. The removal of the £55 visa fee discount would result in a behavioural response of individual migrants if some are deterred from migrating to or extending their stay in the UK. The removal of the offer of a free CoS is expected to result in a behavioural response from businesses if the change causes some businesses to be deterred from hiring migrants.
36. 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 some routes this change will result in a relatively significant fee increase, such as the Tier 5 route where it represents a 29 per cent increase in visa fee.
37. 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 3 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.[7]

**Individuals**

38. For work visas, migrants demand Home Office products in order to supply labour in the UK. Therefore, the reduction in migrant volumes entering or remaining in the UK for work-related reasons as a result of the removal of the £55 fee concession has been estimated by applying wage elasticity of labour supply estimates to the expected earnings over the duration of the visa. Increases in visa fees are therefore considered as equivalent to a reduction in pay, measured over the duration of the visa.
39. Within the relevant research, it appears that wage elasticity of labour supply is generally inelastic but differs significantly between men and women. The elasticity for women is higher than men partially due to women having lower participation rates, thereby implying that as participation

[7] https://www.gov.uk/government/publications/a-review-of-evidence-relating-to-the-elasticity-of-demand-for-visas-in-the-uk

rates increase over time, it is likely their elasticities will decrease. There also tends to be far more variation for women, whereas estimates for men hardly differ across countries.

40. A central scenario would assume a small reduction in the aggregate willingness to supply labour as a result of changes in visa fees, applying an elasticity of -0.3. This is in line with both the mean and median values of the studies considered and is within the range of the most relevant UK study which found a range of between -0.3 and -0.44. A low scenario should assume zero response to the change in wage, while a high scenario should use an elasticity twice that of the central scenario, equal to -0.6.

**Businesses**

41. For most work routes, firms require a Certificate of Sponsorship from the Home Office in order to bring migrants to the UK to fill employment vacancies. The increase in the cost of sponsorship caused by the removal of the free CoS offer, can be treated as an increase in the total cost of hiring that new worker. The wage elasticity of labour demand is thus used to estimate the impact on volumes of the proposed fee changes for sponsorship.

42. While the evidence suggests that the behavioural response of employers to changes in expected wages varies considerably across countries, time period and industry, a central scenario would need to consider the best available evidence for the UK specifically across all industries. Therefore, a central elasticity of -0.6 based on the study by Lichter, Peichl and Siegloch (2013) is most appropriate, and is in line with the mean and median values across all the studies considered. A high scenario should use a value of -1.2 while a low scenario should assume no behavioural response. Table 2 summarises the elasticity assumptions used in this IA.

**Table 2: Elasticities used to analyse the impact of changing fees**

| Elasticity | Justification | Products | Magnitude | | |
|---|---|---|---|---|---|
| | | | Low | Central | High |
| Wage elasticity of labour supply | The wage elasticity of labour supply is used to estimate the impact on volumes of the proposed fee changes. | Global Talent visa<br>Innovator<br>Start up<br>Skilled work visa<br>Intra-Company Transfer visa<br>NHS visa<br>Graduate Route<br>Tier 5 | 0 | -0.3 | -0.6 |
| Wage elasticity of labour demand | The wage elasticity of labour demand is used to estimate the impact on volumes of the proposed fee changes for sponsorship. | Tier 2, and 5 Certificates of Sponsorship | 0 | -0.6 | -1.2 |

Source: Home Office literature review of evidence relating to the elasticity of demand for visas in the UK.

## E.2 Costs and benefits

43. The proposed changes will generate direct benefits for the Home Office. Revenue will be higher from those applicants that continue to apply despite higher fees. There may also be a 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.

44. The low elasticity scenario assumes there is no behavioural response to a change in fees which means there are no costs for the policy under this scenario. The only impact under this scenario is the additional fee revenue raised from the fee change.

### E.2.1 Volumes

45. Table 3 shows the estimated effect of on visa applications and Table 4 shows the effect on visas granted using central elasticity assumptions for Option 1. This includes the behavioural changes for migrants of the visa fee increase using wage elasticity of supply estimates, and the behavioural impact for businesses of the CoS fee using wage elasticity of labour demand estimates. The change in visa applications and visas granted under the low and high elasticity assumptions are shown in Annex 4. As expected, given that the policy mainly affects EU migrants, the vast majority of the reduction in visa applications and visas granted are EU volumes, while non-EU volumes only make up on average 3 per cent of the reduction.

46. An increase in visa fees up to the maximum is expected to have relatively small impacts on visa applications and visas granted. This is mainly because the price of a visa is a small proportion of the expected benefit for migrants of coming to the UK, and for businesses the CoS fee is a small proportion the expected benefit of hiring a migrant.

47. The behavioural impact for businesses is uncertain as the introduction of a CoS fee may not be a significant enough fee change to deter businesses from hiring migrants. Sensitivity analysis has been carried out to account for this uncertainty and test the impact on the NPSV of businesses not having a behavioural impact.

**Table 3: Option 1: Estimated reduction in visa applications in the central case, 2022/23-26/27.**

| Visa type | **2022/23** | **2023/24** | **2024/25** | **2025/26** | **2026/27** |
|---|---|---|---|---|---|
| **Out of Country** | | | | | |
| Global Talent Visa | * | * | * | * | * |
| Skilled worker Visa | -20 | -20 | -25 | -25 | -25 |
| Intra-Company Transfer | * | * | * | * | * |
| NHS Visa | * | * | -5 | -5 | -5 |
| Tier 5 | -20 | -20 | -30 | -30 | -30 |
| **In Country** | | | | | |
| Skilled Worker LTR | -5 | -5 | -10 | -20 | -25 |
| Intra-Company Transfer | * | * | * | * | * |
| Graduate Route | * | * | * | * | * |
| NHS LTR | * | * | * | * | -5 |

Source: Home Office Analysis. Rounding: Volumes rounded to the nearest 5. Global Talent volumes include volumes for the Innovator and Start Up routes.
* Denotes an impact of <5

**Table 4: Option 1- Estimated reduction in visas granted in the central case**

| Visa type | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| **Out of Country** | | | | | |
| Global Talent Visa | * | * | * | * | * |
| Skilled worker Visa | -20 | -20 | -25 | -25 | -25 |
| Intra-Company Transfer | * | * | * | * | * |
| NHS Visa | * | * | -5 | -5 | -5 |
| Tier 5 | -20 | -20 | -30 | -30 | -30 |
| **In Country** | | | | | |
| Skilled Worker LTR | -5 | -5 | -10 | -20 | -25 |
| Intra-Company Transfer | * | * | * | * | * |
| Graduate Route | * | * | * | * | * |
| NHS LTR | * | * | * | * | -5 |

Source: Home Office Analysis. Rounding: Volumes rounded to the nearest 5. Global Talent volumes include volumes for the Innovator and Start Up routes.
* Denotes an impact of <5

48. The costs and benefits below are largely derived from the reduction in the volume of migrants applying for visas caused by the removal of the CESC Treaty fee concession. The range of elasticities identified in Table 2 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 2. 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. Sensitivity analysis has been carried out in Section F to test the impact on the NPSV of varying assumptions on volumes, behavioural impacts and fiscal impacts.

