

<b>Title:</b> <b>Impact Assessment for the Immigration and Nationality (Fees) Order 2016</b> IA No: HO0216  <b>Lead department or agency:</b> Home Office  <b>Other departments or agencies:</b>	Impact Assessment (IA)
	<b>Date:</b> November 2015
	<b>Stage:</b> Final
	<b>Source of intervention:</b> Domestic
	<b>Type of measure:</b> Secondary legislation
	<b>Contact for enquiries:</b> Fees & Income Planning Team, Home Office Corporate Services, c/o Vulcan House, Sheffield PO Box 3468, S3 4WA
<b>Summary: Intervention and Options</b>	<b>RPC Opinion: Not Applicable</b>

Cost of Preferred (or more likely) Option					
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2015 prices)	In scope of One-In, One-Out?	Measure qualifies as One-Out?	
£436.3m	0.0m	£0.0m	No	N/A	

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

The Home Office must ensure that fees for immigration and nationality services make a substantial contribution to the cost of running the immigration system. Only legislation will ensure that fees may be set so as to increase the contribution made by migrants and others who use and benefit most from these services, in line with government policy. Government intervention is necessary to ensure a balanced Home Office budget.

This statutory instrument is required to set fees under the Immigration Act 2014. For all categories of immigration and nationality products, the Immigration Act 2014 requires that maximum fee levels or rates must be specified for all products and services where a fee is to be charged. Maximum fee levels help to provide reassurance on the future possible direction of immigration and nationality fees and ensure there is sufficient flexibility to introduce new products and services in support of government objectives.

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

- Specify the immigration and nationality functions in respect of which fees are to be charged
- Set fees for those immigration and nationality functions, based on processing costs, entitlements, and specific policy objectives to ensure the immigration system is adequately funded
- Develop and extend charging arrangements for optional, premium services which help to meet customer demand, support economic growth and limit fee increases in other areas

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

Option 1: Do nothing, make no changes to the maximum amounts set out in the Immigration and Nationality Fees Order 2015.


Option 2: To set fees in line with their expected levels, as outlined in the schedule in annex 2.

**Option 2 is preferred. The fees order will enable fees to be set in line with their expected levels, while at the same time maintaining flexibility. The option will best ensure that the income from fees delivers a balanced budget for financial year 2016-17 and future years (to 2019/20). The option best meets both the Home Office's 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:** Start 06/2016

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	<b>Micro</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b> N/A		<b>Non-traded:</b> N/A

**I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.**

Signed by the responsible Minister:  Date: 08/01/2016

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

Price Base Year 2016	PV Base Year 2016	Time Period Years 5	Net Benefit (Present Value (2015 PV)) (£m)		
			Low: 0.0	High: 524.4	Best Estimate: 436.3

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant)	Total Cost (Present Value)
Low	0.0	0.0	0.0
High	0.0	27.2	128.3
Best Estimate	0.0	8.6	40.0

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

Home Office – Lower revenue due to lower application volumes arising from fee increase - £6.5 million  
 Department of Health - Lower revenue from the Immigration Health Surcharge due to lower application volumes arising from fee increase - £0.5 million  
 UK Exchequer – Lost tax contribution from reduction in migrants - £32.9 million

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

If some migrants decide to leave the UK that were in employment, there may be some wider indirect impacts on their employers. The monetised cost of migrant and visitor spending includes the proportion of spending that accrues to the government. There may be small wider indirect costs to business as a result of deterred visitor spending but it is not clear how much visitor expenditure directly benefits the resident population.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant)	Total Benefit (Present Value)
Low	0.0	0.0	0.0
High	0.0	139.3	652.7
Best Estimate	0.0	103.0	476.2

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

Home Office – Increased revenue from applicants who continue to apply – £450.3 million  
 Home Office – Reduced processing costs from applicants who are deterred - £8.4 million  
 UK Exchequer – Savings from lower public service provision - £17.1 million  
 Increased employment for UK residents - £0.4 million

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

It is possible that lower net immigration to the UK could result in some wider benefits in terms of improved social cohesion, reduced congestion and transport costs, but these impacts would be expected to be small.

**Key assumptions/sensitivities/risks**

3.5%

Volumes for 2016/17 are as forecast by Home Office (set out in Annex 2). Migrant price elasticities are assumed to be as set out in Annex 3 (in-country dependants of main applicants to the PBS routes and Tier 4 students are assumed to be non-responsive to changes in fees; settlement and nationality applicants are assumed to exhibit some price sensitivity). Elasticity effects are based on the change in fees against the expected income of the applicant over the expected duration of stay in the UK. Exchequer 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 OITO?	Measure qualifies as
Costs: 0.0	Benefits: 0.0	Net: 0.0	No	N/A

## **Evidence Base (for summary sheets)**

### **A. Strategic Overview**

#### **A.1 - Background**

By 2019/20, the Home Office estimates that 100% of the costs of front-line Immigration, Border and Citizenship operations will be recovered through fees. If fee income is insufficient to fund operating costs, the remainder of costs will be met from general taxation. 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 its costs, thereby reducing the burden on UK tax payers.

The government's current Comprehensive Spending Review (CSR) will require further reductions in the Home Office budget over the next four years. The savings will be achieved through a range of measures, including efficiency savings and an increased contribution from fees paid by migrants and others applying for immigration, nationality and related services.

If fees remained at current levels, after planned expenditure reductions the shortfall in the Home Office's resource budget in 2016/17 would be around £140 million. By the end of the spending review period in 2019/20, when the Home Office plans to achieve a self-funding BIC system, the shortfall with no fee increases would rise to around £310 million.

The additional income generated will mean the Home Office can maintain or improve the services it provides to migrants, thus supporting economic growth, while reducing the contribution from general taxation.

Fee levels are set within strict financial limits and are agreed with HM Treasury and approved by Parliament. Fees are set in line with clear principles which balance a number of complex factors. In accordance with the Immigration Act 2014, these factors include the administrative costs of processing an application, the wider costs of the immigration system, and the benefits and entitlements of the product to a successful applicant. Other factors that may be used to set fees include the following:

- the promotion of economic growth,
- comparable fees charged by other countries, and
- international agreements.

Within these criteria the government aims to limit fee increases on the most economically beneficially sensitive routes in order to continue to attract those migrants and visitors whom add significant value to the UK economy. Some fees are set above the cost of delivery, to reflect the value of the product or the wider costs of the immigration system. 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). Optional, premium services, charged above cost, are offered to meet customer demands and to limit fee increases in other areas.

Significant efficiency savings are being made within the immigration system, to deliver a value for money service. It is appropriate that any remaining shortfall should be met by those who use and 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 and will be the main group affected by the fees increases.

To ensure the Home Office has sufficient funds to operate the immigration system, fees for the majority of products are likely to increase over the next 4 years. Groups affected will include:

1. In-country & overseas Points Based System (PBS) applicants and their dependants (spouses, partners and children).
2. Main applicants and dependants applying for nationality

3. Both short term (up to 6 months) and long term visit visas (for multiple entries to the UK over two, five or 10 years).
4. Applicants applying for indefinite leave to remain.
5. Users of optional premium services that provide an alternative to the standard service (quicker decisions, faster/alternative border processing, consideration at alternative premises etc.).

While the fees paid by UK businesses (such as sponsorship costs) are not expected to increase, the option may indirectly affect UK businesses if migrant workers are deterred from entering or remaining in the UK.

### **A.3 - Consultation**

#### *Within Government*

Fee proposals are assessed in the context of broader government objectives by officials from all relevant government departments. They consider a range of factors including the UK's attractiveness in key markets (such as tourism, business, and education) to ensure a balance is maintained between keeping fees at fair and sustainable levels and the Home Office's need to recover its operating costs in order to achieve a self-funding system. The proposals contained in this impact assessment have been agreed in principle with other government departments, that the next Fees Order should make provision for immigration fees changes over the whole SR period. We will therefore be able to set maximum fee amounts in the Order that are beyond the actual proposed fee level, to give us the scope to vary fees in order to maintain a self-financing BIC system.

#### *Public Consultation*

The Home Office ran a targeted consultation exercise between 12 November and 3 December 2013 on charging principles. The Home Office consulted specific stakeholder groups in key sectors such as business, education, tourism, and immigration legal advisors. The responses were broadly similar to those from the previous consultation undertaken in 2009. A response document was published on the government consultation website on 30 January 2014.

The then named 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 98 responses<sup>1</sup>. In response to this consultation, an overwhelming majority of respondents (over 90%) agreed that immigration and nationality fees should continue to be set flexibly, taking into account wider policy objectives. Parliament has affirmed this general principle in debates on Home Office charging legislation.

The consultations conducted in 2009 and 2013 were considered in producing these proposals.

### **B. Rationale**

The Home Office wishes to ensure that the fees it charges for nationality and immigration services are set at appropriate levels to contribute adequately towards the costs of running the immigration system. The financial constraints on public spending mean 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.

### **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; and
- That the fees are set fairly, at a level that reflects the real value of a successful application to those who use the service.

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<sup>1</sup> 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 options build on the existing Home Office fees policy and support broader UK government policy objectives (for example, to support growth, and 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 the fees maximum amounts at the levels set out in the Immigration and Nationality Fees Order 2015.

**Option 2:** Increase maximum amounts so as to set fees in line with their expected levels, as outlined in the schedule in annex 2.

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

This Impact Assessment (IA) has been undertaken to examine the economic costs and benefits of the expected schedule of fees which are enabled by the 2016 Fees Order. It analyses the two fee options set out in annex 2 using three scenarios; a 'low', 'central' and 'high' scenario.

- Under both option 1 and the 'low' scenario for option 2, fees are treated as remaining constant at their 2015/16 levels throughout the IA period (2016/17-2021/22).
- In the 'central' scenario for option 2, fees are, by and large, treated as rising gradually towards the level that are expected to reach by 2019/20 and remaining at that level thereafter.
- In the 'high' scenario under option 2, fees are treated as increasing to the level that they are expected to reach by 2019/20 in 2016/17 (i.e. 3 years earlier than planned) and then remaining at that level for the remainder of the IA period. The 'high' scenario also includes alternative assumptions relating to the elasticities, net fiscal contributions and displacement assumptions.

