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| Title: Impact Assessment for The Immigration & Nationality (Cost Recovery Fees) Regulations 2011 Lead department or agency: UK Border Agency Other departments or agencies: N/A | Impact Assessment (IA) |
| | IA No: |
| | Date: 10/02/2011 |
| | Stage: Final |
| | Source of intervention: Domestic |
| | Type of measure: Secondary legislation |
| | Contact for enquiries: Charging Policy Team, Vulcan House, PO Box 3468, Sheffield, S3 8WA |

Summary: Intervention and Options

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

UK Border Agency must ensure that there are sufficient resources to secure the UK Border and reduce migration. Government intervention is necessary to ensure a balanced budget. The Home Office budget will be reduced by 23% in real terms over the next four years, and there will be fewer fee-paying migrants as policy change to limit on migration comes into effect. After efficiency savings of £500m over 4 years have been factored, at current fee levels, we estimate an income shortfall of £80-90m in the financial year 2011-12. To address this, and as part of the Spending Review, HM Treasury has agreed that an increased contribution is to be made by migrants who benefit directly from the services offered by the UK Border Agency.

What are the policy objectives and the intended effects?

The specific policy objective of this legislation is to generate sufficient income to ensure the UK Border Agency has a balanced financial plan for the financial year 2011-12. The objective is to ensure that the UK Border is secured and that public confidence in the immigration system is maintained. The Government's general policy objectives on UK Border Agency fees are: (1) that those who benefit directly from our immigration system (migrants, employers and educational institutions) contribute towards meeting its costs, reducing the obligation on the taxpayer; (2) that we simplify the fees system where possible, aligning fees where entitlements are similar; (3) that we set fees fairly, at a level that reflects the real value of a successful application to those who use the service.

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

Option 1: To increase fees from the common commencement date in April 2011, to ensure service provision is maintained. The proposed fee increases under Option 1 are presented in Annex 3.

Option 2: Do nothing, maintain fees at current levels. Reduce UK Border Agency's service provision to secure the UK Border and reduce migration.

Option 1 is preferred. This gives the UK Border Agency greatest assurance and the longest timespan in which to generate the revenue needed during the financial year 2011-12. This option is consistent with the Government's priority of reducing net migration to the UK, and also meets the UK Border Agency's general fees policy objectives.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 4/2012

What is the basis for this review? Not applicable. **If applicable, set sunset clause date:** Month/Year

Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?

Yes

SELECT SIGNATORY Sign-off For final proposal stage Impact Assessments:

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) the benefits justify the costs.

Signed by the responsible Minister:

Damian Green

Date: 24.02.2011

Summary: Analysis and Evidence

Policy Option 1

Description:

Increase fees for most applications to rise by 8% to spread the burden of fee increases across all routes, increase in-UK Dependant fee to 50% of main applicant & better align fees in-UK & overseas.

| Price Base Year 2011 | PV Base Year 2011 | Time Period Years 5 | Net Benefit (Present Value (PV)) (£m) | | |
|-------------------------|----------------------|------------------------|---------------------------------------|-------------|---------------------|
| | | | Low: -51.8 | High: 107.3 | Best Estimate: 32.3 |

| COSTS (£m) | Total Transition (Constant Price) | Years | Average Annual (excl. Transition) (Constant Price) | Total Cost (Present Value) |
|---------------|--------------------------------------|-------|--|-------------------------------|
| Low | 0.0 | 0 | 49.9 | 233.3 |
| High | 0.0 | | 0.0 | 0.0 |
| Best Estimate | 0.0 | | 23.9 | 111.5 |

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

Lost output due to fewer migrants working in the UK is estimated to cost £44.0m (PV). Lost tuition fees are estimated to cost educational establishments £49.0m (PV). Lost spending by deterred short-term visitors is estimated to cost the economy £16.4m (PV). UK Border Agency is estimated to lose £2.1m (PV) from a reduction in out of country applicants as a result of the fee change. Costs exclude transfers between in country applicants and UK Border Agency.

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

Risks to UK economy of significant impact on volumes.

| BENEFITS (£m) | Total Transition (Constant Price) | Years | Average Annual (excl. Transition) (Constant Price) | Total Benefit (Present Value) |
|---------------|--------------------------------------|-------|--|----------------------------------|
| Low | 0.0 | 0 | 38.8 | 181.5 |
| High | 0.0 | | 23.0 | 107.3 |
| Best Estimate | 0.0 | | 30.8 | 143.7 |

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

UKBA's revenue will rise by £107.0m (PV) as a result of higher visa fees paid by those out of country applicants who continue to apply. Fewer migrants coming to or remaining in the UK to work, study or visit will lower UKBA's processing costs by £3.9m (PV). Fewer students studying at UK educational establishments will lower the cost of delivering tuition by £32.8m (PV). Benefits exclude transfers between in country applicants and UKBA.

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

Public confidence in secure borders and that migration is controlled for the benefit of the UK. Fee changes are expected to reduce the numbers of migrants coming to or remaining in the UK by around 5,200, of whom around 4,200 are short term visitors to the UK. The proposed fees changes are therefore not expected to result in significant savings in terms of public service costs.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

Price elasticity of demand for Higher Education of -1 is used for Tier 4 out of country visas. Air fare elasticity of demand for UK transit flights of -0.3 is used for transit visas. Price elasticity of demand for foreign leisure flights to the UK of -0.2 is used for short term visit visas. Wage elasticity of labour supply of 0.5 is used for all other products (including Tier 5 visas, and Right of Abode and overseas Certificate of Entitlement).

Different assumptions for elasticities are used to obtain a range of NPVs for this policy.

| | | | | |
|--|---------------|----------|-------------------|----------------------|
| Direct impact on business (Equivalent Annual) £m): | | | In scope of OIOO? | Measure qualifies as |
| Costs: 0.0 | Benefits: 0.0 | Net: 0.0 | No | NA |

Enforcement, Implementation and Wider Impacts

| | | | | | |
|---|---------------------|----------------|-------------------------|---------------|--------------|
| What is the geographic coverage of the policy/option? | United Kingdom | | | | |
| From what date will the policy be implemented? | 06/04/2011 | | | | |
| Which organisation(s) will enforce the policy? | UK Border Agency | | | | |
| What is the annual change in enforcement cost (£m)? | N/A | | | | |
| Does enforcement comply with Hampton principles? | Yes | | | | |
| Does implementation go beyond minimum EU requirements? | N/A | | | | |
| What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent) | Traded: 0 | | Non-traded: 0 | | |
| Does the proposal have an impact on competition? | No | | | | |
| What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable? | Costs: 0 | | Benefits: 0 | | |
| Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price) | Micro | < 20 | Small | Medium | Large |
| Are any of these organisations exempt? | No | No | No | No | No |

