

Title: Fees and Charges proposals in HO Immigration Bill 2013 IA No: HO 0091 Lead department or agency: Home Office Other departments or agencies:	Impact Assessment (IA)
	Date: October 2013
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Primary legislation
	Contact for enquiries: Charging Policy, Home Office, Vulcan House Level 5, Sheffield PO Box 3468, S3 4WA
Summary: Intervention and Options	RPC Opinion: Not Applicable

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, One-Out?	Measure qualifies as One-Out?
£ 466m	£ 0m	£0m	Yes	Zero Net Cost

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

The Home Office must ensure that fees for immigration and nationality services contribute to the cost of running the immigration system. Only legislation will ensure that fees may be set so as to increase the contribution made by migrants who use, and benefit most from, these services. It will also ensure fees promote economic growth and international competitiveness; charging provisions are consistently and clearly defined; an easier process for changing fees so new services can be offered more quickly; and a simpler and more transparent charging framework.

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

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

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

Option 1 (Do nothing): This would not support fee levels that provide value for money for the UK resident taxpayers and high quality services to migrants.

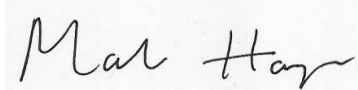
Option 2: Introduce a revised, flexible charging framework to better support the immigration system – controlling immigration and running quality services capable of attracting the brightest and best migrants, while providing value for UK taxpayers.

Option 2 is preferred: It provides the greatest assurance that fee income will be sustainable, allowing service improvements and limiting fee rises on sensitive routes.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 04/2015

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.	Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A		Non-traded: 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:  Date: 01.10.2013

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

Price Base Year 2013	PV Base Year 2013	Time Period Years 5	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: 466

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant)	Total Cost (Present Value)
Low		5		
High				
Best Estimate	0		7.5	35.4

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

Home Office – Lower revenue due to lower application volumes arising from fee increase - £2 million
 UK Exchequer – Lost tax contribution from reduction in migrants - £33 million

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

If some migrants decide to leave the UK that were in employment, there may be some wider indirect impacts on their employers but these are expected to be negligible;

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant)	Total Benefit (Present Value)
Low		5		
High				
Best Estimate	0		106.5	501.1

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

Home Office – Increased revenue from applicants who continue to apply - £458.9 million
 Home Office – Reduced processing costs from applicants who are deterred - £2.5 million
 UK Exchequer – Savings from lower public service provision - £26.5 million
 Increased employment for UK residents - £13.2 million

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

If some migrants decide to leave the UK, there may be some wider benefits in terms of improved social cohesion, reduced congestion and transport costs, but these are expected to be negligible.

Key assumptions/sensitivities/risks
Discount rate

3.5

Volumes are as forecast by Home Office – set out in Annex 2. Migrant price elasticities are assumed to be as set out in Annex 3 (in-country PBS dependants and Tier 4 are assumed to be non-responsive to changes in fees; settlement and nationality applicants are expected to have some price sensitivity). Elasticity effects are based on the change in fees against the expected income of the applicant over the duration of stay in the UK. Fiscal effects are based on assumed income and direct and indirect tax contributions; unit costs of public service provision are estimated for migrants based on available evidence.

BUSINESS ASSESSMENT (Option 2)

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

Evidence Base (for summary sheets)

A. Strategic Overview

A.1 - Background

For 2013-14, the Home Office estimates that around half of the costs of the UK immigration system will be recovered through fees from migrants and visitors to the UK. The remainder of the costs are met from general taxation. To ensure that the system is fair and equitable, the government believes it is right that those who use and benefit directly from the UK immigration system make an appropriate contribution to meeting its costs, thereby reducing the call on UK tax payers.

Under the terms of the government's Spending Round 2013, it was agreed that there would be further reductions in the Home Office budget in 2015-16, and that as well as efficiency savings, an increased contribution should be sought from fees paid by migrants applying for immigration, nationality and related services.

The additional income this generates will mean that the Home Office can greatly improve the services it provides to migrants, while reducing the contribution from general taxation. The Immigration Bill 2013 will support these objectives, by ensuring that the charging framework for immigration and nationality fees is more flexible and transparent.

A.2 - Groups Affected

All migrants wishing to come to or remain in the UK, for the purpose of visit, work, study, family, settlement, marriage or other reasons are required to pay the appropriate fee associated with their application. The Spending Round set guidelines that in financial years 2014-15 and 2015-16, fees for short-term visit visas would not rise above £85, and fees for students and workers would rise by no more than 10 per cent per year.

A.3 - Consultation

Within Government

The Home Office works within strict financial limits agreed with HM Treasury. All fees proposals and income and spending limits are first agreed with HM Treasury.

The fee proposals are then considered by officials across government departments and are assessed in the context of broader government objectives, including the UK's attractiveness in key markets (such as tourism, business and education). This is through a process of collective agreement, to ensure we maintain an appropriate balance between keeping our fees at fair and sustainable levels and our need to fund the immigration system.

Through a process of collective agreement, the fees 'package' is finally signed-off (before it can be laid and debated in Parliament).

Public Consultation

This autumn, the Home Office plans to consult a number of stakeholders on its future charging arrangements.

The Home Office has previously undertaken a full public consultation covering many of the principles and measures included in this Bill. The consultation ran for 12 weeks until 1 December 2009 when, after contacting over 30,000 stakeholders, we received a total of 98 responses.

The response to the public consultation was published online on 14 January 2010:

<http://webarchive.nationalarchives.gov.uk/20100422120657/http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/consultations/charging09/>.

In response to the consultation, a majority of respondents who replied (over 90%) agreed that the Home Office should 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 since affirmed this general principle in annual debates on Home Office charging legislation.

Any fees proposals relying on the proposed framework would themselves be subject to full Parliamentary scrutiny by affirmative debate, and usual consultation arrangements will apply.

B. Rationale

The current fees legislation is not sufficient to support future Home Office funding requirements. The main issues, which we propose to remedy through legislative change in the Immigration Bill, are:

- 1) Unclear fees criteria: Provisions set out in the Bill will enable the Home Office to clearly set out the criteria used for setting fees including cost, benefit, government policy (for example, economic growth policy or reciprocal arrangements with other countries) and cross-subsidy.
- 2) Lack of flexibility: The complexity of the current process, which includes making two or three new statutory instruments, makes it difficult to change fees more than once a year. This does not allow the Home Office to respond quickly when new fees are to be introduced, or to develop charging strategies that support government policy. For example, we don't have the ability, at short notice, to introduce new premium services or offer fee concessions in the interests of economic growth.
- 3) Inconsistent charging arrangements for optional services: Border Force are currently (uniquely in the immigration fees framework) restricted to charging at- or below-cost for the provision of officers to support optional (non-basic) services, such as priority queuing and VIP services provided by airport operators/airlines. Also, fees for optional, premium services ('Added Value Services') overseas are currently set in a different way to those in the UK. The new legislation will remedy these inconsistencies.

As set out above, the Home Office must ensure that the fees it charges for nationality and immigration services are set at appropriate levels to contribute adequately towards the costs of running the immigration system. The financial constraints on public spending mean we need to continue to keep fees under review if we are to ensure that we 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.

There are no realistic non-regulatory options that will increase the proportion paid by those who use and benefit directly from the UK migration system and improve services for migrants in a way that properly supports the government's priorities and policies. Significant efficiency savings are being made within the system, and increasing the contribution from general taxation is not an option in the current financial climate.

C. Objectives

Proposed new framework

The proposed new framework is intended to increase flexibility in order to ensure that charging arrangements support government priorities and policies, while attracting visitors and the brightest and the best migrants to the UK. It will:

- 1) Clarify existing fees criteria and ensure that policy priorities may also be considered when setting fees.
- 2) Consolidate and simplify charging provisions for optional, premium and expedited services.
- 3) Remove one set of (affirmative) regulations and expand the matters covered in the fees order. The Fees Order will set out the chargeable products and set limits for fees (through a cap or a range).

Fees Regulations (subject to the annulment procedure) will then set out specific fees within the limits set out in the fees order. This will improve flexibility without reducing Parliamentary scrutiny.

It will also have a helpful by-product:

- 4) Consolidate and simplify existing primary powers: Currently, there are 4 different primary acts of Parliament. The legislation is complex, overlapping and inconsistent in places. The new legislation will consolidate and simplify the charging framework, ensuring that all primary charging powers for immigration and nationality products and services (including Border Force services) are set out in a single Act.

D. Options

The different immigration routes and the complexity of inter-related factors involved means that there are many potential options within our flexible approach to charging. As this is a final stage impact assessment, we have narrowed this scope to considering two distinct options:

Option 1: Do nothing and, maintain fees in the current framework. This would limit the Home Office's ability to set fee levels for the benefit of the UK in a way that achieves value for money for the taxpayer and ensures high quality services capable of attracting the brightest and best migrants to the UK.

Option 2: To introduce a revised charging framework that provides greater charging flexibility to ensure migration is controlled in a way that achieves value for money for the taxpayer, and resources are provided to run high quality services capable of attracting the brightest and best migrants to the UK.

Option 2 should be considered as a whole, though it has been split into two parts: a) focusing on immigration fees; and b) focusing on commercial charging arrangements. Appraisal with monetised costs and benefits is carried out for part (a), whereas part (b) is given a qualitative assessment.

