EXPLANATORY MEMORANDUM TO

THE IMMIGRATION AND NATIONALITY (FEES)(AMENDMENT) REGULATIONS 2008

2008 No.

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

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

2. Description

2.1 These regulations set the fees for some of the applications for which the Secretary of State has stated in the Immigration and Nationality (Fees) (Amendment) Order 2008 ("2008 Order") that she intends to charge a fee.

2.2 These include those fees for new applications being introduced under the new Points Based System as of 29 February 2008 and 1 April 2008 which are set at a level above the administrative cost, or which cross subsidise other fees to be charged under the 2008 Order, or that are currently charged under the Immigration and Nationality (Fees) Order 2007 ("2007 Order").

2.3 Fees for entry clearance applications which are currently set in the Consular Fees Order 2007 have been included in these regulations. These fees will be deleted from the Consular Fees Order as of 1 April 2008 when the relevant provisions in these regulations come into force.

2.4 These regulations also include the relevant exemptions for Entry Clearance applications.

2.5 These regulations delete the fee for a Highly Skilled Migrant Programme leave to remain application.

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

3.1 These regulations specify fees in respect of certain of those matters specified in the 2008 Order. The fees specified in these regulations are in respect of those matters for which:

(a) the fee will be set at an amount above the administrative cost of making the application, in reliance of section 42(1) (which will be amended as of 31 January 2007 by section 20 of the UK

Borders Act 2007) of the Asylum and Immigration (Treatment of Claimants, etc.) Act 2004 ('the 2004 Act'); or for which

(b) the fee will contain an element of cross subsidisation of other applications which are to be charged below the administrative cost, in reliance of section 42(2A) (which will be inserted as of 31 January 2008 by section 20 of the 2007 Act) of the 2004 Act.

3.2 A draft of these regulations must by virtue of section 42(7) of the 2004 Act be laid before and approved by a resolution of each house of Parliament.

3.3 These regulations specify fees above the administrative cost of providing a service in line with the Government's new charging regime model. By charging above the administrative costs of the service on the application types referred to in this instrument, the Home Office is able to set fees for other application types at or below cost recovery in support of wider Government objectives, particularly where it is believed that a cost recovery fee would be so high as to damage international competitiveness in this area.

3.4 Fees for the matters specified in the 2008 Order which will be charged at or below the administrative cost will be specified in other regulations which are subject to annulment in pursuance of a resolution of either House of Parliament.

3.5 Fees for other new applications under the Points Based System will be set out in further regulations prior to implementation.

3.6 The table below sets out the current fee levels (where applicable) and the new proposed fees in these regulations:

Application Type	**Current Fee (£)**	**New Fee (£)**
Entry Clearance as a Tier 1 (General) Migrant	N/A	600
Application for Entry Clearance for a Tier 1 (General) Migrant where applicant has been granted a Highly Skilled Migrant Programme approval letter (transitional arrangement)	N/A	200[1]
Leave to Remain in the UK as Tier 1 (General) Migrant	N/A	750
Application for Leave to Remain as a Tier 1 (General) Migrant where applicant has been granted a Highly	N/A	350[2]

[1] Current fee is that charged for an application for entry clearance under the Highly Skilled Migrant Programme.

2 Current fee is that charged for an application for leave to remain under the Highly Skilled Migrant Programme

Skilled Migrant Programme approval letter (transitional arrangement)		
Other leave to remain applications made at a public enquiry office[3]	595	595
Tier 2 Sponsorship licence for a large/medium business [4]	N/A	1000
Entry Clearance for Settlement in the United Kingdom	500	515
Certificate of Entitlement to Right of Abode applied for from outside the United Kingdom	200	205
Other visas (other than those charged under the Section 51 Order that are charged at or below cost recovery)	200	205

3.7 The Secretary of State has, in prescribing fees for the applications above - save for applications for entry clearance and sponsorship licences - in reliance of section 41(1) of the 2004 Act, prescribed an amount intended to exceed the normal administrative costs of determining an application and reflect the benefits that she thinks are likely to accrue to the applicant or the person to whom the application relates, if the application is successful.

3.8 In prescribing the above fees for entry clearance and sponsorship licences, the Secretary of State has, in reliance of section 42(2A) of the 2004 Act (which will be inserted as of 31 January 2008 by section 20 of the 2007 Act), prescribed an amount that is intended to cross subsidise:
(a) in the case of entry clearance applications, other applications for entry clearance; and
(b) in the case of sponsorship licences, other applications for sponsorship licences

that are to be set at levels below the administrative cost of such applications

4. Legislative Background

4.1 Section 51(3) of the Immigration, Asylum and Nationality Act 2006 (the '2006 Act') 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.

[3] An application for other leave to remain is an application for limited leave to remain under the immigration rules other than for work permit employment; for the purposes of employment under the Sectors Based Scheme; for Home Office approved training; as a Seasonal Agricultural Worker; as a person intending to establish himself in business; as an innovator; as an investor; as a retired person of independent means; as a sole representative; as a student; to re-sit an examination; to write up a thesis; as a student union sabbatical officer; or as a prospective student.

[4] Persons that qualify under the regulations as a small sponsor are small companies as defined in either sections 382 and 383 of the Companies Act 2006 (the '2006 Act'), or, before such sections are in force, section 247 of the Companies Act 1985 ('the 1985 Act'); businesses who are not companies for the purposes of sections 382 and 383 of the 2006 Act or section 247 of the 1985 Act and who employ no more than 50 employees; and charities will be specified in other regulations because the fee will be subsidised.

4.2 Section 42(1) of the 2004 Act enables the Secretary of State, when prescribing a fee under section 51 of the 2006 Act, to prescribe an amount which is intended to:

(a) exceed the administrative costs of determining the application or undertaking the process; and

(b) reflect benefits that the Secretary of State thinks are likely to accrue to the person who makes the application, to whom the application relates or by or for whom the process is undertaken, if the application is successful or the process is completed.

4.3 Section 42(2A) of the 2004 Act (which will be inserted as of 31 January 2008 by section 20 of the 2007 Act) enables the Secretary of State to cross subsidise between applications made for entry clearance, leave to remain, transit visas, certificates of entitlement to the right of abode in the UK, or other claims, services, applications processes set out in an order made under section 51 of the 2006 Act.

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

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

5.2 Fees for entry clearance to the Crown Dependencies will continue to be set by Order in Council under section 1 of the Consular Fees Act 1980

6. European Convention on Human Rights

6.1 The Minister of State for Nationality, Citizenship and Immigration has made the following statement regarding Human Rights:

In my view the provisions of the Immigration and Nationality (Fees) Regulations 2008 are compatible with the Convention rights.

7. Policy background

7.1 During the course of 2003/04 the Home Office introduced charges for a range of immigration applications to ensure that those who use and benefit from the UK's immigration system met the costs of delivering the administrative service provided.

7.2 A further 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 also sent to 3000 people and organisations. The formal Government response to the public consultation was published on 7 March 2007, and established the principle that those who benefit most from the immigration system should pay proportionately more towards the true end to end costs of the system, rather than seeking to fund improvements wholly via general taxation.

7.3 We have recently undertaken a further, targeted consultation exercise on fees and charges to support the Points Based System and for biometric identity documents (biometric ID cards) from 24 October to 9 November 2007. We consulted key stakeholders, based around – but not limited to – the membership of the Border & Immigration 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 received 132 written responses; and met with 119 individuals at consultation meetings.

7.4 The majority of respondents including most of those from business supported the proposal to continue to set some fees above cost recovery levels including Tier 1, Tier 2 and sponsor licence application fees. Ernst & Young stated that "We feel that it is acceptable that Tier 1 and Tier 2 applicants should pay slightly higher fees as they are the applicants that will potentially earn greater money". Hodson-Wren Associates agreed that fees for applications for entry clearance or leave to remain under Tier 1 and Tier 2 should be set at above normal cost recovery levels.

7.5 The fee for an application for entry clearance for the purpose of: settlement, work permit employment and all other applications for entry clearance for which a separate fee is not specified in these regulations or in the other regulations specifying fees at or below cost recovery levels have been increased by approximately 3% in line with inflation.

8. Impact

8.1 A Regulatory Impact Assessment will be published on the website of the Border and Immigration Agency at http://www.bia.homeoffice.gov.uk/aboutus/consultations/, and the website of the Home office at http://www.homeoffice.gov.uk/about-us/haveyoursay/. Copies will also be placed in the House libraries.

9. Contact

9.1 Chris Nickson at the Border and Immigration Agency of the Home Office e-mail: Chris.Nickson2@homeoffice.gsi.gov.uk or tel: 01142076559 or can answer any queries regarding the instrument.

Summary: Intervention & Options

Department /Agency:	Title:	
Border & Immigration Agency	**Impact Assessment of Fees for Sponsorship of the Points-Based System**	
Stage: Final	**Version:** 1.2	**Date:** 29 January 2008
Related Publications: Sponsorship under the PBS: Statement of Intent		

Available to view or download at:

http://www.bia.homeoffice.gsi.gov.uk

Contact for enquiries: Chris Nickson **Telephone:** 0114 207 6559

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

BIA wishes to implement a licensed sponsorship system as part of the new Points Based System for managed migration applications, based on that operated in Australia. The sponsorship system will replace the existing work permit arrangements and will be a brand new requirement for educational instituitions and certain other bodies and organisations who bring migrants to work, perform or participate in certain sporting events. The Government must set fees for the licensed sponsorship system at a level which ensures that the end to end costs of providing the immigration system are recovered from those who use and benefit from it. Sponsors will be required to apply for a licence every four years; and to issue a certificate of sponsorship to migrants before they can apply for entry clearance or leave to remain under Tiers 2, 4 or 5. Migrants applying under Tier 1 will not require a sponsor. We propose to charge a fee for the application for a licence and for each certificate of sponsorship issued.

What are the policy objectives and the intended effects?

- To rebalance the funding of the immigration system to ensure that those who benefit most from the service make a larger contribution, helping to reduce the burden on taxpayers

- To charge fees that recover the full administrative costs and that help to recover the true end-to-end costs of the immigration system from initial application to enforcement and compliance activities from those who use it

- To develop a fees model that is clear, straightforward and easily understood to our customers

- To keep fees for Tier 4 licences and certificates of sponsorship below cost recovery levels if possible.

What policy options have been considered? Please justify any preferred option.

Option 1: Do minimum - Maintain current work permit fee in respect of Tier 2 certificates; no additional licence fee for any Tier; no certificate fees for Tier 4 or Tier 5.
Option 2: Set Tier 2 licence fee that differentiates between size of business.
Option 3: Set licence fee of £500 for all tier 2 licences.
N.B. Tier 4 and 5 sponsorship fees are set at £400 per licence and £10 per certificate for options 2 and 3.
The preferred option is option 2.This option will help to ensure that larger users of the system will pay proportionately more and that small and medium sized businesses are not disadvantaged and reduces the cost to UK output. We believe that a fee for an application for a sponsor licence is necessary in all Tiers, both to recover the costs of considering the application, but also to ensure that the certificate fee is set at a modest level.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

Regular quarterly review of volumes of applications against projected demand with assumption of fee change to reflect cost charges.

