

EXPLANATORY MEMORANDUM TO
THE IMMIGRATION AND NATIONALITY (COST RECOVERY FEES) (No.2)
REGULATIONS 2010

2010 No. 2226

1. This explanatory memorandum has been prepared by UK Border Agency of the Home Office and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. **Purpose of the instrument**

2.1 These regulations set the fees for some of the applications, processes and services for which the Secretary of State has stated in the Immigration and Nationality (Fees) Order 2007 (S.I. 2007/807), as amended by the Immigration and Nationality (Fees) (Amendment) Order 2008 (S.I. 2008/166), as amended by the Immigration and Nationality (Fees) (Amendment) Order 2009 (S.I. 2009/420), known as the “Fees Order 2007”, that he intends to charge a fee.

2.2 These regulations also set out the consequences of failing to pay the specified fees.

3. **Matters of special interest to the Joint Committee on Statutory Instruments**

3.1 The fees specified in these regulations are in respect of those matters specified in the Fees Order 2007, for which the fee will be set at or below the administrative cost of making the application, in reliance of Section 51(3) of the Immigration, Asylum and Nationality Act 2006 (the “2006 Act”).

3.2 Section 51(3) of the 2006 Act also enables the Secretary of State to, amongst other things, confer discretion to reduce or waive a fee, provide for exceptions and make provision about the consequences of failure to pay a fee. Section 52(3) enables the Secretary of State, to make different provision for different cases or circumstances.

3.3 The fees contained in these regulations are set at or below the administrative cost of an application or process in line with the Government’s charging model. By charging below the administrative cost of delivery on the application types referred to in this instrument, the UK Border Agency is able to support wider Government objectives (e.g. through lower fees for small business and charities). This approach is also used where it is believed that a cost recovery fee would be so high as to damage international competitiveness in this area (e.g. for short term visit visa applications, or Tier 5 Temporary Worker applications). To help enable this, the UK Border Agency sets fees for other application types above the cost of delivery.

3.4 Fees for applications which will be charged above the administrative cost must be specified in other regulations laid before and approved by a resolution in each House of Parliament.

4. Legislative Context

4.1 Section 51(3) of the Immigration, Asylum and Nationality Act 2006 provides that where an Order under that section provides for a fee to be charged, regulations made by the Secretary of State shall specify the amount of the fee.

4.2 Section 52(3) also enables the Secretary of State to, amongst other things, make different provision for different cases or circumstances.

4.3 Section 51(3) of the 2006 Act also enables the Secretary of State to, provide for exceptions and make provision about the consequences of failure to pay a fee.

4.4 Section 51(3) of the 2006 Act enables the Secretary of State, in prescribing fees for the applications covered by these regulations, to prescribe an amount at or below the normal administrative cost of determining an application to support wider Government objectives.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required

7. Policy background

- *What is being done and why*

7.1 These Regulations replace the previous Immigration and Nationality (Cost Recovery Fees) Regulations 2010 (2010/228). Unless stated otherwise, the explanation provided here only covers any amendments or new fees introduced to the previous Regulations.

7.2 The fees contained in these regulations are set at or below the administrative cost of providing the application, process or service in line with the Government's flexible charging model. By charging below the administrative cost of delivery on the application types referred to in this instrument, the Home Office is able to support wider Government objectives. To help enable this, the Home Office sets fees for other application types above the cost of delivery.

7.3 In developing these proposals we have sought to limit increases particularly on the most economically sensitive route of all, short-term visit visas and sponsorship applications, so as to avoid any broader economic impact.

7.4 In summary our proposals are to align more closely the fee paid by main visa applicants overseas, with those paid when leave entitlements are extended in the UK on economic routes. This is consistent with our strategy to reduce volumes through economic routes; and to align more closely the fee paid for dependent applications in-country (one fifth to one third of main application fee) with those paid for dependent applications overseas (where generally the same fee is charged as for the main application). We believe it is right that those who bring dependants should pay more, to reflect both the additional costs of processing multiple applications, and also to reflect the independent benefits which dependants often receive.

7.5 Our overall aim is to ensure our fees make an appropriate contribution to the end-to-end costs of the immigration system in terms of the price paid for consideration of the application with the interests of the general UK taxpayer, who will continue to support the immigration system that brings benefits and enrichment to this country. Our method of fee setting will continue to help to protect some routes from significant increases and will contribute to the additional revenue needed to fund enforcement and other necessary improvements to the immigration system.

7.6 We believe these proposals are in the best interests of the UK. Securing the border brings with it an irreducible core of cost, especially as we seek to maintain the level of customer service in our visa functions: something which other Government Departments and customers tell us is key to the lifeblood of the UK economy. Nevertheless, the Chancellor's Emergency Budget set out publicly the state of the nation's finances and demonstrated the very difficult choices that must be made as a result.