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

| Does your policy option/proposal have an impact on...? | Impact | Page ref within IA |
|--|--------|--------------------|
| Statutory equality duties¹ Statutory Equality Duties Impact Test guidance | No | |
| Economic impacts | | |
| Competition Competition Assessment Impact Test guidance | No | |
| Small firms Small Firms Impact Test guidance | No | |
| Environmental impacts | | |
| Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance | No | |
| Wider environmental issues Wider Environmental Issues Impact Test guidance | No | |
| Social impacts | | |
| Health and well-being Health and Well-being Impact Test guidance | No | |
| Human rights Human Rights Impact Test guidance | No | |
| Justice system Justice Impact Test guidance | No | |
| Rural proofing Rural Proofing Impact Test guidance | No | |
| Sustainable development Sustainable Development Impact Test guidance | No | |

¹ Public bodies including Whitehall departments are required to consider the impact of their policies and measures on race, disability and gender. It is intended to extend this consideration requirement under the Equality Act 2010 to cover age, sexual orientation, religion or belief and gender reassignment from April 2011 (to Great Britain only). The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

References

Include the links to relevant legislation and publications, such as public impact assessments of earlier stages (e.g. Consultation, Final, Enactment) and those of the matching IN or OUTs measures.

| No. | Legislation or publication |
|-----|---|
| 1 | http://webarchive.nationalarchives.gov.uk/20100422120657/http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/consultations/charging09/ |
| 2 | http://webarchive.nationalarchives.gov.uk/20100422120657/http://www.ukba.homeoffice.gov.uk/sitecontent/documents/managingourborders/pbsdocs/ |
| 3 | http://www.opsi.gov.uk/stat |
| 4 | http://213.225.136.78/sitecontent/documents/aboutus/fees-wms-ia/ |

+ Add another row

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices

| | Y ₀ | Y ₁ | Y ₂ | Y ₃ | Y ₄ | Y ₅ | Y ₆ | Y ₇ | Y ₈ | Y ₉ |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Transition costs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | N/A | N/A | N/A | N/A | N/A |
| Annual recurring cost | 23.9 | 23.9 | 23.9 | 23.9 | 23.9 | N/A | N/A | N/A | N/A | N/A |
| Total annual costs | 23.9 | 23.9 | 23.9 | 23.9 | 23.9 | N/A | N/A | N/A | N/A | N/A |
| Transition benefits | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | N/A | N/A | N/A | N/A | N/A |
| Annual recurring benefits | 30.8 | 30.8 | 30.8 | 30.8 | 30.8 | N/A | N/A | N/A | N/A | N/A |
| Total annual benefits | 30.8 | 30.8 | 30.8 | 30.8 | 30.8 | N/A | N/A | N/A | N/A | N/A |

* For non-monetised benefits please see summary pages and main evidence base section

Evidence Base (for summary sheets)

A. Strategic Overview

A.1 Background

The UK Border Agency currently recovers approximately 30% of its total running cost through fees on visas, nationality and immigration applications. For 2011/12 the UK Border Agency estimates that 36% of its costs will be recovered through fees. The rest of the costs are met by the UK taxpayer. In order to ensure that the system is fair and equitable, we believe it is right that those who use and benefit directly from the UK migration system make an appropriate contribution to meeting the costs and thereby reduce the burden on the UK taxpayer.

The Home Office budget will be reduced by 23% in real terms over the period of the recent Comprehensive Spending Review (CSR). Over the next four years, our financial planning requires the UK Border Agency to deliver the maximum amount of fees income agreed with HM Treasury under the CSR. For 2011/12 this income figure is £829 million; for 2012/13 it is £868 million; for 2013/14 it is £850 million; for 2014/15 it is £853 million. Any income generated above this amount is surrendered to HM Treasury's Consolidated Fund for [Extra Receipts](#). If we retain the fees at current levels, the impact of policy changes for limiting migration results in a forecast income shortfall of approximately £80-90m in the financial year 2011/12.

The UK Border Agency is already seeking to offset this income gap with efficiency savings – over £500m over the life of the Spending Review - but these will not be enough. To address this income shortfall and ensure there are sufficient resources to secure the UK Border and control migration, the Agency will need to increase fees for the financial year 2011/12. We did have a choice over timing of fee increases.

During the annual fees review, we considered delaying fee increases until October 2011, to give a full 12 months gap since the last changes to fees. However, delaying the proposed increases until October would, by necessity, mean far greater increases than if we were to amend fees in April. This is because of the gearing effect of needing to generate the same amount of income to address the budget shortfall, but from a smaller cohort of migrants – those applying from October 2011 to March 2012. The Agency's income is greatly affected by seasonality, with the majority of applications for visit visas and student visas being made before October. We wish to manage the scale of fee increases, and continue to align fee levels with the benefits received by applicants. This means our preference is to amend the fees in line with the April Common Commencement date. We consulted officials in other Government Departments on the Home Affairs Committee and they agreed that smaller fee increases in April were preferable to much larger fee increases in October. Hence this impact assessment focuses on the option of April fee increases.

In principle it is right that those who benefit most from the border and immigration system should bear a higher share of the burden of running the system than the 30% currently paid. Therefore we should continue to seek a shift in the funding provided by migrants to deliver the border and immigration system with a consequent reduction in the burden on UK taxpayers.

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

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

This year, we are introducing changes to the UK migration system to limit net migration. This will result in a reduction in the numbers of fee-paying migrants that are able to come to the UK. In developing

proposals to address the income shortfall, we have sought to limit increases on what we believe to be the most economically sensitive route of all, short-term visit visas, so as to avoid any broader economic impact. With the legislation associated with this impact assessment, we take the opportunity to reduce the complexity of existing legislation as well as to provide us with the legal power to charge for several new funding streams.

A.2 Groups Affected

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

A.3 Consultation

Within Government

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

The cross-Whitehall Fees Committee, made up of officials from Government Departments represented on the Home Affairs Committee, then consider our proposals. Proposals are assessed in the context of broader Government objectives, including the UK's attractiveness in key markets (such as visitors) to ensure we maintain a balance between the UK Border Agency's need to recover its costs, and keeping our fees at fair and sustainable levels.

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

Public Consultation

We published a full public consultation on Charging for Immigration and Visa Applications on 1 September 2009 and contacted over 30,000 stakeholders. The consultation ran for 12 weeks until 1 December 2009 and we received a total of 98 responses. This represents the lowest response rate on a charging consultation, despite a high level of engagement and communication on behalf of the UK Border Agency.

In response to our consultation, an overwhelming majority of respondents who replied (over 90%) agreed that UK Border Agency should continue to set fees flexibly by taking into account wider policy objectives, such as attracting specific groups of migrants that are beneficial to the UK.

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

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

A full public consultation exercise on charging for immigration and nationality applications was undertaken from 30 October to 22 December 2006, supported by the publication of *A consultation on a new charging regime for immigration & nationality fees*. The consultation document was made available on the Home Office website and was also sent to 3,000 people. The formal Government

response to the public consultation was published on 7 March 2007, and is published at: <http://webarchive.nationalarchives.gov.uk/20100422120657/http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/consultations/newchargingregime/>

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

B. Rationale

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

C. Objectives

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

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

These proposed increases build on the existing UK Border Agency fees policy and supports broader UK Government policy objectives (for example, to reduce net migration to the UK while attracting the brightest and the best).