The schedule of changes is currently being considered by cross-departmental committee and the future fees levels have not yet been finalised. Therefore, the schedule outlined in annex 2 is indicative of the fees that could be implemented within the range allowed by the Fees Order. These figures should not be treated as a forecast of the actual fee in each year.

It should be noted that the Fees Order sets maxima that are, in some cases, above the expected levels set out in annex 2 and modelled in this impact assessment. However, the impact assessment aims to assess the most likely impact of the fees measures. Whilst the higher fees maxima results in the ability for the Home Office to vary fee levels in the future, raising actual fees to the maximum levels allowed by the Order would require cross-government agreement, HAC clearance and another impact assessment. A notable category where this applies is for sponsorship products, purchased by UK businesses. The price of these sponsorship products is not currently expected to rise. However, since the Fees Order does provide an 'enabling power' to raise these fees in future (subject to further cross-government approvals and impact assessments), the impact of increasing the fees for these products on business costs is assessed in the risks section of the IA.

This IA does not assess the impact of the introduction of additional pre-licensing checks to obtain sponsorship licenses as this will be assessed by a separate impact assessment when the proposals are subject to public consultation.

## **General Assumptions & Data**

*Time Horizon:* The impacts are assessed over a five-year period. This is because potential future changes to the immigration system and the inexactness of projection methods, mean that application forecasts are not considered to be accurate over a ten-year period. As with other IAs, the impacts of the policy under consideration are likely to reach beyond the period considered by the IA, particularly in this case concerning migrants who would otherwise apply for permission to remain permanently in the UK. If the impacts were considered over a longer horizon, the impacts would be larger.

*Objective function:* The IA quantifies the impact of the options under consideration on the welfare of the resident population, defined as those who are already formally settled in the UK. This is in line with the recommendations of the Migration Advisory Committee (January 2012). As a result, the NPV calculation includes the effects from changes in fiscal contributions, public service consumption, consumer and producer surplus and dynamic effects where practical, appropriate and proportionate, but excludes forgone migrant wages (net of taxes) because the benefit of those wages would not accrue to the resident population. 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.

*Products with negligible volumes and optional services:* The impacts of fee changes to categories where forecast volumes are negligible are assumed to be zero. The IA has not included assessment of the impact of optional or premium services which are offered to applicants as a variation of the standard service (e.g. same-day applications made in person), as these services are optional.

*Risks:* The Risks section considers the impact of varying assumptions about;

- the price sensitivity of applicants,
- their impact on public services and
- the length of time taken for the economy to adjust to changes in migrant flows and displacement rates.

## **Option 1 – Do nothing**

### *Baseline Volumes*

The projected volumes for each product in 2016/17 are set out in Annex 2. These forecasts are Home Office internal planning assumptions and may not match published volumes of products granted. In the absence of fee changes (option 1), the IA assumes that application volumes remain constant at 2016/17 levels for the remainder of the IA period. As a result, application volumes for future years (both the baseline and alternative options) are indicative only.

### *Costs*

There are no additional costs under option 1.

Doing nothing and maintaining fees maxima at their current level would expose the Home Office to increased risk of generating insufficient income to meet the costs of operating an effective borders, immigration and citizenship system. It would also limit the Home Office's provision to change the level of fees for the benefit of the UK in a way that achieves value for money for the taxpayer, and to ensure high quality services capable of attracting the brightest and best migrants to the UK.

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

### *Benefits*

There are no additional benefits under Option 1.

## **Option 2 – Set visa fee maxima as outlined in annex 2**

The indicative level of fees (between 2016/17 to 2020/21) under consideration under Option 2 are set out in Annex 2.

For the central scenario, indicative fees are (generally) based upon:

- Increases in 'growth' route product fees, including short-term and long-term visit visas, by around 8% from 2015/16 levels by 2019/20.
- All other routes increased by around 25% in 2016/17, 18% in 2017/18, and do not increase thereafter.
- The price of sponsorship products all remain unchanged.

As described above, these should not be treated as a forecast of actual fees since fees for each year are subject to cross-government committee consideration.

The high scenario represents the impact of an alternative time profile of fees increases resulting in significantly higher increase in fees than currently expected in the early part of IA period – though still within the bounds of what the Fees Order would allow. As described above, in the high scenario, fees are treated as increasing to their expected levels for 2019/20 in the first year of the IA - 2016/17 - and remaining at that level thereafter.

### **Calculating the impact on application and grant volumes**

The UK competes with other countries to attract tourists, students and workers. Therefore it is possible that increasing visa fees may deter potential migrants from applying to enter or remain in the UK.

For the purposes of this IA, modelling the economic impacts of fee increases revolves around applying estimates of the responsiveness of demand for visas to the expected price changes (the price elasticity of demand for various visas) and then quantifying the impact of resultant changes in visitor volumes to different sectors of the economy.

So far, through its programme of analysis, the Home Office has not found robust evidence of a relationship between changes in fees and the volume of applications for various visa products. However this does not establish with certainty that no such relationship exists. In order to err on the side of caution (i.e. overestimating rather than underestimating the costs of making changes to visa fees) this assessment applies estimates of the price elasticities of demand for other products, such as the wage elasticities of labour supply and demand for work-related routes, as proxies for the price elasticity of demand for Home Office products. These proxies are based upon estimates from the academic literature. Further details of the studies used in the latest literature review can be found in Annex 3.

The 'Risks' section of this impact assessment includes consideration of the sensitivity of the findings to changes in applied elasticities. The central scenario uses the proxies suggested by the latest literature review,<sup>2</sup> with the 'low' impact scenario assuming no reaction to price changes (zero elasticity) and the 'high' impact scenario assuming that elasticities are larger than those suggested by the literature. The elasticities used in the sensitivity analysis are also summarised in Annex 3.

#### *Work-related visas - Supply of Labour*

Migrants typically demand work-related visa products in order to supply labour in the UK. Therefore, the reduction in migrant volumes entering or remaining in the UK for work-related reasons as a result of changes in visa prices has been estimated by applying estimates of the wage elasticity of labour *supply* (which measures the responsiveness of the supply of labour to changes in wages) to the expected earnings over the duration of the visa. Increases in visa fees (paid by migrants) are therefore considered as equivalent to a reduction in pay, measured over the duration of the visa.

The central scenario assumes a small reduction in the willingness to supply labour as a result of changes in visa fees, applying an elasticity of -0.5. The low scenario assumes a zero response to the change in wage. The high scenario uses an elasticity of -1.1.

#### *Settlement and Nationality – Supply of labour*

For settlement and nationality applicants, price sensitivity is also assumed to be similar to that of migrants supplying labour. The majority of applicants would have been in the UK over 5 years before being eligible to apply for Indefinite Leave to Remain (ILR) or nationality and are therefore likely to have been in or wanting to work. A wage elasticity of -0.5 is therefore applied in the central scenario. It is possible that the true elasticity is closer to zero, as applicants would have invested time in the UK (five years) before being eligible to apply for leave or nationality and by applying for settlement or nationality demonstrate they would like to remain in the UK indefinitely. In addition, a one-off payment for the visa fee allows for a lifetime of access to the UK labour market and the associated wages. For these reasons, the elasticity of -0.5 may overstate the responsiveness of an applicant to a fees change. The sensitivity analysis uses an elasticity range of 0 to -1.1 (based on the evidence in Annex 3). The wide range reflects the available evidence, the uncertainty, and the range of possible deterrence risks.

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<sup>2</sup> Elasticities based on the price sensitivity of demand for air travel are updated regularly based on table 2.1 in *UK Aviation Forecasts 2013* published by the Department for Transport available here: [www.gov.uk/government/publications/uk-aviation-forecasts-2013](http://www.gov.uk/government/publications/uk-aviation-forecasts-2013).

### *Dependants of migrants*

For in-country PBS dependant applications, the central scenario assumes no price sensitivity of visa demand. This is because applicants are already in the UK with their family member (the main PBS migrant). The 'high' scenario assumes an elasticity of -0.5 (based upon the elasticity of labour supply) to reflect the chance that some applications could potentially be deterred.

The elasticity for out of country dependents is assumed to be the same as the elasticity applied to the main applicant.

For the categories outlined above, the proposed changes in fees and elasticities are applied to the expected earnings of the migrants over the expected duration of their stay in the UK to estimate the impact of the fees changes of application volumes. The expected earnings are assumed to grow in line with the OBR's forecast for growth in wages and salaries over the IA period. Historic application-grant rates are then used to estimate the impact on grant volumes. For in-country dependants of PBS migrants, the elasticity is applied to the potential earnings of the main applicant over their expected duration of stay as they are likely to pay for the cost of the dependant's fee.

### *Study-related visas - Demand for Higher Education*

International students demand student visa products in order to purchase education in the UK. Therefore, the reduction in migrant volumes entering the UK for study-related reasons as a result of changes to study-related visa fees could be estimated by applying estimates of the price *elasticity of demand for higher education* (which measures the responsiveness of the demand for higher education due to changes in costs) to the overall costs of undertaking higher education in the UK. International estimates for the price elasticity of demand for higher education would typically suggest a central estimate of around -0.5 (Annex 3).

However, this elasticity represents the response of an individual student to changes in the overall cost of education. It does not describe the response of international students in aggregate. The available evidence suggests that places at UK institutions are oversubscribed by international students and that the number of international students in higher education has continued to increase over time, despite increases in tuition costs, living expenses and visa fees. This may be because small changes in visa fees are inconsequential relative to the overall cost of studying in the UK or it may be because places vacated by students deciding not to come to the UK are filled by other international students. Therefore in the central scenario, it is assumed that increases in student fees have no effect on the number of the number of migrants coming to the UK to study. The 'high' scenario applies an elasticity of -1.