7.7 We have also published indicative unit costs for each application for 10/11. The unit cost is the estimated average cost to the UK Border Agency of processing each application. We have provided these costs to Parliament to ensure transparency. Although our unit costs are not fixed over the course of the financial year, publishing unit costs in this way will enable applicants to see which fees are set under cost and by how much. Full details, are available at <http://www.ukba.homeoffice.gov.uk/>

VISA FEES

Non PBS Visas				
Products	Unit Cost	Current Fee	Current Dep Fee	New Fee
Visit visa - short	£140	£68	N/A	£70
Certificate of Entitlement	£245	£220	N/A	£245
Vignette Transfer Fee	£93	£75	N/A	£93
PBS Visas				
Tier 1 Post Study	£344	£315	£315	£344
Tier 1 (Transition)	£332	£256	£256	£332
Tier 1 (Transition) CESC	£332	£235	£256	£300
Tier 4	£242	£199	£199	£220
Tier 5	£173	£128	£128	£130
Tier 5 CESC	£173	£112	£128	£120

IN UK – LEAVE TO REMAIN AND NATIONALITY FEES

Nationality Applications - Migrants In UK					
Products	Unit Cost	Current Fee	Current Dep Fee	New Fee	New Dep Fee
Nationality Reissued Certificate	£178	£76	N/A	£80	N/A
Nationality Right of Abode	£150	£143	N/A	£150	N/A
Status Letter (Nationality)	£107	£76	N/A	£80	N/A
Non-Acquisition Letter (Nationality)	£107	£76	N/A	£80	N/A
Non- PBS Routes - Migrants in the UK					
Transfer of Conditions Postal	£381	£169	£16	£200	£50

IN– UK PBS FEES

PBS Routes - Migrants In UK					
Products	Unit Cost	Current Fee	Current Dep Fee	New Fee	New Dep Fee
Tier 5 - Postal	£359	£128	£12	£130	£30
Tier 5 - Postal CESC	£380	£112	£11	£120	£30

PBS SPONSORSHIP FEES

PBS Sponsorship Products				
Products	Unit Cost	Current Fees	New Fee	
Sponsor Action Plan	£1,100	£600	£1,000	

Short Term Visit Visas

7.8 We recognise the importance of the visitor route to the UK economy. That is why we have sought to bear down on the fee for short-term visit visas. Our proposal is to increase this fee by £2 to £70. However the costs to us associated with this route continue to rise, the proposed fee recovers only around half of the total costs we face. In addition, family visit visas carry rights of appeal, which continue to impose costs on the UK Border Agency and Ministry of Justice. Nevertheless, we propose to continue to hold down increases in fees for this route to protect the competitiveness of the UK economy.

Tier 4 Visa (Student)

7.9 We have proposed an increase of the Tier 4 visa fee to £220. We recognise this is an increase on the current fee of £199, but it is still below the full cost to the UK Border Agency of considering the application - which is estimated to be £242.

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

7.11 We understand the concern expressed by some within the education sector that to increase the fee would suppress demand. However, we do not believe there to be a direct relationship between visa fee and volume demand at these price levels. We are not surprised by the fact that demand for this route continues to rise, as we consider the visa fee paid by students to be of marginal consideration when set against the broader costs they will encounter should they choose to come to the UK to study – not least the tuition fees, which are on average close to £10,000 per student per year in higher education.

7.12 We have also introduced a new fee where the application is made for entry clearance as a student visitor under paragraph 56K of the immigration rules, to attend an English language course for a period of more than 6 months and not more than 11 months. The proposed fee for this group of applicants is £70.

Tier 5 Visa and LTR (Temporary Worker)

7.13 We recognise that the importance of this route to the UK. That is why we have sought to bear down on the fee for Tier 5 visas and in UK leave applications. Our proposal is to increase this fee by £2 to £130.

Reissued Certificate of Nationality, Status Letters and Non-Acquisition Letters

7.14 The reissued certificate of Nationality is for an applicant who needs to apply for a duplicate registration/naturalisation certificate because they have lost their original certificate. Some individuals may require proof of their immigration or nationality status in the UK and some people may be required to prove that they have not been granted British Nationality. We propose increasing the fee for all these routes to £80, to help spread the overall contribution of fee increases across all routes.

Transfer of Condition & Vignette Transfer Fee

7.15 This application allows a migrant who already has permission to be in the UK confirmed by a stamp or sticker in a passport or other document issued to them, and they now want that permission confirmed in another document (usually because they have obtained a new passport). We propose increasing both the fee for a vignette transfer overseas to cost recovery at £93 and the fee for applications made in the UK to £200 to help reduce the contribution provided by other routes.