Ministerial Sign-off For final proposal/implementation 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:

Liam Byrne.....Date: 30th January 2008

Summary: Analysis & Evidence

Policy Option: 2	Description: :Charge at differential rates by size of business

COSTS

ANNUAL COSTS	
One-off (Transition)	**Yrs**
£ 0	7
Average Annual Cost (excluding one-off)	
£ 5.1m	

Description and scale of **key monetised costs** by 'main affected groups' Decrease in volumes of migrants reduces output from prospective migrant workers and tuition fees/spending from overseas students

Total Cost (PV) **£ 31.9m**

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

BENEFITS

ANNUAL BENEFITS	
One-off	**Yrs**
£ 0	7
Average Annual Benefit (excluding one-off)	
£ 0	

Description and scale of **key monetised benefits** by 'main affected groups' No monetised benefits identified

Total Benefit (PV) **£ 0**

Other **key non-monetised benefits** by 'main affected groups' Improved fairness, as those who benefit most from the migration system pay more towards its costs. A fee for an application for a licence ensures that all those who wish to access the system pay for consideration, rather than successful sponsors subsidising unsuccessful applicants through certificate fees. A more modest licence fee for small businesses also helps ensure that smaller, normally occasional users of the system are not excluded.

Key Assumptions/Sensitivities/Risks

Price Base Year 2008	Time Period Years 5	**Net Benefit Range** (NPV) **£ -63.5m to -19.1m**	**NET BENEFIT** (NPV Best estimate) **£ -31.9m**

What is the geographic coverage of the policy/option?			UK Wide	
On what date will the policy be implemented?			29 Feb (Tier 2 licences)	
Which organisation(s) will enforce the policy?			BIA	
What is the total annual cost of enforcement for these organisations?			£ N/A	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			£ N/A	
What is the value of changes in greenhouse gas emissions?			£ N/A	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ 0 Decrease of £ 0 **Net Impact** **£** 0

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Summary: Analysis & Evidence

Policy Option: 3	Description: Charge identical rates for all Tier 2 Licences and Certificates

COSTS

ANNUAL COSTS	
One-off (Transition)	**Yrs**
£ 0	7
Average Annual Cost (excluding one-off)	
£ 5.5m	

Description and scale of **key monetised costs** by 'main affected groups' Decrease in volumes of migrants reduces output from prospective migrant workers and tuition fees/spending from overseas students

Total Cost (PV) **£ 34.2m**

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

BENEFITS

ANNUAL BENEFITS	
One-off	**Yrs**
£ 0	7
Average Annual Benefit (excluding one-off)	
£ 0	

Description and scale of **key monetised benefits** by 'main affected groups' No monetised benefits identified.

Total Benefit (PV) **£ 0**

Other **key non-monetised benefits** by 'main affected groups' Improved fairness, as those who benefit most from the migration system pay more towards its costs. A fee for an application for a licence ensures that all those who wish to access the system pay for consideration, rather than successful sponsors subsidising unsuccessful applicants through certificate fees.

Key Assumptions/Sensitivities/Risks

A wage elasticity of -1 was used estimate the likely impact on volumes of applications as a consequence of the proposed fee changes. The range used below is -1 to 0.

Price Base Year 2008	Time Period Years 5	**Net Benefit Range** (NPV) **£ -69.3m to -20.2m**	**NET BENEFIT** (NPV Best estimate) **£ -34.2m**

What is the geographic coverage of the policy/option?				UK Wide	
On what date will the policy be implemented?				29 Feb (Tier 2 licences)	
Which organisation(s) will enforce the policy?				BIA	
What is the total annual cost of enforcement for these organisations?				£ N/A	
Does enforcement comply with Hampton principles?				Yes	
Will implementation go beyond minimum EU requirements?				N/A	
What is the value of the proposed offsetting measure per year?				£	
What is the value of changes in greenhouse gas emissions?				£	
Will the proposal have a significant impact on competition?				No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large	
Are any of these organisations exempt?	No	No	No	No	

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ Decrease of £ **Net Impact** **£**

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

1. BACKGROUND

1.1. During the course of 2003 and 2004, the Home Office introduced charges for a range of immigration and nationality applications. The first phase of full cost recovery charging sought to ensure that those who use and benefit from the UK's immigration service met the costs of delivering the administrative service (including staffing and overhead costs) of processing applications to the point of making and conveying a decision.

1.2. The IND Review published in July 2006 stated that we should charge a fair and economic rate for our services but also one that reflects the true operational costs of the immigration system rather than just administrative costs.

1.3. As the Home Office and UKvisas implement the various measures outlined in the Review, including the Government's plans to introduce the new Points Based System (PBS) for managed migration, we need to consider how these immigration services are paid for. We know that migrants contribute to our economy, and we are clear that any new fees we set for migrants to come to the UK must not adversely impact on the many benefits that legal migration brings. But it is right to take the approach that our charging strategy should better reflect the end-to-end cost of the whole immigration system.

1.4. From April 2007, fees have moved from simple cost recovery to reflecting the value of the application. This means that some fees are set above normal cost recovery levels, both to contribute to the true end to end costs of the immigration system, and to allow us to set certain fees below normal cost recovery levels.

2. RATIONALE FOR GOVERNMENT INTERVENTION

2.1 The IND Review also signalled the biggest shake-up of the immigration system in its history, with a key component of the new approach being a step-change in the enforcement and compliance activity to ensure that the immigration laws are enforced.

2.2 The Government's position on this was laid out in the enforcement strategy published on 7 March 2007, which committed around £100m extra for immigration policing, detention space, and systems to share data and intelligence on those here illegally, designed to bear down on those seeking to cheat the system and live illegally in the UK

2.3 It was agreed that there should be no increase to general taxation to fund this strategy. Resources will be raised through a new approach to the pricing of visas and immigration products so that those who directly benefit from our services pay more. This approach to pricing applies directly to sponsorship under the points based system which will be implemented in early 2008 (see the published *Sponsorship under the Points Based System: Statement of Intent* for further details).

3. SPONSORSHIP POLICY BACKGROUND

3.1 A full description of the proposed policy of sponsorship under the points based system is contained in the statement of intent.[5] Briefly, under the Points Based system, migrants who enter the UK through Tiers 2 (skilled workers), 4 (students) and 5 (others e.g. youth mobility) of the Points Based System will be brought in by a sponsor such an employer or education institution. This sponsor will need to register as a sponsor which will then allow them to issue Certificates of Sponsorship (CoS) each time they need to recruit a migrant. The sponsorship term is proposed to last for 4 years after which the sponsor will need to reapply. The sponsor is therefore required to

[5] http://www.bia.homeoffice.gov.uk/sitecontent/documents/managingourborders/pbsdocs/statementofintent/sponsorshippbs.pdf

pay two fees, one for registering as a sponsor and one for each Certificate of Sponsorship they issue. The impacts of these fees vary depending on the distribution of the fee burden across these two fees. The options considered here give two possible distributions that have been considered in detail to reveal their potential economic impacts. Different combinations of distribution are possible, but are not listed here for reasons of space.
Consideration of the wider sponsorship process will be set out shortly in an impact assessment to accompany the Immigration Rules change. This will be published on: www.bia.homeoffice.gov.uk

4. OPTIONS

4.1 For this assessment we consider 3 options:

4.2 Option 1: Maintain current work permit fee in respect of Tier 2 certificates; no additional licence fee for any Tier; no certificate fees for Tier 4 or Tier 5.(do nothing)

This option would see no charge for sponsorship and a charge for Tier 2 Certificates of sponsorship of £190. This would be close to the current system in which a fee of £190 is charged for the issuing of each work permit

4.3 Option 2: Increase fees at differential rates between size of business

Under this option, charges for licence fees for Tier 2 depend on the size of business. Small businesses are defined as <50 employees[6].

Differential Charges

Tier	***Licence Fee***	***Certificate Fee***
Tier 2 – small business	***£300***	***£170***
Tier 2 – medium/large business	***£1000***	***£170***
Tier 4 & 5	***£400***	***£10***

4.4 Option 3: Increase fees with no differential rates

For this option, no consideration is given to size of business. The charges are £500 for all Tier 2 licences and £400 for Tier 4 and 5. Certificate charges are £170 for Tier 2 and £10 for Tiers 4 and 5.

The fee combinations for option 2 and 3 are designed to raise approximately the same revenue.
For employers wishing to be licensed under multiple Tiers (e.g. a University wishing to sponsor both prospective employees under Tier 2 and students under Tier 4), our approach is that only the higher fee would need to be paid. We expect numbers of such sponsors to be very low, and that any impact would fall mostly on the education sector.

Following the Government's consultation on its charging strategy on immigration and nationality applications, and the targeted consultation undertaken to support these proposals, the view was taken that all sponsor fees for Tier 4 and Tier 5 should be kept to minimal levels, in recognition of the need to maintain the UK's competitiveness in the international student market, and of the cultural benefits that many tier 5 migrants will bring to the UK. The fees for Tier 4 and 5 licence fees and certificates are designed to make a contribution to the costs of running the immigration system, but are set below full cost recovery levels.

5. COST AND BENEFITS

5.1 Option 2 over Option 1

[6] And being subject to the small companies regime as defined in section 381 of the Companies Act 2006, or, if not a company as defined in section of the Companies Act 2006, as a person who employs less than fifty employees, (which are specified in Regulations made under section 51(3) of the Immigration, Nationality and Asylum Act 2006) (regulation 20A as inserted by regulation 2(8)).

Benefits:

- Additional revenue for the administrative costs of considering applications to become a licensed sponsor and ensuring compliance with the immigration laws, helping to tackle in particular illegal working
- Helps to ensure that those who benefit from the system contribute to the costs by requiring all users of the sponsorship system to pay a fee
- Larger licence application fees of £1000 may help deter non-legitimate bodies from seeking to become licensed sponsors
- Smaller certificate fee benefits large scale users of the system
- Reduces impact on small businesses

Costs:

- potential impact of loss of migrant workers and students on economic output if employers/education establishment choose to take on fewer migrants in response to price increases

5.2 Option 3 over Option 2

Benefits

- Simpler to administer

Costs

- No protection for small businesses

6. NET BENEFIT CALCULATION

6.1 The key impact of changes in fees is the effects on volumes of businesses registering and certificates issued. The response of an employer to an increase in fee is estimated from the economic literature on wage elasticities. A summary of this evidence is provided in the Annex. The resulting estimates of impacts on volumes for options 2 and 3 over option 1 are given below:

Impact on Volumes (optimistic assumptions of employer responses to increases in prices)

	Option 2 (differential fee)		Option 3 (identical fees)	
	Licences	Certificates	Licences	Certificates
Small Business	-0.2%	-0.1%	-0.3%	-0.2%
Large Business	-0.4%	0.0%	-0.2%	0.0%
Total	-0.3%	0.0%	-0.3%	0.0%

Assumption of -0.75 wage elasticity and £35,000 total wage costs

6.2 Note that impacts on volumes tend to affect certificates more than licences as it is the employers who issue the least number of certificates who are most affected by price increases. For the purposes of this assessment we use the most pessimistic assumptions for volume affects. This is to account for the uncertainty we place on these estimates.