We have used this opportunity to simplify the fee structure by better aligning some of the inconsistencies between in-UK and overseas fees for the same services, as well as to provide us with the legal power to charge for several new funding streams.

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

1. Short Term Visit Visa
2. Transit Visa
3. Tier 4 Visas
4. Tier 5 Visas and In-UK applications
5. Replacement Biometric Resident Permit
6. In UK Dependant Fee
7. Transfer of Conditions & Vignette Transfer
8. Nationality – Reissued Certificates
9. Nationality Right of Abode & Overseas Certificate of Entitlement
10. Correction to Nationality Certificate
11. Nationality Status Letter and Non Acquisition Letter
12. Certificate of Travel
13. Work Permit Technical Change
14. Renunciation of Nationality

This covers all of the UK Border Agency's main charged services where the fee is set at or below cost. Where fees have been set below cost this is generally to support wider Government objectives. For example on tourist visas, where the fee is set at roughly half the level of cost recovery to help encourage visitor numbers, and on PBS Sponsorship fees for SMEs and charities. This principle was tested and established during a full public consultation in 2006, and has been endorsed in subsequent consultations since then (in 2007 and 2009).

We have limited scope in several ways to reduce the complexity of this impact assessment. We have not included fees covered by the Council of Europe Social Charter and Tier 1 (Transition) applications. Volumes under these routes are negligible and we have therefore assumed them to be zero. We have only looked at fees where the proposed increase is above inflation (3.1% CPI for the 12 months ending Q3 2010). Finally we have focussed on the Agency's mandatory postal application routes – we have not included optional premium services offered to those applicants as a variation of the standard service (e.g. same-day applications made at a Public Enquiry Office).

For most charged services, we calculate that an approximate 8% increase is required to address the income shortfall in financial year 2011-12. Unless stated otherwise, this increase has been spread equally across all fee streams, as this has been judged the fairest approach to all applicants.

Short Term Visit Visa

A general or Business visitor, who has been granted entry clearance, can visit the UK for up to six months. Currently the fee is set at £70 which is set well below the cost to the UK Border Agency of processing these applications (c.£140 per application). We are proposing to increase this fee, by approximately 8%, to £76, which is still considerably below the cost of processing these applications.

It is felt that a cost recovery fee would deter demand and damage UK tourism. We have sought to limit increases particularly for this most economically sensitive route, and also this supports our strategic policy to help spread the overall burden of fee increases fairly across all routes.

Transit Visas

Direct airside transit visas (often called a DATV) are for people who want to travel to the UK in order to travel on to another destination without passing through UK border control, who do not qualify to transit the UK without a visa.

Visa nationals who pass through immigration control because they are stopping in the UK for more than 24 hours, need a visitor in transit visa.

We propose increasing these fees by approximately 8% in line with our stated policy objectives.

Tier 4 Visas

The Tier 4 Visa allows an applicant to study in the UK with a licensed sponsor on the register of approved sponsors and embark upon a course of study.

We propose a £35 increase to the fee for Tier 4 visa fee to £255. This is to reduce the burden on the UK taxpayer by ensuring that applicants pay proportionately more towards the cost of their application. This helps meet policy objectives. The fee remains below cost recovery, and still compares very well with the fees charged in other countries (both the USA and Australia charge over £300 for similar entitlements).

This is a key route to us in the UK Border Agency, to the education system in general, and to the broader UK economy. We understand this, and we have worked hard to preserve a fee structure which supports collective objectives in this area. However, we must recognise that in the current climate where resources are tight and pressure on those resources is ever-increasing, maintaining Tier 4 visa fees at their current level is simply unsustainable. Currently every student visa application is being cross-subsidised. If students coming to the UK are not meeting the costs of providing the visa and immigration services they use, then by default others are paying for them.

We believe there will be minimal impact between visa fee and volume demand at these price levels. This has been borne out since April 2008 (when we increased the amount payable from £99 to £145), where we have seen demand, continue to rise. That trend confirms our belief that the visa fee paid by students is likely to be of marginal consideration (less than 1%) when set against the broader costs they will encounter should they choose to come to the UK to study – e.g. tuition fees, which are on average £10,000 per student per year in higher education and living costs.

We have also taken this opportunity to introduce a separate at-cost fee for short term students applying to study for less than 12 months at £140. A lower fee for this group of migrants reflects the lesser entitlements associated with this route and also the lesser cost of processing these applications to UK Border Agency.

Tier 5 Visas and In-UK Applications

Tier 5 covers temporary workers who want to come to the United Kingdom to do temporary work for a licensed sponsor. This route covers all migrants wishing to come under the following headings: creative & sporting, charity workers, religious workers, Government authorised exchange scheme, international agreement and youth mobility scheme.

We propose a £60 increase to the fee for Tier 5 visa and in-UK applications to £190 to take it closer to full cost recovery. We have held fees for this group of migrants below the cost of processing, but we are now unable to keep the fee at the current level. This increase is in line with our policy objectives to help spread the burden of fee increases across all routes.

Replacement Biometric Resident Permit (BRP)

The UK Border Agency tackles illegal working in many ways and the BRP is an important tool for employers and an integral part of that approach. Currently a migrant who loses their BRP when outside the UK is required to apply for a replacement. Failing to notify the Secretary of State of this would be contravening one of their maintenance requirements. At the point where the card is reported lost/stolen the unique card number is marked as lost/stolen and the migrant has to apply for a single entry visa to re-enter the UK and apply for a replacement BRP card whilst in the UK to cover his period of leave.

For overseas applicants who require a replacement, we are proposing to introduce a fee of £107 for this service which will cover both the cost of the single entry visa and the £37 cost of the replacement BRP after entering the UK. For those in the UK the replacement card will cost £37. Both in the UK and overseas, the fee for this service is set at cost recovery. We expect volumes to be small.

In UK Dependant Fees

The In UK Dependant category covers all dependant applications submitted at the same time as the main applicant. This impact assessment covers dependant applications for Transfer of Conditions, Extensions of leave outside the Points Based System, Tier 1 post study applications, Tier 4 in-country applications and Tier 5 in-country applications.

We propose increasing the fee for dependants from a range of between one fifth to one third of the main applicants' fee to 50% of the main applicants' fee.

Prior to April 2010, the UK Border Agency processed applications from dependants free of charge if they were submitted at the same time as the main application. We introduced a nominal 10% dependant fee in the UK on 6 April 2010. The fee better reflected the fact that each individual within any given application bears an additional processing cost to us (as well as sometimes an independent set of entitlements for the individual).

This fee helps further reconcile our UK-based application fee structure with those prices we apply for visas, where individuals applying from overseas (including dependants) each pay a separate fee. For consistency, we wish to move to the same model in the UK.

This is being done in stages to keep volumes under close review and to manage the transition carefully. This supports the principle that those who benefit from the system make an appropriate contribution, and will help achieve the policy objectives stated.

Transfer of Condition & Vignette Transfer Fee

This application allows a migrant who already has permission to be in the UK confirmed by a stamp/sticker in their passport or other document issued to them, to have that permission re-confirmed in another document (usually because they have obtained a new passport). This is known as a transfer of conditions.