Certificate of Entitlement to Right of Abode Applications

7.16 This application is to confirm a person's eligibility to British Nationality. We propose increasing the fee for these applications both in the UK and overseas to full cost recovery to help reduce the contribution provided by other routes.

Dependants Applying to Extend their Leave in the UK.

7.17 At present dependants pay approximately one tenth of the main applicants' fee, if they are submitted at the same time as the main application. We propose to increase this ratio to between one fifth and one third of the main applicant fee. This continues our agreed policy to better align UK-based fees structure with that applied at visa posts overseas (where all dependants pay the full fee). This is to reflect the fact that each individual within any given application bears a processing cost to us (as well as sometimes an independent set of entitlements for the individual).

7.18 The majority of respondents to our consultation were not in favour of charging an additional, separate fee for each dependant, with only a third in favour. We think it is fair to just increase their contribution to between one fifth and one third of the main applicant's fee. This helps to reduce the amount of cross-subsidy and then over time we would look to further align our dependant charging in the UK with the visa model overseas, but we plan keep volumes under close review to manage that transition carefully.

Council of Europe Social Charter Fee Reductions

7.19 For certain work routes, we have set new reduced fees for nationals of countries that have ratified the Council of Europe Social Charter 1961 (the CESC), for applications for leave to remain in the UK under work routes.

7.20 These reduced fees will apply to nationals of Croatia, the Former Yugoslav Republic of Macedonia, and Turkey.

Fees for Sponsorship under the Points Based System

7.21 We recognise the importance of keeping direct costs to sponsors under the Points Based System as low as possible, particularly in the current economic climate. As such we propose to freeze the fees for acting as a sponsor (including fee for Tier 4 Highly Trusted Sponsors) and the certificate of sponsorship fee at the same level, whilst also maintaining our existing concessions for small businesses, charities, education providers and the arts and entertainment sectors. This is in line with our approach to set fee levels flexibly to take account of the UK's international competitiveness. This is a challenging time for the global economy; and particular pressure is being felt by UK industry at this time.

Sponsor Action Plans

7.22 We propose to increase the fee for Sponsor Action Plans to £1,000. These are currently produced by the UK Border Agency and issued to certain sponsors at £600. The new fee would better reflect the costs of managing the process of working up action plans to ensure compliance.

7.23 The Action Plan will explain in detail the steps a sponsor must take to become fully compliant with their duties to get an 'A' rating. For example, this might include making specific improvements to recordkeeping, improving control over the staff employed to issue certificates of sponsorship or improving communication between different branches of a business to know when a migrant has not turned up for work.

7.24 The vast majority of sponsors take their responsibilities seriously and comply fully with those responsibilities. We recognise the importance of keeping direct costs to these sponsors under the Points Based System as low as possible, particularly in the current economic climate. For the small minority of sponsors that have not fully met the requirements, we think it is right that we recover the cost to us of working up action plans to ensure compliance, rather than increasing the fees for all sponsors to recover this cost.

Migration Impact Fund (MIF)

7.25 For certain routes, since April 2009, the fees incorporated a contribution to a fund to manage the transitional impacts of migration; this was in accordance with the

previous Government's policy to create a fund to help local service providers deal with transitional pressures of migration.

7.26 The fees no longer include a contribution to the MIF as this is being suspended by the Department for Communities and Local Government, with effect from 1 October 2010.

- **Consolidation**

7.27 There have been no amendments to the Immigration and Nationality (Cost Recovery Fees) Regulations 2010.

7.28 These Regulations revoke and replace the Immigration and Nationality (Cost Recovery Fees) Regulations 2010 (S.I. 2010/228) to improve their legibility for all stakeholders, customers, practitioners and officials.

8. Consultation outcome

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

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

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

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

8.5 A public consultation exercise on charging for immigration and nationality applications was undertaken from 30 October to 22 December 2006, supported by the publication of *A consultation on a new charging regime for immigration & nationality fees*. The consultation document was made available on the Home Office website and was also sent to 3,000 people. The formal Government response to the public consultation was published on 7 March 2007, and is published at:

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

8.6 The consultation established the principle that from April 2007 onwards, UK Border Agency will operate a flexible pricing approach to setting fees for immigration services. This allows fees to be set in order to maintain competitiveness where needed, but also to ensure that the immigration system overall generates the revenue needed, rather than seeking to fund necessary improvements via general taxation. 87% of respondents to the consultation agreed we should set fees flexibly to take into account wider policy objectives and 79% agreed that new fees should reflect a range of factors, not only those of value to the migrant.

8.7 During the course of 2003/04, following full public consultation, the Home Office introduced charges for a range of immigration applications to ensure that those who use and benefit from the UK system met the cost of delivering the administrative service provided.