The tables below show the cost benefit analysis for Options 2 and 3 over Option 1:

Option 2: Differential Tier 2 Licence Fees (000's)

	2008/09	2009/10	20010/11	2011/12	2012/13	2013/14	2014/15
Cost Benefit Impact Discounted at 3.5%							
Tier 2	-£2,100	-£4,700	-£4,500	-£3,100	-£2,700	-£3,400	-£3,400
Tier 4	-£800	-£1,300	-£1,300	-£1,200	-£1,200	-£1,100	-£1,100
Tier 5	£0	£0	£0	£0	£0	£0	£0
Total	**-£2,800**	**-£6,000**	**-£5,800**	**-£4,300**	**-£3,900**	**-£4,600**	**-£4,500**
Sponsorship Revenue Impact (over option 1)[7]							
Tier 2	£6,200	£8,100	£1,600	£1,600	£3,600	£5,200	£2,800
Tier 4	£3,300	£5,000	£4,800	£4,800	£4,900	£5,500	£4,900
Tier 5	£1,200	£1,400	£1,000	£1,000	£1,300	£1,300	£1,100
Total	£10,700	£14,500	£7,400	£7,400	£9,800	£12,000	£8,800

Option 3 Identical Fees for Tier 2 Licences (000's)

	2008/09	2009/10	20010/11	2011/12	2012/13	2013/14	2014/15
Cost Benefit Impact Discounted at 3.5% (000's)							
Tier 2	-£2,300	-£5,200	-£5,000	-£3,400	-£3,000	-£3,800	-£3,700
Tier 4	-£800	-£1,300	-£1,300	-£1,200	-£1,200	-£1,100	-£1,100
Tier 5	£0	£0	£0	£0	£0	£0	£0
Total	**-£3,000**	**-£6,500**	**-£6,300**	**-£4,600**	**-£4,100**	**-£4,900**	**-£4,800**
Sponsorship Revenue Impact (over option 1)							
Tier 2	£6,100	£7,900	£1,600	£1,600	£3,500	£5,100	£2,700
Tier 4	£3,300	£5,000	£4,800	£4,800	£4,900	£5,500	£4,900
Tier 5	£1,200	£1,400	£1,000	£1,000	£1,300	£1,300	£1,100
Total	**£10,600**	**£14,300**	**£7,300**	**£7,300**	**£9,700**	**£11,900**	**£8,700**

7. SENSITIVITY ANALYSIS

7.1 Estimates of costs and benefits are dependent on our assumptions of how volumes of migrants will be impacted by price increases. The tables below show the impact of our most pessimistic and optimistic assumptions of the impact on volumes.

Impact on Volumes (pessimistic assumptions of employer responses to increases in prices)

	Option 2 (differential fee)		Option 3 (identical fees)	
	Licences	Certificates	Licences	Certificates
Small Business	-0.9%	-0.5%	-1.6%	-0.9%
Large Business	-2.1%	-0.1%	-1.0%	0.0%
Total	-1.3%	-0.2%	-1.4%	-0.2%
Average economic cost per year:	£10.1m		£11.0m	
Average Revenue per year:	£4.1m		£4.0	

[7] Revenue estimates here are based on data on historical volumes that do not necessarily take account of the impacts of PBS policies and should not be taken as official revenue forecasts

Assumption of -1 wage elasticity and £20,000 total wage costs

Impact on Volumes (optimistic assumptions of employer responses to increases in prices)

	Option 2 (differential fee)		Option 3 (identical fees)	
	Licences	Certificates	Licences	Certificates
Small Business	-0.2%	-0.1%	-0.3%	-0.2%
Large Business	-0.4%	0.0%	-0.2%	0.0%
Total	-0.3%	0.0%	-0.3%	0.0%
Average economic cost per year:	£3.0m		£3.2m	
Average Revenue per year:	£4.2m		£4.1m	

Assumption of -0.5 wage elasticity and £50,000 total wage costs

8. COMPETITION ASSESSMENT

8.1 The proposals to charge fees for sponsorship under Tier 2 could have an effect on any company that is employing (or will employ) non-EU workers.

The key industries currently using the work permits system – which Tier 2 sponsorship will replace – cover both the private and public sector. Potentially affected sectors are Health, Computer Services, Hospitality and Admin and Business Services (see table below).

Applications for Work Permits (2006) [8]

INDUSTY BREAKDOWN	Applications		Employers	
	Number	Percentage	Number	Percentage
Computer Services	23,425	23%	1,279	7%
Admin, Bus & Man Services	15,582	15%	3,242	18%
Health & Medical Services	13,623	13%	2,920	16%
Financial Services	10,872	11%	1,080	6%
Education & Cultural Activities	9,110	9%	2,275	13%
Telecommunications	5,056	5%	258	1%
Extraction Industries	4,655	5%	144	1%
Hospitality & Catering	3,742	4%	2,085	12%
Construction	3,724	4%	897	5%
Manufacturing	3,541	3%	1,075	6%
Retail & Related Services	1,636	2%	796	4%
Real Estate & Prop Services	1,388	1%	178	1%
Law Related Services	1,313	1%	204	1%
Transport	1,253	1%	333	2%
Entertainment & Leisure Services	838	1%	402	2%
Other	1,893	2%	649	4%

Source: Work Permits (UK)

8.2 In the sectors employing migrants through the current work permit system we do not identify any significant market share issues, when this is examined with reference to the 'competition filter' framework set out by the Office of Fair Trading. Our assessment is outlined in the paragraphs below.

8.3 In the health sector the vast majority of migrants are employed by the NHS and will not be considered for purposes of a competition assessment. The other main sectors are Computer Services; Financial Services; Education; Administration, Business and Management. The latter is a catch all category that comprises of firms in a wide range of sectors (the largest in terms of migrant employment being the management consulting sector).

In none of these sectors do we estimate that any one firm has more than 10% of market share.

[8] Includes only those work permit applications likely to qualify under the criteria for Tier 2 set out in the PBS command paper.

8.4 The use of migrant workers by employers is the result of shortages of particular types of labour. Migrant workers tend to be concentrated in sectors rather than specific firms within sectors. As such, we believe that our proposals to charge employers a fee to sponsor migrants under Tier 2 should not create any competition issues as the proposals apply equally to all firms in a particular sector.

9. SMALL BUSINESS ASSESSMENT

9.1 Though it is not necessarily the case that larger employers will always issue more Certificates than smaller employers, we would expect that on average this would be the case. This average activity (including issuing of work permits and extensions) is given in the table below by size of firm.

Average Work Permit Activity by Size of Employer Oct '06 to Sep '07[9]

Size of Employer (No. of Employees[10])	as %age of all Employers issuing work permits	Proportion issued with only 1 work permit in year
Employers with less than 50 Employees		
1 to 10	15.4%	69%
11 to 20	7.9%	61%
21 to 30	4.6%	55%
31 to 40	3.1%	53%
41 to 50	2.7%	55%
All 1 to 50	33.6%	63%
Employers with more than 50 Employees		
51 to 100	7.3%	47%
101 to 150	3.7%	44%
151 to 200	2.1%	43%
201 to 250	0.8%	49%
Other		
Entered as 0	0.7%	38%
Blank Entry	51.8%	58%
Total	100%	58%

Source: Work Permits (UK)

9.2 Though this data is not wholly reliable, it is clear that smaller employers do on average tend to be issued with less work permits than larger employers. However, it is also true that there are still a high proportion of larger employers who are only issued with one work permit in a year.

9.3 For very small employers with between 1 and 3 employees, the proportion issued with only one work permit in the year was between 70% and 75%.

9.4 Based on our assumptions in the cost benefit analysis, we estimate that the average smaller employer (under 50 employees) will issue around 3 work permits in a 4 year period. This implies that the average small employer will pay on average around £270 for each migrant worker under option 2 compared with £500 for option 3.

[9] Provisional work permit management information. Includes only those applications likely to qualify under the criteria for Tier 2 set out in the PBS command paper

[10] This data is taken from provisional work permit Management information. The number of employees field suffers from a number of problems. For over half of work permit applications this field is left blank by applicants, and many large employers are entered as having 0 employees.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

The potential impacts of the broader sponsorship policy are to be covered in a separate Impact Assessment which will be published on www.bia.homeoffice.gov.uk

The policy options in this Impact Assessment are covered by the full equality impact assessment of the Government's charging strategy for immigration and nationality fees which was published in March 2007:

http://www.bia.homeoffice.gov.uk/sitecontent/documents/aboutus/consultations/closedconsultations/newchargingregime/raceequalityimpactassess.pdf

For further relevant information on how the Border and Immigration Agency intends to meet its equality and diversity obligations please see also the Agency's Race, Disability and Gender Equality Scheme:

http://www.bia.homeoffice.gov.uk/sitecontent/documents/aboutus/workingforus/Three-strand_Equality_Scheme.pdf

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Annexes

Annex A: Cost Benefit Underlying Assumptions

Volume Assumptions

Year	Tier2 Licence	Certificates	Tier 4 Licence	Certificates	Tier 5 Licence	Certificates
2008/09	14,700	60,000	2,100	250,000	1,900	40,000
2009/10	20,000	100,000	1,300	450,000	2,000	60,000
2010/11	7,200	100,000	700	450,000	900	60,000
2011/12	7,200	100,000	700	450,000	900	60,000
2012/13	11,100	100,000	1,000	450,000	1,800	60,000
2013/14	14,300	100,000	2,500	450,000	1,700	60,000
2014/15	9,500	100,000	1,100	450,000	1,200	60,000

All volume assumptions here are based on historical data and patterns expected from 4 year sponsorship periods. No attempt has been made to factor in trends or other aspects of PBS policy with the exception of Tier 2 where estimates were made using data on work permit applications likely to qualify for the tier 2 criteria outlined in the PBS command paper. Small businesses are assumed to make up 70% of licence applications and 17% of certificates issued.

Output loss assumptions

In line with historical data, migrants are assumed to earn the average for work permit holders of £26,000 for a length of 2.5 years. This is used as a proxy for output loss per migrant and applied to loss in volumes

For tier 4, lack of clear data on student numbers by type and contribution to UK output makes cost benefit calculation difficult. Students range from those taking short-term English language courses injecting in the region of hundreds of pounds to the UK to degree level students whose contribution can be in the tens of thousands. We assume a contribution of £3000 for all students.