We propose increasing the fee for transfer of conditions and vignette transfer by approximately 8% in line with our stated policy objectives.

Reissued Certificates of Nationality

This application is for an applicant who needs to apply for a duplicate registration/naturalisation certificate because they have lost or damaged their original certificate.

We propose increasing the fee by approximately 8% in line with our stated policy objectives.

Nationality – Right of Abode & Overseas Certificate of Entitlement

This is for applicants who have the right to live permanently in the United Kingdom without any immigration restrictions. This is officially known as right of abode in the United Kingdom.

We propose increasing the fee for in UK right of abode applications and the overseas certificate of entitlement fee by approximately 8% in line with our stated policy objectives.

Correction to Nationality Certificate

Sometimes people request an amendment to a previously issued Nationality certificate, for example if there is an incorrect date of birth or a misspelt name. Such a request is currently processed free of charge.

We are introducing a fee for this request, to cover the cost to the Agency of dealing with such requests. The fee will only apply where the correction is due to incorrect information originally being submitted by the applicant. We will include an exemption for amendment requests so there is no fee where a mistake has been made by UK Border Agency.

Nationality Status Letter & Non-Acquisition Letter

Nationality status letters are provided to British nationals who can't provide the required evidence for a passport application. The letter provides proof from UK Border Agency of their nationality status.

Some foreign nationals are not permitted by the authorities in their home countries to hold dual nationality. If they have resided in the UK for some time, they may be required to prove that they have not been granted British Nationality when they apply for a passport from their own authorities, or to buy property in their own country. This is called a non-acquisition letter.

We propose increasing these fees by approximately 8% in line with our stated policy objectives.

Certificate of Travel

A certificate of travel document is issued to people who have not been given refugee status in the UK and have not been recognised as a stateless person, and enables them to travel abroad and return to the UK.

We propose increasing these fees by approximately 8% in line with our stated policy objectives.

Work Permit Technical Change

The work permit technical change is an application from an employer for a letter to confirm amendment of information held by the UK Border Agency, relating to the employment of a migrant within the terms

of the work permit arrangements. These are legacy applications relating to migrants in the UK before the introduction of the Points Based System, and volumes are low.

We propose increasing the fees by approximately 8% in line with our stated policy objectives.

Renunciation of British Citizenship

Renouncing citizenship is giving up ones citizenship. A British citizen, a British overseas territories citizen, a British overseas citizen, a British subject or a British national overseas may wish to give up their citizenship so that, for instance, they can become a citizen of another country that does not allow dual nationality.

We propose increasing the fee by approximately 8% in line with our stated policy objectives.

D. Options

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

Option 1: Increase fees in April 2011, allowing UK Border Agency to keep overall percentage increase to a minimum (approximately 8%) across the board. The main exception to this would be in-country dependants' application fees. All proposed fee increases under Option 1 are presented in Annex 3.

Option 2: Do nothing, maintain fees at current fee levels.

The preferred option is option 1. This gives UK Border Agency greater assurance in financial planning. Increasing fees at the start of the financial year 11-12 mitigates financial risk by giving a longer timespan in which to generate the revenue needed. This option is more in line with the Government's policy to reduce net migration. Option 1 is also in the best interest of the UK tax payer, who may need to cover any financial shortfall.

We have discounted an option to delay fee increases until October 2011, as discussed in background section A1.

E. Appraisal (Costs and Benefits)

General Assumptions and Data

A model was developed to examine the additional costs and benefits to society and the economy of Option 1 compared with Option 2 over a five year period (11/12 to 15/16). Option 2 is denoted as the 'Do Nothing' option with no additional costs and benefits and is the baseline used for comparison.

This impact assessment covers a period of five years. This is because UKBA produce volume forecasts for the upcoming financial year which are extrapolated into future years. These are not considered to be accurate over a ten year period.

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 apply to other countries. The Home Office have monitored the impact of fee changes upon application volumes for previous rounds of fee changes and have found that fees have not had a statistically significant impact upon application volumes in previous years. It has not been possible to directly estimate the price elasticity of demand for UKBA products due to the difficulties of finding statistically significant control variables. It has therefore been necessary to proxy the price elasticities of demand for these products

using elasticity estimates from academic literature such as the wage elasticity of labour supply. The latest literature review was undertaken in 2010 and further details of the studies used can be found in Annex 4.

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

The key impact of increasing fees may be that productive migrants will be deterred from coming to the UK, or remaining in the UK, to study and work. Modelling has been used to estimate the potential impacts of fee changes upon application volumes for UKBA products. This requires a number of assumptions, for example forecasts of application volumes. These may not match grant volumes used in the Limits Consultation Impact Assessment, which are based on actual historic grant volumes.

The effect of changes to fees upon application volumes has been estimated using relevant elasticities drawn from academic research. An elasticity is the percentage change in one variable as a result of a percentage change in another. For example, the percentage change in applications for Tier 5 main applicant visas due to higher fees is estimated by multiplying the percentage change in average Tier 5 income after higher fees have been accounted for by the wage elasticity of labour supply.

A wage elasticity of labour supply of 0.5 is used for the following products: Tier 5 Visas and In-UK applications; Replacement Biometric Resident Permit; In UK Dependant Fee; Transfer of Conditions & Vignette Transfer; Nationality – Reissued Certificates; Nationality Right of Abode & Overseas Certificate of Entitlement; Correction to Nationality Certificate; Nationality Status Letter and Non Acquisition Letter; Certificate of Travel; Work Permit Technical Change; and Renunciation of Nationality. A wage elasticity of 0.5 is consistent with previous fee impact assessments, and assumes that migrants demand UKBA products in order to supply labour in the UK. In the sensitivity analysis, an elasticity range of 0 to 1.1 was used, as indicated by available evidence in Annex 4.

We use the average annual salaries of main applicants to estimate the impact of fee changes upon applications by dependants, since this assumes that dependants are equally responsive to fee changes as main applicants. This assumption seems reasonable, since main applicants are likely to decide whether they wish for dependants to join them in the UK.

We also use the air fare elasticity of demand for UK transit flights of -0.3 for transit visas, and the air fare elasticity of demand for foreign leisure flights to the UK of -0.2 for short term visit visas. The ranges for these elasticities are -0.5 to 0. The upper end of the range, an elasticity of -0.5, is the average air fare elasticity of demand for all types of travellers.

We have used international estimates for the price elasticity for Higher Education since no estimates have been obtained for the UK. For Tier 4 visas and short term Tier 4 visas, a price elasticity of demand for higher education of -1 was applied to the expected non-EU tuition fee for Higher Education in the UK. This is consistent with previous IAs. A range of 0 to -2 was used in the sensitivity analysis.

Annex 5 presents the assumptions used to estimate the reduction in applications for UKBA products caused by the fee changes.

The key costs and benefits associated with option 1 are set out below:

Option 1

Policy Costs (excluding OIOO)

Fee rises may deter potential overseas applicants, reducing the income of UKBA. This is estimated to cost £0.4m in 2011/12 and £1.6m (PV) over the next four years.