9. Guidance

9.1 We will publish full details of the new fee levels and their commencement dates in a Written Ministerial Statement. Full details of each fee and guidance to customers on how to apply under each route will be published on the UK Border Agency website.

10. Impact

10.1 An Impact Assessment is attached to this memorandum and will also be published at www.ukba.homeoffice.gov.uk.

11. Regulating small business

11.1 The legislation applies to small business.

11.2 To minimise the impact of the requirements on small firms employing up to 20 people, we have maintained our approach of charging a lower fee for small sponsors applying for a sponsor licence.

11.3 We consulted on our approach to charging in the exercises and have published our response as outlined at paragraph 8 above. Maintaining a lower sponsorship licence fee will minimise unnecessary impacts on small firms and demonstrates that we recognise the economic pressures they face.

12. Monitoring & review

12.1 We will closely monitor the impact of fees for the application and services contained in these Regulations. We review fees and charges for Immigration and Nationality applications annually, and application trends are monitored by UK Border Agency on a monthly basis. Analysis of application trends is monitored by the cross-Whitehall fees committee to ensure that fee levels generate sufficient revenue to cover

UK Border Agency delivery costs but do not adversely impact on the UK economy. We would seek to amend these fee levels were there evidence of such adverse impact.

13. Contact

13.1 Geetha Muthusamy at the Charging Policy Programme of the UK Border Agency, [Tel: 0114 207 3375 or email: Geetha.Muthusamy@homeoffice.gsi.gov.uk] can answer any queries regarding the instrument.

Title: Impact Assessment of Fee Changes for Tier 4 visas, Tier 1 post study visa, In UK Dependant Application, Nationality, Transfer of Condition, and Sponsor Action Plan. Lead department or agency: UK Border Agency Other departments or agencies: N/A	Impact Assessment (IA)
	IA No: HO0010
	Date: 07/09/2010
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Secondary legislation
Contact for enquiries: Charging Policy Team, Vulcan House (Iron), Sheffield, PO Box 3468, S3 8WA	

Summary: Intervention and Options

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

New Government proposals to limit net migration and the economic circumstances mean that it is harder to predict the numbers of migrants that will come to the UK. Continuing to offer these fees at current levels carries an increased risk that the UK Border Agency may not recover its costs, thereby increasing the burden on the UK taxpayer, and reducing the UK Border Agency's ability to secure the border and control migration for the benefit of the UK.

What are the policy objectives and the intended effects?

The Government's charging policy objectives are:

1. That those who benefit directly from our immigration system (migrants, employers & others) should contribute to the costs of the system and balance this with the interests of the taxpayer;
2. That we align more of our In UK and overseas fees; and
3. That we keep our fees fair, sustainable and competitive.

The specific objective for fees covered in this impact assessment is that applicants should pay proportionately more towards the cost and reduce the burden in the UK taxpayer.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)

Option 1: Do Nothing, Retain current fee levels for Tier 4 visas, Tier 1 post study visa, In UK dependant applications, transfer of condition applications, reissued certificates nationality applications, and sponsor action plans.

Option 2: Increase the fee for Tier 4 visa to £220, Tier 1 post study visa to £344, increase the dependant fee to approximately one fifth to one third of main applicant fee, increase the reissued certificate of nationality fee to £80 and increase the right of abode for nationality fee to cost recovery, increase the fee for in UK transfer of conditions to £200 & overseas vignette transfer fee to £93, and increase the fee for the sponsor action plan to £1,000.

The preferred option is Option 2, as this will generate the revenue to fund the wider immigration system and will reduce the level of cross-subsidy by meeting more of the cost. It will also help reduce the level of risk to the UK Border Agency where the numbers of migrants applying to come to the UK is uncertain, and will also and balance this with the interests of the taxpayer. The preferred option also meets the UK Border Agency's three Charging Policy objectives.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?	It will be reviewed 04/2011
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	Yes

Ministerial Sign-off For final proposal stage Impact Assessments:

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

Signed by the responsible Minister: Damian Green Date: 7 September 2010.....

Summary: Analysis and Evidence

Policy Option 2

Description: Increase the fee for Tier 4 Visa to £220, Tier 1 post study visa to £344, increase the dependant fee to approximately one fifth to one third of main applicant fee, increase the reissued certificate of Nationality fee to £80 and increase the right of abode for nationality fee to cost recovery, increase the fee for in UK Transfer of Conditions to £200 & overseas vignette transfer fee to £93, and increase the fee for the Sponsor Action Plan to £1,000.