As Tier 5 is a quota based scheme, it is assumed that pricing policy has no effect on volumes and therefore no effect on economic output.

Price elasticities and volume effects

For tier 2 we test a range of wage elasticity assumptions/employment costs and apply them to our management information. We assume here that the employer absorbs the full fee.

For Tier 4, lack of detailed data makes such estimates difficult. It is assumed that given the policy of accreditation which could cost around £4,000 for a 4 year period, that most of those price sensitive education institutions would already be deterred from applying for sponsorship licence. We apply a volume reduction of -0.1% similar to that for Tier 2.

Summary: Intervention & Options

Department /Agency:	Title:	
Border & Immigration Agency	**Impact Assessment of Fees for the Highly Skilled tier of the Points-Based System**	
Stage: Final	**Version:** 4	**Date:** 29th January 2008
Related Publications: Highly Skilled Migrants under the Points Based System: Statement of Intent; Response to charging consultation		

Available to view or download at:

http://www.bia.homeoffice.gsi.gov.uk

Contact for enquiries: Chris Nickson **Telephone:** 0114 207 6559

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

The Government wishes to implement the tier for highly skilled migrants as the first part of the new Points Based System for managed migration, based on that operated in Australia . The Highly Skilled tier (Tier 1) will embrace four sub-categories: General; Entrepreneurs; Investors; and Post Study Work. The Government wishes to set fees for the Highly Skilled tier that meet our charging policy objectives which include recovering the true end-to-end costs of the immigration system from those who benefit most.

What are the policy objectives and the intended effects?

- To rebalance the funding of the immigration system to ensure that those who benefit most from the service make a larger contribution, helping to reduce the burden on taxpayers

- To charge fees that recover the full administrative costs and that help to recover the true end-to-end costs of the immigration system from initial application to enforcement and compliance activities from those who use it

- To develop a fees model that is clear, straightforward and easily understood to our customers

What policy options have been considered? Please justify any preferred option.

1. Do nothing - maintain the existing fees charged for the routes on which the Highly Skilled tier sub-categories are based

2. Charge one fee of £600 for out-of-country and £750 for in-county and extension applications

3. Maintain existing fees as far as possible but align some fees to produce a more consistent fees structure

The preferred option is 3. This will minimise the negative impact on the economy and at the same time

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? Regular review of volumes of applications against projected demand with assumption of fee change to reflect cost charges.

Ministerial Sign-off For final proposal/implementation 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:

Liam Byrne.....Date: 30th January 2008

Summary: Analysis & Evidence

Policy Option: 2	Description: Charge one fee of £600 for out-of-country applications and one fee of £750 for in-country applications

COSTS

ANNUAL COSTS	
One-off (Transition)	**Yrs**
£	5
Average Annual Cost (excluding one-off)	
£ 4.2m	

Description and scale of **key monetised costs** by 'main affected groups' The main affected group is applicants who will have to pay an additional £61.5m in fees over five years. The economy will also lose £21.1m in output from a reduction in the numbers of migrants coming or remaining in the UK to work.

Total Cost (PV) **£ 19.7m**

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

BENEFITS

ANNUAL BENEFITS	
One-off	**Yrs**
£	5
Average Annual Benefit (excluding one-off)	
£ 1.4m	

Description and scale of **key monetised benefits** by 'main affected groups' The key benefit is the additional revenue to the government of the fee increases £61.5m over five years (the majority of this is transfers).

Total Benefit (PV) **£ 6.4m**

Other **key non-monetised benefits** by 'main affected groups' Improved fairness as those who benefit from managed migration contribute more to the cost of administrating it.

Key Assumptions/Sensitivities/Risks

A wage elasticity of labour supply of 0.5 was used to estimate the likely decrease in numbers of applications as a consequence of the proposed fee increases. The range used below is 0 to 1.1.

Price Base Year 2008	Time Period Years 5	**Net Benefit Range** (NPV) **£ (36.9m)-6.4m**	**NET BENEFIT** (NPV Best estimate) **£ (13.2m)**

What is the geographic coverage of the policy/option?			Worldwide	
On what date will the policy be implemented?			February 2008	
Which organisation(s) will enforce the policy?			N/A	
What is the total annual cost of enforcement for these organisations?			£ N/A	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			£ N/A	
What is the value of changes in greenhouse gas emissions?			£ N/A	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ 0 Decrease of £ 0 **Net Impact** **£** 0

Key:	**Annual costs and benefits: Constant Prices**	**(Net) Present Value**

Summary: Analysis & Evidence

Policy Option: 3	Description: Maintain existing fees as far as possible but align some fees to produce a more consistent fees structure

COSTS

ANNUAL COSTS	
One-off (Transition)	**Yrs**
£	5
Average Annual Cost (excluding one-off)	
£ 2.6m	

Description and scale of **key monetised costs** by 'main affected groups' The main affected group is applicants who will have to pay an additional £43.2m in fees over five years. The economy will also lose £13.2m in output from a reduction in the numbers of migrants coming or remaining in the UK to work.

Total Cost (PV) **£ 12.3m**

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

BENEFITS

ANNUAL BENEFITS	
One-off	**Yrs**
£	5
Average Annual Benefit (excluding one-off)	
£ 1.1m	

Description and scale of **key monetised benefits** by 'main affected groups' The key benefit is the additional revenue to the government of the fee increases £43.2m over five years (the majority of this is transfers).

Total Benefit (PV) **£ 4.7m**

Other **key non-monetised benefits** by 'main affected groups' Improved fairness as those who benefit from managed migration contribute more to the cost of administrating it.

Key Assumptions/Sensitivities/Risks

A wage elasticity of labour supply of 0.5 was used to estimate the likely decrease in numbers of applications as a consequence of the proposed fee changes. The range used below is 0 to 1.1.

Price Base Year 2008	Time Period Years 5	**Net Benefit Range** (NPV) **£ (22.3m)-4.7m**	**NET BENEFIT** (NPV Best estimate) **£ (7.6m)**

What is the geographic coverage of the policy/option?			Worldwide	
On what date will the policy be implemented?			February 2008	
Which organisation(s) will enforce the policy?			N/A	
What is the total annual cost of enforcement for these organisations?			£ N/A	
Does enforcement comply with Hampton principles?			Yes/No	
Will implementation go beyond minimum EU requirements?			Yes/No	
What is the value of the proposed offsetting measure per year?			£ N/A	
What is the value of changes in greenhouse gas emissions?			£ N/A	
Will the proposal have a significant impact on competition?			Yes/No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	Yes/No	Yes/No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ Decrease of £ **Net Impact** **£**

Key:	**Annual costs and benefits: Constant Prices**	**(Net) Present Value**

Evidence Base (for summary sheets)

1. BACKGROUND TO THE HIGHLY SKILLED TIER

1.1 In 2006, following an extensive public consultation, we published proposals to modernise and strengthen our immigration system by bringing in an Australian-style points system comprising five tiers:

Tier 1 Highly skilled individuals to contribute to growth and productivity.
Tier 2 Skilled workers with a job offer to fill gaps in the UK labour force.
Tier 3 Low skilled workers to fill specific temporary labour shortages.
Tier 4 Students.
Tier 5 Youth mobility and temporary workers: people coming to the UK to satisfy primarily non-economic objectives.

1.2 The Highly Skilled tier is about boosting the UK's economy by attracting and retaining the "brightest and best" as workers or businesspeople. Highly Skilled migrants will be free to seek employment anywhere in the UK, which will widen the pool of highly skilled individuals available to employers, whilst maintaining the flexibility of the UK labour market. Unlike the other tiers, we will not ask applicants in the Highly Skilled tier to have sponsors.

1.3 The Highly Skilled tier will embrace:

General
For migrants who wish to find highly skilled employment in the UK.

Entrepreneurs
For those investing in the UK by setting up or taking over, and being actively involved in the running of, a business.

Investors
For high net worth individuals making a substantial financial investment in the UK.

Post-Study Work
This category aims to retain the most able international graduates who have studied in the UK. It will also enhance the UK's overall offer to international students.

1.4 There will be three ways of applying:

- Entering the UK in a Highly Skilled sub-category (out-of-country)
- Extending a stay in the UK in a Highly Skilled sub-category (extensions)
- Switching while in the UK into a Highly Skilled sub-category (in-country)

1.5 There will be a single application process and single application fee, whether in or outside the UK improving the efficiency of the decision making process. This replaces the current two-stage process that exists for certain routes where applicants have to demonstrate that they meet the relevant criteria prior to applying for entry clearance or leave to remain in the UK.

1.6 This Impact Assessment examines the costs and benefits of the different charging options for the Highly Skilled tier which is to be implemented from the first quarter of 2008. A separate Impact Assessment considering the wider impacts of the policy to introduce the Highly Skilled tier will be published on www.bia.homeoffice.gsi.gov.uk prior to implementation.

For further information on the Highly Skilled tier, please refer to '*Highly Skilled Migrants under the Points Based System: Statement of Intent*' (http://www.bia.homeoffice.gov.uk/sitecontent/documents/managingourborders/pbsdocs/statementofintent/highlyskilledunderpbs.pdf).

2. BACKGROUND TO CHARGING

2.1 During the course of 2003 and 2004, the Home Office introduced charges for a range of immigration and nationality applications. The first phase of full cost recovery charging sought to ensure that those who use and benefit from the UK's immigration service met the costs of delivering the administrative service (including staffing and overhead costs) of processing applications to the point of making and conveying a decision.

2.2 The IND Review (http://www.homeoffice.gov.uk/documents/ind-review-250706/ind-review-eng) published in July 2006 stated that we should charge a fair and economic rate for our services but also one that reflects the true operational costs of the immigration system rather than just administrative costs.

2.3 As the Home Office – including UKvisas - implement the various measures outlined in the Review, including the Government's plans to introduce the new Points Based System (PBS) for managed migration, we need to consider how these improved immigration services are paid for. We know that migrants contribute to our economy, and we are clear that any new fees we set for migrants to come to the UK must not adversely impact on the many benefits that legal migration brings. But it is right to take the approach that our charging strategy should better reflect the end-to-end cost of the whole immigration system, from initial application to enforcement and compliance activity.

3. RATIONALE FOR GOVERNMENT INTERVENTION

3.1 The IND Review signalled the biggest shake-up of the immigration system in its history, with a key component of the new approach being a step-change in the enforcement and compliance activity to ensure that the immigration laws are enforced.