UK output is expected to fall as a result of a reduction in the number migrants coming to or remaining in the UK. This is estimated to cost £23.4m in 2011/12 and £86.0m (PV) over the next four years. The breakdown of these costs is as follows:

- Lost tuition fees from fewer Tier 4 migrants is estimated to cost £10.5m in 2011/12 and £38.5m (PV) over the next four years.
- Lost output due to fewer migrants working in the UK (proxied by their lost earnings) is estimated to cost £9.4m in 2011/12 and £34.6m (PV) over the next four years.
- Lost spending by deterred short-term visitors is estimated to cost £3.5m in 2011/12 and £12.9m (PV) over the next four years.

TOTAL COSTS

Option 1 is estimated to cost the UK economy £23.9m in 2011/12 and £87.6m (PV) over the next four years.

Policy Benefits (excluding OIOO)

Higher fees for out of country applicants will increase the income to UKBA from those applicants that still apply to come to the UK. This is estimated at £22.9m for 2011/12 and £84.1m (PV) over the next four years. This represents a fall in the burden on the UK tax payer.

Fewer students studying at UK educational establishments will lower the costs of delivering tuition by £7.0m for 2011/12 and £25.8m (PV) over the next four years. Lost output, measured by tuition fees, as a result of a fall in the volumes of students is taken into account in the costs section above. We then offset the benefit of delivering tuition to lower volumes of students against this cost to take account of the fact that a reduction in activity releases scarce resources (e.g. lecturer time) for alternative use. This approach is supported by the academic literature¹ and the Green Book.

Public confidence in secure borders and that migration is controlled for the benefit of the UK.

Administrative Savings (excluding OIOO)

Fewer applicants are estimated to reduce UKBA processing costs by £0.8m for 2011/12 and £3.1m (PV) over the next four years.

TOTAL BENEFITS

Option 1 is estimated to benefit the UK economy by £30.8m in 2011/12 and £113.0m (PV) for the next four years.

NET BENEFITS

Option 1 is therefore estimated to generate a net benefit to the economy of £6.9m in 2011/12 and £25.4m over the next four years (PV).

Full results of Cost Benefit Analysis (£ million)

| | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | Total |
|---|-------------|-------------|-------------|-------------|-------------|--------------|
| Benefits | | | | | | |
| Revenue raised from fee changes for those who continue to apply (PV) | 22.9 | 22.1 | 21.4 | 20.7 | 20.0 | 107.0 |
| Administrative saving to UKBA from a net decrease in volumes of applications as a result of fee changes (PV) | 0.8 | 0.8 | 0.8 | 0.8 | 0.7 | 3.9 |
| Reduced tuition costs to educational establishments from a net decrease in volumes of Tier 4 applicants as a result of fee changes (PV) | 7.0 | 6.8 | 6.6 | 6.3 | 6.1 | 32.8 |
| Total Benefits (PV) | 30.8 | 29.7 | 28.7 | 27.7 | 26.8 | 143.7 |

¹ Vickers, P. and Bekhrandnia, B (2007) 'The Economic Costs and Benefits of International Students', Higher Education Policy Institute paper, July

Costs

| | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|--------------|
| Lost revenue from net decrease in the volume of applications as a result of fee changes (PV) | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 2.0 |
| Lost tuition fees from net decrease in Tier 4 migrants remaining in the UK (PV) | 10.5 | 10.1 | 9.8 | 9.5 | 9.1 | 49.0 |
| Output loss due to fewer migrants working in the UK from net decrease in migrants coming to and remaining in the UK (PV) | 9.4 | 9.1 | 8.8 | 8.5 | 8.2 | 44.0 |
| Lost spending from fewer short-term visitors coming to the UK (PV) | 3.5 | 3.4 | 3.3 | 3.2 | 3.1 | 16.4 |
| Total costs (PV) | 23.9 | 23.0 | 22.3 | 21.5 | 20.8 | 111.5 |
| Net benefit (PV) | 6.9 | 6.7 | 6.4 | 6.2 | 6.0 | 32.3 |

Benefits to UKBA

UKBA's annual income is estimated to rise by £26.2m as a result of fee changes, and its administrative cost is estimated to reduce by £0.8m. This equates to a £122.3m (PV) rise in UKBA's income over 5 years from higher fees, and a £3.9m (PV) reduction in its administration costs.

Impact upon Business

All of the products covered in this impact assessment are levied on individuals, not businesses. The only effect of this policy will be to increase UKBA product fees; it will not impact the administrative burden on firms. It is therefore not relevant to apply 'One-In, One-Out' to this policy.

In country transfers

Transfers between in country applicants and UKBA are not included in the costs and benefits presented in this paper (except for the income to UKBA). This is because transfers between in country applicants and UKBA result in zero cost or benefit to the UK economy. The values of these transfer payments are presented below:

| Transfers | Central Estimate (PV) 2011/112 – 2015/16 |
|--|---|
| Increase in UKBA fee income from in country applications | £17.5m |
| Additional cost of application fees to in country applicants | -£17.5m |
| Saving from deterred in-country applicants | £66.7k |
| Lost UKBA revenue from deterred in-country applicants | -£66.7k |
| Total | £0 |

Wider social costs and benefits

Raising fees is estimated to deter around 5,200 applications from migrants who choose to leave the UK or no longer apply to come to the UK, around 4,200 of whom are short-term visitors. A further 90 deterred applications are related to transit visas, who are granted permission to enter the UK for 24 hours only. The majority of other deterred applications are for Tier 4 students and their dependents. All other deterred applications affect less than 50 people per year per category and sum to less than 100 people per year in total.

Increasing fees for short term tourist visitors could deter applications over the longer term. This may have a detrimental effect on tourist services in the UK. However over the medium and longer term the economy will adjust in two ways. Firstly, prices for goods and tourism services may be temporarily lower, which may encourage potential tourists to other countries to come to the UK. Secondly, the economy will adjust and the balance of output will change across sectors, although the long-run level of output produced will be unaffected.

People arriving in the categories described in the table are generally expected to have limited social impacts due to the short duration of their stay. Those arriving with a short term visit visa are granted leave to enter the UK for up to six months only. The majority of other deterred applications relate to students and their dependents, the majority of whom have left the UK after five years². Those on a less than 12 month visa would be expected to leave after 12 months. However, the main social impacts are discussed below:

| Product | Approximate Estimated decrease in annual applications |
|--|---|
| Visit visa – less than 12 months | 4,200 |
| Tier 4 - Main Applicant | 550 |
| Tier 4 visa under 12 months – Main applicant | 110 |
| Transit Visa | 90 |
| Tier 4 Extension - Dependants | 80 |
| Tier 4 - Dependants | 60 |

Schools and Education

Tier 4 students who will be studying in the UK for longer than twelve months can bring with them their partners and children (also known as dependents). Those with less than 12 months visas cannot bring dependents. The children of migrants add to demand of public and private education provision.