Price Base Year 2010	PV Base Year 2010	Time Period Years 5	Net Benefit (Present Value (PV)) (£m)		
			Low: - £32.7m	High: £31.0m	Best Estimate: - £2.0m

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£0	1	0	0
High	£0		£15.3m	£63.7m
Best Estimate	£0		£7.9m	£32.9m

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

The economy is estimated to lose £32.6m (PV) from a reduction in the number of migrants coming to or remaining in the UK to work, study or visit. UKBA is estimated to lose £300,000 (PV) from a net decrease in the volume of applicants as a result of fee changes from out of country applicants who no longer come to the UK.

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

Risks to UK economy of significant impact on volumes

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	£0	1	£7.4m	£30.9m
High	£0		£7.4m	£31.0m
Best Estimate	£0		£7.4m	£31.0m

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

Higher visa fees will increase fee income to the UK for those out of country applicants who still apply to come to the UK.
Fees from applicants inside the UK are transfers from applicants to UKBA and are discussed in the Evidence Base below.

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

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

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
--	--------------------------	-----

Wage elasticity of labour supply of 0.5 used for PBS Tier 5 dependants, Nationality Reissues, and Transfer of Conditions. Price elasticity of demand for higher education of -1 used for Tier 4 visas and Tier 4 dependants. Wage elasticity of labour demand of -0.75 used to estimate the impact on volumes of the proposed fee change for the Sponsor Action Plan.

Ranges are applied to elasticities to obtain a range around the NPV. The low estimates for costs are associated with the high estimates for benefits, and vice versa: lower elasticities imply smaller reductions in volumes, generating lower costs in terms of lost revenue and output and higher revenue benefits from those who continue to apply.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):		In scope
New AB: £0	AB savings: £0	Net: £0	Policy cost savings: £0		No

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	Worldwide				
From what date will the policy be implemented?	1 October 2010				
Which organisation(s) will enforce the policy?	UK Border Agency				
What is the annual change in enforcement cost (£m)?	0				
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	N/A				
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)	Traded: N/A		Non-traded: N/A		
Does the proposal have an impact on competition?	No				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	Costs: £0		Benefits: £0		
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro	< 20	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties ¹ Statutory Equality Duties Impact Test guidance	No	
Economic impacts		
Competition Competition Assessment Impact Test guidance	No	
Small firms Small Firms Impact Test guidance	No	
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	No	
Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	No	

¹ Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

References

No.	Legislation or publication
1	http://webarchive.nationalarchives.gov.uk/20100422120657/http://www.ukba.homeoffice.gov.uk/sitecontent/documents/managingourborders/pbsddocs/
2	http://webarchive.nationalarchives.gov.uk/20100422120657/http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/consultations/charging09/
3	http://www.opsi.gov.uk/stat
4	

+ Add another row

Evidence Base

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

	Y ₀	Y ₁	Y ₂	Y ₃	Y ₄
Transition costs	0.0	0.0	0.0	0.0	0.0
Annual recurring cost	-3.9	7.9	7.9	7.9	7.9
Total annual costs	-3.9	7.9	7.9	7.9	7.9
Transition benefits	0.0	0.0	0.0	0.0	0.0
Annual recurring benefits	3.7	7.4	7.4	7.4	7.4
Total annual benefits	3.7	7.4	7.4	7.4	7.4

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

Evidence Base (for summary sheets)

1. PROBLEM UNDER CONSIDERATION

Securing our border and controlling migration for the benefit of the UK costs over **£2 billion** per annum. We believe it is right that those who use the system make an appropriate contribution to meeting these costs, to help balance the interest of with the UK taxpayer, and recover a contribution through the fees.

We set application fees based on a number of factors, working within strict financial limits agreed with HM Treasury and Parliament. We currently set fees flexibly. Some fees are set above the cost of delivery, to reflect the value of the product. Charging above the cost of delivery helps to raise the revenue required to fund the overall immigration system and 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 to support tourism).

New Government proposals to limit net migration and the economic circumstances means that it is harder to predict the numbers of migrants that will come to the UK. Continuing to offer these fees at current levels carries an increased risk that the UK Border Agency may not recover its costs, thereby increasing the burden on the UK taxpayer, and reducing the UK Border Agency's ability to secure the border and control migration for the benefit of the UK.

2. RATIONALE FOR GOVERNMENT INTERVENTION

We want to make sure that the charging system as a whole continues to contribute towards the costs of running the immigration system. However, in the current economic climate it is harder to predict the numbers of migrants that will apply to come to the UK. This increases risk to the UK Border Agency, and maintaining fees at current levels would not allow us to fully support the immigration system, maintain public confidence, and ensure that migration is managed for the benefit of the UK. We also need to manage the risk to UK Border Agency's income so that we balance this with the interests of the general UK taxpayer. We have considered a number of fees options to reduce the risk.

3. POLICY OBJECTIVES

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

- That those who benefit directly from our immigration system (migrants, employers and educational institutions) should contribute to the costs of the system and balance this with the interests of the taxpayer;
- That we align more of our In UK and overseas fees; and
- That we keep our fees fair, sustainable and competitive.