3.2 The Government's position on this was laid out in the cross-Government enforcement strategy *'Enforcing the Rules: a strategy to ensure and enforce compliance with our immigration laws'* published on 7 March which committed around £100m extra for immigration policing, detention space, and systems to share data and intelligence on those here illegally, designed to bear down on those seeking to cheat the system and live illegally in the UK

It was agreed that there should be no increase to general taxation to fund this strategy. Resources will be raised through a new approach to the pricing of visas and immigration products so that those who directly benefit from our services pay more to fund the end-to-end process from initial application to enforcement and compliance activities. This approach to pricing applies directly to the Highly Skilled tier, and is fully outlined in the Government's charging strategy for immigration and nationality fees:

http://www.bia.homeoffice.gov.uk/sitecontent/documents/aboutus/consultations/closedconsultations/newchargingregime/responses.pdf

3.3 The Government's policy objectives on charging are:

- To rebalance the funding of the immigration system to ensure that those who benefit most from the service make a larger contribution
- To raise an extra £100m above administrative cost recovery to fund the true end-to-end costs of the immigration system from initial application to enforcement and compliance activities
- To develop a fees model that is clear, straightforward and easily understood to our customers

4. OPTIONS

4.1 Three charging options are considered for the Highly Skilled tier.

4.2 Option 1: Do nothing

Maintain the existing fees charged for the routes on which the Highly Skilled sub-cateogories are based.

This option would mean that there would be a wide range of different fees for the Highly Skilled tier, depending on whether the migrant was inside or outside the UK at the time of application, and which sub-category they were applying under (see table 1 below). The stated charging policy objective having fees that are clear and straightforward would not be met. The aim of recovering the true end-to-end costs of the immigration system would also not be met unless fees for other parts of the Points Based System were increased to compensate. This would run counter to the Government's stated policy that those who benefit most from the immigration system should pay more. Alternatively, the extra funding could be raised from general taxation, but this is again incompatible with the Government's policy that there should be no increase in general taxation to fund the improvements to the immigration system.

4.3 Option 2: One fee of £600 for out-of-country applications and one fee of £750 for in-country applications and extensions across all Highly Skilled sub-categories.

This will simplify the fee structure. Historically, lower fees have been charged for out-of-country applications as it is believed that they are more price sensitive and have different cost bases. This differential will remain to minimise the negative impact of any substantial price changes. This option meets our stated charging policy aim of recovering the true end-to-end costs of the immigration system and reducing the burden on the taxpayer. It also meets our aim of having a simplified, easy-to-understand fees model.

However, this option does not meet our stated policy aim of setting fees so that those who benefit most from the system should pay comparatively more. It may be unfair to charge the same fees for applications to the Post-Study Work sub-category. Unlike the other sub-categories, Post-Study Work is there to provide a bridge to highly skilled or skilled work. People with Post-Study Work leave will be expected to switch into another part of the system as soon as they are able to do so. To encourage people to switch, leave will be fixed at a maximum of two years; it will not be possible to apply for further leave; and time spent in the sub-category will not count towards the threshold for being eligible to apply for settlement (for further information, please refer to '*Highly Skilled Migrants under the Points Based System: Statement of Intent')*.

4.4 Option 3: Maintain the existing fees charged for the routes on which the Highly Skilled sub-categories are based as far as possible to minimise any negative impact but align some fees to produce a more consistent fees structure.

This option is a hybrid of options 1 and 2, maintaining existing fees as far as possible to minimise any negative impact to ensure that the UK continues to attract and retain the 'brightest and best', and at the same time developing a fees model that is simple and clear to understand. The proposed features of the fees model under option 3 are:

- One fee of £750 for all applications made within the UK (in-country and extensions) for the Highly Skilled General sub-category. This will simpify the fees model by having one fee of all applications made within the UK for this sub-category.
- Marginally increase fees for the Post-Study Work sub-category (in- and out-of-country) to contribute towards end-to-end full cost recovery
- Maintain the same fees for all other ways of applying for the Highly Skilled tier

This option meets our stated charging policy aim of helping to recover the true end-to-end cost of the immigration system. Although there will be a range of fees, a greater contribution is made on average by migrants applying to the General, and Entrepreneurs

and Investors sub-categories. This is in line with our stated charging policy aims of rebalancing the funding of the immigration system to ensure that those who benefit most from the service make a larger contribution to funding the end-to-end process of adminstration, and enforcement and compliance. Successful applicants to these sub-categories receive the greatest benefits from the system. They will be granted three years' initial leave with the possibilty of applying for further leave of two years, and time spent under these sub-categories will count towards the threshold for being eligible to apply for settlement. They will also have unrestricted access to the labour market, without the need to have a sponsor.

As stated under option 2, the Post-Study Work sub-category is there to provide a bridge to highly skilled or skilled work. As such, a lower fee for this sub-category reflects the lower benefits for these applicants, and is in line with our stated charging policy aims. Setting a reasonable fee will provide an incentive to the most able international graduates who have studied in the UK to remain and develop a career in the UK. It will also enhance the UK's overall offer to international students.

Table 1: Proposed fees for each option

Highly Skilled sub-categories	Option 1	Option 2	Option 3
General: in-country	750 (635)[11]	750	750
General: out-of-country	600 (530)[12]	600	600
General: extensions	350	**750**	**750**
Entrepreneurs & Investors: in-country	750	750	750
Entrepreneurs & Investors: out-of-country	200	**600**	200
Entrepreneurs & Investors: extensions	750	750	750
Post-Study: in-country	395	**750**	**400**
Post-Study: out-of-country	200	**600**	**205**

5. COSTS AND BENEFITS

5.1 A model was developed to examine the **additional** costs and benefits to society of options 2 and 3 compared with option 1 over a five-year period (08/09 to 12/13). Note that option 1 has no additional costs and benefits and is the baseline used for comparison. **Volumes are based on historical figures for 2006/07 for the routes which the Highly Skilled tier is based[13]. No attempt is made in this Impact Assessment to forecast likely changes to volumes as a result of the introduction of the Points-Based System.**

5.2 Impact on volumes

In general, when prices increase, demand falls. So the proposed fee increases in options 2 and 3 are expected to lead to a decrease in applications. To determine how much applications are expected to fall by, the 'price elasticity of demand' must be estimated. That is, the 'responsiveness' of demand to some change in price and it is calculated by taking the percentage change in quantity divided by the percentage change in price. Analyses of fee changes that took place in April 2007 indicate that the effect on volumes of fee increases were too small to detect. However, as migrants demand BIA products in order to supply labour in the UK, the wage elasticity of labour supply could be used to estimate the impact on volumes of the proposed fee changes (note that it is assumed that the change in fee is borne entirely by migrants and not by UK employers thus labour demand is unaffected. Highly skilled migrants are not tied to any employer and can enter/remain in the UK prior to finding and starting employment). Wage elasticity of labour supply provides a measure for how labour supply responds to a change in (expected) wage. The proposed fee increases for BIA

[11] £750 is comprised of current fees for the existing 2-stage application process for the Highly Skilled Migrant Programme (HSMP) where the migrant must pay £400 for a HSMP approval letter before paying £350 for leave to remain. The application approval rate was 67%. So the average fee that applicants currently pay is £635 (see able 2 in annex). Under PBS, there will be a single stage application process.

[12] £600 is comprised of current fees for the existing 2-stage application process for the Highly Skilled Migrant Programme (HSMP) where the migrant must pay £400 for a HSMP approval letter before paying £200 for a visa. The application approval rate was 65%. So the average fee that applicants currently pay is £530 (see able 2 in annex). Under PBS, there will be a single stage application process.

[13] Assumptions are made on the dependent ratios for out-of-country applications.

products translate one-to-one into a fall in the expected wage of working in the UK for migrants (and alters the differential wages between different foreign labour markets and thus choice of migrant destination). So it is anticipated to decrease the aggregate supply of migrant labour to the UK and therefore demand for BIA products. No empirical studies on the wage elasticity of migrant labour supply to the UK have been found so general studies on the wage elasticity of labour supply are used as an estimate.

A literature review of empirical studies suggests a wide range of aggregate wage elasticity of labour supply from –0.1 to 1.1 (see table 1 in the annex for further details). For the purposes of this Impact Assessment, the central estimate of 0.5 was used. That is, a decrease in wage of 1% would result in a drop in labour supply and the demand for BIA products of 0.5%. This assumption is tested in the sensitivity analysis.

The proposed changes in fees are expected to result in only a marginal change in expected wages over the duration of leave given to the migrant. The average annual expected wage for the General, Entrepreneurs and Investors sub-categories is approximately £40,000. So expected wages over the duration of initial and extension leave are £120,000 and £80,000 respectively. For Post-Study Work, the average annual expected wage is £17,715[14]. Expected wage over the duration of leave is therefore £35,430. The maximum proposed fee increase for option 2 is £400 and the highest percentage decrease in average expected wage is 1.15% resulting in a drop in BIA products of 0.57%. In total, it is expected that there will be a decrease of 160 applications in 08/09 and 580 applications over 5 years. Similarly for option 3, the maximum proposed fee increase is £400 and the highest percentage drop in average expected wage is 0.51% resulting in a drop in BIA products of 0.25% (see table 2 in the annex for a full breakdown). In total, it is expected that there will be a decrease of 50 and 250 applications in 08/09 and over 5 years respectively.

5.3 Impact on the economy

The benefits to the economy of the proposed fee changes are:

- Additional revenue raised from out-of-country applications through fee increases (note revenue raised from in-country and extension applications are transfers i.e. a loss for applicants but a gain to the Government).
  Option 2: This is estimated at £1.4m for 2008/09 and £6.9m for the next five years.
  Option 3: This is estimated at £1.0m for 2008/09 and £5.0m for the next five years.

The potential costs to the economy of the proposed fee changes are:

- Revenue loss from a decrease in the volume of applications as a result of fees changes for out-of-country applications (as above, revenue loss from in-country and extension applications are transfers).
  Option 2: This is estimated at £3,200 for 2008/09 and £16,100 over the next five years.
  Option 3: This is estimated at £2,300 for 2008/09 and £11,500 over the next five years.

- Output loss from a decrease in the numbers of migrants coming/remaining in the UK to work. The value of the expected salary that the migrant would have received for the duration of leave given is used to value the output loss.
  Option 2: This is estimated at £3.1m for 2008/09 and £21.1m for the next five years.
  Option 3: This is estimated at £1.4m for 2008/09 and £13.2m for the next five years.

So, under option 2, there is a potential net cost to the economy of £1.8m in 2008/09 and £13.2m for the next five years (present value). Under option 3, there is a smaller potential net cost to the economy of £0.4m in 2008/09 and £7.6m for the next five years (present value). Under both options, the value of output lost from those who decide to no longer apply exceeds the gain in revenue from overseas applications.