**E.2.2 Direct Costs**

**Loss of Home Office revenue**

49. A reduction in visa applications (as a consequence of the assumed response of migrants and businesses to the increased cost of a visa and cost of hiring someone) is assumed to result in lost Home Office revenue. This loss in revenue is calculated by multiplying the new undiscounted fee by the reduction in the volume of applicants. The cost of removing the CESC fee concession is estimated to be up to **£0.4 million** with a central estimate of **£0.2 million** (PV, 2021/22 prices) over the five-year appraisal period for **Option 1**.

**Loss in IHS revenue**

50. The Immigration (Health Charge) Order 2015 requires that temporary migrants who make an immigration application to come to work in 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 charge (IHS), equivalent to £624 per year.

51. The reduction in numbers of migrants coming to the UK is expected to cause a reduction in IHS revenue. This reduction is estimated to be up to **£0.7 million** (PV, 2021/22 prices) with a central estimate of **£0.3 million**.

**E.2.3 Indirect Costs**

**Loss to the exchequer**

52. Any reduction in the number of migrants in the UK may result in a loss to the Exchequer from reduced fiscal contributions. Fiscal revenue considers the contributions to tax revenue, such as income tax, National Insurance, council tax and indirect tax of foreign nationals. The model uses a bottom up approach to calculate the expected contribution to direct and indirect taxes from visa applicants. The results are applied to the volume of visa applicants deterred from applying due to the price elasticity effect on visa demand, as a consequence of the increase in visa fees. This enables calculation of the total tax revenue forgone due to fewer migrants moving to the UK or extending their stay. A more detailed breakdown of the methodology for fiscal impacts can be found in Annex 5.

53. If the CESC Treaty fee concession is removed, the loss to the exchequer is estimated to be up to **£13.1 million** with a central estimate of **£6.5 million** (PV, 2021/22 prices) over the five-year appraisal period.

**Loss of output**

54. A reduction in migration volumes could have an impact on overall economic output and growth of the UK economy. Whilst aggregate economic output is an important measure, when considering the economic impact of immigration, it is also important to consider GDP per capita. On this measure, particularly in the short-run, impacts will be small on aggregate as increased economic output is shared across a larger population. Additionally, due to the estimated very small reduction in migrants caused by the policy change, this impact is likely to be negligible and has therefore not been quantified. More detail on the impact on economic output can be found in Section F, Wider Impacts.

**E.2.4 Direct Benefits**

**Increase in Home Office visa fee revenue**

55. The removal of the CESC Treaty fee concession would be expected to generate an increase in Home Office revenue from the applicants that continue to apply. This benefit is calculated as the £55 change in visa fee multiplied by the volume of applicants. The estimated benefit to the Home Office from increased revenue is estimated to be **£14.9 million** under **Option 1** (PV, 2021/22 prices) over the five-year appraisal period. The increase in CoS revenue is not included in the NPSV as this is a direct transfer from businesses to the government, however all transfers are included in Section E.2.6.

**Reduction in Home Office processing costs from processing fewer visa applications**

56. The Home Office incurs a cost when processing visa applications and these unit costs, which are dependent on the visa product, are outlined in Annex 2. 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 from processing fewer visa applications. This cost is calculated by multiplying the unit cost by the change in visa applications. The administrative saving is estimated to be up to **£0.1 million** with a central estimate of **£0.1 million** (PV, 2021/22 prices) over the five-year appraisal period.

**Reduction in Home Office processing costs from processing fewer CoS applications**

57. The Home Office incurs a cost when processing CoS applications, equivalent to £225 per application. 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 from processing fewer CoS applications. The administrative saving is calculated by multiplying the CoS processing cost by the change in CoS application volumes. It is estimated to be up to **£0.1 million** with a central estimate of **£0.1 million** (PV, 2021/22 prices) over the five-year appraisal period. This change in CoS processing costs is included in the NPSV as it is an impact on the Home Office, rather than a transfer.

### E.2.5 Indirect Benefits

**Reduction in public service provision costs**

58. The reduction in the volume of migrants entering the UK or extending their visa, as a result of the elasticity effect on visa applications is expected to result in a reduction in public expenditure on public services as fewer people would use such services. Results are calculated by applying the unit cost on expenditure for public services for different types of migrant groups to the expected reduction in grant volumes due to the elasticity effect. More details on the public services unit costs can be found in Annex 5.
59. The reduction in expenditure on public services is estimated to be up to **£3.8 million** (PV, 2021/22 prices) with a central estimate of **£1.9 million**.

## E.2.6 Transfers

60. This policy will impose an additional cost to business which is passed on to the government. Whilst this will have an effect on businesses and the government, transfers are not included in the NPSV because the net impact of transfers on the UK is zero. Where impacts are described as negligible, they are estimated as less than £0.1 million over the appraisal period.

**CoS revenue**

61. Businesses must assign a Certificate of Sponsorship (CoS) to each migrant worker they employ. The CoS fee for all long term sponsored work routes is £199 and for Tier 5 it is £21. The impact of an introduction of a CoS fee for businesses hiring migrants on sponsored routes is calculated by multiplying the CoS fee by the volume of applications, and is estimated to cause a net transfer from businesses to the Government of between **£34.9 and £35 million,** with a central estimate of **£35 million** (PV, 2021/22 prices). There is a very small range for the impact on CoS revenue because the number of businesses deterred from hiring migrants is so low relative to the CoS revenue from each application.

**ISC revenue**

62. Businesses are liable to pay an Immigration Skills Surcharge (ISC) when hiring certain migrants. The fee charged depends on the organisation size and length of stay. For small or charitable sponsors, the fee is £364 for the first 12 months and £182 for each additional 6 months. For medium or large sponsors the fee is £1,000 for the first 12 months and £500 for each additional 6 months. The removal of the CESC Treaty fee concession is likely to result in fewer migrants entering or extending their stay in the UK. The reduction in ISC revenue is calculated by multiplying a weighted average of ISC fee by the reduction in the volume of applications. It is estimated to result in a reduction in ISC revenue which is equivalent to a transfer from the government to businesses of up to £1 million with a central estimate of **£0.5 million** (PV, 2021/22 prices).

