Title:

Impact Assessment for the Immigration and Nationality (Fees) Regulations 2014

IA No: HO0100

Lead department or agency: Home Office

Other departments or agencies:

Impact Assessment (IA)

Date: 09/01/14

Stage: Final

Source of intervention: Domestic

Type of measure: Secondary legislation

Contact for enquiries: Income & Charging Team, Home Office Corporate Services, c/o Vulcan House, Sheffield PO Box 3468, S3 4WA

Summary: Intervention and Options

RPC Opinion: N/A

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**
£ 165.5m	£0 m	N/A	No	N/A

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

The Home Office must ensure that there are sufficient resources to control migration for the benefit of the UK in a way that achieves value for money for the taxpayer. Government intervention is necessary to ensure a balanced budget. The Home Office's taxpayer funding will be reduced in 2014-15, and there will be fewer migrants applying for high value products as policy changes to limit net migration come into effect. Taking account of efficiency savings of at least £450m over the current spending review period and estimates of reductions in application volumes, an income shortfall of around £40m is estimated for the financial year 2014-15. To address this shortfall , 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 Home Office.

What are the policy objectives and the intended effects?

The specific policy objective of this legislation is to generate sufficent income to ensure the Home Office has a balanced budget for the financial year 2014-15. This will enable the Home Office to run a sustainable immigration system – making timely, correct decisions on who may visit or stay and deterring, stopping or removing those who have no right to be here – in a way that achieves value for money for the taxpayer. Policy objectives on Immigration and Nationality fees are: (1) that those who benefit directly from our immigration system (migrants, employers and educational institutions) contribute towards meeting its costs, reducing the contribution from the taxpayer; (2) that the fees system is simplified where possible, aligning fees where entitlements are similar; (3) that fees are set fairly, at a level that reflects the value of a successful application to those who use the service.

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

Option 1: Do nothing, maintain fees at current levels. .

Option 2: To increase fees from April 2014, to ensure migration is controlled in a way that achieves value for money for the taxpayer. Combination of 4% flat rate increase and targeted increases to meet strategic fees policy objectives. Specific fees set out at Annex 3.

Option 2 is preferred. This gives the Home Office greatest assurance that fees income will deliver a balanced budget for financial year 2014-15. It meets the Home Office's general fees policy objectives and also wider government objectives to protect the most economically sensitive routes from large fee increases.

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: Mark Harper Date: 29th January 2014

Summary: Analysis & Evidence

Policy Option 2

Description: Increase fees by 4% with targeted increases to meet strategic charging objectives for Home Office fees

FULL ECONOMIC ASSESSMENT

Price Base Year 2013/14	PV Base Year 2014/15	Time Period Years 5	Net Benefit (Present Value (PV)) (£m)		
			Low: 163.1	High: 167.0	Best Estimate: 165.5

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	5	0	**0**
High	0		6.6	**21.9**
Best Estimate	0		2.3	**6.1**

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

Home Office - Lower revenue due to lower application volumes arising from fee increase - £0.3m (PV)
UK Exchequer – Lost fiscal contribution from reduction in migrants - £5.8m (PV)
Universities – lost tuition fees from deterred students - £4.6m (PV)

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;
A change in the level of migration may have wider economic impacts.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	5	34.9	**163.1**
High	0		40.4	**188.9**
Best Estimate	0		36.7	**171.6**

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

Home Office – Increased revenue from applicants who continue to apply - £163.1m (PV)
Home Office – reduced processing costs from applicants who are deterred - £0.1m (PV)
UK Exchequer – Savings from lower public service provision - £5.3m (PV)
Increased employment for UK nationals - £3.1m

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 1. Migrant price elasticities are assumed to be as set out in Annex 3 (in-country PBS dependants 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 OIOO?	Measure qualifies as
Costs: N/A	**Benefits:** N/A	**Net:** N/A	No	N/A

Evidence Base (for summary sheets)

A. Strategic Overview

A.1 - Background

For 2014/15 the Home Office estimates that a little over half of the costs of front-line immigration and border operations will be recovered through fees. The remainder of costs are met by the UK taxpayer. To ensure that the system is fair and sustainable, the government believes 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.

Funding for the immigration system will reduce over the 5-year period of the current Comprehensive Spending Review (CSR). Over the CSR period, financial planning requires the Home Office to deliver the maximum amount of fees income agreed with HM Treasury under the CSR. Any income generated above this amount is surrendered to HM Treasury's Consolidated Fund for Extra Receipts. If fees are retained at current levels, after cost reductions, the impact of policy changes for limiting migration results in a forecast income shortfall of approximately £50 million in the financial year 2014/15.

The Home Office is already targeting significant efficiency savings – up to £450 million over the period of the Spending Review - but these will not be enough to offset the effect of budget cuts and falling application volumes. To address the budget shortfall and ensure there are sufficient resources to control migration for the benefit of the UK in a way that achieves value for money for the taxpayer, the Home Office will need to increase fees for the financial year 2014/15.

In principle it is right that those who use and benefit most from the immigration system should contribute the most towards its running costs. Therefore, the Home Office should seek to increase funding provided by migrants, though increased fees, to ensure it can continue to deliver its services while reducing the contribution from general UK taxpayers.

Fees are set within strict financial limits agreed with HM Treasury and Parliament. Fees are set in line with clear principles, to balance a number of complex factors. These include the benefits and entitlements given to an individual if an application were to be successful, the administrative cost of processing an application, and the government aim to limit fee increases on the most economically sensitive routes in order to continue to attract migrants and visitors who add significant value to the UK economy. Some fees are set above the cost of delivery, to reflect the value of the product. Charging above the cost of delivery helps 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).

There are no realistic non-regulatory options that will ensure the Home Office has sufficient resources to control migration for the benefit of the UK in a way that achieves value for money for the taxpayer. Significant efficiency savings are being made within the system, to deliver a value for money service. It is appropriate that the shortfall will be met by those who benefit from the service.

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. To balance the budget, fees for the majority of products will need to increase by 4%. The key products for which there are increases above 4% are:

1. In-country PBS dependant (spouses, partners and children) applications – covers in-country dependants of Tiers 1, 2, 4 and 5 that apply to extend their leave to remain in the UK;
2. Nationality Registration applications for main applicants and dependants.
3. Long term visit visas for multiple entries to the UK over two or five years.
4. Optional premium services that provide a quicker decision than the standard service.

A.3 - Consultation

Within Government

The UK Home Office works and will continue to work within strict financial limits agreed with HM Treasury. Our fees proposals and income and spending limits are agreed by HM Treasury.

Fee proposals are assessed in the context of broader government objectives by the Cross-Whitehall Fees Committee, including the UK's attractiveness in key markets (such as visitors, business, education) to ensure a balance is maintained between keeping our fees at fair and sustainable levels and the Home Office's need to recover our operating costs. The proposals contained in this impact assessment have been agreed with other government departments, who consider the needs of a broad range of stakeholders.

Public Consultation

The Home Office ran a targeted consultation exercise between 12 November and 3 December on charging principles. The Home Office consulted specific stakeholder groups in key sectors such as business, education, tourism, and immigration legal advisors. The responses have been analysed and considered in producing these proposals, with initial findings broadly similar to those from the previous consultation undertaken in 2009. A response document will be published shortly.