Option 2a

The changes to primary legislation will allow the Home Office to set a maximum limit for fees within a Fees Order (secondary legislation). These maximum limits will reflect the Home Office Spending Round 2013 settlement set out above. Fees for short term visit visas will not exceed £85 and fees for students and workers will not increase by more than 10 per cent in 2014-15 and 2015-16. It will then be possible to set and amend fees within this limit through Fees Regulations, which will be subject to the annulment procedure. Ensuring that fees can be amended more than once a year will better support government policy by enabling the Home Office to reflect agreed changes in government priorities or policy; and to allow new optional services and individual concessions to be introduced to better support economic growth. The new legislation will also allow unnecessary fees to be removed from the framework as they are identified or as policy changes are made.

Option 2a will allow the Home Office to introduce a significant level of flexibility in setting the level of fees. The Home Office will take the following factors into consideration when setting fees:

a) Costs

The unit cost of processing each of the main application types (including direct and indirect costs).

b) Benefits/ entitlements

The Home Office currently charge an additional amount, over and above processing costs, to reflect the benefits and entitlements that may accrue to successful applicants¹. The Home Office will continue to be able to reflect the range of available benefits and entitlements in fees and to reflect the value that individuals place on the products and services we offer. For example, fees currently reflect the length of leave, the ability to access the labour market or certain public services and the ability to bring dependants to the UK. In future, the Home Office will be able to better reflect the benefit of higher levels of service (faster processing or premium customer services) and the added

¹ The principle of charging more for higher levels of service is supported by Managing Public Money (2013) published by HM Treasury see: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/212123/Managing_Public_Money_AA_v2_-_chapters_annex_web.pdf

choice and convenience of prime-time or out of hours appointment slots, which are available before applications are decided.

c) Cross subsidy

The Home Office will retain the ability to cross-subsidise between different services, so that fees for applications and services may be used to help fund the wider immigration system, including border controls.

d) International comparisons

International comparisons (fees charged for similar products in other countries) are currently used to inform fee levels and to assist in government and Parliamentary approval processes. The Home Office will explicitly reference this within the Immigration Bill and will formally use this, and other information which provides information about the market for immigration and visa products, when setting fees.

e) Government policy

While there are currently no powers to deliver government policy through charging, some fees are set at a lower level as a matter of policy to encourage higher application volumes (for example, visitor visas); and concessions are offered to certain nationalities (for example, the 'Approved Destination Scheme' may provide cheaper tourist visas for certain tour groups). It is intended that the enabling power makes clear that such concessions can be made to support the government's economic growth policy. These concessions may include promotional or group discounts, and specific arrangements to support international relations (for example, reciprocal arrangements with international partners in order to facilitate wider trade deals).

Option 2b

The Home Office will clarify existing practice on charging arrangements for optional services wherever they are offered and ensure that all such charging arrangements are brought together. For example, fees for optional 'added value services' overseas, which will continue to be delivered by commercial third parties, will in future be set out in regulations where they are in connection with immigration and nationality.

The Home Office intends to extend its premium services offer within the UK, overseas and at the border (including expanded VIP services at ports and airports, such as premium suites and other VIP passenger processing away from the primary control point).

Option 2 is preferred for the following reasons:

- It will potentially create more income streams for the Home Office, and diversify the income risk across products. This will in turn:
 - give the Home Office greatest assurance that fees income will be able to deliver a balanced budget for future years;
 - support wider government objectives to limit fee increases on the most economically sensitive routes and
 - ensure income is generated to maintain and improve services, to the benefit of taxpayers and migrants.

The costs and benefits of this proposal cannot be exactly quantified as the factors above mean the exact level of fees at each point during the IA period is unknown. Instead fees will be set between the current level of fee and the maximum set out in the Fees Order. Short-term visit visas fees will not exceed £85 and fees for students and workers will increase by a maximum of 10 per cent in 2014-15 and in 2015-16. The Home Office proposes to amend fees within these limits to ensure that it is able to fund the immigration system while complying with agreed spending and income plans. To reflect this, a range between the minimum fee increase (no change) and maximum fee increase (as per the Spending Round settlement) has been modelled. It is thought that the exact impact of the proposal will lie between these extremes.

An impact assessment will be produced when a Fees Order is laid setting out the maximum level of fees that can be charged. This will set out the range of impacts contained within that Order.

E. Appraisal (Costs and Benefits)

General Assumptions and Data

The Immigration Bill is expected to achieve Royal Assent during 2014, in time for potential fee changes, in line with the principles outlined above, in October 2014. This IA has been developed to examine the **additional** economic costs and benefits of Option 2 compared with Option 1 over a five year period (2014-15 to 2018-19). Potential changes to the immigration system, and the inexactness of projection methods, mean that application forecasts are not considered to be accurate over a ten-year period, therefore impacts are assessed over a five-year period. Option 1 is denoted as the 'Do Nothing' option with no additional costs and benefits and is the baseline used for comparison.

The Home Office produces application volume forecasts for the upcoming financial and future years. However, forecasts for the upcoming financial year (2014-15) have not yet been finalised. Therefore, forecasts that were made for 2013-14 have been used – application volumes expected under Option 1 are given in Annex 2.

This assessment considers the impact from increasing fees to the upper limit outlined at the Spending Round for 2014-15 and 2015-16. This entails, in 2014-15, increasing the six month visit visa fee to £85 and student and worker visas by 10 per cent. For the purposes of this assessment, it is assumed all other visa fees will increase by 10 per cent in line with students and workers. It is assumed that fees will be changed in April 2014 as part of the scheduled annual amendment to fees. Then, in 2015-16, keeping the six month visit visa fee at £85 (the agreed upper limit) and further increasing all other fees by 10 per cent.

This is considered to be the best method of assessing the potential range of fee changes. Given that the overarching aim of Option 2 is to attain a flexible approach to charging, attempting to assess the impact of even a sample of possible changes would require more rigorous analysis than is proportionate. This is because the variety of factors to be considered when setting fees will be applied each time the fees are changed. So while it is recognised that this analysis does not fully appraise the proposals as set out above, it does present a range of impacts between zero (no changes take place) and the maximum possible impact. The actual impact will lie between these extremes, and will be appraised at the point when fees are to be changed.

Objective function

In January 2012, the Migration Advisory Committee published a report on the impacts of migration and recommended that migration policy impact assessments should concentrate on the welfare of the resident population. The aim of the proposal in this impact assessment is therefore to focus on the welfare of the resident population, defined as those who are already formally settled in the UK. The NPV should include the effects from any change in fiscal, public service, consumer and producer surplus and dynamic effects where practical, appropriate and proportionate, but should exclude forgone migrant wages (net of taxes) as the benefit of those wages accrue to the migrant. Wider impacts on UK GDP and non-residents are identified and quantified where possible alongside political and social considerations, as these all affect the policy decision and should be given appropriate consideration in the overall assessment.

Option 1 – Do nothing

Baseline Volumes

The projected volumes for each product for 2013-14 are set out in Annex 2. These forecasts are Home Office internal planning assumptions for 2013-14 and may not match published volumes of products granted. These have been projected forward to provide application assumptions up until 2018-19, though it is assumed that application volumes will not change in future years. The impact in future years should therefore be considered as indicative.

Costs

There are no additional costs under option 1.

Doing nothing means we cannot ensure that the Home Office can continue to generate sufficient income to operate the immigration system effectively. There is an increasing risk of exceeding current charging powers as fees increase, leading to potentially an inability to deliver government policy on growth as charging flexibly will not be able to happen (e.g. offering concessions or quickly introducing

new premium services for economically valuable migrants). Doing nothing and maintaining fees in the current framework, will limit the Home Office's provision to change the level of fees for the benefit of the UK in a way that achieves value for money for the taxpayer, and ensures high quality services capable of attracting the brightest and best migrants to the UK. There is also the need to manage the risk to Home Office income, so that we balance these factors with the interests of the general UK taxpayer.

Significant efficiency savings are already factored into the Home Office's business planning, and the assumption is that any additional efficiency savings above those already identified would necessarily lead to a reduction in service provision such as reducing the amount of compliance checking undertaken and/or extending the time taken to process applications.

Benefits

There are no additional benefits under Option 1.

Option 2a – Increase the short term visit visa fee to a maximum of £85 (£85 in 2014-15 and remaining at £85 in 2015-16) and all other visa fees by a maximum of 10 per cent first in 2014-15, then in 2015-16.

The costs and benefits outlined here should be considered the maximum impacts of introducing a flexible fee setting policy. It is likely that the costs and benefits will lie between zero (if fees are not changed at all) and the estimates given below.

Maximum 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 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. It has been found that fees have not had a statistically significant impact on application volumes in previous years. No statistically significant elasticity of demand has been found, suggesting that products tested (visit visas, Tier 2 work, Tier 4 student and settlement visas) are not sensitive to changes in price.

As it has not been possible to directly estimate the price elasticity of demand for Home Office products, this analysis has adopted the price elasticities of demand for other products using elasticity estimates from academic literature such as the wage elasticity of labour supply for work routes. The latest literature review was undertaken in 2010 and further details of the studies used can be found in Annex 3. The application of these elasticities has not been tested in relation to visa fees or the scale of price increases analysed here and it may not reflect the real elasticity in the specific circumstances here, but it is believed that these are the best available proxy measures.