## Summary of results

63. The results for **Option 1** are summarised in Table 5 and a comparison of the impacts under the different elasticity scenarios is shown in Table 6. Note that figures may not sum due to rounding.
64. The central estimate for the **NPSV** of the policy is **£9.8 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 **£14.9 million** (5-year PV, 2021/22 prices). Under the high elasticity scenario, where applicants have a stronger behavioural response to fee increases, compared to the central scenario, the **NPSV** of the policy reduces to **£4.8 million** (5-year PV, 2021/22 prices).

**Table 5: Cost and benefits of Option 1 under central assumptions, £ million.**

| Present Values (2021/22 prices) | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | NPSV |
|---|---|---|---|---|---|---|
| **Benefits** | | | | | | |
| Revenue raised from fee changes | 2.2 | 2.2 | 3.2 | 3.6 | 3.7 | **14.9** |
| Saving to BICS from processing fewer visa applications | * | * | * | * | * | **0.1** |
| Saving to BICS from processing fewer CoS applications | * | * | * | * | * | **0.1** |
| Exchequer gain from lower public service provision costs | 0.2 | 0.3 | 0.4 | 0.5 | 0.5 | **1.9** |
| **Total benefits (PV)** | **2.4** | **2.4** | **3.7** | **4.1** | **4.3** | **16.9** |
| **Costs** | | | | | | |
| Loss of revenue from fewer applications as a result of the fee change | * | * | * | * | * | **-0.2** |
| Reduction in IHS revenue from behavioural responses | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | **-0.3** |
| Exchequer loss from deterred migrants | -0.5 | -1.0 | -1.5 | -1.7 | -1.8 | **-6.5** |
| **Total costs (PV)** | **-0.6** | **-1.0** | **-1.6** | **-1.8** | **-2.0** | **-7.1** |
| **Net Impact (PV)** | **1.8** | **1.4** | **2.1** | **2.3** | **2.3** | **9.8** |

Source: Home Office internal analysis, 2021. Figures are rounded to the nearest £100,000.

**Table 6: Comparison of cost and benefits of Option 1 under central, low and high elasticity assumptions, £ million, 2021/22 prices.**

| Present Values – Five-year appraisal period<br>Price elasticity of visa demand assumptions | Low elasticity / High NPSV | Central NPSV | High elasticity / Low NPSV |
|---|---|---|---|
| **Benefits** | | | |
| Revenue raised from fee changes | 14.9 | 14.9 | 14.9 |
| Saving to BICS from processing fewer visa applications | 0 | 0.1 | 0.1 |
| Saving to BICS from processing fewer CoS applications | 0 | 0.1 | 0.1 |
| Exchequer gain from lower public service provision costs | 0 | 1.9 | 3.8 |
| **Total benefits (PV)** | **14.9** | **16.9** | **18.9** |
| **Costs** | | | |
| Loss of revenue from fewer applications as a result of the fee change | 0 | -0.2 | -0.4 |
| Reduction in IHS revenue from behavioural responses | 0 | -0.3 | -0.7 |
| Exchequer loss from reduction in migrants coming to and remaining in the UK. | 0 | -6.5 | -13.1 |
| **Total costs (PV)** | **0** | **-7.1** | **-14.1** |
| **Net Present Social Value (NPSV)** | **14.9** | **9.8** | **4.8** |

Source: Home Office internal analysis, 2021. Figures are rounded to the nearest £100,000.

65. The total transfers from businesses to the Government is estimated to be **£34.5 million** (5 year PV, 2021/22 prices) and it lies in the range of **£34 million and £35 million** (5 year PV, 2021/22 prices). This is not included in the NPSV as the net impact of transfers on the UK is zero.

**Table 7: Transfers from Option 1 under central assumptions, £ million.**

| Present Values (2021/22 prices) | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | Total |
|---|---|---|---|---|---|---|
| **Transfers** | | | | | | |
| Change in CoS revenue transferred from businesses to the government. | 5.1 | 4.9 | 7.4 | 8.4 | 9.3 | **35.0** |
| Change in ISC revenue transferred from businesses to the government. | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | **-0.5** |
| **Total change in transfers from businesses to the government (PV)** | **5.0** | **4.8** | **7.3** | **8.3** | **9.1** | **34.5** |

Source: Home Office internal analysis, 2021. Figures are rounded to the nearest £100,000. * denotes impact of <0.1 million.

**Value for money (VfM)**

66. Under the central assumptions, the **benefit-cost ratio** (BCR) of **Option 1** is **2.4** which means that removing the CESC Treaty fee concession is estimated to result in the benefits outweighing

the costs. This policy brings value for money as it assists in achieving the Government's strategic objective of having a self-funded immigration system where costs are recovered through fees paid by those who use and benefit from the system. This further reduces the burden on UK taxpayers by providing the flexibility to increase fees in the future if necessary. It also helps achieve the government's aim of having a simple immigration system with equal treatment for all.

**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. Furthermore, migrants coming to the UK for work related reasons are unlikely to be evenly distributed across the country. They could end up being concentrated in certain areas with more job opportunities, such as London, which could result in regional differences in the impact of a change in migration.

**Impact on small and micro-businesses**

68. The removal of the CESC Treaty fee concession is likely to affect small and micro businesses as they will now be eligible to pay the CoS fee when hiring migrants from countries who have ratified the CESC Treaty. This could disproportionately affect small and micro businesses as the policy change will result in a larger increase in their costs compared to the cost increase for larger businesses.

## F. Sensitivity Analysis

**Volumes**

69. Given the degree of uncertainty over the future volume of applicants affected by the removal of the CESC Treaty fee reduction, sensitivity analysis has been carried out to estimate how the NPSV of the policy would change if volumes were higher or lower than those used in the central case.

70. Table 8 presents volumes in the low scenario which are on average 40 per cent lower than the volumes used in the central case. Table 9 presents volumes used in the high scenario and these volumes are on average 40 per cent higher than those used in the central case.

**Table 8: Estimated visa application volumes for the period 2022/23 to 2026/27 in the low volume scenario.**

| Visa type | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| Out of Country | | | | | |
| Global Talent Visa | 800 | 800 | 800 | 800 | 800 |
| Skilled worker Visa | 11,100 | 12,000 | 11,700 | 11,300 | 13,800 |
| Intra-Company Transfer | 200 | 220 | 220 | 220 | 220 |
| NHS Visa | 1,200 | 1,300 | 1,300 | 1,200 | 1,500 |
| Tier 5 | 3,900 | 5,000 | 5,000 | 5,000 | 5,000 |
| **In Country** | | | | | |
| Skilled Worker LTR | 3,700 | 7,700 | 12,000 | 14,900 | 16,600 |
| Intra-Company Transfer | 80 | 80 | 80 | 80 | 80 |
| Graduate Route | 6,400 | 10,200 | 10,900 | 9,500 | 9,600 |
| NHS LTR | 400 | 700 | 1,000 | 1,200 | 1,300 |

Source: Home Office internal analysis. Intra-Company Transfer volumes rounded to the nearest 10 and all other volumes rounded to the nearest 100. Global Talent volumes include volumes for the Innovator and Start Up routes.