In some cases, migrants can have different, more expensive needs than non-migrant pupils – for example where migrant pupils have English as an Additional Language (EAL)³ or arrive late in the academic year. The proportion of pupils with EAL has been rising in recent years - by 3.6 per cent between 2005 and 2009 for primary school pupils with EAL and by 6.1 per cent between 2005 and 2009 for secondary school pupils with EAL.

Overall, however, the population of 0-19 year olds is more affected by changes to the fertility rate of UK-resident women of child-bearing age than it is by changes in migration. Very small reductions in Tier 4 migration may therefore be expected to have a relatively small aggregate effect on the demand for education over the reference period. Due to data constraints we are unable to quantify this.

Health

Migrant students can access free public healthcare if they study in the UK for over six months; a bill may be levied for any costs to the health service prior to this, however no individual is turned away from Accident and Emergency departments due to concerns about ability to pay or immigration status. This will therefore include short term visitors.

In general, lower migration might be expected to reduce the total demand for healthcare, although the extent will depend on which migrants arrive in the UK. Individuals can have very differing healthcare needs- the old and the young for example have, on average, high costs. In 2009 of those stating their main reason for immigrating to the UK was to study almost 65 percent were aged 15-24, and 33 percent were aged 25-44.⁴ Individuals of working age tend to be associated with lower levels of demand on the healthcare system. Due to data constraints we are unable to quantify this any further.

Other public services

We have considered the impact of the proposed changes on other public services, including social work, social care, and housing provision. We believe that the impact on these other public services is minimal over the reference period of this impact assessment.

² The Migrant Journey, *Lorrah Achato, Mike Eaton and Chris Jones, Research Report 43*, <http://rds.homeoffice.gov.uk/rds/pdfs10/horr43c.pdf>. Research based on a 2004 cohort. After five years, 80% of students no longer have valid leave to remain.

³ Note that not all migrant pupils have EAL and not all pupils with EAL are migrants.

⁴ <http://www.statistics.gov.uk/statbase/Product.asp?vlnk=15054> Note: These figures relates to all nationalities, as the IPS is not available in a cross-tabulation of age, reason for migration, and nationality.

Given the relatively small numbers of migrants concerned and the fact that Tier 4 migrants place a low burden upon public services (since they are generally young, healthy and childless), fee changes are unlikely to significantly reduce public service costs.

F. Risks

Option 1

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 £107.3m (PV) over 5 years through additional revenue from fees.

For the low NPV scenario, we assume that volumes decrease to a greater extent than is assumed in the central estimates. We therefore assume the following elasticities: elasticity of labour supply of 1.1, elasticity of demand for HE of -2, air fare elasticity of demand for UK transit flights of -0.5 and air fare elasticity of demand for foreign leisure flights of -0.5. UKBA's revenue from out of country applicants is estimated to increase by £106.7m (PV), its administrative costs are estimated to fall by £9.2m (PV), and tuition costs to UK educational establishments are estimated to fall by £65.6m (PV). Nevertheless, UKBA's revenue is estimated to fall by £4.9m (PV) from potential out of country applicants who no longer apply due to the fee increases, lost tuition fees from fewer Tier 4 migrants is estimated to cost £98.0m (PV), lost output due to fewer migrants working in the UK is estimated to cost £89.4m (PV) and lost spending from deterred short-term visitors is estimated to cost £41.0m (PV).

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

G. Enforcement

No impact on enforcement.

H. Summary and Recommendations

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

| Table H.1 Costs and Benefits | | |
|-------------------------------------|---|---|
| Option | Costs | Benefits |
| 1 | £23.9m/year | £30.8m/year |
| | Risks to UK economy of significant impact on volumes (not quantified) | Benefits to public confidence in secure borders and that migration is controlled for the benefit of the UK (not quantified) Small reduction in public service costs due to fewer migrants coming to or remaining in the UK. (not quantified) |
| Source: UKBA estimates | | |

The Net Present Value calculation is therefore £32.3m over 5 years. This equates to a fall in volumes of approximately 5,200 applications. The NPV range based on the above elasticity assumptions is -£51.8m to £107.3m, equating to a fall in application volumes of between 0 and 12,000. Option 1 is therefore the preferred option as the expected benefits to the economy exceed the expected costs, it is in keeping with UKBA's charging objectives and is expected to increase UKBA's revenue to address the forecasted income shortfall in the financial year 2011-12.

I. Implementation

The Government plans to implement these changes on the common commencement date of 6 April 2011, following Parliament's consideration of the related Statutory Instrument. Full details to applicants on how to apply and pay the new fees will be made available on the UK Border Agency's website:

www.ukba.homeoffice.gov.uk

J. Monitoring and Evaluation

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

K. Feedback

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

L. Specific Impact Tests

We have liaised with the Home Office Strategic Diversity Action Team on producing an EIA and have taken on board their advice and agreed that we will update the EIA action plan and publish this alongside the IA when we lay the Regulations in Parliament on 16 February 2011.

Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. If the policy is subject to a sunset clause, the review should be carried out sufficiently early that any renewal or amendment to legislation can be enacted before the expiry date. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

Basis of the review: [The basis of the review could be statutory (forming part of the legislation), i.e. a sunset clause or a duty to review, or there could be a political commitment to review (PIR)];

The UK Border Agency has a duty to review its fees to ensure the correct contribution is made. This is done on an annual basis. Any proposals to change fees are made via legislation.

Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]

As a regular proportionate check, we compare actual volumes of applications and fees income received against projections. We also monitor for any unforeseen demand impacts. This information forms part of the UK Border Agency's annual fees review.

Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]

Regular in-depth evaluation of monitoring data by representative groups of key expert staff in UK Border Agency. This is most efficient method of review, being consistent with consideration of data undertaken in parallel as part of the Agency's regular business planning and performance management cycle. We also scan the views of corporate partners through the Agency's taskforce network.

Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]

The baseline against which the change introduced by the legislation can be measured is the forecast income if fees were kept at existing levels.

Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]

Balanced budget providing resources to achieve Agency objectives, as evidenced in UK Border Agency annual reports and accounts. We review fees policy against objectives on an annual basis.

Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection of monitoring information for future policy review]

We have existing arrangements in place that will allow us to systematically collect and monitor information for future review. This is done by producing 3 to 5 yearly forecasts of expected volumes and we compare this with actuals for each year.

Reasons for not planning a review: [If there is no plan to do a PIR please provide reasons here]

As our fees are reviewed annually and the volumes and forecasts are monitored through out the year, a PIR is not required.

Annex 2. Specific Impact Tests

Statutory Equality Duties Equality Impact Assessment

See note at sub-heading L.