The UK Border Agency published a full public consultation on Charging for Immigration and Visa Applications on 1 September 2009 and contacted over 30,000 stakeholders. The consultation ran for 12 weeks and received only 98 responses[1]. 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 the 2009 consultation, an overwhelming majority of respondents (over 90%) agreed that UK Border Agency should continue to set fees flexibly, taking into account wider policy objectives. Parliament has affirmed this general principle in debates on the UK Border Agency's Charging legislation.

B. Rationale

The UK Home Office want to make sure 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 the Home Office needs to continue to keep fees under review to ensure sufficient revenue is generated to fully support the immigration system, maintain public confidence, and ensure that migration is managed for the benefit of the UK. The risk to Home Office's income is managed to 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 use and benefit directly from our immigration system (migrants, employers and educational institutions) contribute towards its costs, reducing the contribution of the taxpayer;
- That the fees system is simplified where possible, aligning fees where entitlements are similar;
- That fees are set fairly, at a level that reflects the real value of a successful application to those who use the service.

[1] The 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/.

These proposed increases build on the existing Home Office fees policy and support broader UK government policy objectives (for example, to reduce net migration to the UK while attracting the brightest and the best).

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. As this is a final stage impact assessment, the scope has been narrowed to considering two options:

Option 1: Do nothing, maintain fees at current fee levels.

Option 2: Increase fees on the common commencement date in April 2014; keep the overall percentage increase to the minimum necessary to deliver the income budget (approximately 4%) across. The exceptions to this would be the targeted increases to meet strategic charging objectives for dependants, and nationality registration as outlined below. All proposed fee increases under Option 2 are presented in Annex 3.

The Home Office has published two impact assessments on the proposed changes in fees. This impact assessment reflects fees where the Home Office charges more than the cost of the service in order to ensure that users of the immigration system (migrants and sponsors) pay an appropriate share[2] of the total costs of that system whilst also enabling some fees to be set below cost-recovery levels. Fees set below cost recovery levels are covered in an accompanying impact assessment.

Where fees have been set below cost this is generally to support wider government objectives. For example on tourist visas, where the fee is set well below the level of cost recovery to help encourage visitor numbers, by maintaining international comparisons on visa pricing and due to the negative signal increasing the fee to cost recovery would send to prospective visitors. Similarly, PBS Sponsorship fees are set below cost to support small businesses and charities. The principle of setting fees flexibly in this way was tested and established during a full public consultation in 2006, and has been endorsed in subsequent consultations since then (in 2007 and 2009).

It is estimated that in order to address the budget shortfall in the financial year 2014-15 the majority of fees will require a 4% nominal increase. .This increase is not estimated to have a material impact on projected volumes of entrants. Unless stated otherwise, the 4% increase has been applied equally across all fee streams, as this has been judged the fairest approach to all applicants.

This Impact Assessment examines costs and benefits of the 4% increase and specific fees options considered for:

1. In-country PBS dependant (spouses, partners and children) applications – covers in-country dependants of Tiers 1, 2, 4 and 5 that apply to extend their leave to remain in the UK;
2. Nationality Registration applications for main applicants and dependants.
3. Long term visit visas for multiple entries to the UK over two or five years.

This covers all of the Home Office's main charged services where the fee is set above cost and the proposed increase is above the general 4% increase. An accompanying IA sets out the impacts of related fee changes to below-cost fee products.

For products where forecast volumes are negligible (e.g. fees covered by the Council of Europe Social Charter) the impact is assumed to be zero. Finally the impact assessment has focused on the Home Office's mandatory standard postal application routes – it has not included optional or premium services offered to applicants as a variation of the standard service (e.g. same-day applications made in person), although it does discuss the potential impacts and benefits of such services for those that take them up to illustrate the scale and type of benefits that may arise.

[2] In 2014/15 income from immigration & visa products is planned to be around half of the cost of operating the UK immigration & border controls

- **In-UK dependant applications**

  At present, in UK dependants pay approximately 75% of the main applicants' fee for any given route if their application is submitted at the same time as the main application. The Home Office is proposing to increase this ratio to 100% from April 2014. This means dependant fees will be equalised with those of the main applicant, as currently happens with visa applications and those who apply separately from the main applicant. (This will mean that all individuals within an application pay the same fee.)

  The dependant fee reflects the fact that each individual within any given application bears a processing cost and that an independent set of valuable entitlements for the individual.

  Home Office data shows that on average 16% of leave to remain applications included one or more dependants. Increasing the contribution made for dependant applications is in line with all three charging policy objectives listed at section C, and will help reduce the scale of increases required across all other fees products.

- **Nationality Registration**

  Currently there are two main products offering a route to British citizenship – Naturalisation and Registration. Naturalisation is for adult foreign nationals who can demonstrate they meet the requirements to apply for British Citizenship. Registration is for children and British nationals who want to apply to be registered as British citizens. Both these routes provide the same benefits – the right to full UK citizenship, the right to a UK passport, to vote in UK elections etc. There are a small number of applications from individuals who receive status other than British citizen such as British subject, British overseas Territories Citizen, etc.

  Currently two different fees are paid for Naturalisation and Registration applications, despite the benefits to the applicant being largely similar. It is believed that it is right that the gap between fees for these products where the entitlements are similar should be closed. The lower fee should continue to apply for Registration applications where the entitlements received are fewer. Again, this increase helps achieve all three charging policy objectives set out at section C, and will help reduce the scale of increases otherwise required across all fees products

  In addition, changing the concession offered to families where applications for Registration are made for minors is proposed. Rather than only offering a discount when multiple applications are made for two or more children, a discount will be offered for each child. This will simplify the fees structure and provide a concession for all child applicants against the adult fee, where previously a concession was offered only when two or more applications were made together.

- **Long Term Visit Visa Fees**

  Long term visit visas are granted to enable frequent travellers to the UK multiple entries to visit the UK over a two, five or ten year period, staying up to six months on any single visit. A fee increase is proposed to the two and five year long term visit visa products and a price freeze for the ten year product. The two year product would increase by 8%, and the five year product by 6.5%. This staggered increase is designed to generate the same amount of income as would a flat 4% increase to all three products, but will enable us to incentivise the longer product, which offers better convenience for frequent travellers and over the long term reduces processing costs for the Home Office. The two and five year products still provide good value, being cheaper than applying for individual short term visas covering the same period and offering customer convenience of making a single application rather than several.

- **Other**

  It is also proposed to increase the fees for optional premium services provided by the Home Office in the UK. The additional premium to pay for an application made in person will be increased from £375 to £400. The additional premium to pay for a postal priority application will increase from £275 to £300. This will make a contribution toward the Home Office's financial requirements and policy objectives in 2014-15. As these are optional, premium services and will have no impact on the standard statutory services provided, this change is not within the scope of this Impact Assessment.