### *Visit visas - Demand for Air Travel*

The *airfare elasticity of demand* is the responsiveness of the demand for air travel to changes in the price of air travel. Estimates of this from Department for Transport figures have been used as a proxy for the price elasticity of demand for a trip to the UK. In the case of visitors, who aren't generally assumed to derive an income from their visit, the change in the price of a visit visa has been applied to the typical airfare paid by visitors to the UK from visa-paying countries to estimate the reduction in visa demand as a result of the increase in visa price.

### *Impact on application and grant volumes*

Table 1 below presents potential changes in application and grant volumes between 2016/17 and 2020/21 relative to the baseline case, which assumes no change in fees. The table captures the potential impacts of the fee changes listed in annex 2, which are calculated by applying the demand assumptions listed above. In many categories, application volumes may still increase throughout the IA period relative to their current (2015/16) levels as general growth in applications for these categories or specific measures to encourage more applications are likely to outweigh the relatively small reductions that may result from fee increases.



**Table 1: Impact of fee changes on application and grant volumes**

		Applications (planning assumption)*	Estimated decrease in applications / grants vs 2015/16 baseline**				
			2016/17	2016/17	2017/18	2018/19	2019/20
Out of Country	Visit Visa	2,528,000	3,800 / 3,300	7,990 / 6,930	11,850 / 10,280	15,380 / 13,340	14,730 / 12,780
Out of Country	Settlement	55,000	100 / 60	180 / 120	170 / 110	170 / 110	160 / 100
Out of Country	Other	49,000	80 / 70	130 / 110	120 / 110	120 / 110	120 / 100
Out of Country	PBS Tier 1/2	104,000	10 / 10	20 / 20	30 / 20	30 / 30	30 / 30
Out of Country	PBS Tier 4	256,000	- / -	- / -	- / -	- / -	- / -
Out of Country	PBS Tier 5	48,000	10 / 10	20 / 10	20 / 20	30 / 30	30 / 30
In Country	Settlement	151,000	20 / 20	30 / 30	30 / 30	30 / 30	30 / 30
In Country	Other	52,000	- / -	- / -	10 / -	10 / 10	10 / 10
In Country	PBS Tier 1/2	65,000	- / -	10 / 10	10 / 10	10 / 10	10 / 10
In Country	PBS Tier 4	48,000	- / -	- / -	- / -	- / -	- / -
In Country	PBS Tier 5	1,000	- / -	- / -	- / -	- / -	- / -
In Country	Family Extension	91,000	90 / 50	170 / 90	170 / 90	160 / 80	150 / 80
In Country	Sponsor	448,000	- / -	- / -	- / -	- / -	- / -

Source: Home Office Analysis

\* Figures rounded to the nearest thousand

\*\* Figures rounded to the nearest ten

“Zero” results relate to categories with extremely low volumes and/or elasticities or no proposed price changes

Table 1 demonstrates that the change in application and grant volumes is expected to be small for most products relative to the number of applications received. This is because the changes in fees are small compared to the estimated earnings, costs of living and costs of travel of those affected.

The largest estimated impact is on applications and grants of visit visas, primarily short-term visit visas. However, there is considerable uncertainty surrounding the effects of changes in visa fees on demand. The estimated reductions presented in Table 1 are not based upon elasticities derived from the impact of previous increases in fees (for which no effect has been identified) and the estimates should be interpreted with this uncertainty in mind. On the basis of evidence from previous fee increases, it is possible that the reductions in applications and grants may be lower than in table 1.

## Costs and Benefits

In the following sections, the expected impacts of the changes in migrant volumes are set out. The impacts are monetised for inclusion in the cost-benefit analysis under two headings;

- direct costs and benefits, and
- indirect or ‘wider’ costs and benefits.

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

The **wider/indirect** costs and benefits are those associated with the wider economy, labour market activity, public services, innovation, trade and investment. As described by the MAC (2012), the wider benefits of a reduction in volumes of migrants in the UK could, for example, relate to reduced pressure on public services, reduced congestion pressures and possible improvements in social cohesion. Many of these effects are difficult accurately to quantify and/or monetise but they have been described where possible. The impacts of some of these wider effects have not all been estimated as the resource required to do so accurately would be disproportionate to the magnitude of the impact, given the low potential volumes of individuals affected.

The following sections describe in more detail how the costs and benefits have been calculated, and summarises the results. In general, the method is straightforward: the total costs and benefits are the product of the change in volume and the estimated unit cost or benefit of each category. While changes in application volumes have been used to calculate the direct costs and benefits, changes in grant volumes have been used to calculate the indirect impacts. This is because the indirect costs and benefits apply only to the volume of people deterred from entering or remaining in the UK, not the volumes deterred from applying. The grant rate for each product affected is set out in Annex 4.

The 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 some applicants are deterred from applying for an immigration or visa product.

Table 1 outlines the expected change in application volumes and Table 6 in Annex 2 outlines the change in fees. It is estimated that Home Office revenue will fall by £6.5 million (2016 PV) over a five year period.

### *Department of Health Revenue*

There will be an impact on the Department for Health's revenue from the 'Immigration Health Surcharge' (IHS) if some applicants are deterred from applying for an immigration or visa product.

The IHS applies to several visa categories where the length of visa granted exceeds 6 months. Applicants for eligible visa categories are currently required to pay £100 for every 6 months of their visa duration (or £75 per 6 months for students). It is assumed that this level remains constant throughout

Based upon the expected change in application volumes to eligible visa categories, it is estimated that Department of Health revenue raised by the Immigration Health Surcharge will fall by £0.5 million (2016 PV) over a five year period.

## **Indirect Costs**

### *Impacts on the Exchequer*

The estimated deterrence of migrants is expected to reduce exchequer income through lower direct and indirect tax revenues. The direct and indirect tax contribution of migrants can be calculated using their estimated average gross earnings or spending in the UK, current income tax rates and assumptions around indirect tax rates (see Annex 5).

Using the estimated reduction in grant volumes and the proportion of those expected to be in employment and the average exchequer impact, the overall impact is expected to be around £32.9 million (2016 PV) over 5 years.

The estimated impacts on the exchequer do not take account of the potential adjustment of the economy and labour market to the reduction in working migrants in the UK (e.g. higher exchequer contributions from resident workers who 'replace' working migrants) as the impact of this is expected to be very small. Estimates of labour market displacement and replacement are included in the section 'increased opportunities for UK residents' below. That section outlines estimates of the impact of increased UK employment associated with reduced volumes of migrant workers.

### *Impacts on migrant income*

A reduction in the volume of migrants coming to the UK to work, extending their stay or settling in the UK is likely to lead to a reduction in household income of international migrants, as some of them may have been in employment in the UK. However, as set out in the 'General assumptions' section, the NPV of the policy presents only the impact on the welfare of UK residents. Therefore, the lost wages accruing to migrants are not included in the calculation.

A reduction in the volume of those migrants who are settled in the UK and applying for nationality should not result in a reduction in income, as declining to apply for nationality (due to an increase in the fee) would not mean the applicant needs to leave the country – in order to apply for nationality they would necessarily already have indefinite leave to remain.

## Direct Benefits

### *Increase in Home Office revenue*

Higher fees will increase income to the Home Office from those that continue to apply. This is calculated by multiplying the change in the fee by the expected application volumes after the change. It is estimated that Home Office revenue will rise by £450.3 million (2016 PV) over a five year period.

### *Reduction in Home Office processing costs*

A fall in application volumes as a result of increased product fees will result in administrative savings for the Home Office as processing costs fall. The cost of processing each application in 2015/16 is set out in Annex 2. Unit costs are assumed to increase in line with the OBR's forecast for inflation (as measured by the GDP deflator) throughout the appraisal period. As a result of reduced application volumes, it is estimated that Home Office processing costs, including those associated with administering the Immigration Health Surcharge, will fall by around £8.4 million (2016 PV) over a five year period.

## Indirect Benefits

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

If there is a reduction in the volume of migrants in the UK, then this could help reduce pressures on public services by reducing the volume of people eligible to use them.

The savings from fewer migrants are estimated to be £17.1 million (2016 PV) over a five year period.

The savings are calculated by estimating the typical public service costs associated with various categories of migrants and then multiplying these by the expected changes in volumes. The methodology and assumptions used to estimate the public service savings are outlined in Annex 6.

### *Increased employment opportunities for UK residents*

If a migrant who would have been gainfully employed in the UK labour market is deterred from applying to come as a result of the fee increase, then they may be replaced by a UK resident when they depart the UK or are deterred from entering the UK. The Home Office's working assumptions are that in normal economic circumstances (or economic upturn):

- skilled migrants entering the UK labour market do not displace native workers
- for every 100 low skilled migrants entering the UK labour market, 15 native workers will be displaced, although this effect dissipates over time and the displaced workers will be fully re-employed within 3 years.

This is based on a literature review of the impacts of migration on UK native employment published jointly by the Home Office and the Department for Business, Innovation and Skills.<sup>3</sup>

The Central assumption in this Impact Assessment is that for every 100 low-skilled migrants departing from the UK or deterred from entering, 15 additional UK workers will enter employment. Skill levels are inferred from visa application category and while some element of the displacement effect is expected to last from one year to the next, it is expected to diminish over time, having dissipated completely within 3 years (in the 'central' scenario). The impact of variations to this assumption is discussed in the 'Risks' section.

To monetise this impact, the typical (median) wage of applicants to each visa type is adjusted to account for the approximated employment rate, as not all may be in employment. This adjusted wage is then applied to each applicant deterred to produce a monetary value of the increased employment opportunities for UK residents. Annex 7 outlines a description of the findings regarding displacement effects and their application in this impact assessment.

Summing the number of UK residents gaining employment over the 5 year IA period and then taking into account the employment-adjusted earnings of the typical applicant for each product, the benefit to UK

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<sup>3</sup>Occasional Paper 109 *Impacts of migration on UK native employment: an analytical review of the evidence*  
available at: [www.gov.uk/government/publications/impacts-of-migration-on-uk-native-employment-an-analytical-review-of-the-evidence](http://www.gov.uk/government/publications/impacts-of-migration-on-uk-native-employment-an-analytical-review-of-the-evidence)

residents from increased employment opportunities is estimated to be around £0.4 million (2016 PV) over the period 2016/17-2021/22.