[14] Source: HESA

Table 2: Summary results of cost-benefit analysis*

	OPTION 2		OPTION 3	
	08/09	08/09 –12/13	08/09	08/09-12/13
Benefits				
-Additional revenue raised from out-of-country applications through fee changes for those who continue to apply	1,375,100	6,875,300	1,001,200	5,006,100
Total benefits (PV)	1,375,100	6,425,800	1,001,200	4,678,800
Costs				
-Revenue loss from decrease in out-of-country applications as a result of fees changes	-3,200	-16,100	-2,300	-11,500
-Output loss from net decrease in migrants coming/remaining in the UK	-3,138,500	-21,078,400	-1,413,400	-13,222,700
Total costs (PV)	-3,141,700	-19,670,800	-1,415,700	-12,259,200
Net benefit (PV)	-1,766,700	-13,245,000	-414,500	-7,580,400

**Discount rate = 3.5%*

If migrant volumes are similar to those for 06/07 for the routes on which the Highly Skilled tier is based, the Government is estimated to generate £41.6m in 08/09 under option 2, an additional £13.7m compared with the do nothing option. Under option 3, the revenue generated will be lower at £36.5 in 08/09, an additional £8.7m. Note that in option 1, revenue raised is below administrative costs estimated at £29.4m for 08/09[15]. For options 2 and 3, revenue raised are above administrative costs, meeting one of our key charging policy objectives. The income will be used to cross-subsidise other routes where we believe that there are concerns on maintaining the UK's international competitiveness of charging the full administrative costs of the service; and to contribute towards the £100m for enforcement and compliance (the end-to-end process).

Table 3: Estimated revenue position

	08/09	Total
Option 1	27,864,400	131,242,900
Option 2	41,586,900	192,747,500
Difference compared with option 1	*13,722,500*	*61,504,600*
Option 3	36,518,100	174,409,900
Difference compared with option 1	*8,653,700*	*43,167,000*

The preferred option is option 3. This option imposes lower costs on the economy and enables the Government to generate an additional £8.7m in the next financial year and £43.2m over the next five years meeting the stated charging policy aim of recovering the true end-to-end cost of the immigration system. Although option 2 also meets this aim and offers a more simplified charging model, it imposes larger costs on society. By charging the Post-Study Work sub-category the same fees as the other Highly Skilled sub-categories, it also fails to meet the policy aim of ensuring that those who benefit most from the service make a larger contribution.

6. SENSITIVITY ANALYSIS

The key unknown variable is wage elasticity of labour supply. A wage elasticity of greater than 0.5 i.e. where labour supply is more responsive to changes in (expected) wages, would increase the net cost to the economy. As noted in section 5.2, some empirical studies suggest wage elasticities as high as 1.1. This could result in 110 and 550 fewer applications for the preferred option in 08/09 and over the next five years respectively resulting in an increase in net costs to the economy of £2.1m and £22.3m respectively. For option 2, a wage elasticity of 1.1 could result in an increase in net costs to the economy of £5.5m in 08/09 and £36.9m over the next five years.

[15] Note that this is an underestimate as it does not include total costs for UKVisas.

Some empirical studies suggest negative wage elasticity of supply indicating backward sloping or backward bending labour supply curve. For a higher wage, individuals can decrease labour supply and enjoy the same level of consumption[16]. So this implies, for a lower wage, individuals would increase labour supply. This is unlikely to be the case here, for a lower wage in the UK, migrants who are not already in the UK are more likely to just go to another country. So for the purposes of this Impact Assessment, a lower bound of zero is used for the elasticity of labour supply. For the preferred option, this gives an expected net benefit of £4.7m over the next five years from the gain in revenue from overseas applications (there is no output loss). For option 2, the expected net benefit is £6.4m over the same period.

[16] So the income effect outweighs the substitution effect.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	*Results in Evidence Base?*	*Results annexed?*
Competition Assessment	No	No
Small Firms Impact Test	No	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Annexes

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

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

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

Table 2a: Estimated impact on volumes of Option 2

Highly Skilled sub-category	A Change in fee	B Annual expected wage	C Expected wage over leave entitlement (PV rounded to nearest 500)	D % change in expected wage (A/C)	E % change in volumes (D*elasticity of labour supply)
General: in-country	£115*	£40,000	£116,000	-0.10%	-0.05%
General: out-of-country	£70**	£40,000	£116,000	-0.06%	-0.03%
General: extensions	£400	£40,000	£78,500	-0.51%	-0.25%
Entrepreneurs & Investors: in-country	-	£40,000	£116,000	-	-
Entrepreneurs & Investors: out-of-country	£400	£40,000	£116,000	-0.34%	-0.17%
Entrepreneurs & Investors: extensions	-	£40,000	£78,500	-	-
Post-Study: in-country	£355	£17,715	£35,000	-1.02%	-0.51%
Post-Study: out-of-country	£400	£17,715	£35,000	-1.15%	-0.57%

Table 2b: Estimated impact on volumes of Option 3

Highly Skilled sub-category	A Change in fee	B Annual expected wage	C Expected wage over leave entitlement (PV rounded to nearest 500)	D % change in expected wage (A/C)	E % change in volumes (D*elasticity of labour supply)
General: in-country	£115*	£40,000	£116,000	-0.10%	-0.05%
General: out-of-country	£70**	£40,000	£116,000	-0.06%	-0.03%
General: extensions	£400	£40,000	£78,500	-0.51%	-0.25%
Entrepreneurs & Investors: in-country	-	£40,000	£116,000	-	-
Entrepreneurs & Investors: out-of-country	-	£40,000	£116,000	-	-
Entrepreneurs & Investors: extensions	-	£40,000	£78,500	-	-
Post-Study: in-country	£5	£17,715	£35,000	-0.01%	-0.01%
Post-Study: out-of-country	£5	£17,715	£35,000	-0.01%	-0.01%

*Currently there is a two-stage process for the route that the Highly Skilled General sub-category is based on (Highly Skilled Migrant Programme) (see paragraph 1.5). Applicants have to, firstly, make an application to the programme costing £400 for an approval letter. If they obtain an approval letter, applicants then apply for leave to remain costing a further £350. So the total cost is £400 if the application is rejected or £750 if the application is approved and the applicant goes onto stage two. The application approval

rate is 67% (Dec 06 – Sep 07: total grants/initial applications). So the average current fee that applicants pay is £635 [weighted average: (400*0.33)+(750*0.67].

**As above. The application fee is £400 and the cost of a visa is £200. The application approval rate is 65% (Dec 06 – Sep 07: total grants/initial applications). So the average current fee is £530 [weighted average (400*0.35)+(600*0.65)].

Table 3a: Option 2 – Full results of cost-benefit analysis*

	08/09	09/10	10/11	11/12	12/13	**Total**
Benefits						
-Revenue raised from out-of-country applications for those who continue to apply	1,375,100	1,375,100	1,375,100	1,375,100	1,375,100	**6,875,300**
Total benefits (PV)	1,375,100	1,328,600	1,283,600	1,240,200	1,198,300	**6,425,800**
Costs						
-Revenue loss from out-of-country for those who no longer apply	-3,200	-3,200	-3,200	-3,200	-3,200	**-16,100**
-Output loss from decrease in migrants coming/remaining in the UK	-3,138,500	-5,166,800	-4,257,700	-4,257,700	-4,257,700	**-21,078,400**
Total costs (PV)	-3,141,700	-4,995,200	-3,977,600	-3,843,100	-3,713,100	**-19,670,800**
Net benefit (PV)	-1,766,700	-3,666,600	-2,694,000	-2,602,900	-2,514,800	**-13,245,000**

Table 3b: Option 3 – Full results of cost-benefit analysis

	08/09	09/10	10/11	11/12	12/13	**Total**
Benefits						
-Revenue raised from out-of-country applications for those who continue to apply	1,001,200	1,001,200	1,001,200	1,001,200	1,001,200	**5,006,100**
Total benefits (PV)	1,001,200	967,400	934,600	903,000	872,500	**4,678,800**
Costs						
-Revenue loss from out-of-country for those who no longer apply	-2,300	-2,300	-2,300	-2,300	-2,300	**-11,500**
-Output loss from net decrease in migrants coming/remaining in the UK	-1,413,400	-2,811,200	-2,999,400	-2,999,400	-2,999,400	**-13,222,700**
Total costs (PV)	-1,415,700	-2,718,300	-2,802,100	-2,707,300	-2,615,800	**-12,259,200**
Net benefit (PV)	-414,500	-1,750,900	-1,867,400	-1,804,300	-1,743,300	**-7,580,400**

**Discount rate = 3.5%*

Summary: Intervention & Options

Department /Agency:	Title:	
Border & Immigration Agency	**Impact Assessment of Fees for Sponsorship of the Points-Based System**	
Stage: Final	**Version:** 1.2	**Date:** 29 January 2008
Related Publications: Sponsorship under the PBS: Statement of Intent		

Available to view or download at:

http://www.bia.homeoffice.gsi.gov.uk

Contact for enquiries: Chris Nickson **Telephone:** 0114 207 6559

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

BIA wishes to implement a licensed sponsorship system as part of the new Points Based System for managed migration applications, based on that operated in Australia. The sponsorship system will replace the existing work permit arrangements and will be a brand new requirement for educational instituitions and certain other bodies and organisations who bring migrants to work, perform or participate in certain sporting events. The Government must set fees for the licensed sponsorship system at a level which ensures that the end to end costs of providing the immigration system are recovered from those who use and benefit from it. Sponsors will be required to apply for a licence every four years; and to issue a certificate of sponsorship to migrants before they can apply for entry clearance or leave to remain under Tiers 2, 4 or 5. Migrants applying under Tier 1 will not require a sponsor. We propose to charge a fee for the application for a licence and for each certificate of sponsorship issued.

What are the policy objectives and the intended effects?

- To rebalance the funding of the immigration system to ensure that those who benefit most from the service make a larger contribution, helping to reduce the burden on taxpayers

- To charge fees that recover the full administrative costs and that help to recover the true end-to-end costs of the immigration system from initial application to enforcement and compliance activities from those who use it

- To develop a fees model that is clear, straightforward and easily understood to our customers

- To keep fees for Tier 4 licences and certificates of sponsorship below cost recovery levels if possible.

What policy options have been considered? Please justify any preferred option.

Option 1: Do minimum - Maintain current work permit fee in respect of Tier 2 certificates; no additional licence fee for any Tier; no certificate fees for Tier 4 or Tier 5.
Option 2: Set Tier 2 licence fee that differentiates between size of business.
Option 3: Set licence fee of £500 for all tier 2 licences.
N.B. Tier 4 and 5 sponsorship fees are set at £400 per licence and £10 per certificate for options 2 and 3.
The preferred option is option 2.This option will help to ensure that larger users of the system will pay proportionately more and that small and medium sized businesses are not disadvantaged and reduces the cost to UK output. We believe that a fee for an application for a sponsor licence is necessary in all Tiers, both to recover the costs of considering the application, but also to ensure that the certificate fee is set at a modest level.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

Regular quarterly review of volumes of applications against projected demand with assumption of fee change to reflect cost charges.