Annex 3. Proposed fee increases under Option 1

| In country/out of country product | Product type | Product | Current fee (£) | Proposed fee (£) |
|-----------------------------------|-----------------|---|-----------------|------------------|
| Out of country | Visas - non PBS | Visit visa – less than 12 months | 70 | 76 |
| Out of country | Visas - non PBS | Certificate of Entitlement | 245 | 265 |
| Out of country | Visas - non PBS | Transit Visa | 47 | 51 |
| Out of country | Visas - non PBS | Vignette Transfer Fee | 93 | 100 |
| Out of country | Visas - non PBS | Replacement Biometric Residence Permit | 0 | 107 |
| Out of country | Visas - PBS | Tier 4 - Main Applicant | 220 | 255 |
| Out of country | Visas - PBS | Tier 4 - Dependants | 220 | 255 |
| Out of country | Visas - PBS | Tier 4 visa under 12 months – Main applicant | 70 | 140 |
| Out of country | Visas - PBS | Tier 5 Temporary Worker Visa – Main applicant | 130 | 190 |
| Out of country | Visas - PBS | Tier 5 Youth Mobility Visa – Main applicant | 130 | 190 |
| In country | Nationality | Renunciation of Nationality | 208 | 225 |
| In country | Nationality | Nationality - Reissued Certificate | 80 | 86 |
| In country | Nationality | Nationality - Right of Abode | 150 | 162 |
| In country | Nationality | Nationality - Status Letter | 80 | 86 |
| In country | Nationality | Nationality - Non-Acquisition Letter | 80 | 86 |
| In country | Nationality | Nationality - Correction to Certificate | 0 | 86 |
| In country | In UK - non PBS | Transfer of Conditions – Main Applicant | 200 | 216 |
| In country | In UK - non PBS | Transfer of Conditions - Dependants | 50 | 108 |
| In country | In UK - non PBS | Travel Documents - Adult | 220 | 238 |
| In country | In UK - non PBS | Travel Documents - Child | 138 | 149 |
| In country | In UK - non PBS | Replacement Biometric Residence Permit | 30 | 37 |
| In country | In UK – non PBS | Work Permit Technical Changes | 20 | 22 |
| In country | In UK - PBS | Leave to Remain outside of PBS – Dependants | 150 | 275 |
| In country | In UK - PBS | Leave to Remain Non-Students - Dependants | 150 | 275 |
| In country | In UK - PBS | Tier 1 Post Study Work Route – Dependants | 150 | 297 |
| In country | In UK - PBS | Tier 4 First Application - Dependants | 100 | 193 |
| In country | In UK - PBS | Tier 4 Extension - Dependants | 100 | 193 |
| In country | In UK - PBS | Tier 5 – Main Applicant | 130 | 190 |

Annex 4. Elasticity Assumptions

Table 1a: 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 1b: Empirical studies of the price elasticity of demand for higher education

| Source | Estimate of price elasticity of demand | Measure |
|--|--|--|
| Tuition Elasticity of the Demand for Higher Education among Current Students: A Pricing Model Glenn A. Bryan; Thomas W. Whipple <i>The Journal of Higher Education</i> , Vol. 66, No. 5. (Sep. - Oct., 1995), pp. 560-574. | Between -0.12 to -0.3 | Elasticity of demand for HE in a small private liberal arts college in Ohio, from increases in tuition fees between \$6000 to \$8000 |
| Campbell, R. and B. Siegel. "The Demand for Higher Education in the United States, 1919-1964." <i>American Economic Review</i> , (June, 1967), pp. 482-94. | -0.44 | Aggregate demand for attendance in 4-year institutions in the US from 1927 – 63 |
| Hight, J. "The Supply and Demand of Higher Education in the U.S.: The Public and Private Institutions 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 1c: Empirical study of the air fare elasticities of demand for transit flights to and from the UK

| Source | Estimate of price elasticity of demand | Measure |
|--|--|---|
| UK Air passenger demand and CO2 forecasts, DFT, 2009 | -0.3 | Econometric study of air fare elasticity of demand for UK transit |

Table 1d: Empirical study of the air fare elasticities of demand for foreign leisure flights to the UK

| Source | Estimate of price elasticity of demand | Measure |
|--|--|---|
| UK Air passenger demand and CO2 forecasts, DFT, 2009 | -0.2 | Econometric study of air fare elasticity of demand for the UK |

Annex 5. Estimated decrease in annual applications caused by fee changes

| In country/ out of country product | Product type | Product | Forecasted annual applications 11/12 | Central elasticity | Average annual earnings/ tuition fees/ air fare | Average length of stay (years) | Estimated decrease in annual applications |
|---|--------------------|---|---|-----------------------|--|---|--|
| Out of country | Visas - non PBS | Visit visa – less than 12 months | 1,512,500 | -0.2 | £500 per visit | N/A | 4,200 |
| Out of country | Visas - PBS | Tier 4 - Main Applicant | 260,000 | -1 | £11,200 | 1.5 | 549 |
| Out of country | Visas - PBS | Tier 4 visa under 12 months – Main applicant | 18,000 | -1 | £11,200 | 1 | 113 |
| Out of country | Visas - non PBS | Transit Visa | 35,100 | -0.3 | £500 | 1 | 93 |
| In country | In UK - PBS | Tier 4 Extension - Dependants | 14,100 | -1 | £11,200 | 1.4 | 84 |
| Out of country | Visas - PBS | Tier 4 - Dependants | 30,000 | -1 | £11,200 | 1.5 | 63 |
| Out of country | Visas - PBS | Tier 5 Youth Mobility Visa – Main applicant | 21,300 | -0.5 | £11,500 | 2 | 28 |
| In country | In UK - non PBS | Transfer of Conditions – Main Applicant | 8,100 | -0.5 | £24,900 | 1 | 20 |
| Out of country | Visas - PBS | Tier 5 Temporary Worker Visa – Main applicant | 16,100 | -0.5 | £45,500 | 0.7 | 15 |
| In country | In UK - PBS | Tier 4 First Application - Dependants | 1,400 | -1 | £11,200 | 1.4 | 8 |
| In country | In UK - PBS | Tier 1 Post Study Work Route – Dependants | 3,800 | -0.5 | £19,800 | 2.1 | 7 |
| In country | In UK - non PBS | Transfer of Conditions - Dependants | 13,700 | -0.5 | £24,900 | 2 | 2 |
| In country | In UK - non PBS | Travel Documents - Adult | 3,000 | -0.5 | £24,900 | 2 | 2 |
| In country | In UK - non PBS | Travel Documents - Child | 7,400 | -0.5 | £24,900 | 2 | 1 |
| In country | In UK - PBS | Tier 5 – Main Applicant | 300 | -0.5 | £11,500 | 1 | 1 |
| Out of country | Visas - non PBS | Vignette Transfer Fee | 4,200 | -0.5 | £24,900 | 1.7 | 0 |
| Out of country | Visas - non PBS | Certificate of Entitlement | 3,000 | -0.5 | £24,900 | 4.7 | 0 |
| In country | In UK – non PBS | Work Permit Technical Changes | 1,900 | -0.5 | £24,900 | 2 | 0 |
| In country | In UK - non PBS | Replacement Biometric Residence Permit | 1,000 | -0.5 | £24,900 | 2 | 0 |
| In country | In UK - PBS | Leave to Remain outside of PBS – Dependants | 4,100 | -0.5 | £24,900 | 2 | 0 |
| In country | In UK - PBS | Leave to Remain Non-Students - Dependants | 100 | -0.5 | £24,900 | 2 | 0 |
| In country | Nationality | Nationality - Correction to | 1,000 | -0.5 | £24,900 | 29 | 0 |

| | | Certificate | | | | | |
|----------------|-----------------|--|-------|------|---------|----|---|
| In country | Nationality | Nationality - Non-Acquisition Letter | 7,000 | -0.5 | £24,900 | 29 | 0 |
| In country | Nationality | Nationality - Right of Abode | 1,700 | -0.5 | £24,900 | 23 | 0 |
| In country | Nationality | Renunciation of Nationality | 600 | -0.5 | £11,200 | 32 | 0 |
| In country | Nationality | Nationality - Reissued Certificate | 800 | -0.5 | £24,900 | 29 | 0 |
| In country | Nationality | Nationality - Status Letter | 200 | -0.5 | £24,900 | 29 | 0 |
| Out of country | Visas - non PBS | Replacement Biometric Residence Permit | 0 | -0.5 | £24,900 | 2 | 0 |

Annex 6. Methodology for calculating output losses.