**Table 9: Estimated visa applications volumes for the period 2022/23 to 2026/27 in the high volume scenario.**

| Visa type | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| Out of Country | | | | | |
| Global Talent Visa | 1,300 | 1,400 | 1,400 | 1,400 | 1,400 |
| Skilled worker Visa | 23,400 | 36,000 | 35,000 | 33,800 | 30,500 |
| Intra-Company Transfer | 460 | 500 | 500 | 500 | 500 |
| NHS Visa | 2,500 | 3,800 | 3,800 | 3,600 | 3,300 |
| Tier 5 other | 8,600 | 14,600 | 14,600 | 14,600 | 14,600 |
| **In Country** | | | | | |
| Skilled Worker LTR | 5,600 | 13,200 | 23,900 | 34,500 | 40,900 |
| Intra-Company Transfer | 190 | 190 | 190 | 190 | 190 |
| Graduate Route | 11,400 | 17,700 | 19,800 | 18,500 | 18,900 |
| NHS LTR | 500 | 1,200 | 2,100 | 3,000 | 3,500 |

Source: Home Office internal analysis. Intra-Company Transfer volumes rounded to the nearest 10 and all other volumes rounded to the nearest 100. Global Talent volumes include volumes for the Innovator and Start Up routes.

71. Assuming volumes are equivalent to the low volumes set out in Table 8:

- The **NPSV** would fall by £3.6 million to **£6.2 million** (PV, 2021/22 prices) over the five-year appraisal period and it now lies in the range of £3.3 to £9.2 million. The majority of this change is driven by a reduction in fee revenue of £5.6 million to £9.3 million and a reduction in the loss to the exchequer from lower tax revenue of £2.6 million to £3.9 million (PV, 2021/22 prices).

- CoS revenue would fall by £14 million to £21 million (PV, 2021/22 prices). This is not included in the NPSV as it is a direct transfer from businesses to the government.

72. Assuming volumes are equivalent to the high volumes set out in Table 9:

    - The **NPSV** would rise by £3.7 million to **£13.5 million** (PV, 2021/22 prices) over the five-year appraisal period and it now lies in the range of £6.4 to £20.7 million. The majority of this change is driven by an increase in fee revenue of £11.3 million to £20.6 million and an increase in the loss to the exchequer of £5.3 million to £9.2 million (PV, 2021/22 prices).
    - CoS revenue would increase by £14 million to £49 million (PV, 2021/22 prices). This is not included in the NPSV as it is a direct transfer from businesses to the government.

**Behavioural impact for businesses**

73. The behavioural impact of businesses is uncertain as it could be the case that the introduction of a CoS fee would not be a significant enough fee change deter businesses from hiring migrants. Sensitivity analysis has been done to account for this uncertainty and test the impact on the NPSV of businesses not having a behavioural impact. Table 10 shows the impact on visa applications and Table 11 shows the impact on visas granted, excluding the behavioural impact of businesses, outlined in paragraphs 41 and 42.

**Table 10: Option 1: Estimated reduction in visa applications assuming no behavioural impact for businesses, 2022/23 to 2026/27.**

| Visa type | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| **Out of Country** | | | | | |
| Global Talent Visa | * | * | * | * | * |
| Skilled worker Visa | -5 | -5 | -5 | -5 | -5 |
| Intra-Company Transfer | * | * | * | * | * |
| NHS Visa | * | * | * | * | * |
| Tier 5 | -10 | -10 | -20 | -20 | -20 |
| **In Country** | | | | | |
| Skilled Worker LTR | * | * | * | * | -5 |
| Intra-Company Transfer | * | * | * | * | * |
| Graduate Route | * | * | * | * | * |
| NHS LTR | * | * | * | * | * |

Source: Home Office Analysis. Rounding: Volumes rounded to the nearest 5. Global Talent volumes include volumes for the Innovator and Start Up routes. * Denotes an impact of <5

**Table 11: Option 1: Estimated reduction in visas granted assuming no behavioural impact for businesses, 2022/23 to 2026/27.**

| Visa type | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| **Out of Country** | | | | | |
| Global Talent Visa | * | * | * | * | * |
| Skilled worker Visa | * | * | -5 | -5 | -5 |
| Intra-Company Transfer | * | * | * | * | * |
| NHS Visa | * | * | * | * | * |
| Tier 5 | -10 | -10 | -15 | -15 | -15 |
| **In Country** | | | | | |
| Skilled Worker LTR | * | * | * | * | -5 |
| Intra-Company Transfer | * | * | * | * | * |
| Graduate Route | * | * | * | * | * |
| NHS LTR | * | * | * | * | * |

Source: Home Office Analysis. Rounding: Volumes rounded to the nearest 5. Global Talent volumes include volumes for the Innovator and Start Up routes. * Denotes an impact of <5

74. Assuming there is no behavioural impact of the CoS fee for businesses and that the change in visa applications and visas granted are equivalent to those in the tables above, the **NPSV** would rise by £4.3 million to **£14.1 million** (PV, 2021/22 prices) over the five-year appraisal period. It now lies in the range of £13.3 to £14.9 million.

**Public service provision**

75. The level of average public service provision costs by migrants is uncertain, so sensitivity analysis is carried out to test how varying assumptions on public service provision costs affects the NSPV. Sensitivity analysis uses various estimates of the value of average public service consumption by migrants. The difference between the low and high scenario is the inclusion of pure public goods and welfare costs in the estimate, while the central case does not include pure public goods it does include half of the estimated welfare cost reflecting that migrants may not be eligible to receive welfare payments. More details on the fiscal spend components can be found in the fiscal annex in Annex 5. Keeping all other assumptions at their 'central scenario' level:

- Assuming public spending is at the 'Low' level, the NPV of the option falls by £1.2 million to **£8.6 million** (5-year PV, 2021/22 prices) and it now lies in the range of £2.2 and £14.9 million. This sensitivity result implies that the Government saves less from the migrants that are deterred from entering or remaining in the UK.
- Assuming public spending is at the 'High' level, the net impact of surcharge changes increases by £1.7 million to **£11.5 million** (5-year PV, 2021/22 prices) and it now lies in the range of £8.1 and £14.9 million. This sensitivity result implies that the Government saves more from the migrants that are deterred from entering or remaining in the UK.

# G. Proportionality

76. 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.