Given the uncertainty around these proxy elasticities, 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 (i.e. doubling the perceived responsiveness in demand from changes in fees). We believe that the true effect of increasing fees for Home Office products lies within this range. The elasticities used in the sensitivity analysis are also given in Annex 3.

Work - Supply of Labour

Migrants demand visa products in order to supply labour in the UK. The *wage elasticity of labour supply* is the responsiveness of the supply of labour due to changes in wages. Thus this is used to estimate the impact on volumes of the proposed fee changes, for example, an increase in fee is a reduction in expected wage, so should reduce labour supply.

Work - Demand for Labour

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

Study - Demand for Higher Education

Migrant students demand student visa products in order to purchase education in the UK. *Price elasticity of demand for higher education* is the responsiveness of the demand for higher education due to changes in wages. International estimates for the price elasticity for higher education are used, since no estimates were obtained for the UK. However, analysis of student application volumes over previous years indicates that application volumes have increased, despite increases in product fees. We have also been unable to calculate an elasticity that is significantly different from zero. For this reason we have adopted a central elasticity estimate of zero.

Visit - Demand for Air Travel

The *airfare elasticity of demand* is the responsiveness of the demand for air travel to changes in air fares. This is used as a proxy for the price elasticity of demand for a trip to the UK, applied to short term visit visas. This elasticity is not applied to other visit visas (longer than six months) as it is assumed in the central estimate that visit visas for longer than six months reflect business travel and is thus unlikely to be responsive to marginal changes in fees.

Settlement and Nationality

For settlement and nationality applicants, we assume there is some price sensitivity in line with previous assumptions used on in-country migrants in work routes (the *wage elasticity of labour supply*) of -0.5. The rationale is that the majority of applicants would have been in the UK over 5 years before being eligible to apply for ILR or nationality and hence may be more likely to be in or want to work. A wage elasticity of -0.5 is consistent with previous fee impact assessments, in that it assumes migrants demand Home Office products in order to supply labour in the UK.

In the sensitivity analysis, an elasticity range of 0 to -1.1 was used (based on the evidence in Annex 3). It is likely that the elasticity value would lie close to zero, as applicants would have invested time in the UK (five years) before being eligible to apply for leave or nationality, and by applying for settlement or nationality demonstrate they would like to remain in the UK indefinitely. Furthermore, a one-off payment for the visa fee allows for a lifetime of access to the labour market, therefore potentially a lifetime of access to wages. Therefore the elasticity of -0.5 may overstate the responsiveness of an applicant to a fees change - it may well be much less responsive due to the possibility of a lifetime of earnings for a one-off fee. But the wide range is included to reflect the available evidence, the uncertainty, and the range of possible deterrence risks.

Dependants of PBS migrants

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

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

Methodology to estimate volume effects

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

Impact on application and grant volumes

Table 1, below, presents the expected change in application volumes and the expected change in volumes granted for 2014/15. It is assumed that a similar level of change will occur in 2015/16, with the exception of visit visas, where the fee will remain constant in 2015/16.

Table 1 – Impact on application and grant volumes

		Application Volumes in absence of policy change	Estimated decrease in application volumes (2014/15)*	Estimated decrease in grant volumes (2014/15)*
Out of Country	Visit Visa	2,086,100	3000	2600
Out of Country	Settlement	38,400	30	30
Out of Country	Other	39,000	20	20
Out of Country	PBS Tier 1/2	72,800	30	30
Out of Country	PBS Tier 4 **	202,900	0	0
Out of Country	PBS Tier 5	40,500	20	20
In Country	Settlement	205,300	30	30
In Country	Other	38,500	20	20
In Country	PBS Tier 1/2	54,200	30	30
In Country	PBS Tier 4 **	88,300	0	0
In Country	PBS Tier 5	700	20	20
In Country	Family Extension	58,900	60	50
In Country	Sponsor	571,500	50	40

Source: Home Office Analysis

* Figures rounded to the nearest ten.

** Results are zero as Tier 4 assumed to have zero elasticity

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

Maximum Costs and Benefits

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

The **direct** costs and benefits are those that are clearly and immediately related to the change in volumes coming through the routes. The direct costs include reductions in Home Office income due to reductions in volumes whereas the direct benefits are dominated by an increase in Home Office income due to price rises.

The **wider** costs and benefits are those more closely associated with the wider economy, labour market activity, public services, innovation, trade and investment. The wider benefits of a reduction in volumes of migrants in the UK relate to reduced pressure on public services, reduced congestion pressures and improvements in social cohesion. Many of these effects are difficult to accurately quantify and/or monetise but they have been described where possible, but not assessed in detail given the low potential volumes affected and hence the proportionality of the assessment.

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 2a are set out below.

Direct Costs

• Home Office Revenue

There will be an impact on Home Office fee income if applicants are deterred from applying for an immigration or visa product. Table 1 outlines the expected change in application volumes and Annex 2 outlines the change in fees. It is estimated that Home Office revenue will fall by £2 million (PV) over a five year period.

Indirect Costs

• Impacts on migrant income

If there is a reduction in the volume of migrants extending their stay or settling in the UK, there is a potential reduction in migrant households' income, as some of them may have been in employment in the UK. However, as set out on page 8, the NPV of the policy presents only the impact on the welfare of UK residents, thus lost wages accruing to migrants are not included. A reduction in the volume of those who are settled applying for nationality should not impact on wages, as declining to apply for nationality (due to an increase in the fee) does not mean the applicant needs to leave the country – as to apply for nationality they would already have indefinite leave to remain.

• Impacts on the Exchequer

As a result of the reduction in wage income from deterred migrants, there would be a resultant reduction in the potential fiscal contribution of migrants to the Exchequer, which would have a negative impact on UK residents and is thus included in the NPV. The direct and indirect tax contribution of family migrants can be calculated using their estimated average gross earnings, current income tax rates and assumptions around indirect tax rates (see Annex 5). Expected earnings range from £700 per year for those with a short term visit visa, to £67,400 per year for a Tier 2 Inter-Company Transfer. The expected loss of fiscal contribution therefore ranges from £200 to £29,600 per annum. Using the estimated reduction in grant volumes multiplied by the employment rate and the fiscal impact, the overall impact is expected to be around £33 million (PV) over 5 years.

It is important to note that this estimate takes no account of the potential adjustment of the economy and labour market to the reduction in working migrants in the UK. The potential adjustment is discussed below.

Direct Benefits

• Increase in Home Office revenue

Higher fees across all products will increase income to the Home Office from those that continue to apply. The change in fees and potential application volumes are set out in Table 1. It is estimated that Home Office revenue will rise by £458.9 million (PV) over a five year period.

• Reduction in Home Office processing costs

A fall in application volumes as a result of increased product fees will result in administrative savings for the Home Office as processing costs fall. The cost of processing each application is set out in Annex 2 and the expected fall in volumes is set out in Annex 4. It is estimated that Home Office processing costs will fall by almost £2.5 million (PV) over a five year period.

Indirect Benefits

• Reduction in public service and welfare provision

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

The savings from a lower number of migrants are estimated to be £26.5 million (PV) over a five year period.

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

• **Increased employment opportunities for UK residents**

If a migrant who would have been gainfully employed in the labour market is deterred from applying to come as a result of the fee increase, then they may be replaced by a UK resident when they depart the UK or are deterred from entering the UK.

The independent Migration Advisory Committee's (MAC) January 2012² report found that 100 additional non-EU migrants may cautiously be estimated to be associated with a reduction in employment of 23 native workers both during periods of economic growth and downturn. This IA assumes that the inverse of this finding is valid when the number of non-EEA migrants is reduced.

Whilst changes to fees will be across all products, only changes to certain products will imply a labour market impact. These products, along with those that entail a migrant has been in the UK for less than five years, are used in calculating the value of increased employment opportunities for UK residents. This value is estimated by firstly assuming that from the forecast decrease in annual migrants (as a result of the fee change) for a particular product, 23 per cent will result in increased native employment. It is assumed that the same decrease in migrants in year one occurs in each of the following four years. In addition to this, the decrease in migrants in one year has a diminishing but continuing impact on native employment in subsequent years. As it is not known for how long migrants who leave the country were in the country, the central estimate is that they stayed here for 3 years - essentially, a migrant leaving after staying for 3 years will permit replacement of fewer UK residents than a migrant leaving after staying for only 1 year. In order to monetise this benefit, the median annual wage is estimated for the typical applicant of each applicable product. This wage is adjusted to account for the approximated employment rate for each products typical applicant, as not all may be in employment. This wage is then applied to each applicant deterred to produce a monetary value of the increased employment opportunities for UK residents. Annex 7 outlines a description of the findings and application in impact assessments.

Summing the number of UK residents gaining employment over 5 years, then taking into account the employment-adjusted earnings of the typical applicant for each product, the benefit to UK residents from increased employment opportunities is around £13 million (PV) over a five year period. As the majority of the decrease in migrants arises from settlement and non-student leave to remain visas, there may be some short-run adjustment costs to employers affected, but these are not possible to accurately monetise with the available evidence. Therefore any upskilling costs to businesses are not estimated, though if those affected are towards the lower end of the earnings and skills distribution, they may be more likely to be replaced by native low-skilled workers, thus minimising any upskilling costs.