Loss of Visitor Spending

Average visitor spending has been calculated using published data from the Travepac 2009, produced by the ONS and based on data from the International Passenger Survey.

(<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=14013&Pos=&ColRank=1&Rank=374>) The average spending per visit by visa nationals in 2009 was £832 by holiday makers and £1,401 by business travellers. We have assumed that all applicants for 6 month visas are holiday makers and applicants for long term visit visas are business travellers, since this is supported by anecdotal evidence on the stated purpose of visit.

Data is not available for the numbers of visits to the UK made by visa visitors. We have therefore assumed that visitors with short term visitor visa come to the UK only once. We also assume that visitors will only apply for long term visas if they come to the UK enough times to make it cost effective. For example: the proposed fee for a 2 year visit visa is £300 and the proposed fee for a 6 month visit visa is £88. One would therefore have to visit the UK $\frac{£300}{£88} = 3.4$ times on average to make it cost effective to buy a 2 year visit visa.

Reduction in Tuition Fees

The average tuition fee for Tier 4 migrants has been estimated to be £11,200 p.a. using published data on the University UK website. This figure is the weighted average tuition fee for overseas students in 2009/10. (<http://www.universitiesuk.ac.uk/Newsroom/Facts-and-Figures/International-student-tuition-fees/Survey-results-2009-2010/Pages/Default.aspx>)

The fees for overseas students are not regulated by Government in the way that home students are, and BIS have not announced a policy that would directly change how the fees for overseas students are set. BIS have therefore recommended that last year's figures are the most appropriate estimates for future tuition fees. Nevertheless, it is possible that educational establishments may raise tuition fees for overseas students in response to reduced Government funding.

The loss of tuition fees due to fewer Tier 4 migrants coming to the UK has therefore been estimated by multiplying the average tuition fee for Tier 4 migrants by their estimated length of stay in the UK and by the estimated fall in number of Tier 4 migrants coming to or remaining in the UK.

Loss of Output

The loss in output to the UK economy from fewer migrants working in the UK has been estimated by assuming migrants' output is equal to their foregone income. The average earnings of applicants for different groups have been estimated using the latest data from the Labour Force Survey (Q3 2010). We have taken the employment rate into account. The only exceptions are as follows:

- Tier 1 General salaries have been obtained from a UKBA survey of migrants on the Highly Skilled Migrant Programme (HSMP) at the further leave to remain stage (Q1 2007). While different criteria were used for the HSMP compared to the Tier 1 General route, this is the latest available data.
- Tier 2 salary data has been obtained from UK Border Agency management information (July 2009 to June 2010). This is the latest available data, and was used by the Migration Advisory Committee in its report on proposed limits for Tier 1 and Tier 2. (<http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/mac-limits-t1-t2/>)
- No loss in output has been assumed for applications for Nationality products, vignette transfers, travel documents and work permit technical changes. This is because these products are optional, and failure to apply for them will not mean that migrants will not be allowed to enter the UK or be obliged to leave.

The loss of output due to fewer migrants coming to or remaining in the UK has been estimated by multiplying the average annual earnings for applicants for that product by their estimated length of stay in the UK, and by the estimated fall in number of applicants coming to or remaining in the UK. This data is given in Annex 5.

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

| In country/out of country product | Product type | Product | Average loss in output from fewer migrants (£) | Average loss in spending from fewer visitors (£) | Average annual loss in tuition fees from fewer Tier 4 students (£) |
|-----------------------------------|-----------------|---|--|--|--|
| Out of country | Visas - non PBS | Visit visa – less than 12 months | - | 832 | - |
| Out of country | Visas - non PBS | Certificate of Entitlement | 24,910 | - | - |
| Out of country | Visas - non PBS | Transit Visa | - | - | - |
| Out of country | Visas - non PBS | Vignette Transfer Fee | - | - | - |
| Out of country | Visas - non PBS | Replacement Biometric Residence Permit | 24,910 | - | - |
| Out of country | Visas - PBS | Tier 4 - Main Applicant | 6,505 | - | 11,206 |
| Out of country | Visas - PBS | Tier 4 - Dependants | 7,767 | - | - |
| Out of country | Visas - PBS | Tier 4 visa under 12 months – Main applicant | 6,505 | - | 11,206 |
| Out of country | Visas - PBS | Tier 5 Temporary Worker Visa – Main applicant | 45,539 | - | - |
| Out of country | Visas - PBS | Tier 5 Youth Mobility Visa – Main applicant | 11,465 | - | - |
| In country | Nationality | Renunciation of Nationality | - | - | - |
| In country | Nationality | Nationality - Reissued Certificate | - | - | - |
| In country | Nationality | Nationality - Right of Abode | - | - | - |
| In country | Nationality | Nationality - Status Letter | - | - | - |
| In country | Nationality | Nationality - Non-Acquisition Letter | - | - | - |
| In country | Nationality | Nationality - Correction to Certificate | - | - | - |
| In country | In UK - non PBS | Transfer of Conditions – Main Applicant | 7,767 | - | - |
| In country | In UK - non PBS | Transfer of Conditions - Dependants | 24,910 | - | - |
| In country | In UK - non PBS | Travel Documents - Adult | 7,767 | - | - |
| In country | In UK - non PBS | Travel Documents - Child | - | - | - |
| In country | In UK - non PBS | Replacement Biometric Residence Permit | - | - | - |
| In country | In UK – non PBS | Work Permit Technical Changes | 24,910 | - | - |
| In country | In UK - PBS | Leave to Remain outside of PBS – Dependants | - | - | - |
| In country | In UK - PBS | Leave to Remain Non-Students - Dependants | 7,767 | - | - |
| In country | In UK - PBS | Tier 1 Post Study Work Route – Dependants | 7,767 | - | - |
| In country | In UK - PBS | Tier 4 First Application - Dependants | 7,767 | - | - |
| In country | In UK - PBS | Tier 4 Extension - Dependants | 7,767 | - | - |

| | | | | | |
|------------|-------------|-------------------------|--------|---|---|
| In country | In UK - PBS | Tier 5 – Main Applicant | 11,465 | - | - |
|------------|-------------|-------------------------|--------|---|---|