# H. Risks

77. The assumptions used in this impact assessment are set out in sections E.1.1 to E.1.5.

    The main identified analytical risks are:

    - Internal Home Office analysis has not found evidence of a significant relationship between small increases in fees and visa demand. Absence of evidence does not necessarily imply there is no relationship and the removal of the CESC Treaty fee concession would represent a relatively large change for some routes. Therefore, the estimate of a potential negative effect on visa demand is presented, however this may overstate the actual impact.
    - The analysis quantifies the impact of potential increases in visa fees and CoS fees using proxies of the price elasticity for visa demand available in the academic literature. The IA uses estimates of wage elasticity of labour supply and wage elasticity of labour demand which are not specific estimates of the responsiveness of demand from individual migrants and firms to changes in fees. Therefore, results are uncertain and should be considered indicative. As the IA uses behavioural assumptions for both individuals and businesses, there is a risk that there may be some double counting if a migrant deterred from applying for a visa is the same migrant which businesses are deterred from hiring. However this impact is likely to be negligible due to the very low volumes deterred overall.
    - The central case assumes that the introduction of a CoS fee will deter some businesses from hiring migrants. In reality, the CoS fee may represent a very small proportion of total business costs which means it is uncertain whether there will be any behavioural impact of the CoS fee. Given the uncertainty, sensitivity analysis is undertaken in section F which tests the impact on the NPSV of there being no behavioural impact of businesses from the CoS fee.
    - Baseline volumes are based on Home Office internal estimates and should be considered purely indicative. There is a risk that these estimates fail to represent actual volumes, particularly due to the uncertain impact of Covid-19. Sensitivity analysis has been carried out to test the impact of volumes being lower or higher than they are in the central case.
    - EEA volumes for the Intra-Company Transfer route are especially uncertain and no specific estimate has been produced which can be included in this IA. As such, the estimates for this route consider eligible non-EEA volumes only. Although there will be some EEA Intra-Company Transfer volumes captured within the Skilled Work volume estimates, it is stil expected that the true volume of EEA Intra-Company Transfers are higher than the volumes set out in Table 1. And so, the subsequent economic impact from this route may be an under estimate.

# I. Direct costs and benefits to business calculations

78. The business net present value (BNPV) of the proposed policy largely reflects an increase in costs for businesses as they now incur a CoS fee when hiring migrants. The BNPV is estimated to be **-£34.5 million** (5 year PV, 2021/22 prices) and the EANDCB is **-£7.5 million**.
79. As visa fees and CoS fees are classified by the ONS as taxes, these costs would not count towards any business target, and are not subject to RPC scrutiny.

# J. Wider impacts

80. There may be a number of wider impacts associated with changes in migration to the UK. A report by the Migration Advisory Committee from 2012 on the *'Analysis on the Impact of Migration'* recommends that, among others, key factors to consider when appraising migration policies are:
    - 'Dynamic effects' on the UK labour market and economy.
    - Impacts on employment and employability of UK workers.
    - The net public finance and public service impact of migrants.
    - Congestion impacts of migration, including impacts on transport networks and the housing market.
81. The expected reduction in volumes is relatively low. While not negligible, this reduction is small compared to the total number of visas granted. Therefore, the dynamic effects on the labour market and the impact on congestion is likely to be small. Additionally, the MAC acknowledges that the wider dynamic effects and congestion impacts are not possible to quantify, so this IA does not attempt to measure them, but it is assumed they would be small due to the small numbers involved.
82. Economic output is a function of labour used and capital employed and can be measured impartially by GDP. Each worker is a unit of labour and contributes to the creation of economic output. If all else is equal, higher work immigration means more workers in the economy and therefore higher economic output. Equally, a very small decrease in migration volumes caused by the the removal of the CESC fee concession may have some impact in reducing economic output but this is unlikely to be significant. Whilst aggregate economic output is an important measure, when considering the economic impact of immigration, it is also important to consider GDP per capita. On this measure, particularly in the short run, impacts will be small on aggregate as increased economic output are shared across a larger population. In line with MAC advice, it is important to note that although migration may affect GDP per head (by a small amount) mainly due to higher pay and employment rates of migrants compared to natives, it is the immigrants, rather than the resident population, who are the main gainers/losers. Therefore, it is important to focus on the impact migration has on the GDP of residents through dynamic effects on productivity and innovation and this is dependent on the skill level of the migrants.

# K. Trade impact

83. Harmonizing visa fees will create parity and simplify the system of fees so it is easier to understand. There are a number of channels through which immigration may affect trade and, in general, the external literature finds a positive relationship between the stock of immigrants and trade. At a macro-level high immigration to the UK increases the UK population and

consequently aggregate demand and the demand for imports. UK exports may also increase if immigration can enhance the international competitiveness of the UK

84. Genc et al. (2011)[8] provide a meta-analysis of 48 studies and find that, on average, a 10 per cent increase in the number of migrants may increase the volume of trade by about 1.5 per cent. With regards to services, Ottaviano et al. (2016)[9] find a 10 per cent increase in the immigrant share increases exports by 3-5 per cent, whilst reducing imports by 1-2 per cent. While not inconsequential, it is therefore unlikely that the relatively small change in inflows considered as part of impact assessment would have a considerable impact on trade flows.

85. Access to international talent continues to be very important for businesses based in and setting up in the UK and there could be implications associated with removing the fee concessions. It may become slightly more costly for businesses based in the UK to hire workers from other countries that remain signed up to the agreement and create a perception of slightly reduced UK competitiveness for foreign investors looking to set up or invest into a UK-based company. For example:

- Whilst the CESC fee concession is relatively small removing it could be perceived as UK increasing visa fees and subsequently create a small deterrent for investors.
- 6 out of 10[10] 'scale-up' businesses hire overseas workers, so this change will marginally increase costs to businesses.

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

86. 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.

[8] Genc et al (2011). 'The Impact of Immigration on International Trade: A Meta-Analysis.'
[9] Ottaviano et al., (2016). 'Immigration, Trade and Productivity in Services: Evidence from UK Firms'. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/766465/The-UKs-future-skills-based-immigration-system-print-ready.pdf
[10] P19, sub-heading 'talent' https://www.scaleupinstitute.org.uk/reports/annual-scaleup-review-2019-highlights/

## Impact Assessment Checklist

| Mandatory specific impact test - Statutory Equalities Duties | Complete |
|---|---|
| A full assessment is not needed as this change puts right a current inequality whereby nationals of certain countries benefit from a small discount to application fees for work visas. (And where the applicant is required to be sponsored by their employer, no fee is payable by that employer for their CoS). The concession does not apply to applications made by dependants.<br><br>Whilst this change may be felt as an increase to fees by those who have previously benefited from the concession, its practical effect will place all applicants across the world who apply for work visas, (and their sponsor employers), including those who share a protected characteristic, on the same footing, by requiring them all to pay the same fees.<br><br>**The SRO has agreed these findings**. | **Yes** |

Any test not applied can be deleted except **the Equality Statement**, <u>where the policy lead must provide a paragraph of summary information</u> on this.