## Summary of costs and benefits

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

**Table 2 Costs and Benefits Summary (2016/17 PV)**

Present Values	2016/17	2017/18	2018/19	2019/20	2020/21	NPV
<b>Benefits</b>						
Net Revenue raised from fee changes for those who continue to apply	£51.4m	£93.3m	£99.9m	£105.6m	£100.1m	£450.3m
Saving to UKVI from processing fewer applications	£0.7m	£1.4m	£1.9m	£2.3m	£2.2m	£8.4m
Savings to UK due to lower public service provision	£2.7m	£4.8m	£4.5m	£3.4m	£1.7m	£17.1m
Increased employment opportunities for UK residents	£0.0m	£0.1m	£0.1m	£0.1m	£0.1m	£0.4m
<b>Total benefits (PV)</b>	<b>£54.8m</b>	<b>£99.5m</b>	<b>£106.4m</b>	<b>£111.4m</b>	<b>£104.1m</b>	<b>£476.2m</b>
<b>Costs</b>						
Loss of revenue from fewer applications as a result of the fee change	£0.6m	£1.2m	£1.5m	£1.7m	£1.6m	£6.5m
Exchequer loss from reduction in migrants coming to and remaining in the UK	£4.0m	£7.4m	£8.3m	£8.1m	£5.0m	£32.9m
Lower Revenue from the Immigration Health Surcharge	£0.1m	£0.1m	£0.1m	£0.1m	£0.1m	£0.5m
<b>Total costs (PV)</b>	<b>£4.7m</b>	<b>£8.7m</b>	<b>£9.9m</b>	<b>£9.9m</b>	<b>£6.7m</b>	<b>£40.0m</b>
<b>Net benefit (PV)</b>	<b>£50.1m</b>	<b>£90.8m</b>	<b>£96.5m</b>	<b>£101.5m</b>	<b>£97.4m</b>	<b>£436.3m</b>

Source: Home Office Analysis

Figures rounded to the nearest £0.1 million

## In country transfers

The impact assessment aims 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. The increased fees paid by applicants that are non-residents and those paid by applicants outside of the UK therefore feature in the NPV calculation as benefits to the UK, but the corresponding costs to the migrants themselves are not included.

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

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

**Table 3 Summary of transfers from in-country resident applicants to the Home Office, option 2 (2016 PV)**

Present Values	2016/17	2017/18	2018/19	2019/20	2020/21	NPV
<b>Transfer benefits</b>						
Increase in Home Office fee income from in-country applications	£28.2m	£50.8m	£48.2m	£45.7m	£43.3m	£216.2m
Saving to UK individuals from submission of fewer applications	£14,000	£28,000	£25,000	£22,000	£20,000	£109,000
Saving to UK businesses from submission of fewer applications	-	-	-	-	-	-
<b>Total transfer benefits</b>	<b>£28.2m</b>	<b>£50.8m</b>	<b>£48.2m</b>	<b>£45.7m</b>	<b>£43.4m</b>	<b>£216.3m</b>
<b>Transfer costs</b>						
Loss in Home Office revenue from fewer in-country applications	£14,000	£28,000	£25,000	£22,000	£20,000	£109,000
Increase in UK individuals' costs from continued applications	£28.2m	£50.8m	£48.2m	£45.7m	£43.3m	£216.2m
Increase in UK business' costs from continued applications	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m
<b>Total transfer costs</b>	<b>£28.2m</b>	<b>£50.8m</b>	<b>£48.2m</b>	<b>£45.7m</b>	<b>£43.4m</b>	<b>£216.3m</b>
<b>Net impact</b>	<b>£0.0m</b>	<b>£0.0m</b>	<b>£0.0m</b>	<b>£0.0m</b>	<b>£0.0m</b>	<b>£0.0m</b>

Source: Home Office Analysis

Figures rounded to the nearest £0.1 million

## Wider Impacts of Option 2

### Impact on Home Office Income

Following fee increases, the Home Office's revenue from immigration and visa fees is estimated to increase by:

- £450.3 million (5 year PV, 2016 base) from applicants who are not yet considered UK residents (presented in Table 2)
- £216.2 million (5 year PV, 2016 base) from applicants who are already settled in the UK and are thus considered UK residents (presented in Table 3)

The Home Office will also see a reduction in processing costs due to the volume of applications that are deterred both outside the UK and from inside the UK. This equates to around £8.4 million (5 year PV, 2016 base).

There may be a reduction in fee revenue of around £6.7 million (5 year PV, 2016 base) from deterred migrants.

The overall impact on Home Office is positive: The net change in Home Office income may be around £668.2 million (5 year PV, 2016 base including revenues from UK residents) over the period 2016/17 to 2020/21. This assumes that fees are set in accordance with the 'central' scenario.

## **Impact on Employers**

### *Potential Costs to Business*

It is estimated there will be no direct regulatory cost to business as increases to fees and charges are not considered to be a new regulatory burden.

At this stage, there are no expected changes to the cost of obtaining a sponsorship products paid for by employers, such as sponsorship licenses or the cost of assigning a certificate of sponsorship or acceptance and no additional administrative burden placed on UK businesses. However, the Fees Order provides the ability to amend sponsorship-related fees in the future. Any changes will still be subject to cross-government approval and a separate IA. The potential impact on employers is nonetheless assessed in the risks section.

As described previously, this IA does not assess the impact of the introduction of additional pre-licensing checks to obtain sponsorship licenses as this will be covered by a separate impact assessment when the proposals are subject to public consultation.

There may be some short-run adjustment costs to employers if as a result of the fee increases, some in-country migrants who were in employment decide to leave the UK rather than pay the higher fee or if some working migrants are deterred from taking up employment in the UK. The costs associated with upskilling resident workers to replace deterred migrants are not monetised as these are expected to be small, making the cost of generating accurate estimates of their impact disproportionately high. To the extent that those deterred are towards the lower end of the earnings and skills distribution, they would be expected to be replaced by low-skilled resident workers, thus minimising any upskilling costs.

## **Impact upon Business – Business Impact Target**

Fees and charges are out-of-scope of the Business Impact Target.

### **Other wider impacts**

There may be a number of wider impacts if there is a reduction in the volume of migrants in the UK. As set out in the MAC (2012) Analysis of the Impacts of Migration report, such effects may include:

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

These effects cannot be accurately monetised given the available evidence. However, since the expected volumes affected are relatively small (an expected reduction of around 10,000 migrants per year, with average earnings of around £4,000) these effects are expected to be negligible and would depend on the characteristics of those that may leave or are deterred from entering the UK. With a total economic output around £45 million per year, even with multiplier effects in growth and investment, "wider effects" from the loss of these 10,000 migrants will not be of the same order of magnitude as the £436.3 million NPV of the quantified effects of the policy, so would not be expected to affect the conclusions drawn on the basis of these figures.

The proposed changes may lead to a reduction in overseas visitors to the UK (Table 1 Visit visas) and lower total spending by visitors (due to lower volumes). The quantification of the costs of this reduction in aggregate spending includes the loss of the proportion of that spending which accrues to the government through indirect tax contributions. However, it does not include the loss of the proportion of the spending spent elsewhere in the economy. As described previously, the costs (and benefits) assess the impact of the resident population. It is not clear how much visitor expenditure directly benefits the resident population (how much is spent on imported products or how much displaces other visitors' spending (for example, when visitors stay in hotels or visit attractions which are already operating at capacity)).

## F. Summary and Recommendations

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

**Table 4 Costs and Benefits (2016 PV)**

Total Costs	Total Benefits	Net Benefit
£40.0m	£476.2m	£436.3m

Source: Home Office Analysis

Figures rounded to the nearest £0.1 million

The Net Present Value calculation is therefore £436.3 million over 5 years. Compared to planning assumption volumes for 2015/16, this equates to a reduction of approximately:

- 4,100 applications in 2016/17
- 8,600 applications in 2017/18
- 12,400 applications in 2018/19
- 15,900 applications in 2019/20
- 15,300 applications in 2019/20.

Most of the estimated reduction is in applicants to the short-term visit visa category, but as described above, the reduction in applications are highly uncertain.

This assessment of costs and benefits is based on implementing the indicative increase in fees, as set out in annex 2.

## G. Risks

### Option 2

Table 5 describes the assumptions associated with each of the main scenarios described in this Impact Assessment. In the interest of drawing the widest reasonable range of outcomes between the high and low scenarios, these scenarios vary all input assumptions together for the summary findings.

The headline results of the core scenarios are:

- Under the 'low' scenario, the impact of fee changes is estimated to be £0.0 million (i.e. no change - 5 year PV, 2016 base)
- Under the 'Central' scenario, it is estimated to be £436.3 million (5 year PV, 2016 base)
- Under the 'High' scenario, it is estimated to be £524.4 million (5 year PV, 2016 base)

**Table 5: Summary of scenario assumptions**

	Scenario		
	Low	Central	High
<b>Fee increases</b>	No increase	Central increase	Maximum increase
<b>Visa demand elasticity</b>	Low	Central	High
<b>Displacement (low skilled workers)</b>	0%	15%	30%
<b>Displacement (high skilled workers)</b>	0%	0%	0%
<b>Displacement duration</b>	1 year	3 years	5 years
<b>Education institutions</b>	No loss	No loss	Loss of Tuition
<b>Public service costs</b>	Low	Central	High

### *Fee increases*

Fee increases account for the majority of the difference between outcomes in the different scenarios. The fees schedule assessed in each scenario are described on page 5 and set out in annex 2.