Similarly, it is proposed to introduce new fees for several optional services provided overseas by commercial partners acting on the Home Office's behalf, and for the Registered Travellers Scheme which expedites the transit of eligible passengers through the UK Border. As these are optional, premium services that will have no impact on the standard statutory services provided, detailed modelling is not included within the scope of this Impact Assessment. The Registered Traveller Scheme will be subject to a separate Impact Assessment prior to implementation of the fee.

Options previously considered: An additional option considered during policy development was to increase all fees on the common commencement date in April 2013, by a flat rate of at least 6%, with no targeting. This option was discounted due to the higher impact on routes where the Home Office have a policy requirement to maintain a lower level of fee (principally the short term visit visa fee for tourists to the UK). Targeted increases are also seen to better address the charging policy objectives stated at section C above.

In addition, a targeted approach was also deemed preferrable than higher flat rate increases as this would limit the increases on several high value in-UK routes that have seen above-inflationary increases previously (particularly the fees to settle in the UK).

The preferred option is Option 2, which gives the Home Office the necessary assurance in financial planning whilst also minimising the impact on routes where the Home Office has a preference for a lower fee. Option 2 is in the best interest of the UK tax payer, who may need to cover any financial shortfall.

E. Appraisal (Costs and Benefits)

General Assumptions and Data

A model 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). Option 1 is denoted as the 'Do Nothing' option with no additional costs and benefits and is the baseline used for comparison. The expected volumes of applications under option 1 are given in annex 2.

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

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 NPV in this impact assessment therefore aims 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

<u>Baseline Volumes</u>

The projected volumes for each product are set out in annex 1, and summarised below for the key groups affected. The forecasts presented are Home Office internal planning assumptions for 2014/15 and may not match published volumes of products granted. These have been projected forward to provide application assumptions for future years, up until 2018/19. It is assumed that application volumes will not change in future years. However, the impact in future years should be considered as indicative. If fees are left unchanged, it is expected that postal application volumes will be as set out in annex 1.

- In-country PBS dependants applications – approximately 35,000 per year
- In Country Indefinite leave to remain applications – approximately 46,000 per year, of which: 34,000 main applicants and 12,000 dependants
- Nationality registration applications – approximately 40,000 per year

Costs

Under option 1 the Home Office will be unable to meet its financial planning requirements, leading to a decline in service provision. Significant efficiency savings are already factored into the Home Office's business planning, and the assumption is that any additional efficiency savings above this 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.

In addition to the above risks, there are risks that the objectives of the fees policy will not be met.

- The UK Home Office will not be able to reduce the proportion of the cost of the immigration system met by the taxpayer
- It will also not be possible to simplify and align fees structures where the entitlements are similar.
- Finally, fees cannot be altered to reflect the value of a successful application.

Benefits

There are no additional benefits under this option.

Option 2 – Increase fees by 4% with targeted increases to meet strategic charging objectives for in country dependant and Nationality Registration fees

Impact on Volumes

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

The Home Office has monitored the impact of visa fee changes upon application volumes for previous rounds of visa fee changes, and has found no evidence that previous fee increases have had a statistically significant impact on application volumes in previous years. No statistically significant elasticity of demand has been found, suggesting that demand for products tested are not normally sensitive to small to moderate changes in price.

As it has not been possible to directly estimate the price elasticity of demand for Home Office products, this analysis has therefore 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 2.

Given the uncertainty around the proxy elasticities from academic literature, a sensitivity analysis is included. The analysis sets out a low case scenario where fee increases have no impact on application volumes (as indicated by the lack of statistically significant elasticities.) The high cost scenario is estimated by using the Home Office's interpretation of the maximum elasticity given in the literature. The elasticities used in the sensitivity analysis are also given in Annex 2. This analysis gives a likely range for the proposed changes.

- *Work Migrants - 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 the expected level of return from working in the UK. This is used to estimate the impact on volumes of the proposed fee changes, for example, the introduction of a surcharge would represent a reduction in expected return, so is likely to reduce the volume of people willing to supply labour in the UK labour market. This elasticity is also applied to migrants whose fee could potentially be paid by the employer. Whilst this would mean the fee change could potentially affect demand for labour by employers, it is not known what proportion of work visas are paid for by employers.

The evidence from the literature review suggests a range of elasticities between -0.07 and 1.1. This IA uses -0.5 as the central estimate, with an estimate of 0 in the low scenario and 1.1 in the high scenario. The central elasticity suggests that for a 1 per cent decrease in expected earnings from coming to or remaining in the UK, there is a 0.5 per cent decrease in demand.

Study Migrants - Demand for Higher Education

Migrant students demand student visa products in order to purchase education in the UK. The price elasticity of demand for higher education is the responsiveness of the demand for higher education due to changes in the cost of studying in the UK. International estimates for the price elasticity for higher education are used, since no estimates are available for the UK.

This IA uses -0.5 as a central estimate, with an estimate of 0 in the low scenario and -1 in the high scenario. The central elasticity suggests that for a 1 per cent increase in the cost of studying in the UK, there is a 0.5 per cent decrease in demand.

Dependants of Points Based System (PBS) migrants

For in-country PBS dependant applications, no price sensitivity to fee changes is assumed in the central case given they are already in the UK with their family member (the main PBS migrant). An increase in fee is unlikely to lead to a dependant leaving the UK while the main applicant remains. In the sensitivity analysis, an elasticity range of 0 to -0.5 was used for in-country PBS dependants.

Settlement and nationality products

For settlement and nationality applicants, some price sensitivity in line with previous assumptions used on in-country migrants in work routes (the wage elasticity of supply) of -0.5 is assumed. 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.

It should be noted that the elasticity estimates set out above are uncertain as they are not derived from literature focussing on the UK, nor are they direct estimates of the responsiveness of demand to changes in visa prices.

Visitors – Long term visit visa fees

For long term visitor products, a price elasticity of demand for foreign business flights to the UK of 0.0 is used, and a range of -0.5 to 0. This is appropriate since the majority of long term visit visas are used by business visitors. The upper end of the range, an elasticity of -0.5, is the average air fare elasticity of demand for all types of travellers.

Methodology to estimate volume effects

The proposed change in fees is set against the expected earnings or spending levels these migrants for their expected duration of the stay in the UK (see Table 1 below). 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. Recent application-grant rates are used to estimate the impact on grant volumes (see Annex 3).