The Home Office requires the **Specific Impact Test on the Equality Statement** to have a summary paragraph, stating the main points. **You cannot delete this and it MUST be completed**.

# M. Annexes.

## Annex 1- EEA and non-EEA volumes

**Table A1.1: Estimated EEA visa applications volumes for the period 2022/23 to 2026/27**

| Visa type | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| **Out of Country** | | | | | |
| Global Talent Visa~ | 940 | 1,040 | 1,040 | 1,040 | 1,040 |
| Skilled worker Visa | 17,110 | 23,820 | 23,120 | 22,360 | 21,950 |
| NHS Visa | 1,840 | 2,560 | 2,490 | 2,400 | 2,400 |
| Tier 5 | 6,100 | 9,600 | 9,600 | 9,600 | 9,600 |
| **In Country** | | | | | |
| Skilled Worker LTR | 4,610 | 10,190 | 17,520 | 24,180 | 28,100 |
| Graduate Route | 7,800 | 12,730 | 14,180 | 12,980 | 13,220 |
| NHS LTR | 410 | 940 | 1,540 | 2,070 | 2,370 |

Source: Home Office internal analysis. Intra-Company Transfer volumes rounded to the nearest 10 and all other volumes rounded to the nearest 100. ~ Global Talent volumes include volumes for the Innovator and Start Up routes.

**Table A1.2: Estimated non-EEA visa applications volumes for the period 2022/23 to 2026/27**

| Visa type | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| **Out of Country** | | | | | |
| Global Talent Visa~ | 30 | 40 | 40 | 40 | 40 |
| Skilled worker Visa | 130 | 200 | 200 | 200 | 200 |
| Intra-Company Transfer* | 330 | 360 | 360 | 360 | 360 |
| NHS Visa | 20 | 30 | 30 | 30 | 30 |
| Tier 5 | 130 | 150 | 150 | 150 | 150 |
| **In Country** | | | | | |
| Skilled Worker LTR | 70 | 250 | 370 | 500 | 590 |
| Intra-Company Transfer | 130 | 130 | 130 | 130 | 130 |
| Graduate Route | 920 | 970 | 1,000 | 1,010 | 1,010 |
| NHS LTR | 10 | 10 | 20 | 30 | 30 |

Source: Home Office internal analysis. Intra-Company Transfer volumes rounded to the nearest 10 and all other volumes rounded to the nearest 100. ~ Global Talent volumes include volumes for the Innovator and Start Up routes.

## Annex 2 – Unit costs

**Table A2.1 Fees and Unit Costs for Visa Products affected by the CESC Treaty**

| Visa products, £ | Visa fee with CESC discount | CoS fee with CESC discount | Visa fee once CESC discount is removed | CoS fee once CESC discount is removed | Unit cost |
|---|---|---|---|---|---|
| **Out of Country** | | | | | |
| Global Talent Visa | 553 | 0 | 608 | 199 | 184 |
| Skilled worker Visa | 597 | 0 | 652 | 199 | 127 |
| Intra-Company Transfer | 1165 | 0 | 1220 | 199 | 127 |
| NHS Visa | 392 | 0 | 447 | 199 | 127 |
| Tier 5 other | 189 | 0 | 244 | 21 | 115 |
| **In Country** | | | | | |
| Skilled Worker LTR | 698 | 0 | 753 | 199 | 317 |
| Intra-Company Transfer | 644 | 0 | 704 | 199 | 317 |
| Graduate Route | 645 | 0 | 700 | 199 | 106 |
| NHS LTR | 392 | 0 | 447 | 199 | 317 |

Global Talent volumes include volumes for the Innovator and Start Up routes.

# Annex 3- Elasticity Assumptions

The following tables set out the elasticities used to analyse the impact of the changes in fees for tourism and education and the academic papers from which these elasticities are taken. 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 wage elasticity of labour supply**

| Source | Estimate of wage elasticity of labour supply | Measure |
|---|---|---|
| Bargain, O., Orsini, K. & Peichl, A. (2012) Comparing Labor Supply Elasticities in Europe and the US: New Results (December 2012). SOEP paper No. 525. | Men: between 0 and 0.4<br>Women: between 0.1 and 0.6 | Elasticity of labour supply based on total hours in response to changes in tax-benefit policies. Uses data from Europe and the US from 1998 to 2005. |
| Blundell, R., Bozio, A. & Laroque, G. (2011) Extensive and intensive margins of labour supply: working hours in the US, UK and France, IFS Working Papers W11/01, Institute for Fiscal Studies. | Between 0.3 and 0.44 | Aggregate elasticity estimate for total hours of the 30 to 54 age group for UK men and women from 1968 to 2008. |
| Evers, M., Mooij, R. & Vuuren, D. (2008) 'The Wage Elasticity of Labour Supply: A Synthesis of Empirical Estimates', De Economist, Springer, vol. 156(1), pp. 25- 43. | Men: 0.07 Women: 0.43 (0.34 excluding outliers) | Mean estimates for a sample of 209 uncompensated labour supply elasticities in different developed countries. Average year of data sample in each study ranges from 1966 to 2000. |
| Jäntti, M., Pirttilä, J. & Selin, H. (2015) 'Estimating labour supply elasticities based on cross-country micro data: A bridge between micro and macro estimates?' Journal of Public Economics, vol. 127, pp. 87-99. | Between 0.23 and 0.64 | Range is based on point estimates of average 'micro' and 'macro' elasticity estimates. Uses data from 13 countries, including from OECD. Data ranges from early 1970s to 2010s. |