Keeping all other assumptions at their 'central scenario' level:

- 'Low' fee increases generate a net policy impact of £0.0 million (5 year PV, 2016 base)
- 'High' fee increases generate a net policy impact of £537.0 million (5 year PV, 2016 base)

### *Visa demand elasticity*

Table 8 in Annex 3 gives the elasticity rates associated with low, central and high elasticity scenarios. Keeping all other assumptions at their 'central scenario' level:

- 'Low' elasticities increase the net impact of the policy to £451.3 million (5 year PV, 2016 base)
- 'High' elasticities reduce the net impact of the policy to £424.0 million (5 year PV, 2016 base)

### *Displacement rate and duration*

Annex 7 outlines the assumptions regarding the replacement of migrant workers deterred from entering the UK (or exiting early) by native workers and how these assumptions feed into the analysis. Keeping all other assumptions at their 'central scenario' level:

- If displacement effects are removed from the analysis (no additional UK workers enter employment as a result of fewer migrants entering or remaining in the UK) the net impact of fee changes falls to £435.9 million (5 year PV, 2016 base)
- If the displacement rate for low skilled workers is 30% instead of 15%, the net impact of fee changes rises to £436.7 million (5 year PV, 2016 base)
- If displacement effects are assumed to last 1 year (instead of 3), the net impact of fee changes falls to £436.1 million (5 year PV, 2016 base)
- If displacement effects are assumed to last 5 years, the net impact of fee changes remains at £436.3 million (5 year PV, 2016 base)

### *Replacement of international students*

The central scenario assumes that international students who are deterred from attending UK educational institutions as a result of visa fee increases are replaced one-for-one by other international students. In order to measure the impact of varying this assumption, it is necessary to assume that students' reduce their demand for education in response, so these two scenarios use 'high' elasticities, but keep every other assumption at its 'central' level:

- If international students are replaced by other EEA or UK national students, the net impact of fee changes falls from £424.0 million to £421.1 million (5 year PV, 2016 base)
- If international students' places remain open, the net impact of fee changes falls from £424.0 million to £417.9 million (5 year PV, 2016 base)

### *Public service costs*

The impact assessment uses various estimates of the value of average public service consumption by migrants. The difference between the estimates used in the 'low' and 'high' scenarios is the inclusion of welfare costs. In many cases, the low scenario assumes that migrants are not eligible to receive welfare payments, while the high scenario assumes that they are. The central scenario uses the mid-point of these estimates.

Naturally when fewer migrants enter or remain in the UK, public spending falls by a small amount. Keeping all other assumptions at their 'central scenario' level:

- If public spending is assumed to be at the 'Low' level, the net impact of fee changes falls to £432.6 million (5 year PV, 2016 base)
- If public spending is assumed to be at the 'High' level, then net impact of fee changes rises to £439.9 million (5 year PV, 2016 base)

### *Business costs arising due to the increase in the fees maxima associated with sponsorship licences*

As set out in annex 2, the central and high scenarios modelled in this IA, assumes that the price of sponsorship products – assumed to be purchased by UK businesses - do not rise over the period of the IA. This is because these prices are not currently planned to increase. However, the fees order does include increases to the maxima for these products (Table 5A). Therefore, in order to reflect the *potential* cost to businesses of an increased price of sponsor licences and Certificate of Sponsorships, this section considers the business costs associated with two scenarios;

- In the central sponsor-fees maxima scenario below, the prices of sponsor licences and certificate of sponsor products rise gradually - by a uniform amount each year – from their maxima allowed in legislation and the future maxima as set out in the order. The extent to which these fees may rise is outlined below in Table 5a.
- In the high sponsor-fees maxima scenario below, fees increase up to their respective maxima in the first year of the IA; 2016/17, and remaining at that level thereafter.

**Table 5A: Increases in Fee Maxima for Sponsorship Products**

Product	Current Fee	Current Maximum	Proposed Maximum
Tier 2 Large Sponsor Licence	£1,476	£1,476	£2,000
Tier 2 and Tier 4 Sponsor licence	£1,476	£1,476	£2,000
Tier 2 and Tier 5 Sponsor licence	£1,476	£1,476	£2,000
Tier 2, Tier 4 and Tier 5 Sponsor licence	£1,476	£1,476	£2,000
Tier 2 Small Sponsor Licence	£536	£1,476	£2,000
Tier 4 Sponsor Licence	£536	£1,476	£2,000
Tier 4 Small Sponsor licence	£536	£1,476	£2,000
Tier 5 Sponsor Licence	£536	£1,476	£2,000
Tier 5 Small Sponsor licence	£536	£1,476	£2,000
Tier 2, Tier 4 and/or Tier 5 licence (where sponsor currently holds Tier 4 or Tier 5 Licence)	£940		£2,000
Basic Compliance Assessment (previously Highly Trusted Sponsor)	£536	£1,476	£2,000
Sponsor Action Plan	£1,476	£1,476	£2,000
Tier 2 Certificate Of Sponsorship (COS)	£199	£199	£300
Tier 5 Certificate Of Sponsorship (COS)	£21	£21	£50

If fees were to increase in line with their maxima, then this would generate costs for UK businesses (Tiers 2 and 5) and the higher education sector (Tier 4). Business costs would result from an increase in the prices paid by those businesses which continue to apply for sponsor licences and other products, but would be partially offset by financial savings to those businesses who were deterred from sponsoring migrants.

Businesses purchase Tier 2 sponsorship products in order to employ international migrants. Therefore, the volume of sponsor licences and Certificates of Sponsorship which would be deterred by this potential increase is calculated by applying estimates of the labour elasticity of demand; as outlined in annex 3, the low elasticity assumption assumes that demand for sponsors is unresponsive to price changes (zero elasticity), the central case applies an elasticity of -0.75, and the high case applies an elasticity of -1. The elasticity of demand for Tier 4 sponsors licences is also proxied by the same elasticities. There is a high degree of uncertainty surrounding these elasticities.

Overall, the estimated cost to business (including the higher education sector) of the possible increase (under a range of assumptions set out in table 5B) ranges between around £56 million over 5 years in the central fees scenarios and around £98 million (5 year PV, 2016 base) in the high fees scenario. However, increases to these fees in regulations would require a further impact assessment and cross-government clearance.

Using the central elasticities, the EANCB (2014 prices, 2015 PV) of the central and high sponsor fees scenarios are around £11.33m and £19.82m respectively.



- **Table 5b: Estimated Potential Cost to Business**

<b><u>Central Fees Maxima Scenario</u></b>		<b><u>High Fees Maxima Scenario</u></b>	
<b>Elasticity Assumption</b>	<b>Cost to UK Business</b>	<b>Elasticity Assumption</b>	<b>Cost to UK Business</b>
Low Elasticity	£57.1 million	Low Elasticity	£98.6 million
Central Elasticity	£56.4 million	Central Elasticity	£97.5 million
High Elasticity	£56.2 million	High Elasticity	£97.1 million

#### **H. Enforcement**

No impact on enforcement.

#### **I. Implementation**

The Home Office plans to implement new fees from c.6<sup>th</sup> April 2016, following Parliament’s consideration of the related Statutory Instrument and laying of the Fees Regulations. Full details to applicants on how to apply and pay the new fees will be made available on [www.gov.uk](http://www.gov.uk)

#### **J. Monitoring and Evaluation**

The effectiveness of the new fees regime will be monitored by the Home Office’s Fees and Income Planning 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.

## **Annex 1. Specific Impact Tests**

### **Statutory Equality Duties**

#### *Equality Impact Assessment*

Please see section L above.

### **Economic Impacts**

#### *Small Firms Impact Test*

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

#### *Rural Proofing*

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

## Annex 2: Proposed Fee Increases

Table 6 sets out the current fees for existing products alongside the proposed fee increases. Volumes are **internal planning assumptions which are subject to change** as a result of external factors such as the economy and policy and operational changes. Estimated unit costs of processing each application are also given.



Table 7 Estimated decrease in application and grant volumes, 2015/16 to 2019/20

Product	2015/16 applications (planning assumption)	Estimated decrease in application volumes					Estimated decrease in grant volumes				
		2016/17	2017/18	2018/19	2019/20	2020/21	2016/17	2017/18	2018/19	2019/20	2020/21
Visit visa - short	2,159,000	3,480	7,370	10,950	14,220	13,620	3,000	6,360	9,450	12,270	11,750
Visit visa - long 2 year	221,000	210	400	590	760	730	190	370	550	710	680
Visit visa - long 5 year	89,000	50	90	140	180	170	50	90	130	170	160
Visit visa - long 10 year	34,000	10	30	40	50	50	10	30	40	50	50
Family route to settlement	51,000	90	170	160	160	150	60	110	110	110	100
Other Visa	47,000	50	90	90	80	80	40	80	80	70	70
Transit Visa	25,000	50	90	140	170	170	40	80	120	150	140
Replacement BRP Overseas	1,000	30	30	40	40	40	30	30	30	30	30
Tier 1 – Entrepreneur, standard –Dependant	3,000	-	-	-	-	-	-	-	-	-	-
Tier 1 - General- Dependants	1,000	-	-	-	-	-	-	-	-	-	-
Tier 2 General, ICT – Long-Term Staff, Sport & MOR – main applicant	27,000	-	-	-	10	10	-	-	-	10	10
Tier 2 General, ICT – Long-Term Staff, Sport & MOR – dependants	28,000	-	-	-	10	10	-	-	-	10	10
Tier 2 ICT Short-Term Staff, Graduate Trainee or Skills Transfer – main applicant	25,000	-	10	10	10	10	-	10	10	10	10
Tier 2 ICT Short-Term Staff, Graduate Trainee or Skills Transfer – dependants	9,000	-	-	-	-	-	-	-	-	-	-
Tier 5 Temp Work	20,000	10	10	20	20	20	10	10	20	20	20
Tier 5 YM	26,000	-	-	-	10	10	-	-	-	10	10
Naturalisation (British Citizenship) (Single)	48,000	10	10	10	10	10	10	10	10	10	10
Naturalisation (UK Citizenship) Joint	33,000	10	10	10	10	10	10	10	10	10	10
ILR Postal - Main	13,000	-	10	10	10	10	-	10	10	-	-
LTR Non Student Postal Main	73,000	90	170	170	160	150	50	90	90	80	80
Tier 2 - General (In-UK) - main applicant	18,000	-	-	-	10	-	-	-	-	-	-
Tier 2 - ICT (In-UK) - main applicant	8,000	-	-	-	-	-	-	-	-	-	-
Tier 5 - Postal Main	1,000	-	-	-	-	-	-	-	-	-	-

Source: Home Office Analysis

Rounding: 2015/16 baseline applications rounded to nearest 1,000; other volumes rounded to nearest 10

Categories suppressed where change in applications rounds to zero

### Annex 3: Elasticity assumptions

Table 8 sets out the elasticities used to analyse the impact of the changes in fees on different types of products. Table 9, Table 10 and Table 11 set out the academic papers used to deduce these elasticity estimates. Elasticities used for dependent applications are not included in Table 8 as these were not derived from academic literature; rather, they were derived from Home Office analysis on the likely response by dependents from changes to dependent fees. Such responses were deemed to yield a best case and central elasticity of 0, and a worst case value of -0.5.