Impact on application and grant volumes

Table 1, below, presents the expected change in application volumes and the expected change in volumes granted:

Table 1: Estimated change in application and grant volumes for option 2: central scenario

	Product	Forecast Application Volumes 2014/15*	Estimated Earnings through Duration of Stay (£ '000s)	Change in Fee (£)	Price Elasticity	Estimated decrease in application volumes	Estimated decrease in grant volumes
Out of Country	Visit Visa 2 year	252,700	3	22	0	0	0
	Visit Visa - 5 Year	92,500	5	33	0	0	0
	Settlement Family	40,600	64	34	-0.5	11	7
	Settlement Dependant	2,000	153	76	-0.5	1	0
	Other visa	44,100	32	11	-0.5	8	7
	Tier 1 Main	4,000	108	34	-0.5	1	0
	Tier 1 Dependant	7,900	108	34	-0.5	1	1
	Tier 2 Main	21,100	137	20	-0.5	2	2
	Tier 2 Dependant	24,300	137	20	-0.5	2	2
	Tier 2 Short Term ICT Main	24,600	68	16	-0.5	3	3
	Tier 4 Main	209,000	79	12	-0.5	16	15
	Tier 4 Dependant	22,500	79	12	-0.5	2	1
	Short term student	25,100	26	6	-0.5	3	3
	Tier 5 Main	36,700	29	8	-0.5	5	5
	Tier 5 Dependant	200	29	8	-0.5	0	0
In Country	Naturalisation - Single	55,700	661	32	-0.5	1	1
	Naturalisation - Joint	26,400	570	262	-0.5	6	5
	Naturalisation - Spouse	38,000	683	32	0	0	0
	Nationality - Adult	2,500	740	70	-0.5	0	0
	Nationality - Minor	37,700	1,071	(4)	0	0	0
	Nationality registration	1,500	524	7	-0.5	0	0
	Indefinite leave to remain	34,000	729	42	-0.5	1	1
	Indefinite leave to remain - Dependant	12,300	1,048	305	0	0	0
	Leave to remain	77,900	23	23	-0.5	40	26
	Leave to remain - Dependant	23,900	23	167	0	0	0
	Tier 1 Investor & Entrepreneur	14,000	95	42	-0.5	3	1
	Tier 1 Investor & Entrepreneur Dependant	5,300	95	305	0	0	0
	Tier 1 Exceptional Talent	100	102	42	-0.5	0	0
	Tier 1 Exceptional Talent Dependant	-	102	305	0	0	0
	Tier 1 Graduate Entrepreneur	400	64	(299)	-0.5	-1	-1
	Tier 1 Graduate Entrepreneur Dependent	-	64	(119)	0	0	0
	Tier 2	25,900	114	23	-0.5	3	3
	Tier 2 Dependant	17,400	114	167	0	0	0
	Tier 2 Short Term ICT	500	136	16	-0.5	0	0
	Tier 2 Dependant Short term ICT	100	136	119	0	0	0
	Tier 4 Main	86,400	37	16	-0.5	19	16
	Tier 4 Dependent	11,500	37	117	0	0	0
	Tier 5 Main	700	15	8	-0.5	0	0
	Tier 5 Dependent	100	15	58	0	0	0
	Source	Home Office Internal Planning	LFS and Home Office Analysis	Home Office Income & Charging	Academic Literature and HO Analysis	Modelling Analysis	Modelling Analysis

* These figures have been produced from internal management information in support of Home Office business planning and are not part of normal national statistics outputs.

Table 1 demonstrates that the change in application and grant volumes is expected to be small.

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 under consideration. Direct costs include reductions in Home Office income; 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, though not assessed in detail given the low potential volumes affected and hence the proportionality of the assessment.

There are a number of **transfers** presented in the document. 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. Transfers include payment of additional fees by migrants not yet considered as UK residents such as those applying for UK citizenship.

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 3.

The key costs and benefits associated with option 2 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 a Home Office product. Table 1 outlines the expected change in application volumes and the change in fees. It is estimated that in the central case Home Office revenue will fall by £0.3 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. Under the earnings assumptions in annex 3, and assuming only around 50 migrants may leave the UK per year, the cumulative impact of lost income to those people who may have remained in the UK is estimated at around £1.1 million in 2014/15. 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.

• ***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 migrants can be calculated using their estimated average gross earnings, current income tax rates and assumptions around indirect tax rates (see annex 4). Expected earnings and fiscal contribution for different types of migrant are given in annex 3. Using the estimated reduction in grant volumes multiplied by the employment rate and fiscal impact, the overall impact is expected to be around

£5.8 million (PV) over 5 years (this measure counts the lost fiscal contribution from migrants cumulatively across 5 years). This is not based solely on the approximately 50 migrants who leave the UK per year as outlined above, but also includes out of country applicants, and deterred visit visa applicants, who constitute a large proportion of total applicants per year, and whose indirect tax income (from VAT on purchases, for example) is foregone.

Direct Benefits

• Increase in Home Office revenue
Higher fees for all products assessed in this impact assessment 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 £163.1 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 Home Office as processing costs fall. The cost of processing each application is set out in annex 1 and the expected fall in volumes is set out in annex 3. It is estimated that Home Office processing costs will fall by £0.1 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 extending their stay or settling in the UK 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 5 sets out the assumptions and calculations used to estimate the savings.

The savings from a lower number of migrants are estimated to be £5.3 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*** – The independent Migration Advisory Committee's (MAC) January 2012[3] report found that 100 additional non-EU migrants may cautiously be estimated to be associated with a reduction in employment of 23 native workers. Whilst there are studies that find zero or low displacement in the medium-term, in common with the MAC, a provisional assumption of 23% to capture any possible short-term labour displacement from increased non-EU migration. This IA assumes that the inverse of this finding is valid when the number of non EEA migrants is reduced. These assumptions are under review. See annex 7 for a more detailed description.

This option is likely to result in a drop in visa demand, which implies that, jobs that would have gone to the migrant may be replaced by a UK resident. It is estimated that between around 10 and 30 additional jobs each year maybe filled by a UK resident. These jobs are likely to be unskilled and require no up-skilling by employers. If it is assumed that the jobs replaced with UK residents earn the same as the median wage for each type of migrant, then the benefit to UK residents from additional employment opportunities is estimated to be around £3.1 million PV over 5 years.

• ***Wider economic impacts***

Changes in the number of migrants coming to or remaining in the UK may have wider macro economic impacts, such as on growth or demographics. Changes in levels of migration (a change to the population) will, all else equal, change the growth rate of the labour market, and therefore the trend rate of growth. The impact will depend on the change in volumes of different types of migrants. Higher-skilled migrants may enhance the productivity of the existing population by bringing innovative or

[3] MAC (2012) Analysis of the impacts of migration. available from
http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/27-analysis-migration/

complementary skills to the UK. In addition, a change in the level of migration may have multiplier effects on the economy, where a change in economic output generates further changes in economic output.

The UK population is projected to reach 73.3[4] million in 2037. Of the increase in population to 2037 around 60% will be attributable to migration (43 percent directly attributable to future migration and a further 17 percent indirectly attributable due to natural change). Changes in the levels of migration may affect population growth, which could reduce congestion costs if, for example, it leads to reduced hospital waiting lists, or less traffic on our roads.