Summary of costs and benefits

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

² MAC (2012) Analysis of the impacts of migration. Available from: <http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/27-analysis-migration/01-analysis-report/analysis-of-the-impacts?view=Binary> <http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/27-analysis-migration/>

Table 2 – Costs and Benefits Summary

(£ m)	2014/15	2016/17	2017/18	2018/19	2019/20	Total
Benefits						
Net Revenue raised from fee changes for those who continue to apply	£56.1	£106.0	£102.4	£98.9	£95.6	£458.9
Saving to UKBA from processing fewer applications	£0.5	£0.5	£0.5	£0.5	£0.5	£2.5
Saving to educational institutions due to lower tuition costs	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0
Savings to UK due to lower public service provision	£3.0	£6.2	£6.0	£5.8	£5.6	£26.5
Increased employment opportunities for UK residents	£0.7	£2.0	£3.0	£3.6	£3.9	£13.2
Total benefits (PV)	£60.2	£114.7	£111.9	£108.8	£105.5	£501.1
Costs						
Loss of revenue from fewer applications as a result of the fee change	£0.3	£0.4	£0.4	£0.4	£0.4	£2.0
Exchequer loss from reduction in migrants coming to and remaining in the UK	£4.0	£7.7	£7.5	£7.2	£7.0	£33.4
Total costs (PV)	£4.3	£8.2	£7.9	£7.6	£7.4	£35.4
Net benefit (PV)	£55.9	£106.6	£104.0	£101.1	£98.1	£465.7

In country transfers

The impact assessment process is designed to measure the economic costs and benefits to the UK economy and UK residents. A migrant is considered to be a UK resident at the point of permanent settlement in the UK. Until this point, the IA process treats them as non-UK residents as explained on page 7. The fee increases paid by applicants that are non-residents and those paid by applicants outside of the UK are counted as a benefit to the UK, but not as a cost to the migrant.

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

The values of these transfer payments are presented in Table 3.

Table 3, Summary of transfers from in-country resident applicants to the Home Office, option 2a

Transfers	Central Estimate (PV) 2013/14 – 2017/18
Increase in Home Office fee income from in-country applications	£102 million
Additional cost of application fees to in-country applicants	-£102 million
Total	£0 million

Option 2b - Over Cost Recovery of Border Force Fees

Current policy

Border Force currently charges a fee to provide officers to support additional services to end users. This includes the provision of staff to resource fast track immigration lanes at Heathrow, used primarily for business and first class passengers and the provision of staff to attend luxury suites provided by port authorities for VIP and commercially important passengers. Border Force also charges to attend certain arriving General Aviation (GA) flights and cruise ships at some ports. Border Force are restricted to either charging: at- or below- cost for the provision of officers to support priority queuing and value added services provided by airlines.

Currently, the unit cost applicable is £53.08 per Border Force Officer per hour.

In the case of Fast Track at Heathrow, this hourly rate is charged to the airport operator, who in turn passes this on to the airlines once their own delivery and administrative costs have been factored in. Ultimately airlines will recover the cost of Fast Track from Customers in their ticket pricing but there is no specific charge to a Fast Track user.

At present, airlines are charged, by the operator, on a monthly basis at a per passenger rate. We estimate that the Border Force element of this charge is between about £1.40 per passenger at busy terminals and approximately £3.20 per passenger at less busy terminals³. This figure fluctuates quite significantly month on month even within the same terminal according to demand. Despite the fluctuation, the level of the fee is relatively low compared to the fare premium passengers pay for travel.

For VIP suites, Border Force are currently in the process of introducing charges to recover costs for providing this service. As with Fast Track, the charge will be levied on the airport operator who owns the suite, however the service is marketed to the passenger as opposed to the airlines so the costs are passed on directly. The charge for using the suite varies significantly depending on type of group; we believe that the effect of Border Force charging could be to add up to 25 per cent on to the cost to the end user⁴ assuming that the operator decides to pass this charge on.

In the case of both fast track and VIP Suites, participation in the service is entirely voluntary and passengers and airlines have the option to use the normal terminal arrivals halls free of charge.

This is charged to the port operator or agent by Border Force, with the cost being recovered by the operator through the fee it charges airlines or ship operators (who in turn, are likely to pass on this charge to customers). This final fee paid by the airlines encompasses a variety of costs incurred by the operator, including administrative costs and port operator staff costs, and is charged to the airline on a per customer basis.

Proposed policy

The Home Office are able to charge at above cost for a number of other services, including the expedition of applications or provision for applications to be made at a time or place convenient to the applicant. In order for Border Force charges to be consistent with the precedents set by other types of fee, the Home Office would like to be able to charge at above cost for delivery of these services.

The proposal is to allow for above cost recovery charging, in order to reflect the value of the service provided and to generate income to improve standard services offered by Border Force, benefitting those using the services. The charges will apply to all sectors using these Border Force services. The Immigration Bill will provide an enabling power for Border Force to increase the level of the charge. However, the size and application of such a potential above cost charge has not been fully refined as of yet, therefore this impact assessment will not provide a detailed quantitative assessment. Instead it presents an indicative discussion of the likely costs and benefits and where these may fall. The impact assessment will be updated as the proposal is developed.

Costs

- Impact on the Home Office: additional costs to the Home Office of redeploying staff are a possibility (even though these would be necessarily recovered) if the average lengths of premium and non-premium queues change significantly in response to pricing above cost recovery. Significant changes in the lengths of either may also add to the volatility of daily passenger profiles and both of these could precipitate a significant marginal cost, especially if direct marketing by airlines encourages greater take up.
- Impact on port operators, airlines and passengers: the potential cost of this proposal is an increased charge faced by operators, which is likely to be passed onto airlines, train or ship companies. This could in turn be passed onto passengers, though at present an individual passenger does not pay

³ These figures are estimates based on dividing Border Force monthly income by the monthly passenger volumes at each terminal. Border Force is not responsible for applying these charges and do not see a detailed breakdown of the costs to end users.

⁴ As with Fast Track, Border Force is not responsible for applying the charges to the end user and do not see a detailed breakdown of the costs. The fee levels are Commercial in Confidence.

an additional premium for Fast Track access; the price of access instead being factored into the price of the ticket. It could be likely that airlines will absorb small changes. If changes are passed onto customers, it is envisaged that this increase will not significantly negatively affect the number of people using the value added services, as the main customers are Business and First Class passengers. As set out above, we estimate that the Border Force element of this charge is between about £1.40 per passenger at busy terminals and approximately £3.20 per passenger at less busy terminals. Even at a higher level, if fees increase, this continues to reflect a very small proportion of the overall premium airfare⁵. This assumes that, whilst there may be a very small number of passengers who are deterred at the margin, for the large majority, the increase inherent from charging above cost is small relative to the price paid for travel, thus they will not be deterred from paying extra for the value added services.

- **Impact on General Aviation** - This is a very sensitive market and there is anecdotal evidence of operators switching between sites on the basis of levels of service provided by local Border Force staff, as well as moving their business overseas as a consequence of regulatory changes.. The industry also advises that there is a fair amount of price sensitivity, with operators switching on the basis of cost. Currently the provision of border force service is not consistently distributed, with some ports receiving enhanced border force services without payment while others pay for the same level of service. Although changes in the location of Border Force service provision to remove these distortions is not a consequence of the proposal to over cost recover, the impacts on GA will be considered along with increases in Border Force fees as the proposal is developed.

Benefits

- **Impact on Home Office** - The potential benefit of this proposal is an increase in Home Office income, whilst allowing for greater flexibility upon charging depending, on criteria such as demand fluctuations and seasonality.

- **Impact on passengers** - An increase in fees will allow Border Force to provide a better service so there will be benefits to Fast Track passengers (such as time savings and better customer experience). The time savings to premium passengers could be sizeable.

- **Impacts on airlines** - Airlines are also likely to benefit from the provision of premium services. Some customer groups, including those travelling in premium cabins, are willing to pay for a greater degree of speed or flexibility than standard Border Force services provide. Thus a small fee to access these services may increase the perceived standard of the product an airline provides, encouraging additional demand.

Wider Impacts of Option 2

Impact on Home Office

As a result of this option, the Home Office's annual income from immigration and visa fees is estimated to rise by the increase in fees paid by applicants. This equates to £458.9 million (5 year PV) from applicants who are not yet considered UK residents (presented in Table 2) and £102 million (5 year PV) from applicants who are already settled in the UK and are thus considered UK residents (presented in Table 3).

The Home Office will also see a reduction in processing costs due to the volume of applications that are deterred both outside the UK and from inside the UK. This equates to around £2.5 million (5 year PV) in total.

The overall impact on Home Office is positive, income will increase by up to £561 million (5 year PV) over the period 2014-15 to 2018-19. This assumes that fees are set at the maximum of the permitted range for the longest period possible. It is likely that fees will not be set at the maximum permitted level for the whole period, thus the increase in revenue to the Home Office is likely to be lower.

⁵ Fast Track provision applies mainly to airline passengers travelling from outside of the EEA, and who are thus subject to slower immigration clearance. Border Force service standards are 25 minutes for progression through an EEA traveller queue and 45 minutes for those non EEA travellers. Airfares for premium travellers flying from outside the EEA are likely to be significantly higher than for travellers within the EEA.