Ministerial Sign-off For final proposal/implementation 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:

Liam Byrne.....Date: 30th January 2008

Summary: Analysis & Evidence

Policy Option: 2	Description: :Charge at differential rates by size of business

COSTS

ANNUAL COSTS	
One-off (Transition)	**Yrs**
£ 0	7
Average Annual Cost (excluding one-off)	
£ 5.1m	

Description and scale of **key monetised costs** by 'main affected groups' Decrease in volumes of migrants reduces output from prospective migrant workers and tuition fees/spending from overseas students

Total Cost (PV) **£ 31.9m**

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

BENEFITS

ANNUAL BENEFITS	
One-off	**Yrs**
£ 0	7
Average Annual Benefit (excluding one-off)	
£ 0	

Description and scale of **key monetised benefits** by 'main affected groups' No monetised benefits identified

Total Benefit (PV) **£ 0**

Other **key non-monetised benefits** by 'main affected groups' Improved fairness, as those who benefit most from the migration system pay more towards its costs. A fee for an application for a licence ensures that all those who wish to access the system pay for consideration, rather than successful sponsors subsidising unsuccessful applicants through certificate fees. A more modest licence fee for small businesses also helps ensure that smaller, normally occasional users of the system are not excluded.

Key Assumptions/Sensitivities/Risks

Price Base Year 2008	Time Period Years 5	**Net Benefit Range** (NPV) **£ -63.5m to -19.1m**	**NET BENEFIT** (NPV Best estimate) **£ -31.9m**

What is the geographic coverage of the policy/option?			UK Wide	
On what date will the policy be implemented?			29 Feb (Tier 2 licences)	
Which organisation(s) will enforce the policy?			BIA	
What is the total annual cost of enforcement for these organisations?			£ N/A	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			£ N/A	
What is the value of changes in greenhouse gas emissions?			£ N/A	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ 0 Decrease of £ 0 **Net Impact** **£** 0

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Summary: Analysis & Evidence

Policy Option: 3	Description: Charge identical rates for all Tier 2 Licences and Certificates

COSTS

ANNUAL COSTS	
One-off (Transition)	**Yrs**
£ 0	7
Average Annual Cost (excluding one-off)	
£ 5.5m	

Description and scale of **key monetised costs** by 'main affected groups' Decrease in volumes of migrants reduces output from prospective migrant workers and tuition fees/spending from overseas students

Total Cost (PV) **£ 34.2m**

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

BENEFITS

ANNUAL BENEFITS	
One-off	**Yrs**
£ 0	7
Average Annual Benefit (excluding one-off)	
£ 0	

Description and scale of **key monetised benefits** by 'main affected groups' No monetised benefits identified.

Total Benefit (PV) **£ 0**

Other **key non-monetised benefits** by 'main affected groups' Improved fairness, as those who benefit most from the migration system pay more towards its costs. A fee for an application for a licence ensures that all those who wish to access the system pay for consideration, rather than successful sponsors subsidising unsuccessful applicants through certificate fees.

Key Assumptions/Sensitivities/Risks

A wage elasticity of -1 was used estimate the likely impact on volumes of applications as a consequence of the proposed fee changes. The range used below is -1 to 0.

Price Base Year 2008	Time Period Years 5	**Net Benefit Range** (NPV) **£ -69.3m to -20.2m**	**NET BENEFIT** (NPV Best estimate) **£ -34.2m**

What is the geographic coverage of the policy/option?				UK Wide	
On what date will the policy be implemented?				29 Feb (Tier 2 licences)	
Which organisation(s) will enforce the policy?				BIA	
What is the total annual cost of enforcement for these organisations?				£ N/A	
Does enforcement comply with Hampton principles?				Yes	
Will implementation go beyond minimum EU requirements?				N/A	
What is the value of the proposed offsetting measure per year?				£	
What is the value of changes in greenhouse gas emissions?				£	
Will the proposal have a significant impact on competition?				No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large	
Are any of these organisations exempt?	No	No	No	No	

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ Decrease of £ **Net Impact £**

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

3. BACKGROUND

1.5. During the course of 2003 and 2004, the Home Office introduced charges for a range of immigration and nationality applications. The first phase of full cost recovery charging sought to ensure that those who use and benefit from the UK's immigration service met the costs of delivering the administrative service (including staffing and overhead costs) of processing applications to the point of making and conveying a decision.

1.6. The IND Review published in July 2006 stated that we should charge a fair and economic rate for our services but also one that reflects the true operational costs of the immigration system rather than just administrative costs.

1.7. As the Home Office and UKvisas implement the various measures outlined in the Review, including the Government's plans to introduce the new Points Based System (PBS) for managed migration, we need to consider how these immigration services are paid for. We know that migrants contribute to our economy, and we are clear that any new fees we set for migrants to come to the UK must not adversely impact on the many benefits that legal migration brings. But it is right to take the approach that our charging strategy should better reflect the end-to-end cost of the whole immigration system.

1.8. From April 2007, fees have moved from simple cost recovery to reflecting the value of the application. This means that some fees are set above normal cost recovery levels, both to contribute to the true end to end costs of the immigration system, and to allow us to set certain fees below normal cost recovery levels.

4. RATIONALE FOR GOVERNMENT INTERVENTION

2.1 The IND Review also signalled the biggest shake-up of the immigration system in its history, with a key component of the new approach being a step-change in the enforcement and compliance activity to ensure that the immigration laws are enforced.

2.2 The Government's position on this was laid out in the enforcement strategy published on 7 March 2007, which committed around £100m extra for immigration policing, detention space, and systems to share data and intelligence on those here illegally, designed to bear down on those seeking to cheat the system and live illegally in the UK

2.3 It was agreed that there should be no increase to general taxation to fund this strategy. Resources will be raised through a new approach to the pricing of visas and immigration products so that those who directly benefit from our services pay more. This approach to pricing applies directly to sponsorship under the points based system which will be implemented in early 2008 (see the published *Sponsorship under the Points Based System: Statement of Intent* for further details).

3. SPONSORSHIP POLICY BACKGROUND

3.1 A full description of the proposed policy of sponsorship under the points based system is contained in the statement of intent.[17] Briefly, under the Points Based system, migrants who enter the UK through Tiers 2 (skilled workers), 4 (students) and 5 (others e.g. youth mobility) of the Points Based System will be brought in by a sponsor such an employer or education institution. This sponsor will need to register as a sponsor which will then allow them to issue Certificates of Sponsorship (CoS) each time they need to recruit a migrant. The sponsorship term is proposed to

17 http://www.bia.homeoffice.gov.uk/sitecontent/documents/managingourborders/pbsdocs/statementofintent/sponsorshippbs.pdf

last for 4 years after which the sponsor will need to reapply. The sponsor is therefore required to pay two fees, one for registering as a sponsor and one for each Certificate of Sponsorship they issue. The impacts of these fees vary depending on the distribution of the fee burden across these two fees. The options considered here give two possible distributions that have been considered in detail to reveal their potential economic impacts. Different combinations of distribution are possible, but are not listed here for reasons of space.
Consideration of the wider sponsorship process will be set out shortly in an impact assessment to accompany the Immigration Rules change. This will be published on: www.bia.homeoffice.gov.uk

5. OPTIONS

4.1 For this assessment we consider 3 options:

4.2 Option 1: Maintain current work permit fee in respect of Tier 2 certificates; no additional licence fee for any Tier; no certificate fees for Tier 4 or Tier 5.(do nothing)

This option would see no charge for sponsorship and a charge for Tier 2 Certificates of sponsorship of £190. This would be close to the current system in which a fee of £190 is charged for the issuing of each work permit

4.3 Option 2: Increase fees at differential rates between size of business

Under this option, charges for licence fees for Tier 2 depend on the size of business. Small businesses are defined as <50 employees[18].

Differential Charges

Tier	***Licence Fee***	***Certificate Fee***
Tier 2 – small business	***£300***	***£170***
Tier 2 – medium/large business	***£1000***	***£170***
Tier 4 & 5	***£400***	***£10***

4.4 Option 3: Increase fees with no differential rates

For this option, no consideration is given to size of business. The charges are £500 for all Tier 2 licences and £400 for Tier 4 and 5. Certificate charges are £170 for Tier 2 and £10 for Tiers 4 and 5.

The fee combinations for option 2 and 3 are designed to raise approximately the same revenue.
For employers wishing to be licensed under multiple Tiers (e.g. a University wishing to sponsor both prospective employees under Tier 2 and students under Tier 4), our approach is that only the higher fee would need to be paid. We expect numbers of such sponsors to be very low, and that any impact would fall mostly on the education sector.

Following the Government's consultation on its charging strategy on immigration and nationality applications, and the targeted consultation undertaken to support these proposals, the view was taken that all sponsor fees for Tier 4 and Tier 5 should be kept to minimal levels, in recognition of the need to maintain the UK's competitiveness in the international student market, and of the cultural benefits that many tier 5 migrants will bring to the UK. The fees for Tier 4 and 5 licence fees and certificates are designed to make a contribution to the costs of running the immigration system, but are set below full cost recovery levels.

6. COST AND BENEFITS

5.1 Option 2 over Option 1

[18] And being subject to the small companies regime as defined in section 381 of the Companies Act 2006, or, if not a company as defined in section of the Companies Act 2006, as a person who employs less than fifty employees, (which are specified in Regulations made under section 51(3) of the Immigration, Nationality and Asylum Act 2006) (regulation 20A as inserted by regulation 2(8)).

Benefits:

- Additional revenue for the administrative costs of considering applications to become a licensed sponsor and ensuring compliance with the immigration laws, helping to tackle in particular illegal working
- Helps to ensure that those who benefit from the system contribute to the costs by requiring all users of the sponsorship system to pay a fee
- Larger licence application fees of £1000 may help deter non-legitimate bodies from seeking to become licensed sponsors
- Smaller certificate fee benefits large scale users of the system
- Reduces impact on small businesses

Costs:

- potential impact of loss of migrant workers and students on economic output if employers/education establishment choose to take on fewer migrants in response to price increases

5.2 Option 3 over Option 2

Benefits

- Simpler to administer

Costs

- No protection for small businesses

6. NET BENEFIT CALCULATION

6.1 The key impact of changes in fees is the effects on volumes of businesses registering and certificates issued. The response of an employer to an increase in fee is estimated from the economic literature on wage elasticities. A summary of this evidence is provided in the Annex. The resulting estimates of impacts on volumes for options 2 and 3 over option 1 are given below:

Impact on Volumes (optimistic assumptions of employer responses to increases in prices)

	Option 2 (differential fee)		Option 3 (identical fees)	
	Licences	Certificates	Licences	Certificates
Small Business	-0.2%	-0.1%	-0.3%	-0.2%
Large Business	-0.4%	0.0%	-0.2%	0.0%
Total	-0.3%	0.0%	-0.3%	0.0%

Assumption of -0.75 wage elasticity and £35,000 total wage costs

6.2 Note that impacts on volumes tend to affect certificates more than licences as it is the employers who issue the least number of certificates who are most affected by price increases. For the purposes of this assessment we use the most pessimistic assumptions for volume affects. This is to account for the uncertainty we place on these estimates.