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

Table 2: Summary of costs and benefits of option 2 - Central Option

(£ m)	2014/15	2015/16	2016/17	2017/18	2018/19	Total
Benefits						
Increase in revenue from raising fees	£34.9	£33.7	£32.6	£31.5	£30.4	£163.1
Saving from processing fewer applications	£0.0	£0.0	£0.0	£0.0	£0.0	£0.1
Savings to UK due to lower public service provision	£1.1	£1.1	£1.1	£1.0	£1.0	£5.3
Increased employment for UK residents	£0.3	£0.6	£0.7	£0.7	£0.7	£3.1
Total benefits (PV)	**£36.4**	**£35.4**	**£34.4**	**£33.3**	**£32.2**	**£171.6**
Costs						
Loss in revenue from fewer applications	£0.1	£0.1	£0.1	£0.1	£0.1	£0.3
Lost fiscal contribution from reduction in migrants coming/ remaining in the UK	£1.2	£1.2	£1.2	£1.1	£1.1	£5.8
Decreased employment for UK residents	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0
Lost tuition fees from students not coming to study	£1.0	£0.9	£0.9	£0.9	£0.9	£4.6
Total costs (PV)	**£2.3**	**£2.2**	**£2.1**	**£2.1**	**£2.0**	**£6.1**
Net benefit (PV)	**£34.1**	**£33.2**	**£32.2**	**£31.2**	**£30.2**	**£165.5**

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 economy, 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 Home Office. This represents a cost to the applicant but a benefit to 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 below:

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

Transfers	**Central Estimate (PV) 2013/14 – 2017/18**
Increase in Home Office fee income from in-country applications	£47 million
Additional cost of application fees to in-country applicants	-£47 million
Total	£0 million

Wider Impacts

Impact on Home Office

4 See http://www.ons.gov.uk/ons/rel/npp/national-population-projections/2012-based-projections/index.html

The Home Office's annual income is estimated to rise by the increase in fees paid by applicants. This equates to £163.1 (5 year PV) from applicants who are not yet considered UK residents (presented in table 2) and £47m (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 of £0.1 million (5 Year PV) due to the low volume of applications that are deterred.

The Home Office will see a loss of revenues as a result of reduced volumes of applicants valued at £0.3m (PV)

The overall impact on Home Office is positive – the net benefit to the Home Office is £209.9 million (5 year PV) over the period 2014/15 to 2018/19.

Impact on Employers

Potential Costs
It is estimated there will be no direct cost to business as no new regulatory burden is being introduced. The majority of changes to fee levels are levied on individuals, not businesses. Fees for several of the main business related products are frozen (e.g. Tier 2 certificate of sponsorship) or reduced (Tier 2 large sponsor licence fee, sponsor Action plan). There is no additional administrative burden on firms.

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

Impact upon Business – One In One Out

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

F. Summary and Recommendations

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

Table 4 Costs and Benefits

Option	Costs	Benefits
2	£6.1 million	£171.6 million

Source: Home Office estimates

The Net Present Value calculation of Option 2 is therefore £165.5 million over 5 years. This equates to reduction of approximately 130 applications per year.

The NPV range is £165.5 million in the central scenario, £167 million in the high scenario and £163.1 million in the low scenario. This equates to a fall in volumes of between 0 and almost 2,000 applications per year.

The NPV in the low scenario is the low cost, low benefit option, which assumes zero elasticity of demand or supply to changes in fees. In the high scenario, the fee changes are expected to lead to a greater fall in demand (due to higher elasticity assumptions), and thus a smaller increase in Home Office income, relative to the central scenario. The greater fall in demand also leads to a larger net benefit in terms of fiscal and public service impacts associated with fewer migrants in the country.

As discussed above, this impact assessment only covers products where the fee charged is greater than the costs to Home Office of processing the application and where the fee increase is greater than inflation. The final decision on the preferred option must take into account both this impact assessment and the linked cost recovery fees impact assessment. If both impact assessments were to be combined in a single NPV, expected central NPV of Option 2 would be £189.1 million over five years. As set out in the evidence base the NPV includes all of the factors considered, not just the impact on Home Office income.

The preferred option is Option 2. This gives Home Office greater assurance in financial planning whilst also minimising the impact on routes where the Home Office has a preference is for a lower fee. Option 2 is in the best interest of the UK tax payer, who may need to cover any financial shortfall.

Distributional Impact

The main groups affected by the fees changes are in-country PBS dependants and nationality registration applicants, but all would be required to pay the appropriate fee for their application. Indicative distributional impacts of these fee increases according to income can be found in annex 6. Impacts by gender and nationality are assessed in the policy equality statement produced in line with the latest government guidance.

G. Sensitivity Analysis

Option 2
Sensitivity analysis has been undertaken by re-estimating the NPVs with different assumptions for the elasticities.

For the low scenario it is assumed that volumes are not affected by the fee changes. In this scenario, there is a net benefit of £163.1 million (PV) over 5 years through additional revenue from fees.

For the high scenario, it is assumed that volumes decrease to a greater extent than is assumed in the central estimates. In this scenario, there is a net benefit of £167 million (PV) over 5 years through additional revenue from fees.

Having carried out some initial work to estimate the responsiveness of application volumes to fee changes for various visa products, it was found that fee changes have little impact upon application volumes. It therefore seems unlikely that the high scenario will be realised, since this assumes that application volumes are highly responsive to fee changes. However, Home Office recognises that this may change and will continue to assess the responsiveness of applicants to price over the longer term.

H. Enforcement

No impact on enforcement.

I. Implementation

The Home Office plans to implement these changes from the government common commencement date of 6 April 2014, 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 Home Office's website:

www.ukba.homeoffice.gov.uk

J. Monitoring and Evaluation

The effectiveness of the new fees regime will be monitored by the Home Office's 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

The Home Office will produce a Policy Equality Statement alongside the impact assessment when the Regulations are laid in Parliament in February 2014.

Annex 1: Proposed Fee Increases

The table below sets out the current fees for Home Office products alongside any 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 to the Home Office of processing each application are also given. Two impact assessments have been produced to accompany the two separate pieces of legislation required to amend Home Office fees. The column to the far right of the table below sets out which impact assessment the fee increase is analysed in. Only real terms fee increases (above inflation) are impact assessed. To simplify, optional premium products and products with low forecast volumes are excluded, as per section C.

	Products	**Unit Costs (£)**	**Forecast volumes excl PEO 2014/15***	**Current Fee (£)**	**Proposed Fee (£) Option 2**	**Impact Assessment**
Out of Country	Visit visa - short	£115	2,060,000	80	83	Negative
	Visit visa - long 2 year	£115	253,000	278	300	Affirmative
	Visit visa - long 5 year	£115	92,000	511	544	Affirmative
	Visit visa - long 10 year	£115	29,000	737	737	Affirmative
	Settlement	£378	41,000	851	885	Affirmative
	Settlement - Dependant Relative	£378	2,000	1,906	1,982	Affirmative
	Settlement - Refugee Dependant Relative	£378	300	407	378	Negative
	Certificate of Entitlement	£378	2,000	278	289	Negative
	Other Visa	£170	44,000	278	289	Affirmative
	Transit Visa (DATV)	£83	28,000	54	40	Negative
	Vignette Transfer Fee	£170	200	105	109	Negative
	Replacement BRP Overseas	£57	-	72	40	Negative
	Tier 1 - Main Apps	£352	4,000	840	874	Affirmative
	Tier 1 - Dependants	£352	8,000	840	874	Affirmative
	Tier 1 Graduate Entrepreneur Route - Dependants	£352	100	721	310	Affirmative
	Tier 2 Main Apps (up to 3 years)	£173	21,000	494	514	Affirmative
	Tier 2 Dependants	£173	24,000	494	514	Affirmative
	Tier 2 ICT <12Mths - Main Apps & Dependants	£173	25,000	412	428	Affirmative
	Tier 4 - Main Apps	£204	209,000	298	310	Affirmative
	Tier 4 - Dependants	£204	22,000	298	310	Affirmative
	Short Term Student <12 Months Visa	£115	25,000	144	150	Affirmative
	Tier 5 Temp Work & Youth Mobility	£131	37,000	200	208	Affirmative
	Tier 5 Temp Work dependents	£210	200	200	208	Affirmative
In Country	Naturalisation (UK Citizenship) Single	£144	56,000	794	826	Affirmative
	Naturalisation (UK Citizenship) Joint	£203	26,000	1,390	1,652	Affirmative
	Naturalisation (UK Citizenship) Spouse	£144	38,000	794	826	Affirmative
	Nationality Registration Adult	£144	2,000	673	743	Affirmative
	Nationality Registration Minor	£144	38,000	673	669	Affirmative
	Renunciation of Nationality	£85	1,000	187	187	Affirmative
	Nationality Reissued Certificate	£85	-	94	85	Negative
	Nationality Right of Abode	£85	1,000	170	177	Affirmative
	Nationality Reconsiderations	£85	-	80	80	Negative
	Status / non acquisition letter (Nationality)	£85	1,000	94	85	Negative
	Nationality Correction to Certificate	£85	-	94	85	Negative
	ILR Postal - Main	£248	34,000	1,051	1,093	Affirmative
	ILR Postal - Dependants	£248	12,000	788	1,093	Affirmative