**Table A3.2: Empirical studies of the wage elasticity of labour demand**

| Source | Estimate of wage elasticity of labour demand | Measure |
|---|---|---|
| Addison, J., Bellmann, L., Schank, T. & Teixeira, P. (2005) The Demand for Labor: An Analysis Using Matched Employer – Employee Data from the German Liab. Will the High Unskilled Worker Own-Wage Elasticity Please Stand Up? IZA Discussion Paper No. 1780. | Manufacturing: -0.5 Service: -2.1 | Short-run elasticity estimates for unskilled workers within each sector. Data covers 1993 to 2002 and used information on 1,171 manufacturing plants in Germany. |
| Bruno, G.S., Falzoni, A.M. & Helg, R. (2004) Measuring the effect of globalization on labour demand elasticity: An empirical application to OECD countries. Università commerciale Luigi Bocconi. | Short-run: between -0.04 and -0.08 Long-run: between -0.39 and -0.59 | UK estimates of labour demand elasticity from a study that produced estimates from data covering major industrialised countries from 1970 to 1996 and 40 manufacturing industries. Standard deviations are relatively high |
| Görg, H. & Hanley, A. (2005) 'Labour demand effects of international outsourcing: Evidence from plant-level data', International Review of Economics & Finance, vol. 14(3), pp. 365-376. | -0.52 or -0.621 | Wage elasticity of demand for labour estimates in the Irish electronic industry from 1990 to 1995 in 80 plants. Estimates depend on assumptions made around wages and outsourcing being exogenous or pre-determined. |
| Hijzen, A. & Swaim, P. (2010) 'Offshoring, labour market institutions and the elasticity of labour demand', European Economic Review, vol. 54(8), pp. 1016-1034. | 1980: -0.2 2002: -0.5 | Estimated elasticities at the beginning and end of the sample. Data for estimating elasticity covers 1980 to 2002 from 11 OECD countries and 20 industries. |
| Kölling, A. (2009) Firm size and employment dynamics. Estimations of labour demand elasticities using a fractional panel probit model and establishment data. Hochschule der Bundesagentur für Arbeit (HdBA) Working Paper No. 1. | -0.245 | Average labour demand elasticity estimate. Data covers 2000 to 2007 for 16 industries within Germany. |
| Kölling, A. & Schank, T. (2002) Skill-biased technological change, international trade and the wage structure (No. 14). Diskussionspapiere/Friedrich-AlexanderUniversität Erlangen-Nürnberg, Lehrstuhl für Arbeitsmarkt-und Regionalpolitik. | Manufacturing: between -0.572 and -0.362 Service: between -2.684 and 1.063 (1.063 was insignificant) | Short-run elasticity estimates which depend on skill levels within each sector, with elasticity generally decreasing with skill levels. Data covers 1994 to 1997, including 880 plants in West Germany. |
| Lichter, A., Peichl, A. & Siegloch, S. (2013) Labor demand elasticities in Europe: a meta-analysis. In NEUJOBS Working Paper. NEUJOBS. | Mean: -0.559 UK/Ireland Mean: -0.567 UK/Ireland Prediction: -0.529 | Mean estimates from a sample of 82 different micro-level studies (containing 784 own-wage elasticity estimates) published from |

| | | |
|---|---|---|
| | | 1993 to 2013 from across all of Europe. |
| Lichter, A., Peichl, A. & Siegloch, S. (2014) The Own-Wage Elasticity of Labor Demand: A Meta-Regression Analysis. IZA Discussion Papers 7958. Institute for the Study of Labor (IZA). | Mean: -0.508 Median: -0.386 | Average estimates from a sample of 105 studies (containing 942 ownwage elasticity estimates) published from 1980 to 2012 for 37 different countries. |
| Navaretti, G.B., Checchi, D. & Turrini, A. (2003) 'Adjusting labour demand: Multinational versus national firms: A cross-European analysis', Journal of the European Economic Association, vol. 1(2-3), pp. 708-719. | Short-run UK (multi)national enterprises: -0.46 (-0.43) Long-run UK (multi)national enterprises: -3.55 (-0.47) | Estimates are based on firm-level analysis from 11 European countries, including 4,300 firms in the UK (47% multinational). |

## Annex 4- Change in visa applications and visas granted under the low and high elasticity scenarios

The low elasticity scenario assumes no behavioural impact from the changes which means there will be no change in visa applications or visas granted. The high scenario assumes a stronger behavioural impact caused by the changes. The reduction in visa applications and visas granted under the high elasticity scenario are shown in tables A4.1 and A4.2.

**Table A4.1: Option 1- Estimated reduction in visa applications under the high elasticity scenario**

| Visa type | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| **Out of Country** | | | | | |
| Global Talent Visa | 0 | 0 | 0 | 0 | 0 |
| Skilled worker Visa | -40 | -40 | -55 | -50 | -50 |
| Intra-Company Transfer | * | * | * | * | * |
| NHS Visa | -5 | -5 | -5 | -5 | -5 |
| Tier 5 | -45 | -45 | -65 | -65 | -60 |
| **In Country** | | | | | |
| Skilled Worker LTR | -10 | -10 | -25 | -40 | -55 |
| Intra-Company Transfer | * | * | * | * | * |
| Graduate Route | -5 | -5 | -5 | -10 | -5 |
| NHS LTR | * | * | -5 | -5 | -5 |

Source: Home Office Analysis. Rounding: Volumes rounded to the nearest 5. Global Talent volumes include volumes for the Innovator and Start Up routes. * Denotes an impact of <5

**Table A4.2: Option 1- Estimated reduction in visas granted under the high elasticity scenario**

| Visa type | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| **Out of Country** | | | | | |
| Global Talent Visa | * | * | * | * | * |
| Skilled worker Visa | -40 | -40 | -50 | -50 | -45 |
| Intra-Company Transfer | * | * | * | * | * |
| NHS Visa | -5 | -5 | -5 | -5 | -5 |
| Tier 5 | -40 | -40 | -60 | -60 | -55 |
| **In Country** | | | | | |
| Skilled Worker LTR | -10 | -10 | -25 | -40 | -50 |
| Intra-Company Transfer | * | * | * | * | * |
| Graduate Route | * | * | -5 | -5 | -5 |
| NHS LTR | * | * | -5 | -5 | -5 |

Source: Home Office Analysis. Rounding: Volumes rounded to the nearest 5. Global Talent volumes include volumes for the Innovator and Start Up routes. * Denotes an impact of <5

# ANNEX 5 – Fiscal Impact of migration

The Home Office has developed modelling to assess the fiscal impact of migration on fiscal spend and fiscal revenue.

- Fiscal spend is estimated by calculating costs per head for different types of public services accessible by non-UK nationals who visit and live in the UK.
- Fiscal revenue considers the contributions to tax revenue, such as income tax, National Insurance, council tax and indirect tax of foreign nationals.

A static analysis of the 2018/19 fiscal year is used to estimate tax revenue and government spending attributable to migrants of a given age, economic status and earned income. This analysis is applied to changes in future net migration flows (by wage, age and economic activity) to estimate the order of magnitude of the impact on the public finances.

This analysis is not a projection of the future state of the economy; it is based on the latest data on fiscal expenditure and tax rates which captures the UK economy based on data relating to 2018/19, adjusting for productivity growth and inflation, allowing specific impacts of changes to migration to be explored, holding all other factors constant.

In the literature, there are a number of different approaches to calculating the effect of policy changes on fiscal balances. The central methodology used here represents a 'marginal' approach to measuring the impact of migration and therefore makes a distinction between spend and revenue that is unlikely to vary according to the number of individuals moving to the UK.

The modelling framework considers initial impacts of specific policy changes. It does not consider dynamic responses of the economy and behavioural responses of individual and firms. No assumption is made for how migrants age over this period.