The tables below show the cost benefit analysis for Options 2 and 3 over Option 1:

Option 2: Differential Tier 2 Licence Fees (000's)

	2008/09	2009/10	20010/11	2011/12	2012/13	2013/14	2014/15
Cost Benefit Impact Discounted at 3.5%							
Tier 2	-£2,100	-£4,700	-£4,500	-£3,100	-£2,700	-£3,400	-£3,400
Tier 4	-£800	-£1,300	-£1,300	-£1,200	-£1,200	-£1,100	-£1,100
Tier 5	£0	£0	£0	£0	£0	£0	£0
Total	**-£2,800**	**-£6,000**	**-£5,800**	**-£4,300**	**-£3,900**	**-£4,600**	**-£4,500**
Sponsorship Revenue Impact (over option 1)[19]							
Tier 2	£6,200	£8,100	£1,600	£1,600	£3,600	£5,200	£2,800
Tier 4	£3,300	£5,000	£4,800	£4,800	£4,900	£5,500	£4,900
Tier 5	£1,200	£1,400	£1,000	£1,000	£1,300	£1,300	£1,100
Total	£10,700	£14,500	£7,400	£7,400	£9,800	£12,000	£8,800

Option 3 Identical Fees for Tier 2 Licences (000's)

	2008/09	2009/10	20010/11	2011/12	2012/13	2013/14	2014/15
Cost Benefit Impact Discounted at 3.5% (000's)							
Tier 2	-£2,300	-£5,200	-£5,000	-£3,400	-£3,000	-£3,800	-£3,700
Tier 4	-£800	-£1,300	-£1,300	-£1,200	-£1,200	-£1,100	-£1,100
Tier 5	£0	£0	£0	£0	£0	£0	£0
Total	**-£3,000**	**-£6,500**	**-£6,300**	**-£4,600**	**-£4,100**	**-£4,900**	**-£4,800**
Sponsorship Revenue Impact (over option 1)							
Tier 2	£6,100	£7,900	£1,600	£1,600	£3,500	£5,100	£2,700
Tier 4	£3,300	£5,000	£4,800	£4,800	£4,900	£5,500	£4,900
Tier 5	£1,200	£1,400	£1,000	£1,000	£1,300	£1,300	£1,100
Total	**£10,600**	**£14,300**	**£7,300**	**£7,300**	**£9,700**	**£11,900**	**£8,700**

9. SENSITIVITY ANALYSIS

7.1 Estimates of costs and benefits are dependent on our assumptions of how volumes of migrants will be impacted by price increases. The tables below show the impact of our most pessimistic and optimistic assumptions of the impact on volumes.

Impact on Volumes (pessimistic assumptions of employer responses to increases in prices)

	Option 2 (differential fee)		Option 3 (identical fees)	
	Licences	Certificates	Licences	Certificates
Small Business	-0.9%	-0.5%	-1.6%	-0.9%
Large Business	-2.1%	-0.1%	-1.0%	0.0%
Total	-1.3%	-0.2%	-1.4%	-0.2%
Average economic cost per year:	£10.1m		£11.0m	
Average Revenue per year:	£4.1m		£4.0	

[19] Revenue estimates here are based on data on historical volumes that do not necessarily take account of the impacts of PBS policies and should not be taken as official revenue forecasts

Assumption of -1 wage elasticity and £20,000 total wage costs

Impact on Volumes (optimistic assumptions of employer responses to increases in prices)

	Option 2 (differential fee)		Option 3 (identical fees)	
	Licences	Certificates	Licences	Certificates
Small Business	-0.2%	-0.1%	-0.3%	-0.2%
Large Business	-0.4%	0.0%	-0.2%	0.0%
Total	-0.3%	0.0%	-0.3%	0.0%
Average economic cost per year:	£3.0m		£3.2m	
Average Revenue per year:	£4.2m		£4.1m	

Assumption of -0.5 wage elasticity and £50,000 total wage costs

10. COMPETITION ASSESSMENT

8.1 The proposals to charge fees for sponsorship under Tier 2 could have an effect on any company that is employing (or will employ) non-EU workers.

The key industries currently using the work permits system – which Tier 2 sponsorship will replace – cover both the private and public sector. Potentially affected sectors are Health, Computer Services, Hospitality and Admin and Business Services (see table below).

Applications for Work Permits (2006) [20]

INDUSTY BREAKDOWN	Applications		Employers	
	Number	Percentage	Number	Percentage
Computer Services	23,425	23%	1,279	7%
Admin, Bus & Man Services	15,582	15%	3,242	18%
Health & Medical Services	13,623	13%	2,920	16%
Financial Services	10,872	11%	1,080	6%
Education & Cultural Activities	9,110	9%	2,275	13%
Telecommunications	5,056	5%	258	1%
Extraction Industries	4,655	5%	144	1%
Hospitality & Catering	3,742	4%	2,085	12%
Construction	3,724	4%	897	5%
Manufacturing	3,541	3%	1,075	6%
Retail & Related Services	1,636	2%	796	4%
Real Estate & Prop Services	1,388	1%	178	1%
Law Related Services	1,313	1%	204	1%
Transport	1,253	1%	333	2%
Entertainment & Leisure Services	838	1%	402	2%
Other	1,893	2%	649	4%

Source: Work Permits (UK)

8.2 In the sectors employing migrants through the current work permit system we do not identify any significant market share issues, when this is examined with reference to the 'competition filter' framework set out by the Office of Fair Trading. Our assessment is outlined in the paragraphs below.

8.3 In the health sector the vast majority of migrants are employed by the NHS and will not be considered for purposes of a competition assessment. The other main sectors are Computer Services; Financial Services; Education; Administration, Business and Management. The latter is a catch all category that comprises of firms in a wide range of sectors (the largest in terms of migrant employment being the management consulting sector).

In none of these sectors do we estimate that any one firm has more than 10% of market share.

[20] Includes only those work permit applications likely to qualify under the criteria for Tier 2 set out in the PBS command paper.

8.4 The use of migrant workers by employers is the result of shortages of particular types of labour. Migrant workers tend to be concentrated in sectors rather than specific firms within sectors. As such, we believe that our proposals to charge employers a fee to sponsor migrants under Tier 2 should not create any competition issues as the proposals apply equally to all firms in a particular sector.

10. SMALL BUSINESS ASSESSMENT

9.1 Though it is not necessarily the case that larger employers will always issue more Certificates than smaller employers, we would expect that on average this would be the case. This average activity (including issuing of work permits and extensions) is given in the table below by size of firm.

Average Work Permit Activity by Size of Employer Oct '06 to Sep '07[21]

Size of Employer (No. of Employees[22])	as %age of all Employers issuing work permits	Proportion issued with only 1 work permit in year
Employers with less than 50 Employees		
1 to 10	15.4%	69%
11 to 20	7.9%	61%
21 to 30	4.6%	55%
31 to 40	3.1%	53%
41 to 50	2.7%	55%
All 1 to 50	33.6%	63%
Employers with more than 50 Employees		
51 to 100	7.3%	47%
101 to 150	3.7%	44%
151 to 200	2.1%	43%
201 to 250	0.8%	49%
Other		
Entered as 0	0.7%	38%
Blank Entry	51.8%	58%
Total	100%	58%

Source: Work Permits (UK)

9.2 Though this data is not wholly reliable, it is clear that smaller employers do on average tend to be issued with less work permits than larger employers. However, it is also true that there are still a high proportion of larger employers who are only issued with one work permit in a year.

9.3 For very small employers with between 1 and 3 employees, the proportion issued with only one work permit in the year was between 70% and 75%.

9.4 Based on our assumptions in the cost benefit analysis, we estimate that the average smaller employer (under 50 employees) will issue around 3 work permits in a 4 year period. This implies that the average small employer will pay on average around £270 for each migrant worker under option 2 compared with £500 for option 3.

[21] Provisional work permit management information. Includes only those applications likely to qualify under the criteria for Tier 2 set out in the PBS command paper

[22] This data is taken from provisional work permit Management information. The number of employees field suffers from a number of problems. For over half of work permit applications this field is left blank by applicants, and many large employers are entered as having 0 employees.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

The potential impacts of the broader sponsorship policy are to be covered in a separate Impact Assessment which will be published on www.bia.homeoffice.gov.uk

The policy options in this Impact Assessment are covered by the full equality impact assessment of the Government's charging strategy for immigration and nationality fees which was published in March 2007:

http://www.bia.homeoffice.gov.uk/sitecontent/documents/aboutus/consultations/closedconsultations/newchargingregime/raceequalityimpactassess.pdf

For further relevant information on how the Border and Immigration Agency intends to meet its equality and diversity obligations please see also the Agency's Race, Disability and Gender Equality Scheme:

http://www.bia.homeoffice.gov.uk/sitecontent/documents/aboutus/workingforus/Three-strand_Equality_Scheme.pdf

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Annexes

Annex A: Cost Benefit Underlying Assumptions

Volume Assumptions

Year	Tier2 Licence	Certificates	Tier 4 Licence	Certificates	Tier 5 Licence	Certificates
2008/09	14,700	60,000	2,100	250,000	1,900	40,000
2009/10	20,000	100,000	1,300	450,000	2,000	60,000
2010/11	7,200	100,000	700	450,000	900	60,000
2011/12	7,200	100,000	700	450,000	900	60,000
2012/13	11,100	100,000	1,000	450,000	1,800	60,000
2013/14	14,300	100,000	2,500	450,000	1,700	60,000
2014/15	9,500	100,000	1,100	450,000	1,200	60,000

All volume assumptions here are based on historical data and patterns expected from 4 year sponsorship periods. No attempt has been made to factor in trends or other aspects of PBS policy with the exception of Tier 2 where estimates were made using data on work permit applications likely to qualify for the tier 2 criteria outlined in the PBS command paper. Small businesses are assumed to make up 70% of licence applications and 17% of certificates issued.

Output loss assumptions

In line with historical data, migrants are assumed to earn the average for work permit holders of £26,000 for a length of 2.5 years. This is used as a proxy for output loss per migrant and applied to loss in volumes

For tier 4, lack of clear data on student numbers by type and contribution to UK output makes cost benefit calculation difficult. Students range from those taking short-term English language courses injecting in the region of hundreds of pounds to the UK to degree level students whose contribution can be in the tens of thousands. We assume a contribution of £3000 for all students.

As Tier 5 is a quota based scheme, it is assumed that pricing policy has no effect on volumes and therefore no effect on economic output.

Price elasticities and volume effects

For tier 2 we test a range of wage elasticity assumptions/employment costs and apply them to our management information. We assume here that the employer absorbs the full fee.

For Tier 4, lack of detailed data makes such estimates difficult. It is assumed that given the policy of accreditation which could cost around £4,000 for a 4 year period, that most of those price sensitive education institutions would already be deterred from applying for sponsorship licence. We apply a volume reduction of -0.1% similar to that for Tier 2.