**Table 8 Elasticities used to analyse the impact of changing fees**

<b>Elasticity</b>	<b>Justification</b>	<b>Products</b>	<b>Magnitude</b>		
			<b>Low</b>	<b>Central</b>	<b>High</b>
Wage elasticity of labour supply	Migrants demand Home Office products in order to <u>supply</u> labour in the UK. The wage elasticity of labour <u>supply</u> is thus used to estimate the impact on volumes of the proposed fee changes. e.g. an increase in fee is a reduction in expected wage, so should reduce labour supply.	<i>Tier 1</i> visa, in-country, extensions; <i>Tier 2 General</i> visa, in-country, extensions; <i>Tier 2 SOC/ICT/Sports/MOR</i> visa, in-country, extensions; <i>Tier 5</i> Youth Mobility and Temporary Worker visa, in-country, extensions; associated out of country dependants	0	-0.5	-1.1
Wage elasticity of labour supply (dependants)	For in-country dependant applications, the central scenario assumes no price sensitivity of visa demand as applicants are already in the UK with their family member (the main migrant), but in the high scenario assumes sensitivity akin to that of workers in the central scenario	In-country dependants	0	0	-0.5
Wage elasticity of labour demand	Firms demand Home Office products in order to bring migrants to the UK to fill employment vacancies. The wage elasticity of labour <u>demand</u> is thus used to estimate the impact on volumes of the proposed fee changes for sponsorship.	Sponsor Action Plan; Tiers 2, 4 and 5 Certificates of Sponsorship; Sponsor Licences	0	-0.75	-1
Price elasticity of demand for higher education	Migrant students demand Home Office student products in order to purchase education in the UK. Price elasticity of demand for higher education is used as a proxy for migrant price elasticity of demand for all types of education accessed through Tier 4.	Tier 4 visa, in-country, extensions, Confirmations of Acceptance for Studies (CAS)	0	0	-1
Price elasticity of demand for air travel	The airfare elasticity of demand is used as a proxy for price elasticity of demand for a trip to the UK.	Visit visa –all lengths; Transit visa	0 0	-0.6 -0.7	-1.2 -1.4
No evidence	For settlement and nationality applicants, price sensitivity is assumed to be similar to that of	Settlement visa; Settlement; Certificate of Entitlement; Transit Visa; Vignette Transfer Fee; Call-	0	-0.5	-1.1

	migrants supplying labour. 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.	Out/Out of Hours Fee; Naturalisation; Nationality Registration; Renunciation of Nationality; Nationality Reissue Certificate; Nationality Right of Abode; Nationality Reconsiderations; Status Letter (Nationality); Non-acquisition Letter (Nationality); Indefinite Leave to Remain main applications; Leave to Remain non-student; Transfer of Conditions; Travel Documents; Residual Further Leave to Remain; Employment Leave to Remain outside PBS; Highly Trusted Sponsor Licence.			
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**Table 9 Empirical studies of the wage elasticity of labour supply**

Source	Estimate of wage elasticity of labour supply*	Measure
R. E Lucas and L. A. Rapping, "Real Wages, Employment and Inflation", <i>Journal of Political Economy</i> , 77 (1969).	Short run: 1.12 – 1.13 (95% significance) Long-run: -0.07 – 0.58	Change in real wages on labour supply using US data 1929-1965
Y. Chang and S. Kim, "On the aggregate labour supply", <i>Federal Reserve Bank of Richmond Economic Quarterly Volume 91/1 Winter 2005</i> .	1.0	Aggregate labour supply elasticity
L. Osberg and S. Phipps, "Labour Supply with Quantity Constraints: Estimates from a Large Sample of Canadian Workers", <i>Oxford Economic Papers, New Series, Vol. 45, No. 2. (Apr., 1993), pp. 269-291</i> .	Between +0.1 and -0.1	Wage elasticity of labour supply in the Canadian Labour Market
P. Bingley and G. Lanot, "The Incidence of Income Tax on Wages and Labour Supply", <i>National Centre for Register-based Research (NCRR), Version 5.002 31 October 2000</i>	-0.4	Elasticity of labour supply in the Danish Labour Market

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

**Table 10 Empirical studies of the price elasticity of demand for education**

Source	Estimate of price elasticity of demand	Measure
Tuition Elasticity of the Demand for Higher Education among Current Students: A Pricing Model Glenn A. Bryan; Thomas W. Whipple The Journal of Higher Education, Vol. 66, No. 5. (Sep. - Oct., 1995), pp. 560-574.	Between -0.12 to -0.3	Elasticity of demand for HE in a small private liberal arts college in Ohio, from increases in tuition fees between \$6000 to \$8000

Campbell, R. and B. Siegel. "The Demand for Higher Education in the United States, 1919-1964." <i>American Economic Review</i> , (June, 1967), pp. 482-94.	-0.44	Aggregate demand for attendance in 4-year institutions in the US from 1927 – 63
Hight, J. "The Supply and Demand of Higher Education in the U.S.: The Public and Private Institutions Compared." Paper presented to the Econometric Society, December, 1970.	Between -1.058 and -0.6414	Used Campbell and Siegel's data and split up for public and private sectors
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 11 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," <i>The Economic Journal</i> , 114, March, C84-86.	-0.3	Elasticity of demand for labour in the first 5 years following introduction of the NMW in the UK.
Taeil Kim and Lowell Taylor (1995), "The employment effect in retail trade of California's 1988 minimum wage increase."	Between -0.7 and -0.9	Elasticity of demand for labour in California's retail trade.

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



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

Table 12 Estimated fall in annual applications caused by the fee change (Central Scenario)

Product	Decrease in applications vs 2015/16 baseline					Grant Rate	Central Elasticity	Stay (years)
	2016/17	2017/18	2018/19	2019/20	2020/21			
Visit visa - short	3,480	7,370	10,950	14,220	13,620	86%	-0.6	1
Visit visa - long 2 year	210	400	590	760	730	93%	-0.6	2
Visit visa - long 5 year	50	90	140	180	170	96%	-0.6	3
Visit visa - long 10 year	10	30	40	50	50	97%	-0.6	4
Family route to settlement	90	170	160	160	150	67%	-0.5	3
Settlement - Dependant Relative	10	10	10	10	10	25%	-0.5	4
Other Visa	50	90	90	80	80	86%	-0.5	2
Transit Visa	50	90	140	170	170	86%	-0.7	0
Replacement BRP Overseas	30	30	40	40	40	88%	-0.5	0
Tier 2 General, ICT – Long-Term Staff, Sport & MOR – main applicant	-	-	-	10	10	97%	-0.5	2
Tier 2 General, ICT – Long-Term Staff, Sport & MOR – dependants	-	-	-	10	10	96%	-0.5	2
Tier 2 ICT Short-Term Staff, Graduate Trainee or Skills Transfer – main applicant	-	10	10	10	10	99%	-0.5	1
Tier 2 ICT Short-Term Staff, Graduate Trainee or Skills Transfer – dependants	-	-	-	-	-	99%	-0.5	1
Tier 5 Temp Work	10	10	20	20	20	87%	-0.5	1
Tier 5 YM	-	-	-	10	10	95%	-0.5	2
Naturalisation (British Citizenship) (Single)	10	10	10	10	10	95%	-0.5	29
Naturalisation (UK Citizenship) Joint	10	10	10	10	10	95%	-0.5	25
ILR Postal - Main	-	10	10	10	10	87%	-0.5	32
LTR Non Student Postal Main	90	170	170	160	150	52%	-0.5	3
Tier 2 - General (In-UK) - main applicant	-	-	-	10	-	88%	-0.5	3
Tier 2 - ICT (In-UK) - main applicant	-	-	-	-	-	99%	-0.5	2
Tier 5 - Postal Main	-	-	-	-	-	88%	-0.5	1

Source: Home Office Analysis

Rounding: Change in application volumes: nearest 10

Categories suppressed where change in applications rounds to zero

Where a nil decrease in applications and grants is shown, this will be either because the elasticity is assumed to be zero, or the forecast volume of applications in 2014/15 is (close to) zero.

## Annex 5. Methodology for calculating the lost fiscal contributions to the exchequer due to fewer migrants

The IA quantifies the impact of lower fiscal contributions to the UK exchequer from fewer migrants entering or remaining in the UK.

The fiscal contributions associated with various types of migrants, calculated on the basis of the latest available gross income and spending data, are set out below.

**Table 13 Estimated exchequer impacts on the UK**

Product	Per person annual fiscal contribution
Visit visa - short	£300
Visit visa - long 2 year	£1,100
Visit visa - long 5 year	£2,100
Visit visa - long 10 year	£2,800
Family route to settlement	£2,800
Other Visa	£8,700
Transit Visa	£0
Replacement BRP Overseas	£8,700
Tier 1 – Entrepreneur, standard –Dependant	£2,400
Tier 1 - General- Dependants	£2,400
Tier 2 General, ICT – Long-Term Staff, Sport & MOR – main applicant	£20,000
Tier 2 General, ICT – Long-Term Staff, Sport & MOR – dependants	£2,400
Tier 2 ICT Short-Term Staff, Graduate Trainee or Skills Transfer – main applicant	£14,400
Tier 2 ICT Short-Term Staff, Graduate Trainee or Skills Transfer – dependants	£2,400
Tier 5 Temp Work	£4,300
Tier 5 YM	£7,600
Naturalisation (British Citizenship) (Single)	£0
Naturalisation (UK Citizenship) Joint	£0
ILR Postal - Main	£8,700
Tier 2 - General (In-UK) - main applicant	£13,300
Tier 2 - ICT (In-UK) - main applicant	£28,300
Tier 5 - Postal Main	£4,300

Source: Home Office Analysis

Rounding: nearest £100

Only categories where there is a change in migrant numbers are shown

Note: categories with nil exchequer contribution are omitted

This annex sets out the approach and relevant assumptions used to calculate these figures in further detail.