We have sought to focus our proposed increases in a way which continues to build on the existing UK Border Agency fees policy and which supports broader UK Government policy objectives (for example preserving the cross-subsidy for short-term visit visas in order to keep them priced at levels which remain internationally competitive).

We have used this opportunity to simplify the fee structure by rounding most of the fees to the nearest £50 or £100. The proposed fee increases will also help to spread the overall burden across all routes.

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

1. Tier 4 Visas
2. Tier 1 (Post Study) Visa
3. In UK Dependant Fee
4. Transfer of Conditions & Vignette Transfer
5. Nationality – Reissued Certificates
6. Nationality Right of Abode & overseas Certificate of Entitlement
7. Sponsor Action Plan

We have not carried out an Impact Assessment for routes covered by the Council of Europe Social Charter and Tier 1 Transition. Volumes under these routes are negligible and we have therefore assumed them to be zero. We have also not carried out an Impact Assessment for routes where the fee increase is below inflation, for example short term visit visa and Tier 5.

Tier 4 Visas and In-Country Applications

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

We propose a £21 increase to the fee for Tier 4 visa fee to £220. We recognise this is a significant increase on the current fee of £199, but it is still below the full cost to the UK Border Agency of considering the application - which is estimated to be approximately £242.

This is a key route to us in the UK Border Agency, to the education system in general, and to the broader UK economy. We understand this, and we have worked hard to preserve a fee structure which supports collective objectives in this area. However, we must recognise that in the current climate where resources are tight and pressure on those resources is ever-increasing, maintaining Tier 4 visa fees at their current level is simply unsustainable. Currently every student visa application is being cross-subsidised by almost £43. If students coming to the UK are not meeting the costs of providing the visa and immigration services they use, then by default others are paying for them.

We understand the concern expressed by some within the education sector that to increase the fee would suppress demand. However, we believe there will be minimal impact between visa fee and volume demand at these price levels. This has been borne out since April 2008 (when we increased the amount payable from £99 to £145), where we have seen demand continue to rise. We are not surprised by that trend, as we consider the visa fee paid by students to be of marginal consideration (less than 1%) when set against the broader costs they will encounter should they choose to come to the UK to study – not least the tuition fees, which are on average close to £10,000 per student per year in higher education.

Tier 1 Post Study

The Tier 1 (Post-study work) category allows the UK to retain the most able international graduates who have studied here. It also enhances the UK's overall offer to international students.

We propose a £29 increase to the fee for Tier 1 post-study visa to £344. We believe this increase takes the fee to cost recovery and better aligns this fee with that for other Tier 1 routes, where the entitlements (such as the ability to come and stay unsponsored, and unlimited access to the labour market) are most similar.

In UK Dependant Fee

The In UK Dependant category covers all dependant applications submitted at the same time as the main applicant. This Impact Assessment covers dependant applications for Transfer of Conditions, Tier 4 in-country applications, and Tier 5 in-country applications.

We propose increasing the fee for dependants from approximately 10% of the main applicant fee to approximately one fifth to one third of the main applicants' fee. Prior to April 2010, UK Border Agency processed applications from dependants free of charge if they were submitted at the same time as the main application.

We introduced a nominal 10% dependent fee in the UK on 6 April 2010. The fee better reflected the fact that each individual within any given application bears an additional processing cost to us (as well as sometimes an independent set of entitlements for the individual).

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

This is being done in stages to keep volumes under close review and to manage the transition carefully. This supports the charging principle that those who benefit from the system make an appropriate contribution.

Transfer of Condition & Vignette Transfer Fee

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

We propose increasing the fee for in UK transfer of conditions in line with our strategic policy to help spread the overall burden of fee increases across all routes and overseas vignette transfer to cost recovery at £93.

Reissued Certificates of Nationality

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

We propose increasing the fee for reissued certificates to £80.

Nationality – Right of Abode & Overseas Certificate of Entitlement

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

We propose increasing the fee for in UK right of abode applications to cost recovery at £150 and increase the overseas certificate of entitlement fee to cost recovery at £245.

Sponsor Action Plan

The Action Plan is issued to sponsors who do not comply with their sponsorship duties. This fee would recover the cost to UK Border Agency of working up action plans for non-compliant sponsors, where UK Border Agency account managers have to work closely with sponsors when an action plan is issued to them. We believe it is right that these full costs are met by 'B' rated sponsors rather than being cross-subsidised elsewhere. We had previously under-estimated the costs to us of this work.

By charging sponsors depending on the degree to which they comply with their responsibilities, we can incentivise good behaviour and help keep costs down for the majority of Sponsors.