Impact on Employers

Potential Costs

It is estimated there will be no direct regulatory cost to business as no new regulatory burden is being introduced. There is only a change in the fee level for products which are primarily levied on individuals. There may be an increase in the cost of sponsorship products purchased by businesses. Guidance issued by HM Government on the One-in Two-out (OITO) methodology states that fees and charges are out of scope of OITO. There is no additional administrative burden on firms.⁶

However there may be small indirect impacts on employers if the fee increases make in-country migrants decide to leave the UK rather than pay the higher fee and if those migrants that leave were in employment.

The impacts set out above are recognised as the maximum impacts from introducing a flexible charging policy. The impacts assessed assume that the maximum permitted increases are adopted for the full period of time. In reality, a flexible approach means fee levels are likely to change throughout the year in response to demand, cost and entitlements. This means that the policy is likely to realise a proportion of the costs and benefits set out above. However, the exact fee changes for the next five years are unknown.

Impact upon Business – One-In Two-Out

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

Other wider effects

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

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

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

F. Summary and Recommendations

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

Table 4 Costs and Benefits (PV)		
Option	Costs	Benefits
2	£35 million	£501 million
Source: Home Office estimates		

The maximum Net Present Value calculation is therefore £466 million over 5 years. This equates to a reduction of approximately 3,189 applications in 2014-15 (largely due to the change in 6 month visit visa fees) and 324 applications per year in 2015-16 onwards.

⁶ <http://www.bis.gov.uk/assets/biscore/better-regulation/docs/o/11-671-one-in-one-out-methodology>

This assessment of costs and benefits is based on implementing the maximum possible increase in fees, for all products, as set out in the Spending Round. Whilst in reality the actual change in fee may vary across products and at different points in time, assessing the maximum fee provides an upper limit to the costs and benefits based on the current assumptions.

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 £493 million (PV) over 5 years through additional revenue from fees.

For the low NPV scenario, we assume that volumes decrease to a greater extent than is assumed in the central estimates, by 8,951 applications in 2014-15 (predominately due to the change in 6 month visit visa fee) and 1,890 per year from 2015-16 onwards. In this scenario, there is a net benefit of £459.1 million (PV) 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, as mentioned, further research is ongoing to assess the responsiveness of applicants to price.

Option 2 will reduce the risk of the Home Office facing a successful legal challenge against the fee increases required by the Spending Round agreement. The current framework is based on costs, benefits and entitlements. At a time when costs are reducing and entitlements are under review, the proposed framework will make clearer the range of factors the Secretary of State may take into account when setting fees to support the immigration system (see bullet points (a) to (h) on pages 5 to 6 above).

H. Enforcement

Additional funds under option 2 may be used to invest in enforcement.

I. Implementation

The Home Office plans to implement these changes following Royal Assent for the Immigration Bill, expected in 2014. Full details to applicants on how to apply and pay the new fees will be made available on the Home Office's website: <https://www.gov.uk/government/organisations/home-office>

J. Monitoring and Evaluation

The effectiveness of the new fees regime will be monitored by the Home Office charging policy team and will cover in-year checks of application volumes and income, 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 and a PES will be produced.

Annex 1. Specific Impact Tests

Statutory Equality Duties

Equality Impact Assessment

Please see section L above.

Economic Impacts

Small Firms Impact Test

A reduction in migrant workers as a result of the fees proposals may affect small firms. However, the volumes expected to be deterred from coming to the UK are very small and we expect any impacts on firms and sectors to be nil or negligible.

Rural Proofing

The Home Office does not have data on the likely UK 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

Table A2.1 sets out the current fees for existing products alongside the proposed fee increases. Volumes are **internal planning assumptions which are subject to change** as a result of external factors such as the economy and policy and operational changes. Estimated unit costs of processing each application are also given.

Table A2.1, Current fees and proposed fee increases, 2013/14 to 2015/16.

Product	Unit Costs (£)	Planning assumption volumes - 2013/14	Current Fee (£)	Proposed Fee (£) (2014/15)	Proposed Fee (£) (2015/16)	Estimated Earnings through Duration of Stay (£)	Estimated decrease in application volumes (2014/15)	Estimated decrease in grant volumes (2014/15)	Estimated decrease in application volumes (2015/16)	Estimated decrease in grant volumes (2015/16)
Visit visa - short (6 months)	136	1,794,500	80	85	85	700	2,894	2,518	-	-
Visit visa - long (2 year)	136	196,200	278	306	336	5,100	-	-	-	-
Visit visa - long (5 year)	136	73,300	511	562	618	9,300	-	-	-	-
Visit visa - long (10 year)	136	22,100	737	811	892	13,500	-	-	-	-
Settlement	407	35,100	851	936	1,030	23,100	23	21	26	23
Settlement - Dependant Relative	407	1,400	1906	2,097	2,306	23,100	1	1	1	1
Settlement - Refugee Dependant Relative	407	300	407	448	492	23,100	0	0	0	0
Certificate of Entitlement	407	1,600	278	306	336	23,100	0	0	0	0
Other Visa	163	38,400	278	306	336	23,100	17	16	18	17
Transit Visa	99	28,400	54	59	65	700	71	65	79	72
Vignette Transfer Fee	207	200	105	116	127	23,100	0	0	0	0
Replacement BRP Overseas	136	600	72	79	87	23,100	0	0	0	0
Tier 1 - Main Applicants	295	1,600	840	924	1,016	32,500	1	1	1	1
Tier 1 - Dependants	295	3,700	840	924	1,016	32,500	2	2	2	2
Tier 1 Graduate Entrepreneur Route - Dependants	295	-	721	793	872	32,500	-	-	-	-
Tier 2 Main Applicants	207	20,600	494	543	598	45,200	5	5	5	5
Tier 2 Dependants	207	15,600	494	543	598	45,200	4	3	4	4
Tier 2 Inter Company Transfer less than 12 months - Main applicants & dependents	207	31,300	412	453	499	67,400	10	9	11	10
Tier 4 - Main Applicants	244	202,900	298	328	361	25,700	-	-	-	-
Tier 4 - Dependants	244	22,200	298	328	361	25,700	-	-	-	-
Short Term Student less than 12 Months Visa	136	17,400	144	158	174	25,700	-	-	-	-
Tier 5 Temp Work	158	18,300	200	220	242	15,900	17	16	18	17
Tier 5 Youth Mobility	158	21,300	200	220	242	15,900	7	6	7	7
Naturalisation (UK Citizenship) Single	187	49,400	794	873	961	23,100	3	2	3	3
Naturalisation (UK Citizenship) Joint	281	9,600	1390	1,529	1,682	23,100	1	1	1	1
Naturalisation (UK Citizenship) Spouse	187	41,100	794	873	961	23,100	-	-	-	-
Nationality Registration Adult, minor & other	187	19,600	673	740	814	23,100	1	1	1	1
Nationality Registration Multiple Minor Main	281	8,800	1178	1,296	1,425	23,100	0	0	1	0
Nationality Registration Multiple Minor Dependent	187	12,100	505	556	611	23,100	-	-	-	-
Renunciation of Nationality	187	600	187	206	226	14,500	0	0	0	0

Nationality Reissued Certificate	94	-	94	103	114	23,100	-	-	-	-
Nationality Right of Abode	187	1,500	170	187	206	23,100	0	0	0	0
Nationality Reconsiderations	187	-	80	88	97	23,100	-	-	-	-
Status / non acquisition letter (Nationality)	94	300	94	103	114	23,100	0	0	0	0
Nationality Correction to Certificate	94	-	94	103	114	23,100	-	-	-	-
Indefinite Leave to Remain Postal - Main	403	50,400	1051	1,156	1,272	23,100	4	3	4	4
Indefinite Leave to Remain Postal - Dependents	403	11,900	788	867	953	23,100	-	-	-	-
Leave to Remain Non Student Postal Main	281	46,200	578	636	699	23,100	59	50	65	55
Leave to Remain Non Student Postal dependents	281	12,700	434	477	525	23,100	-	-	-	-
Transfer of Conditions Postal Main	147	3,800	147	162	178	23,100	1	1	1	1
Transfer of Conditions Postal Deps	147	500	147	162	178	23,100	-	-	-	-
No Time Limit Stamp - Postal Main	147	6,700	147	162	178	23,100	1	1	1	1
No Time Limit Stamp - Postal Deps	147	800	147	162	178	23,100	-	-	-	-
Travel Documents Adult (Certificate of Travel)	257	4,200	257	283	311	23,100	1	-	1	-
Travel Documents Adult CTD	164	14,400	73	80	88	23,100	0	-	0	-
Travel Documents Child (Certificate of Travel)	164	400	164	180	198	23,100	-	-	-	-
Travel Documents Child CTD	117	3,600	46	51	56	23,100	-	-	-	-
Replacement BRP	38	4,100	38	42	46	23,100	0	-	0	-
Employment Leave to Remain outside PBS Postal - Main	281	5,000	578	636	699	23,100	3	3	3	3
Employment Leave to Remain outside PBS Postal - Dependants	281	600	434	477	525	23,100	-	-	-	-
Tier 1 Investor & Entrepreneur - Postal - Main	351	3,000	1051	1,156	1,272	32,500	2	2	2	2
Tier 1 Investor & Entrepreneur - Postal - Deps	351	2,300	788	867	953	32,500	-	-	-	-
Tier 1 - Exceptional Talent Postal - Main	482	-	1051	1,156	1,272	32,500	-	-	-	-
Tier 1 - Exceptional Talent Postal - Deps	482	-	788	867	953	32,500	-	-	-	-
Tier 1 - Graduate Entrepreneur Postal - Main	482	300	721	793	872	15,500	0	0	0	0
Tier 1 - Graduate Entrepreneur Postal - Deps	482	-	541	595	655	15,500	-	-	-	-
Tier 2 - Postal Main	225	28,100	578	636	699	43,700	7	7	8	7
Tier 2 - Postal Dep	225	13,800	434	477	525	43,700	-	-	-	-
Tier 2 - Postal Main (Inter Company Transfer less than 12 months)	187	600	412	453	499	67,400	0	0	0	0
Tier 2 - Postal Deps (Inter Company Transfer less than 12 months)	187	500	309	340	374	67,400	-	-	-	-
Tier 4 - Postal Main	238	87,600	406	447	491	25,700	-	-	-	-