### Methodological Approach

The expected ‘direct’ and ‘indirect’ tax contributions are calculated based on estimates of the average gross incomes or spending of the different migrant groups, using tax rates provided by the ONS and HMRC, as well as evidence from previous papers, such as the MAC (2014) review of investment thresholds and the economic benefits of the Tier 1 investor route, on the exchequer impact of immigration.

Direct taxes include Income Tax, National Insurance Contributions (NICs) and Council tax. Both income tax and NICs contributions have been calculated based upon estimates the average earnings of working migrants and then applying the relevant tax and NIC thresholds outlined in HMRC (2015)<sup>4</sup>. Where relevant, council tax contributions are estimated based upon the income decile of the main applicant’s earnings (ONS, ‘The effect of taxes and benefits on household income 2013/14’, 2015).

Indirect taxes are those paid on items of expenditure. They include VAT, duties paid on specific products (alcohol, fuel) and any other duties, licences (e.g. driving, television) and intermediate taxes. In reality,

<sup>4</sup> Tax threshold values are available at <https://www.gov.uk/government/publications/rates-and-allowances-income-tax/income-tax-rates-and-allowances-current-and-past>

indirect tax contributions will depend upon tastes, preferences and characteristics. However, robust data on the specific expenditure of migrants is not available and there is significant uncertainty about their spending patterns. Since these are not known, the indirect tax contributions for some migrant groups are inferred from the average income of the group (adjusted to account for their estimated remittances) by considering the income decile within which their (remittance-adjusted) gross income falls and then applying the relevant estimates from ONS, 2015, 'The effect of taxes and benefits on household income 2013/14'.<sup>5</sup> For international students, whose income is expected to be a poor predictor of expenditure, indirect tax contributions are estimated based upon measures of the cost of living facing these groups. For visitors to the UK, indirect tax contributions are inferred from estimates based upon the average expenditure of visitors during their visit.

The estimates of the exchequer contribution of migrants only include direct and indirect tax contributions from migrants themselves. They do not account for any impact that migrants may have on the exchequer contributions of resident workers. For example, this may occur through the impact of migrants on the productivity and wages of resident workers or through the impact of any displacement of resident workers that may result from migration.

### Data and specific assumptions

The gross incomes or spending for each migrant group have been calculated and applied to each of the visa products in Table 13 as follows:

- Gross incomes for nationality and settlement applicants, as well as all types of dependants, have been based upon estimates of the median wage of non-EEA nationals multiplied by the employment rate for this group. The data come from the Labour Force Survey (LFS) 2015 Q2.
- The fiscal contributions of Tier 1 investors are inferred from the indirect taxation on their spending in the UK. This is because it is not entirely clear what direct tax contribution these migrants would make. The indirect tax estimates used are based upon research by the Migration Advisory Committee (MAC) on the economic impact of Tier 1 investors.<sup>6</sup>
- In the absence of Home Office management information for the salaries of Tier 1 migrants, the gross incomes for Tier 1 entrepreneurs, Tier 1 graduate entrepreneurs and Tier 1 exceptional talent migrants are assumed to be in line with the median salaries of self-employed individuals in the UK, based upon analysis of the Family Resources Survey by the Institute for Fiscal Studies (updated to account for wage inflation).<sup>7</sup>
- Gross incomes for Tier 2 and Tier 5 migrants have been obtained from 2014/15 Home Office management information. This is the latest available data, and the data for Tier 2 migrants was used by the MAC in its report on the review of Tier 2 salary thresholds.<sup>8</sup> Tier 5 salaries are calculated as the median salary of the subset of those tier 5 migrants which report that they earn a salary during their visit.
- The fiscal contributions for Tier 4 migrants are inferred from measures of the 'cost of living' for international students rather than their gross income. The direct tax contribution of international students is assumed to be zero because the earnings of international students typically fall below the threshold which would make them subject to direct taxation. Income measures are a poor predictor of expenditure for international students, therefore measures of the 'cost of living' are used to proxy for the indirect tax contribution of international students.
- The fiscal contributions of visitors to the UK are determined by their indirect tax contribution from spending, rather than direct tax from income earned in the UK. Data on the expenditures made by visitors during their trips to the UK is obtained from the ONS' International Passenger Survey, 2014.

The IA assumes that those deterred from applying for nationality do not yield a loss to the exchequer. This is because nationality products are optional and deterred applicants are still eligible to remain in the

<sup>5</sup> Estimates of remittances are taken from ONS, (2012) "Understanding Society" and updated to 2015 levels using UK CPI.

<sup>6</sup> MAC report available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/285220/Tier1investmentRoute.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/285220/Tier1investmentRoute.pdf)

<sup>7</sup> Institute for Fiscal Studies (February 2015:57) "Green Budget" available at: <http://www.ifs.org.uk/publications/7530>.

<sup>8</sup> MAC report available at

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/452805/Review\\_of\\_Tier\\_2\\_-\\_Analysis\\_of\\_salary\\_thresholds.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/452805/Review_of_Tier_2_-_Analysis_of_salary_thresholds.pdf).

UK, even if they do not apply. Deterred applicants are therefore likely to continue to contribute to the exchequer.

## Annex 6: Methodology for calculating the impact on public service expenditure

This IA applies a 'top-down' approach which allocates overall public expenditure to each person in the UK. This allows calculation of the savings to the UK exchequer from lower public service provision as a result of the deterrence, voluntary departure, or removal of migrants.<sup>9</sup>

The public service costs associated with various types of migrants, calculated on the basis of 2014/15 data, are set out below.

**Table 14: Estimates of the typical public service costs associated with various migrants (2014/15)**

	£ per head - Low case	£ per head - Central case	£ per head - High case
All migrants	5,300	7,000	8,800
Non-EEA migrants	5,400	7,100	8,900
Migrant in last 10 years	4,500	6,300	8,100
Migrant in last 5 years	4,300	4,300	4,300
Non EEA - Those who came to work;	5,300	7,100	8,800
Non EEA - Those who came to study;	4,600	6,400	8,200
Non EEA - Those who came for family reasons;	5,500	7,200	9,000
Non EEA - Those who came as a dependant;	5,400	7,100	8,900
Non EEA - Those who came to seek asylum.	5,700	7,500	9,200

Source: HO calculations based upon ONS mid-year population estimates (2014), HM Treasury's Public Expenditure Statistical Analyses (PESA), (2015:Table 5.2), and the Annual Population Survey (Jan-Dec 2013).

Rounding: nearest £100

This annex sets out the approach and relevant assumptions used to calculate these figures in further detail.

### Allocation of Public Expenditure

Top-down approaches to allocating public spending to individuals have been applied in the literature (e.g. National Institute for Economic and Social Research (NIESR), 2000 and Dustmann and Frattini, 2014). The basic principle is that public spending is allocated to individuals on the basis that the consumption of public services is broadly similar for all individuals included in the calculation.

The top-down approach is applied to categories of public expenditure where consumption by migrants is deemed to be equivalent to the consumption by the average UK resident. An approach, first applied in NIESR (2011), is then used to adjust the calculations for the value of the consumption of certain public services, such as health, education and personal social services, which are likely to differ between various migrants and resident population as a result of differences in the age structure of migrants compared to the resident population.

The estimates of the impact on public service expenditure do not take account of any impact that migrants may have on the delivery of public services.

### Data

HM Treasury sets out the total levels of public spending (total managed expenditure (TME)) for each financial year in the Public Expenditure Statistical Analyses (PESA). These outline the total level of public spending categorised into the following categories, based upon the function of government spending:

<sup>9</sup> In the past, Home Office Impact Assessments applied a 'bottom-up' approach to calculating the impact of changes in the number of migrants on the consumption of specific public services such as health, education, criminal justice, and welfare. However, such estimates present only a partial picture and may be biased when unidentified consumption substantially alters the picture.

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

### Simple calculation

Public expenditure per person can be allocated to each individual in the UK by dividing total spending by the total number of individuals in the UK. This assumes that the consumption of public services is broadly similar for all individuals in the UK. PESA (2015) suggests that the total managed expenditure in the UK was £735 billion in 2014/15. The ONS population estimates (2014) suggest that there were 64.5 million individuals in the UK. Therefore, the simple calculation yields an estimated spend per person, including children, of £10,700 per person - 'Estimate A' in Table 14 below.

**Table 15: Per person public expenditure (2014/15)**

	£
Estimate A: Total spend per capita	10,700
Estimate B: Total excluding public goods	8,700
Estimate C: Total excluding public good and welfare	5,200
Estimate D: Wider services (<5 years)	1,400
Estimate E: Wider services (>5 years)	4,900

Source: HO calculations based upon ONS mid-year population estimates, 2014, and Public Expenditure Statistical Analyses (PESA), HM Treasury, Table 5.2, 2015.

Rounding: nearest £100

### The treatment of public goods and public debt transactions

Estimate A' includes government spending on 'public goods'. This means that, for the purposes of this IA, it may not be reasonable to assume that deterring, removing, or causing the voluntary departure of a migrant from the UK would yield a marginal reduction in public spending of £10,700. Instead, the Home Office believes that it is reasonable to exclude the costs associated with the provision of public goods, as the cost of extending or removing coverage to one additional or one less migrant would be close to zero as, by their nature, public goods are not attributable to any one individual in the population. (This is consistent with recent academic studies, such as Dustmann and Frattini, 2014).

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

The characteristics of a public good mean that the marginal cost of providing the good to one additional person is zero. For this reason 'Estimate B' in Table 15 provides the estimated cost of public spending per person excluding those goods deemed to be public goods. The excluded spending includes items such as general public spending, research and development, defence, pollution/ other environmental spending and street lighting.