4. OPTIONS

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

Option 1: Do Nothing, Retain current fee levels for Tier 4 visas, Tier 1 post study visa, In UK dependant applications, transfer of condition applications, reissued certificates nationality applications, and sponsor action plans.

Option 2: Increase the fee for Tier 4 visa to £220, Tier 1 post study visa to £344, increase the dependant fee to approximately one fifth to one third of main applicant fee, increase the reissued certificate of nationality fee to £80 and increase the right of abode for nationality fee to cost recovery, increase the fee for in UK transfer of conditions to £200 & overseas vignette transfer fee to £93, and increase the fee for the sponsor action plan to £1,000.

The preferred option is Option 2, as this will generate the revenue to fund the wider immigration system and will reduce the level of cross-subsidy by meeting more of the cost. It will also help reduce the level of risk to the UK Border Agency where the numbers of migrants applying to come to the UK is

uncertain, and will also and balance this with the interests of the taxpayer. The preferred option also meets the UK Border Agency's three Charging Policy objectives.

5. COSTS AND BENEFITS

A model was developed to examine the **additional** costs and **benefits** to society and the economy of Option 2 compared with Option 1 over a four and a half-year period (10/11 to 14/15). Option 1 is denoted as the 'Do Nothing' option with no additional costs and benefits and is the baseline used for comparison.

5.1 Impact on Volumes

The key impact of increasing fees will be that productive migrants will be deterred from coming to the UK, or remaining in the UK, to study and work. Initial modelling based on a number of uncertain assumptions has been used to estimate the potential impacts of additional fees on volumes of migrants willing to supply their labour to the UK or demanding to come to the UK for study purposes. Forecast volumes are based on internal UKBA application volumes which are uncertain and subject to change. These may not match those used in the Limits Consultation Impact Assessment, which are based on actual historic approvals volumes.

For the fee changes in option 2 which fall upon the dependant, we assume zero economic loss in terms of output and income forgone to the UK economy from a reduction in the number of applicants. However, we still estimate expected annual earnings for the principal applicant in order to calculate percentage change in dependant volumes given that we assume both the principal and dependant have similar elasticities i.e. the dependant is equally as responsive as the principal when it comes to price changes. This is because we assume the principal makes the ultimate decision on whether or not to apply for a UK visa or immigration product.

To work out the impact of additional fees on application volumes, elasticities were applied to the proposed routes. For PBS Tier 5, Nationality Reissues, and Transfer of Conditions, wage elasticity of labour supply of 0.5 was used. This is consistent with previous fee impact assessments, and assumes that migrants demand UKBA products in order to supply labour in the UK. In the sensitivity analysis, an elasticity range of 0 to -1.1 was used, as indicated by available evidence in Annex 2. However, no empirical studies on the wage elasticity of migrant labour supply and price elasticity of high education to the UK have been found so general studies on these respective elasticities are used as an estimate.

For Tier 4 visas and in-country applications and extensions, a price elasticity of demand for higher education of -1 was applied to the expected non-EU tuition fee for higher education in the UK. This is consistent with previous IAs. A range of 0 to -2 was used in the sensitivity analysis.

For the change in fees to the Sponsor Action Plan, the wage elasticity of labour demand of -0.75 was used, as firms demand certificates of sponsorship to bring migrants to the UK to fill employment vacancies. A range of 0 to -1 was used in the sensitivity analysis.

5.2 Net Benefits

The increase in fees is estimated to result in a decrease in output of £32.6m (Present Value) over the expected length of stay, and a loss in revenue of £300,000 (PV) over 4.5 years, from those who no longer come to the UK. It is estimated that the economy will benefit from an increase in government revenue of £31.0m (PV) over 4.5 years raised due to higher fees.

However, an increase in UKBA fees implies a transfer from applicants to UKBA for those who continue to apply. The Impact Assessment process counts this as a cost for UK residents (i.e. in-country applicants), but not those applying from overseas. The loss in fees from those in-country who are deterred from applying represents a financial saving to in-country applicants. These transfer costs are not included in the costs and benefits because they cancel each other out exactly. They are not costs and benefits to the economy.

Transfer Payments

Transfers	Central Estimate (PV) 2010/11 – 2014/15
Increase in UKBA Fee income from in country applications	£7.0m
Additional cost of application fees to in country applicants	-£7.0m
Saving from deterred in-country applicants	£8,000
Lost UKBA revenue from deterred in-country applicants	-£8,000
Total	0

The Net Present Value calculation is therefore - **£2.0 million** over 4.5 years. The NPV range based on the above elasticity assumptions is - £33m to + £31m.

The total estimated fee income to UKBA is £38m (PV) over 4.5 years.