Tier 4 - Postal Dependents	238	700	305	336	369	25,700	-	-	-	-
Tier 5 - Postal Main	222	600	200	220	242	15,900	0	0	0	0
Tier 5 - Postal Dependents	222	100	150	165	182	15,900	-	-	-	-
Tier 4 - Permission to Change Course	160	-	160	176	194	13,500	-	-	-	-
Tier 2 Large Sponsor Licence	1545	3,600	1545	1,700	1,869	261,000	1	1	1	1
Tier 2 Small Sponsor Licence	1545	10,800	515	567	623	23,100	9	8	10	8
Tier 4 Sponsor Licence	1545	900	515	567	623	23,100	1	1	1	1
Tier 5 Sponsor Licence	1545	1,400	515	567	623	23,100	2	2	3	2
Multiple Tier	1545	1,700	515	567	623	58,000	1	1	1	1
Highly Trusted Sponsor Licence	1545	1,300	515	567	623	2,304,200	0	0	0	0
Sponsor Action Plan	1545	-	1545	1,700	1,869	115,000	-	-	-	-
Tier 2 Certificate of Sponsorship	154	78,900	184	202	223	43,700	12	10	14	12
Tier 5 Certificate of Sponsorship	14	44,700	14	15	17	15,900	3	2	3	3
Tier 4 CAS	14	329,500	14	15	17	13,500	18	15	20	17
EEA1	82	25,900	55	61	67	12,467	1	1	1	1
EEA2	82	39,200	55	61	67	12,467	2	1	2	1
EEA3	82	18,700	55	61	67	12,467	1	1	1	1
EEA4	82	14,900	55	61	67	12,467	1	0	1	1

Note: a nil decrease in applications and grants is shown either because the elasticity is assumed to be zero, or the forecast volume of applications in 2013/14 is zero.

Annex 3: Elasticity assumptions

Table A3.1 sets out the elasticities used to analyse the impact of the changes in fees on different types of products. Tables A3.2 to A3.4 set out the academic papers used to justify the inclusion of these elasticities. Elasticities used for dependent applications are not included in Table A3.1 as these were not derived from academic literature. Rather, they were derived from Home Office analysis on the likely response by dependents from changes to dependent fees. Such responses were deemed to yield a best case and central elasticity of 0, and a worst case value of -0.5.

Table 3.1, Elasticities used to analyse the impact of changing fees

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

		Residual Further Leave to Remain; Employment Leave to Remain outside PBS; Highly Trusted Sponsor Licence.			
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Table 3A.2, 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 A3.3, Empirical studies of the price elasticity of demand for education

Source	Estimate of price elasticity of demand	Measure
Tuition Elasticity of the Demand for Higher Education among Current Students: A Pricing Model Glenn A. Bryan; Thomas W. Whipple 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
Hoенack, 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 A3.4, Empirical studies of the wage elasticity of labour demand.

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

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

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

Table A4.1, Estimated fall in annual applications caused by the fee change.

Product	Change in Applications (2014/15)	Change in Applications (2015/16)	Grant Rate	Central Elasticity	Average Annual Earnings	Average Length of stay
Visit visa - short (6 months)	2,518	0	87%	-0.2	700	1
Visit visa - long (2 year)	-	0	87%	0.0	5,100	1
Visit visa - long (5 year)	-	0	87%	0.0	9,300	1
Visit visa - long (10 year)	-	0	87%	0.0	13,500	1
Settlement	21	26	88%	-0.5	23,100	3
Settlement - Dependant Relative	1	1	70%	-0.5	23,100	7
Settlement - Refugee Dependant Relative	0	0	70%	-0.5	23,100	7
Certificate of Entitlement	0	0	84%	-0.5	23,100	5
Other Visa	16	18	94%	-0.5	23,100	1
Transit Visa	65	79	91%	-0.3	700	1
Vignette Transfer Fee	0	0	84%	-0.5	23,100	2
Replacement BRP Overseas	0	0	84%	-0.5	23,100	2
Tier 1 - Main Applicants	1	1	86%	-0.5	32,500	3
Tier 1 - Dependants	2	2	89%	-0.5	32,500	3
Tier 1 Graduate Entrepreneur Route - Dependants	-	0	84%	-0.5	32,500	3
Tier 2 Main Applicants	5	5	96%	-0.5	45,200	2
Tier 2 Dependants	3	4	93%	-0.5	45,200	2
Tier 2 Inter Company Transfer less than 12 months - Main applicants & dependents	9	11	96%	-0.5	67,400	1
Tier 4 - Main Applicants	-	0	84%	0.0	25,700	2
Tier 4 - Dependants	-	0	71%	0.0	25,700	2
Short Term Student less than 12 Months Visa	-	0	83%	0.0	25,700	1
Tier 5 Temp Work	16	18	94%	-0.5	15,900	1
Tier 5 Youth Mobility	6	7	95%	-0.5	15,900	2
Naturalisation (UK Citizenship) Single	2	3	84%	-0.5	23,100	29
Naturalisation (UK Citizenship) Joint	1	1	84%	-0.5	23,100	25
Naturalisation (UK Citizenship) Spouse	-	0	84%	0.0	23,100	30
Nationality Registration Adult, minor & other	1	1	84%	-0.5	23,100	33
Nationality Registration Multiple Minor Main	0	1	84%	-0.5	23,100	47
Nationality Registration Multiple Minor Dependent	-	0	84%	0.0	23,100	47
Renunciation of Nationality	0	0	84%	-0.5	14,500	32
Nationality Reissued Certificate	-	0	84%	-0.5	23,100	29
Nationality Right of Abode	0	0	84%	-0.5	23,100	23
Nationality Reconsiderations	-	0	84%	-0.5	23,100	29
Status / non acquisition letter (Nationality)	0	0	84%	-0.5	23,100	29
Nationality Correction to Certificate	-	0	84%	-0.5	23,100	29
Indefinite Leave to Remain Postal - Main	3	4	95%	-0.5	23,100	32
Indefinite Leave to Remain Postal - Dependents	-	0	95%	0.0	23,100	46
Leave to Remain Non Student Postal Main	50	65	84%	-0.5	23,100	1
Leave to Remain Non Student Postal dependents	-	0	84%	0.0	23,100	1
Transfer of Conditions Postal Main	1	1	84%	-0.5	23,100	2
Transfer of Conditions Postal Deps	-	0	84%	0.0	23,100	2
No Time Limit Stamp - Postal Main	1	1	95%	-0.5	23,100	2
No Time Limit Stamp - Postal Deps	-	0	95%	0.0	23,100	2
Travel Documents Adult (Certificate of Travel)	-	1	0%	-0.5	23,100	2
Travel Documents Adult CTD	-	0	0%	-0.5	23,100	5
Travel Documents Child (Certificate of Travel)	-	0	0%	0.0	23,100	2
Travel Documents Child CTD	-	0	0%	0.0	23,100	5
Replacement BRP	-	0	0%	-0.5	23,100	2