In addition to excluding these public goods, 'Estimate B' in Table 15 also excludes spending on public debt transactions and EU payments. This is because these are obligations which cannot be opted out of and are not always directly attributable to the current population. Therefore, 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 or one fewer migrant.

The exclusion of public goods and public debt transactions 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 purpose of the IA is to estimate the impact of a marginal change in migrant volumes, the use of a zero marginal cost for these goods is deemed appropriate. Similarly, some previous methods have not excluded debt transactions or have only excluded part of them. The rationale for their inclusion is that there is still some benefit gained from the large infrastructure projects that incurred the debt. However, it is extremely 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. Therefore, debt transactions have been excluded.

Removing the public goods, public debt transactions and EU payments categories reduces the average impact of a marginal individual in the UK to £8,700 per year ('Estimate B' in Table 15).

### **The treatment of welfare and benefit payments**

'Estimate B' includes welfare payments. However, the majority of non-EEA migrants are not eligible to claim welfare and benefits until they have been in the UK for at least five years and they have been formally granted settlement in the UK. For this reason it is deemed prudent to exclude spending on welfare and benefits for migrants who have not been in the UK for less than five years and so are ineligible to claim.

'Estimate C' in Table 15 provides an estimated cost per person excluding public goods and welfare of £5,200 per person – this implies that the average cost per person of welfare is £3,500 – estimate B minus estimate C.

### **Public services: health, education and personal social services**

This top-down approach assumes that consumption of public services is the same for both migrant and native individuals. However, since the consumption of public services is likely to vary by age, gender, family composition and other factors such as income and ethnicity, the migrants and the native population are not necessarily likely to exhibit identical patterns for all the categories of public service consumption.

NIESR provided top down estimates of public service expenditure on health, education and social services for different migrant groups in 2011. These estimates account for the differing characteristics of different migrant groups and the native population in the UK. These estimates therefore provide a more accurate picture of the average level of spending on these categories of expenditure for different migrant groups.

For this IA, estimates of the health, education and social service expenditures for each migrant group have been calculated by applying the NIESR (2011) methodology to the most recent Annual Population Survey, 2014/15 – see Table 16 for these estimates.

### **Total Public Services adjusted for migrants**

In order to obtain estimates of the total cost to public services to migrants, the cost of welfare and other services ('wider services') need to be added to Table 16 estimates of the cost of health education and personal social services. The total cost of these wider services was obtained by subtracting PESA estimates of health education and social services from estimate B above. The total difference was £4,900, including £3,500 welfare costs. Estimate D therefore in table 15, the cost of wider services for those less than 5 years is £1,400 (excluding welfare payments). Estimate E is the full cost including welfare payments.

For migrants in the majority of categories, each of the estimates in Table 16 are then added to 'Estimate D' to generate the estimates in the 'low case' in Table 14, and added to 'Estimate E' to generate the estimates in the high case in Table 14. The resulting estimates in Table 14 give the overall per head impact of an additional migrant in the cases where the migrants are ineligible to claim benefits (the low case) and are eligible to claim benefits (the high case), respectively. The central case, uses the mid-point between estimates D and E as a basis for the calculations.

**Table 16: Summary of the per head cost of health, education and personal social services consumed by a migrant (2014/15)**

	£ per head (Education, Health and Personal Social Services)
All migrants	3,900
Non-EEA migrants	4,000
Migrants arriving in last 10 years;	3,100
Migrants arriving in last 5 years;	2,900
Non EEA - Those who came to work;	3,900
Non EEA - Those who came to study;	3,200
Non EEA - Those who came for family reasons;	4,100
Non EEA - Those who came as a dependant;	4,000
Non EEA - Those who came to seek asylum;	4,300

Source: Annual Population Survey Jan-Dec 2013 household dataset  
Rounding: nearest £100

For migrants residing in the UK for less than 5 years, welfare payments are excluded in each of the low, central and high cases.



## 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 in January 2012.<sup>10</sup> Building on this, the Home Office and the Department for Business, Innovation and Skill published a literature review on the impacts of migration on UK native employment.<sup>11</sup> This Annex sets out how these reports' findings 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, but do not represent a cross-Government consensus.

### Rate of Displacement

This IA uses displacement assumptions build upon the upon evidence provided by the MAC report (January 2012). The report estimated the association between migration and native employment in Great Britain, using data from the Labour Force Surveys between 1975 and 2010. For the purpose of the report, natives were defined as UK-born individuals. The headline result was 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 implied that this result held in all periods, including periods of economic growth as well as contraction.

The Home Office / BIS literature review concluded that:

- There is relatively little statistically significant evidence of migrants' displacement of UK natives from the labour market in periods when the economy has been strong, but some evidence that some labour market displacement has occurred in recent years when the economy was in recession.
- Displacement effects are also more likely to be identified in periods when net migration volumes are high, rather than when volumes are low – so analyses that focus on data prior to the 2000s are less likely to find any impacts. Where displacement effects are observed, these tend to be concentrated on low skilled natives.
- This suggests that the labour market adjusts to increased net migration when economic conditions are good. But during a recession, and when net migration volumes are high as in recent years, it appears that the labour market adjusts at a slower rate and some short-term impacts are observed.
- To date there has been little evidence in the literature of a statistically significant impact from EU migration on native employment outcomes, although significant EU migration is still a relatively recent phenomenon and this does not imply that impacts do not occur in some circumstances.
- The evidence also suggests that, where there has been a displacement effect from a particular cohort of migrants, the effect dissipates over time – that is, any displacement impacts from one set of new arrivals gradually decline as the labour market adjusts, as predicted by economic theory.

Further analysis has led to the working assumption that a one-off inflow of 100 low-skilled, working-age migrants will displace 15 native workers from employment (so that 15% of such migrants take jobs that would otherwise have gone to native workers) and that a similar increase high-skilled migrants will not displace any native workers from employment.

Table 17 lists the full set of displacement assumptions currently used in Home Office analyses.

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<sup>10</sup> MAC (2012) Analysis of the impacts of migration.

<sup>11</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/287287/occ109.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/287287/occ109.pdf)

Table 17 Displacement rate assumptions for different types of migrants in different economic circumstances

Economic context	Migrant Type	Scenario		
		Lower bound	Best estimate	Upper bound
Normal conditions	Skilled workers	0%	0%	0%
	Low skilled workers	0%	15%	30%
Severe downturn	Skilled workers	0%	0%	10%
	Low skilled workers	10%	30%	50%

### 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. This is not directly applicable to IA's, which show impacts annually. Therefore, without further evidence to suggest otherwise, displacement is assumed to diminish equally each year over a five year period, for each particular cohort of migrants. It is also assumed that those who are removed from the UK may have already spent a period of time in the UK and may be associated with a lower level of displacement. However, the length of time in the UK is not known, so it is assumed that migrants would have been in the UK for between 0 and 5 years. For this reason, this IA assumes that displacement effects last for 3 years in the Central scenario, 1 year in the 'Low' and 5 years in the 'High' scenario.

### Displacement by Cohort

The 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. The following year, there will be another inflow of migrants, and while 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 18, which sets out an illustrative example for assessing the impact of displacement over time for each cohort, where it is assumed that the displacement effects (15%) occur over a 5 year period.

Working through Table 18: 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 30 natives in year 1, 12 in year 2, 9 in year 3, 6 in year 4, 3 in year 5, and 0 in year 6.

Table 18 Illustrative Example of the Impact of Displacement (5-year displacement assumed)

		Migrants present in:					
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Arrival year	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
Sum		200	500	750	1350	1750	1950
		Assumed displacement of native workers (%)					
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Arrival year	t	15%	15%	15%	15%	15%	15%
	t-1		12%	12%	12%	12%	12%
	t-2			9%	9%	9%	9%
	t-3				6%	6%	6%
	t-4					3%	3%
	t-5						0%
		Assumed displacement of native workers (#)					
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Arrival year	t	30	45	37.5	90	60	30
	t-1		24	36	30	72	48
	t-2			18	27	22.5	54
	t-3				12	18	15
	t-4					6	9
	t-5						0
Sum		30	69	92	159	179	156

Note: volumes are purely illustrative.

### Replacement Effects

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

### Application to this IA

The policy changes considered in this IA result in both a reduced inflow of migrants, and an increased outflow of migrants currently residing in the UK. These changes are assumed to result in replacement effects. The assumption is that, of the number of low skilled immigrants that leave the UK that were employed, 15% of the employment vacated will be filled by UK natives.

Table 19 outlines the assumptions used to calculate the monetary value of replacement based on applicable visa products (i.e. those relating to low-skilled workers).

**Table 19 Wages of those categories with replacement effects**

Product	Estimated decrease in grants vs 2015/16 baseline					Median wage (adjusted to employment rate and length of stay)
	2016/17	2017/18	2018/19	2019/20	2020/21	
Tier 2 General, ICT – Long-Term Staff, Sport & MOR – dependants	-	-	-	10	10	£96,000
Tier 5 Temp Work	10	10	20	20	20	£8,000
Tier 5 YM	-	-	-	10	10	£40,000

Source: Home Office analysis

Rounding: nearest 10 / nearest £1,000

Table 20 outlines the estimates of the replacement methodology applied to this IA.

**Table 20 Employment impacts of migrants leaving the UK, 2016/17 to 2020/21**

	2016/17	2017/18	2018/19	2019/20	2020/21
Reduction in migrant workers vs base year	10	20	30	40	40
Additional UK residents employed	-	10	10	10	20

Source: Home Office analysis

Rounding: nearest 10

Table 19 outlines the volumes leaving the UK each year. The cumulative volumes takes into account the replacement rate of 15% and also factors in the diminishing rate of replacement each year for cohorts from the previous years, this is progressively cumulative, cohorts from previous years have an impact that declines over time. In other words, 15% of employment vacated by outgoing migrants in a particular year will be filled by natives; the following years will see some more natives taking up employment vacated by that particular cohort of leaving migrants, but at a reduced rate. Overall, this results in increased employment for UK residents, as the volume leaving the UK rises each year. The central estimate shown here assumes that replacement effects last on average for 3 years following the decrease of migrants.