LTR Non Student Postal Main	£278	78,000	578	601	Affirmative
LTR Non Student Postal Dependants	£278	24,000	434	601	Affirmative
Transfer of Conditions Postal Main	£107	2,000	147	107	Negative
Transfer of Conditions Postal Dependants	£107	300	147	107	Negative
No Time Limit Stamp - Postal Main	£104	5,000	147	104	Negative
No Time Limit Stamp - Postal Dependants	£104	1,000	147	104	Negative
Travel Documents Adult (CoT)	£246	5,000	257	246	Negative
Travel Documents Adult CTD	£69	13,000	73	69	Negative
Travel Documents Child (CoT)	£157	400	164	157	Negative
Travel Documents Child CTD	£49	4,000	46	46	Negative
Replacement BRP	£57	6,000	38	40	Negative
Employment LTR outside PBS Postal - Main	£278	-	578	601	Affirmative
Employment LTR outside PBS Postal - Dependants	£278	-	434	601	Affirmative
Tier 1 Inv & Entrepreneur - Postal - Main	£340	14,000	1,051	1,093	Affirmative
Tier 1 Inv & Entrepreneur - Postal - Dependants	£340	5,000	788	1,093	Affirmative
Tier 1 - Exceptional Talent Postal - Main (incl endorsement)	£340	100	1,051	1,093	Affirmative
Tier 1 - Exceptional Talent Postal - Dependants	£340	-	788	1,093	Affirmative
Tier 1 - Graduate Entrepreneur Postal - Main	£290	400	721	422	Affirmative
Tier 1 - Graduate Entrepreneur Postal - Dependants	£290	-	541	422	Affirmative
Tier 2 - Postal Main (up to 3 years)	£213	26,000	578	601	Affirmative
Tier 2 - Postal Dependants (Up to 3 years)	£213	17,000	434	601	Affirmative
Tier 2 - Postal Main (ICT <12 months)	£191	500	412	428	Affirmative
Tier 2 - Postal Dependants (ICT <12 months)	£191	100	309	428	Affirmative
Tier 4 - Postal Main	£203	86,000	406	422	Affirmative
Tier 4 - Postal Dependants	£203	11,000	305	422	Affirmative
Tier 5 - Postal Main	£187	1,000	200	208	Affirmative
Tier 5 - Postal Dependants	£187	100	150	208	Affirmative
Tier 4 - Permission to Change Course	£160	-	160	160	Negative
Tier 2 Large Sponsor Licence	£1,476	2,000	1,545	1,476	Affirmative
Tier 2 Small Sponsor Licence	£1,476	5,000	515	536	Negative
Tier 4 Sponsor Licence	£1,476	200	515	536	Negative
Tier 5 Sponsor Licence	£1,476	500	515	536	Negative
Multiple Tier	£1,476	400	515	940	Negative
Highly Trusted Sponsor Licence	£1,476	9,000	515	536	Negative
Sponsor Action Plan	£1,476	-	1,545	1,476	Negative
Tier 2 COS	£154	78,000	184	184	Affirmative
Tier 5 COS	£14	49,000	14	14	Negative
Tier 4 CAS	£14	323,000	14	14	Negative
EEA1	£88	23,000	55	55	Negative
EEA2	£88	38,000	55	55	Negative
EEA3	£88	21,000	55	55	Negative
EEA4	£88	14,000	55	55	Negative
Transit Visa (Landside)	£83	28,000	54	55	Negative

* These figures have been produced from internal management information in support of Home Office business planning and are not part of normal national statistics outputs.

Annex 2: Elasticity assumptions

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

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

Elasticity	Justification	Products	Magnitude		
			Low Scenario	**Central**	**High Scenario**
Wage elasticity of labour supply	Migrants demand UKBA products in order to supply labour in the UK. The wage elasticity of labour supply is thus used to estimate the impact on volumes of the proposed fee changes. e.g. an increase in fee is a reduction in expected wage, so should reduce labour supply.	Tier 1 visa, in-country, extensions, and dependants; Tier 1 Post-Study visa, in-country and extensions; Tier 2 General visa, in-country, extensions and dependants; Tier 2 ICT/Sports/MOR visa, in-country, extensions and dependants; Tier 5 Youth Mobility and Temporary Worker visa, in-country, extensions and dependants.	0	0.5	1.1
Wage elasticity of labour demand	Firms demand UKBA products in order to bring migrants to the UK to fill employment vacancies. The wage elasticity of labour demand is thus used to estimate the impact on volumes of the proposed fee changes for sponsorship.	Sponsor Action Plan; Tiers 2, 4 and 5 Certificates of Sponsorship; Sponsor Licences	0	-0.75	-1
Price elasticity of demand for higher education	Migrant students demand UKBA student products in order to purchase education in the UK. Price elasticity of demand for higher education is used as a proxy for migrant price elasticity of demand for all types of education accessed through Tier 4.	Tier 4 visa, in-country, extensions and dependants	0	-0.5	-1
Price elasticity of demand for air travel	The airfare elasticity of demand is used as a proxy for price elasticity of demand for a trip to the UK.	visit visa – 2 year, 5 year, 10 year; Other Visa	0	0	-0.5

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

Source	Estimate of wage elasticity of labour supply*	Measure
R. E Lucas and L. A. Rapping, "Real Wages, Employment and Inflation", *Journal of Political Economy*, 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", *Federal Reserve Bank of Richmond Economic Quarterly Volume 91/1 Winter 2005.*	1.0	Aggregate labour supply elasticity
L. Osberg and S. Phipps, "Labour Supply with Quantity Constraints: Estimates from a Large Sample of Canadian Workers", *Oxford Economic Papers, New Series, Vol. 45, No. 2. (Apr., 1993), pp. 269-291.*	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", National Centre for Register-based Research (NCRR), Version 5.002 31 October 2000*	-0.4	Elasticity of labour supply in the Danish Labour Market

*Note that the estimated wage elasticity of labour supply includes negative values indicating backward sloping or backward bending labour supply curve. This is due to the income effect outweighing the substitution effect. For a higher wage, individuals can decrease labour supply and enjoy the same level of consumption.