Employment Leave to Remain outside PBS Postal - Main	3	3	94%	-0.5	23,100	2
Employment Leave to Remain outside PBS Postal - Dependants	-	0	97%	0.0	23,100	2
Tier 1 Investor & Entrepreneur - Postal - Main	2	2	95%	-0.5	32,500	3
Tier 1 Investor & Entrepreneur - Postal - Deps	-	0	89%	0.0	32,500	3
Tier 1 - Exceptional Talent Postal - Main	-	0	0%	-0.5	32,500	3
Tier 1 - Exceptional Talent Postal - Deps	-	0	100%	0.0	32,500	3
Tier 1 - Graduate Entrpreneur Postal - Main	0	0	95%	-0.5	15,500	3
Tier 1 - Graduate Entrpreneur Postal - Deps	-	0	89%	0.0	15,500	3
Tier 2 - Postal Main	7	8	90%	-0.5	43,700	3
Tier 2 - Postal Dep	-	0	92%	0.0	43,700	3
Tier 2 - Postal Main (Inter Company Transfer less than 12 months)	0	0	99%	-0.5	67,400	2
Tier 2 - Postal Deps (Inter Company Transfer less than 12 months)	-	0	99%	0.0	67,400	2
Tier 4 - Postal Main	-	0	88%	0.0	25,700	1
Tier 4 - Postal Dependents	-	0	86%	0.0	25,700	1
Tier 5 - Postal Main	0	0	88%	-0.5	15,900	1
Tier 5 - Postal Dependents	-	0	97%	0.0	15,900	1
Tier 4 - Permission to Change Course	-	0	88%	0.0	13,500	1
Tier 2 Large Sponsor Licence	1	1	84%	-0.8	261,000	2
Tier 2 Small Sponsor Licence	8	10	84%	-0.8	23,100	2
Tier 4 Sponsor Licence	1	1	84%	-0.8	23,100	1
Tier 5 Sponsor Licence	2	3	84%	-0.8	23,100	1
Multiple Tier	1	1	84%	-0.8	58,000	1
Highly Trusted Sponsor Licence	0	0	84%	-0.8	2,304,200	1
Sponsor Action Plan	-	0	84%	-0.8	115,000	2
Tier 2 Certificate of Sponsorship	10	14	84%	-0.8	43,700	2
Tier 5 Certificate of Sponsorship	2	3	84%	-0.8	15,900	1
Tier 4 CAS	15	20	84%	-0.8	13,500	1
EEA1	1	1	67%	-0.5	12,467	5
EEA2	1	2	67%	-0.5	12,467	5
EEA3	1	1	67%	-0.5	12,467	5
EEA4	0	1	67%	-0.5	12,467	5

Annex 5. Methodology for calculating fiscal and income losses.

Migrant earnings

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

- Nationality and settlement applicants salaries have been obtained from LFS 2012 Q2 data on the employment weighted median wage of non-EEA applicants. Tier 1 salaries have been obtained from a Home Office survey of migrants on the Highly Skilled Migrant Programme (HSMP) at the further leave to remain stage (Q1 2007). While different criteria were used for the HSMP compared to the Tier 1 General route, this is the latest available data. Tier 1 migrants are not required to report their salaries to Home Office. This data has been updated using September 2012 ONS data on the average weekly earnings index.
- Tier 2 salary data has been obtained from Home Office management information. This is the latest available data, and was used by the Migration Advisory Committee in its report on proposed changes to settlement policy for Tier 1 and 2 migrants⁷. This was also updated by September 2012 ONS data on the average weekly earnings index.
- Tier 4 salary data was taken from the weighted average salaries of median tuition fees for International students in 2012/13 (both undergraduate and postgraduate).
- Tier 5 salary data was obtained from LFS 2012 Q2 data on wages of those aged 21-26, who are nationals of Australia, Canada, Japan, New Zealand and Monaco. This is in order to proxy salary data for the Youth Mobility Scheme, which accounts for half of all Tier 5 out of country visas.
- For the purposes of estimating the impact on demand, dependents' salaries have been assumed equal to the main applicant salaries, as the main applicant will in all likelihood be paying the increase in fee for a visa for a dependent.

It is assumed that those applying for nationality do not yield a fiscal loss if deterred from applying due to a fees increase. This is because nationality products are optional and applicants can still remain in the UK even if they do not apply, thus still contributing to the Exchequer. It is also assumed that dependents do not yield a fiscal loss, as in the central scenario, their elasticity is equal to zero, meaning they will apply regardless of the fee increase. Thus there will be no deterred applicant and thus no fiscal loss. Based on this, only main applicants for settlement yield a loss to the exchequer from deterred applications. This is shown in the Table A5.1.

Table A5.1, Estimated fiscal impacts on the UK

Product	Lost fiscal contribution from fewer migrants (£)	Decrease in Grants (2014/15)	Total fiscal contribution loss (2014/15)
Visit visa - short (6 months)	200	2,518	503,622
Visit visa - long (2 year)	1,000	-	-
Visit visa - long (5 year)	1,800	-	-
Visit visa - long (10 year)	2,700	-	-
Settlement	2,300	21	47,396
Settlement - Dependant Relative	2,300	1	1,457
Settlement - Refugee Dependant Relative	2,300	0	72
Certificate of Entitlement	8,900	0	1,554
Other Visa	8,900	16	139,413
Transit Visa	-	65	-
Vignette Transfer Fee	-	0	-
Replacement BRP Overseas	8,900	0	324
Tier 1 - Main Applicants	12,500	1	8,104

⁷ (<http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/settlement-restrictions-workers/>).

Tier 1 - Dependants	2,300	2	3,656
Tier 1 Graduate Entrepreneur Route - Dependants	2,300	-	-
Tier 2 Main Applicants	17,200	5	81,218
Tier 2 Dependants	2,300	3	7,975
Tier 2 Inter Company Transfer less than 12 months - Main applicants & dependants	28,100	9	259,967
Tier 4 - Main Applicants	2,800	-	-
Tier 4 - Dependants	2,300	-	-
Short Term Student less than 12 Months Visa	2,800	-	-
Tier 5 Temp Work	6,700	16	105,343
Tier 5 Youth Mobility	6,700	6	42,859
Naturalisation (UK Citizenship) Single	-	2	-
Naturalisation (UK Citizenship) Joint	-	1	-
Naturalisation (UK Citizenship) Spouse	-	-	-
Nationality Registration Adult, minor & other	-	1	-
Nationality Registration Multiple Minor Main	-	0	-
Nationality Registration Multiple Minor Dependent	-	-	-
Renunciation of Nationality	-	0	-
Nationality Reissued Certificate	-	-	-
Nationality Right of Abode	-	0	-
Nationality Reconsiderations	-	-	-
Status / non acquisition letter (Nationality)	-	0	-
Nationality Correction to Certificate	-	-	-
Indefinite Leave to Remain Postal - Main	8,900	3	30,364
Indefinite Leave to Remain Postal - Dependants	2,300	-	-
Leave to Remain Non Student Postal Main	8,900	50	443,001
Leave to Remain Non Student Postal dependants	2,300	-	-
Transfer of Conditions Postal Main	-	1	-
Transfer of Conditions Postal Deps	-	-	-
No Time Limit Stamp - Postal Main	-	1	-
No Time Limit Stamp - Postal Deps	-	-	-
Travel Documents Adult (Certificate of Travel)	-	-	-
Travel Documents Adult CTD	-	-	-
Travel Documents Child (Certificate of Travel)	-	-	-
Travel Documents Child CTD	-	-	-
Replacement BRP	8,900	-	-
Employment Leave to Remain outside PBS Postal - Main	8,900	3	26,462
Employment Leave to Remain outside PBS Postal - Dependants	2,300	-	-
Tier 1 Investor & Entrepreneur - Postal - Main	12,500	2	20,230
Tier 1 Investor & Entrepreneur - Postal - Deps	2,300	-	-
Tier 1 - Exceptional Talent Postal - Main	12,500	-	-
Tier 1 - Exceptional Talent Postal - Deps	2,300	-	-
Tier 1 - Graduate Entrepreneur Postal - Main	6,500	0	1,605
Tier 1 - Graduate Entrepreneur Postal - Deps	2,300	-	-
Tier 2 - Postal Main	16,400	7	110,563
Tier 2 - Postal Dep	2,300	-	-
Tier 2 - Postal Main (Inter Company Transfer less than 12 months)	28,100	0	2,562
Tier 2 - Postal Deps (Inter Company Transfer less than 12 months)	2,300	-	-
Tier 4 - Postal Main	2,800	-	-
Tier 4 - Postal Dependants	2,300	-	-
Tier 5 - Postal Main	6,700	0	2,162
Tier 5 - Postal Dependants	2,300	-	-
Tier 4 - Permission to Change Course	2,800	-	-
Tier 2 Large Sponsor Licence	103,200	1	69,037
Tier 2 Small Sponsor Licence	8,900	8	68,004

Tier 4 Sponsor Licence	2,300	1	2,150
Tier 5 Sponsor Licence	8,900	2	17,797
Multiple Tier	23,400	1	15,435
Highly Trusted Sponsor Licence	295,300	0	3,903
Sponsor Action Plan	53,300	-	-
Tier 2 Certificate of Sponsorship	16,400	10	172,089
Tier 5 Certificate of Sponsorship	6,700	2	16,643
Tier 4 CAS	-	15	-
EEA1	-	1	-
EEA2	-	1	-
EEA3	-	1	-
EEA4	-	0	-

Fiscal Impacts

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

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

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

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

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

Annex 6: Impact on Public Services

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

Allocation of Public Expenditure

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

- General public services.
- Defence.
- Public order and safety.
- Economic affairs.
- Environment protection.
- Housing and community amenities.
- Health.
- Education.
- Social protection.
- EU transactions.

Simple calculation

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

Public Goods

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

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

The characteristics of a public good mean that the marginal cost of providing the good to one additional person is zero. As such it is sometimes debated that the cost of that good, which is attributable to a single individual, should also be zero. For this reason estimate B in Table A6.1 provides the estimated cost of public spending per person excluding those goods deemed to be public goods. The excluded spending includes items such as general public spending, research and development, defence, pollution/other environmental spending and street lighting.