The key costs and benefits associated with option 2 are set out below:

Key Costs and Benefits of Fee Increases

Key Monetised Costs

To economy

- **Reduction in fee income from deterred applications:** income to UK economy (UKBA) from overseas may be deterred as a result of fee increases
Option 2: This is estimated at £34,000 for 2010/11 and £252,000 (PV) for the next four years.
- **Reduction in output from deterred migrants:** costs of lost productive output and income where migrants are deterred from coming to or remaining in the UK for work, study or visit.
Option 2: This is estimated at £3.9m for 2010/11 and £28.7m (PV) for the next four years.

Key Non- Monetised Costs

- Risks to UK economy of significant impact on volumes

Key Monetised Benefits

To economy

- **Increased fee income to the UK:** higher immigration and visa fees will increase fee income to the UK from those out of country applicants that still apply to come to the UK.
Option 2: This is estimated at £3.7m for 2010/11 and £27.3m (PV) for the next four years.

Key Non- Monetised Benefits

- Option 2: Public confidence in secure borders and that migration is controlled for the benefit of the UK.

Under option 2, there is a potential **net cost** to the economy of £200,000 in 2010/11 and £1.7m over the next four years (present value). To the economy, the costs exceed the value of revenue gained from the fee increases. Overall we expect volumes to decrease by approximately 1,600 over the time period covered by the IA for these routes in response to the rise in price.

Full results of Cost Benefit Analysis

	2010/11	2011/12	2012/13	2013/14	2014/15	Total
Benefits						
Net Revenue raised from fee changes for those who continue to apply	£3,700,000	£7,400,000	£7,400,000	£7,400,000	£7,400,000	£32,500,000
Total benefits (PV)	£3,700,000	£7,200,000	£6,900,000	£6,700,000	£6,500,000	£30,100,000
Costs						
Revenue from net decrease in the volume of applications as a result of fee changes	£34,000	£69,000	£69,000	£69,000	£69,000	£301,000
Output loss from net decrease in migrants coming/ remaining in the UK	£3,900,000	£7,800,000	£7,800,000	£7,800,000	£7,800,000	£34,200,000
Total costs (PV)	£3,900,000	£7,600,000	£7,400,000	£7,100,000	£6,900,000	£31,900,000
Net benefit (PV)	£200,000	£500,000	£400,000	£400,000	£400,000	£1,900,000

Numbers may not sum due to rounding.

6. SENSITIVITY ANALYSIS

Assuming elasticities of demand and supply of 0 for all products results in no volume changes. In this scenario, there is a net benefit of £31m (PV) over 4.5 years through additional revenue from fees.

Assuming elasticity of labour supply of -1.1, elasticity of demand for HE of -2, and wage elasticity of labour demand of -1, the estimated reduction in volumes is 3,200. Revenue gained from fees is estimated at £31m (PV) from out of country applicants (the revenue increase which constitutes a gain to the economy). Revenue lost from those out of country applicants who no longer apply is assumed to be £600,000 (PV), and output loss is assumed to be £63.1m (PV). This results in a potential net cost of -£32.7m over 4.5 years.

7. MONITORING and EVALUATION

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

8. FEEDBACK

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

Annex 1: Post Implementation Review (PIR) Plan

<p>Basis of the review: The basis of the review is statutory (forming part of the legislation), and we carry out a review every year when we change the existing fee levels.</p>
<p>Review objective: We regularly review of volumes of applications against projected demand with the assumption of fee changes where necessary to reflect the cost changes or significant demand impacts.</p>
<p>Review approach and rationale: We do an in-depth evaluation whenever we produce an Impact Assessment for new fees. But we generally monitor data/trend, ask for stakeholder views through our taskforces etc as part of our day-to-day business and incorporate them into any new fee proposals.</p>
<p>Baseline: The current position against which the change introduced by the legislation can be measured by monitoring the volume of applications received and income generated through these fees.</p>
<p>Success criteria: We regularly review our volumes of applications against projected demand with the assumption of fee changes to reflect the cost changes or significant demand impacts.</p>
<p>Monitoring information arrangements: We have existing arrangements in place that will allow us to systematically collect and monitor information for future review. This is done by producing 3 to 5 yearly forecasts of expected volumes and then we compare this with actuals for each year. From this information we then create a charging model which helps us generate the income required through fees.</p>
<p>Reasons for not planning a PIR: N/A</p>

Annex 2: Elasticities of Demand and Supply

Table 1a: Empirical studies of the wage elasticity of labour supply

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

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

Table 1b: Empirical studies of the price elasticity of demand for 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
Hoernack, S., W. Weiler, and C. Orvis. "Cost-Related Tuition Policies and University Enrollments." mimeo., Management Information Division, University of Minnesota, 1973.	Between -1.811 to -.837	Private demand for the University of Minnesota, using longitudinal data from 1948-72.

Table 1c: Empirical 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.