Table 3c: Empirical studies of the wage elasticity of labour demand

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

Table 3d: Empirical studies of the price elasticity of demand for higher education

Source	Estimate of price elasticity of demand	Measure
Tuition Elasticity of the Demand for Higher Education among Current Students: A Pricing Model Glenn A. Bryan; Thomas W. Whipple The Journal of Higher Education, Vol. 66, No. 5. (Sep. - Oct., 1995), pp. 560-574.	Between -0.12 to -0.3	Elasticity of demand for HE in a small private liberal arts college in Ohio, from increases in tuition fees between $6000 to $8000
Campbell, R. and B. Siegel. "The Demand for Higher Education in the United States, 1919-1964." American Economic Review, (June, 1967), pp. 482-94.	-0.44	Aggregate demand for attendance in 4-year institutions in the US from 1927 – 63
Hight, J. "The Supply and Demand of Higher Education in the U.S.: The Public and Private Institutions Compared." Paper presented to the Econometric Society, December, 1970.	Between -1.058 and -0.6414	Used Campbell and Siegel’s data and split up for public and private sectors
Hoenack, S., W. Weiler, and C. Orvis. "Cost-Related Tuition Policies and University Enrollments." mimeo., Management Information Division, University of Minnesota, 1973.	Between -1.811 to -.837	Private demand for the University of Minnesota, using longitudinal data from 1948-72.

Table 3e: Empirical study of the air fare elasticities of demand for foreign business flights to the UK

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

The Home Office has also sought to use its own evidence base in conjunction with that drawn from other sources by comparing estimates from the literature with our data. Where it is very clear that the elasticities are inappropriate, they have been amended them to reflect more closely what our evidence suggests, although it has not been possible to construct any elasticities due to difficulties in finding statistically significant control variables.

Annex 3: estimated fall in annual applications caused by the fee changes

Option 2

	Product	Change in Applications	Grant Rate	Central Elasticity	Average Annual Earnings	Average Length of stay
Out of Country	Visit Visa 2 year	0	86%	0.0	5,400	0.5
	Visit Visa - 5 Year	0	86%	0.0	9,850	0.5
	Settlement Family	11	61%	-0.5	22,780	3
	Settlement Dependant	1	61%	-0.5	22,780	7
	Other visa	8	97%	-0.5	22,780	1
	Tier 1 Main	1	50%	-0.5	32,830	3
	Tier 1 Dependant	1	81%	-0.5	32,830	3
	Tier 2 Main	2	98%	-0.5	45,600	3
	Tier 2 Dependant	2	96%	-0.5	45,600	3
	Tier 2 Short Term ICT Main	3	99%	-0.5	68,020	1
	Tier 4 Main	16	92%	-0.5	26,420	3
	Tier 4 Dependant	2	80%	-0.5	26,420	3
	Short term student	3	89%	-0.5	26,420	1
	Tier 5 Main	5	98%	-0.5	14,680	2
	Tier 5 Dependant	0	88%	-0.5	14,680	2
In Country	Naturalisation - Single	1	79%	-0.5	22,780	29
	Naturalisation - Joint	6	79%	-0.5	22,780	25
	Naturalisation - Spouse	0	79%	0.0	22,780	30
	Nationality - Adult	0	79%	-0.5	22,780	33
	Nationality - Minor	0	79%	0.0	22,780	47
	Nationality registration	0	79%	-0.5	22,780	23
	Indefinite leave to remain	1	94%	-0.5	22,780	32
	Indefinite leave to remain - Dependant	0	94%	0.0	22,780	46
	Leave to remain	40	63%	-0.5	22,780	1
	Leave to remain - Dependant	0	63%	0.0	22,780	1
	Tier 1 Investor & Entrepreneur	3	37%	-0.5	32,830	3
	Tier 1 Investor & Entrepreneur Dependant	0	38%	0.0	32,830	3
	Tier 1 Exceptional Talent	0	100%	-0.5	32,830	3
	Tier 1 Exceptional Talent Dependant	0	100%	0.0	32,830	3
	Tier 1 Graduate Entrepreneur	-1	88%	-0.5	19,250	3
	Tier 1 Graduate Entrepreneur Dependent	0	90%	0.0	19,250	3
	Tier 2	3	97%	-0.5	45,600	3
	Tier 2 Dependant	0	97%	0.0	45,600	3
	Tier 2 Short Term ICT	0	100%	-0.5	68,020	2
	Tier 2 Dependant Short term ICT	0	100%	0.0	68,020	2
	Tier 4 Main	19	86%	-0.5	26,420	1
	Tier 4 Dependent	0	86%	0.0	26,420	1
	Tier 5 Main	0	92%	-0.5	14,680	1
	Tier 5 Dependent	0	97%	0.0	14,680	1
Source	Home Office Internal Planning	LFS and Home Office Analysis	Home Office Income & Charging	Academic Literature and HO Analysis	Modelling Analysis	Modelling Analysis

Main applicant's earnings are applied to dependant products.

Annex 4. 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 2013 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 uprated using September 2013 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 migrants[5].This was also uprated by September 2013 ONS data on the average weekly earnings index.
- Tier 4 salary data was taken from the weighted average of median tuition fees for International students in 2012/13 (both undergraduate and postgraduate).
- Tier 5 salary data was obtained from LFS 2013 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, dependants' 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 dependant.

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 dependants 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.

Fiscal Impacts

Assumptions were taken largely from ONS, HMRC and Understanding Society (2013), 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, 2013). The average contribution made according to income quintile is calculated for council tax. (ONS, 2013, The effect of taxes and benefits on household income 2011/12).

Indirect tax is paid on items of expenditure and includes VAT, any duties paid on products (alcohol, fuel), licenses (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.

[5] (http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/settlement-restrictions-workers/).

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 5
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 may be 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. However 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 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 and 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 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, these are 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 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 definition[6] 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 3 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 3 – Aggregate costs for health, education and social services.

	£ per head - Min	£ per head - Central Estimate	£ per head - Max
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 3 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.

[6] 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 6
Analysis of Distributional Impact

No specific groups are affected by the fees 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. The lead option is a 4% increase across all fees (from 2013/14 levels), along with targeted increases relating to in country dependant applications and nationality registration applications. This section analyses the distributional impacts of these fee increases according to income. Impacts by gender and nationality are assessed in the policy equality statement.

Household income is a more relevant factor than individual income, especially for the products assessed here. The application fee for dependant products is unlikely to fall on the dependant themselves. It is more likely to fall on the household unit that includes both the main applicants and all household dependants. The ONS publish household income in the UK by quintile for all households in the UK in The Effects of Taxes and Benefits on Household Income. These income distributions include income, welfare payments and direct taxes.