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

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

Welfare and Benefits

Allocating public expenditure to the individuals in the population includes welfare and benefit expenditure. However, most migrants will not be eligible to claim welfare and benefits until they have been in the UK for at least five years and they have formally been granted settlement in the UK. For this reason it is prudent to exclude welfare and benefit expenditure for migrants who have been in the UK for less than five years and who will not be eligible to claim. Estimate C in Table A6.1 provides an estimated cost per person excluding public goods and welfare of £5,800 per person. For migrants who have been in the UK longer than five years and have settled here, welfare expenditure should be included, meaning estimate B is more appropriate.

Wider Services

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

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

Table A6.1, Summary of the per head cost of public services consumed by a migrant

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

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

NIESR

NIESR (2011) were commissioned to provide an estimate of migrants' consumption of education, health and social service. Estimates have been produced for all migrants, defined as those born outside of the UK, according to their key characteristics, on the assumption that age is the most powerful characteristic that drives consumption of public expenditure. NIESR estimated the proportion of the population that are

migrants in each of the migrant groups of interest using the Annual Population Survey (APS). The APS identifies families, including children living at home. For some migrant groups, NIESR have given a narrow and broad definition⁸ which will allow the creation of a range of costs for each type of migrant.

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

Health

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

Education

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

Social Services

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

Table A6.2 sets out the overall costs for public service consumption used in this IA. These consist of the values suggested by NIESR for health, education and social services expenditure uplifted to 2011/12 prices and estimate E given in Table 1. Estimate E is used as it is appropriate to include welfare payments as the applicants affected by these fee increases would otherwise have reached settlement in the UK.

Table A6.2, Aggregate costs for health, education and social services.

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

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

The values in Table A6.2 can be used to quantify the impacts on public expenditure of marginal changes in the level of migrants arriving or remaining in the UK. Over the medium to long-run, it is expected that the migrant's pattern of consumption of service will converge to that of a UK resident.

⁸ In the narrow definitions, migrants are included if they cannot be included in any other group. For example, economic migrants includes those working in the UK but only if they are not as full time student or if their partner's status could not allow them to work. The broad definition includes all migrants who may be in each category. For example, all employed migrants are treated as economic migrants regardless of their student or partner's status.

Annex 7 Displacement Assumptions

Displacement

Labour market displacement occurs when employment opportunities in the UK that could be filled by UK natives (UK born or UK nationals) are instead filled by migrants (foreign born or foreign nationals). The Government commissioned the Migration Advisory Committee (MAC) to analyse the impact of displacement on the UK labour market, culminating in a report⁹ in January 2012. This Annex sets out how the reports finding have been applied in this impact assessment.

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

Rate of Displacement

This IA uses displacement assumptions derived from MAC (2012), which sought to estimate the association between migration and the native employment rate in Great Britain, between 1975 and 2010, using the Labour Force Survey. Natives were defined as UK-born individuals. The headline result, and that which is used in this IA, suggests that a one-off increase of 100 in the inflow of working-age non-EU born migrants is associated with a reduction in native employment of 23 people (this is based on analysis of data spanning 1995 to 2010). The MAC report implies that this result holds in all periods, including both economic growth and contraction (further analysis suggests the reduction in native employment from an inflow of foreign-born working-age migrants may be higher in years when the output gap was zero or negative). Essentially, this suggests that upon entering the country, 23 per cent of immigrants (as defined) could take up employment that would otherwise have gone to those who are UK-born.

Length of Displacement

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

Displacement by Cohort

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

Illustrative Example

This can be seen in Table A7.1, which sets out a very basic approach as an illustrative example to analysing the impact of displacement, over time, per cohort:

Working through Table 1: each year, from year 1 through to year 6, sees a number of workers entering the UK; the number of workers entering in year 1 (200) belong to cohort year t (t reflects a cohorts first year); so looking **only** at year 2, the number entering in year 2 (300) belong to cohort year t (as this is their first year), and the cohort which entered in year 1 become part of cohort t-1; in year 3, those who entered in year 2 will become part of cohort year t-1, and those who entered in year 1 will become part of cohort year t-2; as the effect of displacement declines over time, a particular years cohort will displace fewer UK natives as that cohort progresses through time; so the 200 migrants in year 1 will displace 20 natives in year 1, 16 in year 2, 12 in year 3, 8 in year 4, 4 in year 5, and 0 in year 6.

⁹ MAC (2012) Analysis of the impacts of migration.

Table A7.1, Illustrative Example of the Impact of Displacement

Immigrants per year						
Cohort Year = t	1	2	3	4	5	6
t	200	300	250	600	400	200
t-1		200	300	250	600	400
t-2			200	300	250	600
t-3				200	300	250
t-4					200	300
t-5						200
Assumed Displacement per year (%)						
Cohort Year = t	1	2	3	4	5	6
t	23%	23%	23%	23%	23%	23%
t-1		18%	18%	18%	18%	18%
t-2			14%	14%	14%	14%
t-3				9%	9%	9%
t-4					5%	5%
t-5						0%
Assumed Displacement per year (number of people)						
Cohort Year = t	1	2	3	4	5	6
t	46	69	58	138	92	46
t-1		37	55	46	110	74
t-2			28	41	35	83
t-3				18	28	23
t-4					9	14
t-5						0

Note: volumes are purely illustrative.

Replacement

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

Application to this IA

The policy changes considered in this IA result in both a reduced inflow of migrants, and an increased outflow of migrants currently residing in the UK. Thus there will be the occurrence of replacement. The assumption is that from the number of immigrants that leave the UK that were employed, 23 per cent of the employment vacated will be filled by UK natives.

Table A7.2 outlines the assumptions used to calculate the monetary value of replacement based on applicable visa products.

Table A7.2, Wages and Employment rate

Product	Decrease in Grants (2014/15)	Decrease in Grants (2015/16)	Unadjusted median annual wage (excl employment rate adjustment)	Applicable employment rate	Adjusted median annual wage (incorporating employment rate)
Family route to settlement	21	23	28,468	81%	23,100
Settlement - Dependant Relative	1	1	16,085	38%	6,100
Tier 1 - Main Apps	1	1	36,111	90%	32,500
Tier 1 - Dependants	2	2	16,085	38%	6,100
Tier 1 Graduate Entrepreneur Route - Dependants	0	0	7,541	81%	6,100
Tier 2 Main Apps	5	5	55,705	81%	45,200
Tier 2 Dependants	3	4	16,085	38%	6,100
Tier 4 - Main Apps	0	0	41,595	32%	13,500
Tier 4 - Dependants	0	0	16,085	38%	6,100
Tier 5 Temp Work	16	17	53,856	81%	43,700
Tier 5 YM	6	7	22,164	72%	15,900
LTR Non Student Postal Main	50	55	28,468	81%	23,100
LTR Non Student Postal Deps	0	0	16,085	38%	6,100
Employment LTR outside PBS Postal - Main	3	3	28,468	81%	23,100
Employment LTR outside PBS Postal - Dependants	0	0	16,085	38%	6,100
Tier 1 Inv & Ent - Postal - Main	2	2	36,111	90%	32,500
Tier 1 Inv & Ent - Postal - Deps	0	0	16,085	38%	6,100
Tier 1 - Exceptional Talent Postal - Main	0	0	36,111	90%	32,500
Tier 1 - Exceptional Talent Postal - Deps	0	0	16,085	38%	6,100
Tier 1 - Graduate Entrepreneur Postal - Main	0	0	19,161	81%	15,500
Tier 1 - Graduate Entrepreneur Postal - Deps	0	0	16,085	38%	6,100
Tier 2 - Postal Main	7	7	53,856	81%	43,700
Tier 2 - Postal Dep	0	0	16,085	38%	6,100
Tier 2 - Postal Main (ICT <12 months)	0	0	83,064	81%	67,400
Tier 2 - Postal Deps (ICT <12 months)	0	0	16,085	38%	6,100
Tier 4 - Postal Main	0	0	41,595	32%	13,500
Tier 4 - Postal Deps	0	0	16,085	38%	6,100
Tier 5 - Postal Main	0	0	22,164	72%	15,900
Tier 5 - Postal Deps	0	0	16,085	38%	6,100

¹ There is a zero decrease for in-country dependent and Tier 4 applications, as it is assumed these are not responsive to fees changes, as explained earlier.

² Employment rates are sourced from LFS 2012 Q2.

Table A7.3 outlines the estimates of the replacement methodology applied to this IA.

Table A7.3 Employment impacts of migrants leaving the UK, 2014/15 to 2018/19.

	2014/15	2015/16	2016/17	2017/18	2018/19
Total decrease in Migrants per year	116	243	243	243	243
UK residents receiving employment due to decrease in migrants	27	56	56	56	56
Employment Cumulative effects	27	101	134	156	168

Table A7.3 outlines the volumes leaving the UK each year. The cumulative volumes takes into account the replacement rate of 23 per cent and also factors in the diminishing rate of replacement each year for cohorts from the previous years, this is progressively cumulative, as recall that cohorts from previous years have an impact that declines over time. In other words, 23 per cent of employment vacated by outgoing migrants in a particular year will be filled by natives; the following years will see some more natives taking up employment vacated by that particular cohort of leaving migrants, but at a reduced rate. Overall, this results in increased employment for UK residents, as the volume leaving the UK rises each year. The central estimate shown here assumes that migrants who leave had been in the country for 3 years.