The following sections outline in more detail the methodology used for the two components of the analysis.

### 5.1 Fiscal spend analysis

The analysis uses a top down approach to apportion total expenditure on public services at the individual level. This results in estimated unit costs for different types of public expenditure, by migrant age group and economic activity.

This method represents a 'marginal' approach to measuring the impact of migrant policy on the UK Exchequer and therefore excludes fiscal spend components that are unlikely to vary according to the number of individuals moving to the UK. Under this approach, newly arrived migrants are assumed to have little or no impact on expenditure on services such as pure public goods, debt interest and EU transactions. However, they are assumed to have an impact on congestible public goods such as road maintenance expenditure.

### Main data sources

Data on expenditure of public services is obtained from Public Expenditure Statistical Analysis (PESA) published by HM Treasury, which provides data on public sector expenditure broken down by functions. The analysis is based on data for 2018/19[11]

Data on migrant population characteristics is obtained from the Annual Population Survey (APS) produced by the ONS. The APS data for 2018/19 is used to derive population characteristics such

[11] "Public Expenditure Statistical Analyses 2019", GOV.UK, 2019

as volumes of existing residents by nationality and age distribution. When using estimates of total UK population, the analysis uses ONS 2018[12] data, which is considered more accurate than the APS.

Data on social protection expenditure is obtained from the Family Resources Survey[13] (FRS) for 2018/19. The FRS data for 2018/19 is used to obtain the average benefit received by working age individuals in the UK.

Table A5.1 describes how these data are apportioned on a per capita basis. Unit costs are based on 2018/9 prices these have been inflated to 2021/22 prices and adjusted using OBR long-term projections for real labour productivity growth to account for future economic growth[14].

**Table A5.1 Methodology for apportioning fiscal spend components**

| Major spend components | Marginal approach |
|---|---|
| **Public goods (i.e. R&D, Defence) Debt interest** | Under a marginal approach this spend is only allocated to the resident population. The rationale is that the marginal costs of providing these services to an additional migrant is zero/negligible. |
| **Housing development** | Allocated on a per capita basis |
| **Police services** | Allocated on a per capita basis |
| **Health** | Office of Budget Responsibility (OBR)[15] estimates on health spending by age are applied. On top of this, an adjustment is made for lower usage of the healthcare system of non-UK nationals than the UK population: A further reduction of 62 per cent has been applied to the healthcare unit costs of non-EEA nationals, to reflect lower usage of the system compared to UK population as per Department of Health & Social Care internal analysis[16] |
| **Pre-primary education** | Allocated evenly to 0-4 year olds |
| **Primary and secondary education** | Allocated evenly to 5-17 year olds |
| **Tertiary education** | Allocated evenly to students in higher education, based on Student Loans Company data (excluding international non-EEA students) |
| **Social protection: benefits** | Estimates per head costs based on FRS data to reflect the average benefit received for EEA nationals of working age, dependent on earnings. Non-EEA inflows are not assumed to be eligible for benefits. |
| **Social protection: personal social services** | Social protection and social exclusion allocated on a per capita basis. Family and child social services allocated using APS data on share of family units and age of head of household. Old age social services apportioned equally to 65 years and above population. |

**Main data sources**

Total revenue is taken from the OBR's Economic and Fiscal Outlook[17]. The analysis also considers information on indirect taxes by nationality in the Living Cost and Food survey data between 2016/17,

[12] "Population and migration", Office for National Statistics, 2018.
[13] 4 FRS is self-reported, this means it is likely to under-report benefit receipt figures as some respondents do not know or do not have the necessary information to answer the specific questions about individual benefits which makes it difficult to collate accurate information; more information on this, and the FRS more generally, is available at https://www.gov.uk/government/statistics/familyresources-survey-financial-year-201617. For estimates of benefit expenditure and caseload for EEA nationals, publications from HMRC or DWP should be used; https://www.gov.uk/government/statistics/income-tax-nics-tax-credits-and-child-benefit-statistics-foreea-nationals-2015-to-2016 and https://www.gov.uk/government/statistics/nationality-at-point-of-national-insurance-numberregistration-of-dwp-working-age-benefit-recipients-data-to-november-2017 respectively.
[14] 5 "Economic and fiscal outlook – March 2019", Office for Budget Responsibility, 2019
[15] "Fiscal sustainability analytical papers – 2016", Office for Budget Responsibility, 2016
[16] Department of Health & Social Care estimate of the use of service is based on data on use of primary and secondary care by IHS payers.
[17] "Economic and fiscal outlook – March 2019", Office for Budget Responsibility, 2019

2017/18, and 2018/19[18] and council tax in ONS data on the effects of taxes and benefits on household income[19] 2018/19.

**Table A5.2: Methodology for apportioning fiscal revenue components**

| Major revenue components | Marginal approach |
|---|---|
| **Income Tax** | Tax rates for 2021/22 are applied to estimated taxable income |
| **Income Tax Tax rates for 2021/22 are applied to estimated taxable income National insurance contributions (NICs)** | NICs rates for 2021/22 are applied to estimated earnings |
| **Indirect taxes (include VAT, duties on specific products such as alcohol and tobacco, licences such as television and intermediate taxes)** | Indirect tax rates are calculated depending on earning deciles. Data from the Living Cost and Food survey[20] between 2016/17, 2017/18 and 2018/19 is used to estimate the effective tax rate (indirect tax divided by disposable income) by household income decile. |
| **Corporation taxes**<br>**Business rates** | Profits and the capital stock change with the size of the workforce. In a marginal approach the assumption is made that any changes in migrant workers will have an impact of company taxes and business rates. This assumes that contributions to Company tax and Business rates are ultimately driven by consumption in the same way as indirect taxes, and the per capita allocation is based on an individual's contribution to indirect taxes. |
| **Council tax** | Allocated depending on earning deciles, based ONS[21] estimates of council tax paid per household in each income decile. An adjustment is made for those receiving a council tax reduction and the number of economically active individuals in each household. |
| **Capital gains tax**<br>**Inheritance tax**<br>**Gross operating surplus, interest and dividends**<br>**All other taxes/income streams** | Under a marginal approach this revenue is allocated only to the resident population. The rationale is that a newly arrived migrant will have little or no impact on these revenue streams. |

[18] "Household expenditure and disposable income by disposable income decile group, by origin of household reference person, UK, financial year ending 2017 to financial year ending 2019", Office for National Statistics, 2020
[19] "Effects of taxes and benefits on household income", Office for National Statistics, 2020
[20] "Household expenditure and disposable income by disposable income decile group, by origin of household reference person, UK, financial year ending 2015 to financial year ending 2017", Office for National Statistics, 2018
[21] "Effects of taxes and benefits on household income", Office for National Statistics, 2020