Table 1 – Household Income Equivalised[7] Distribution

	Range - Household Income £		Average Disposable Income
	Bottom	Top	
1	0	15162	11548
2	15162	20268	17997
3	20268	26853	25352
4	26853	37334	34407
5	37334	High	60831

Source – ONS, Effects of Taxes and Benefits on Household Income 2011/12

Household income distributions for migrant groups are not currently available. The UK income distribution given in table 1 is obtained from the Living Costs and Food Survey and published by the ONS. Data is available by basic household characteristics such as employment or number of children but not by characteristics which would allow us to identify migrants such as nationality, country of birth or length of time in the UK.

The Labour Force Survey (LFS) does provide data by characteristics which allow us to identify migrants but it cannot be used to identify household income. This is because earnings questions are asked only in wave 1 and 5 and only to employed people. Earnings questions also have a high level of non response. In addition the LFS is weighted at the individual level and the dataset does not allow different weights to be applied to different members within the household.

The lack of available data means it is not possible to assess the impact of these fee increases on migrant groups. However, the following section assesses which groups will be affected by the changes and where they may fall on the income distribution.

In UK Dependant fee changes

The proposal to increase dependant fees for in UK dependant applications will primarily affect PBS migrants. In the twelve months to September 2013, Home Office granted 63,000 applications to PBS dependants out of total dependant grants of 74,000.[8] These are migrants who are extending their stay in the UK. Table 2 sets out the number of grants under each route.

Table 2 – Number of grants of extensions in the twelve months to September 2013.

Dependants	Decisions	Grants
PBS Tier 1	29,300	25,700
PBS Tier 2	26,300	25,600
PBS Tier 5	13,900	11,400
PBS Tier 4	300	300

Source – Immigration Statistics July – September 2013

[7] OECD Equivalence scale. Adjusts income to account for standard of living for different sized households.
[8] Immigration Statistics July – September 2013

Recent policy changes are likely to mean that the number of in country extensions fall in future years. Tier 1 and Tier 2 routes have been tightened resulting in fewer people entering the UK under these routes. The volume of Tier 1 extensions and associated dependants will be much lower in future years as the general route and post study work has been closed, meaning there are no new entrants into these routes. The Home Office does not hold data on average income of Tier 1 migrants.

Tier 2 migrants are required to have a sponsor in the UK, implying that main applicants will be employed. A report by the Migration Advisory Committee[9] in 2011 suggested that a Tier 2 general migrant earns an average of £44,500. This puts the average Tier 2 general migrant in the highest income quintile when compared to the UK income distribution. If the figures are adjusted for a Tier 2 household having children[10], they fall to quintile 4. This excludes any welfare or tax effects and any income from dependants which could increase household earnings.

Tier 4 migrants entering the UK in future will only be able to bring dependants if they are enrolled at a postgraduate course at university. This is expected to reduce volumes of dependants applying to extend their stay in future years. However, student households are likely to be at the lower end of the earnings scale which could put Tier 4 households in lower income quintiles.

Settlement

Data is not available on the previous immigration route for nationality applicants. However, it is likely that applicants will have a similar profile to settlement applicants. Applications for indefinite leave to remain are usually on employment or family routes. In the twelve months to September 2013, Home Office granted 152,300 applications for settlement. Around 40 percent were to applicants in the UK for reasons of employment and 39 per cent for family reasons. Employment migrants will have entered the UK on either Tier 1 or Tier 2 or precursor routes. Although no data on Tier 1 earnings is available, Tier 2 migrants are likely to be higher income deciles as explained above.

Table 3 – Settlement grants in the twelve months to September 2013

Route	Grants	%
Employment	**60,700**	**40%**
Asylum	**20,900**	**14%**
Family formation and reunion	**59,100**	**39%**
Other	**11,600**	**8%**
Total	152300	

Source – Immigration Statistics July – September 2012

Sponsors of family migrants are likely to be at the lower end of the earnings scale. The Home Office family migration evidence base[11] suggests that sponsors earn on average £1,200 per month post tax. This can be equated to £17,500 per year gross, although this takes no account of benefits or other deductions. The same publication also suggested that family spouse migrants can expect to earn £14,100 or £6,600 for male and female migrants respectively. This suggests that a family migrant household could expect to be earning between £24,100 and £31,600, placing them in quintile 3 or 4 of the UK income distribution. Adjusting these figures to account for children[12] could reduce the family household to the 2nd or 3rd quintile. Settlement applications from family members are expected to fall significantly from 2014 onwards as the probationary period for family migrants has been extended from two years to five years from July 2012.

Conclusion

With the exception of Tier 4 dependants, it is likely that those affected by the fee increases assessed in this impact assessment will fall in the upper quintiles of the UK income distribution. However, accurate income distributions for migrant groups are not available, so these results should be presented as indicative.

[9]MAC - Settlement Report - November 2011 http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/workingwithus/mac/settlement-restrictions-workers/

[10] Adjustment assumes two children and uses OECD equivalised scale.

[11] Home Office (2012) Family Migration evidence base. Available from - http://www.homeoffice.gov.uk/publications/science-research-statistics/research-statistics/immigration-asylum-research/occ94/occ94?view=Binary

[12] Adjustment assumes two children and uses OECD equivalised scale.

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 report[13] 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.

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 choose to leave the UK instead of extending their leave 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 7A, which sets out a very basic approach as an illustrative example to analysing the impact of displacement, over time, per cohort:

Working through Table A: 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 46 natives in year 1, 37 in year 2, 28 in year 3, 18 in year 4, 9 in year 5, and 0 in year 6.

[13] MAC (2012) Analysis of the impacts of migration.

Table 7A: 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

NB – 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. 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 a native employment associated with equivalent migrant outflows.

Application to this IA
In this IA, displacement arises from products where the fee is decreasing, as this is estimated to lead to an increase in demand for that product. This results in a marginal rise in the inflow of migrants. This is dependent on which product is considered, as not all products are associated with displacement/replacement: visit; transit; in country nationality/registration; in country indefinite leave to remain; various travel and transfer of condition documents; and EEA documents are not associated with displacement or replacement.

For those products seeing an increase in fee, the estimated resulting decrease in demand means a reduced inflow of migrants, and an increased outflow of migrants currently residing in the UK. Thus there will be the occurrence of replacement for those products appraised in this IA, i.e. those seeing a fee rise greater than inflation. 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 B outlines how the displacement/replacement methodology is applied to this IA:

Table B: Displacement/Replacement Applied

	2014/15	2015/16	2016/17	2017/18	2018/19
Volumes deterred from coming to the UK, and volumes choosing to leave the UK	91	91	91	91	91
Increased volume arriving or staying in the UK	1	1	1	1	1
Increased employment - UK residents	17	29	38	42	44
Decreased employment - UK residents	0	0	0	0	0

Numbers have been rounded

Table B outlines the volumes deterred from coming to the UK and choosing to leave the UK each year – which leads to replacement – and the volumes arriving and choosing to stay in the UK – which leads to displacement. This takes into account the displacement/replacement rate of 23 per cent and also factors in the diminishing rate of displacement/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.