EXPLANATORY MEMORANDUM TO

THE IMMIGRATION AND NATIONALITY (COST RECOVERY FEES) REGULATIONS 2010

2010 No. 228

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

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

2. Purpose of the instrument

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

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

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

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

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

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

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

4. Legislative Context

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

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

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

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

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

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

7. Policy background

- ***What is being done and why***

7.1 These Regulations replace the previous Immigration and Nationality (Cost Recovery Fees) Regulations 2009. Unless stated otherwise, the explanation provided here only covers any amendments or new fees introduced to the previous Regulations.

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

7.3 These Regulations make inflationary and above inflationary fee increases, and introduce a fee for an existing process, to the fees for Immigration and Nationality applications made both in and outside the UK. These fees maintain the contribution to the Migration Impact Fund, to manage the transitional impacts of migration, to certain applications.

7.4 For the majority of our application routes we propose a maximum inflationary increase of 2.5%. This is despite the fact that the costs to UK Border Agency of processing these applications have increased by approximately 6% over the last year, due to the cost of introducing new visa regimes, Gurkha settlement and also investments in improved customer service.

7.5 We have succeeded in limiting the extent of our general increases, by taking a more targeted approach to fees adjustment which is consistent with both UK Border Agency strategic charging principles, and also with broader government objectives.

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

7.7 We believe these fees are in the best interests of the UK. Maintaining one of the world's most secure borders brings with it an irreducible core of cost, especially as we seek to improve speed and quality of decision making on our visa functions: something which Other Government Departments and customers tell us is key to the lifeblood of the UK economy. Nevertheless, the current fees round takes place against a difficult financial context for the UK Border Agency and Government as a whole.

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

VISA FEES

PRODUCTS	2009/10 Fees (£)	Estimated Unit Cost for 10/11	Proposed Fee for 10/11
Non PBS Visas			
Short term visitor visa	67	140	68
Transit Visa	46	94	47
Certificate of Entitlement	215	244	220
Vignette Transfer Fee	75	93	75
Call out/out of hours fee	£128/hour up to a max of £922 a day	134/hr	130/hour up to a max of £939 a day
PBS Visas			
T1 (Post Study) *	265	344	315
T1 (Transition)	250	332	256
T1 (Transition) CESC[1]	230	332	235
T4 **	145	242	199
T5	125	173	128
T5 (CESC)	110	173	112
* The fees for these applications include a contribution of £50 per person to the migration impacts fund.			
** The fees for T4 applications include a contribution of £20 per person to the migration impacts fund.			

IN UK – LEAVE TO REMAIN AND NATIONALITY FEES

PRODUCTS	2009/10 Fees (£)	Estimated Unit Cost for 10/11	Proposed Fee for 10/11	Dependents Fee
NON PBS ROUTES - Migrants Inside UK				
Certificate of Approval (Fee not charged)	295	318	0	0
Transfer of Conditions Postal	165	381	169	16
Travel Documents Adult (CoT)	215	246	220	N/A
Travel Documents Adult CTD	72	246	77.5	N/A
Travel Documents Child (CoT)	135	231	138	N/A
Travel Documents Child CTD	46	255	49	N/A
Replacement BID	30	35	30	N/A
Call out/out of hours fee	£128/hour up to a max of £922/day	134/hr	130/hour up to a max of £939/day	N/A
Work Permit Technical Changes	20	116	20	N/A
Nationality applications - Migrants Inside UK				
Renunciation of Nationality	395	208	208	N/A
Nationality Right of Abode	140	149	143	N/A
Re-issued Certificates of Nationality	75	178	76	N/A
Nationality Reconsideration Fee	0	100	100	N/A
Status Letter (Nationality)	75	107	76	N/A
Non Acquisition Letter (Nationality)	75	107	76	N/A
Status Letter (Immigration)	75	107	76	N/A

IN– UK PBS FEES

PRODUCTS	2009/10 Fees (£)	Estimated Unit Cost for 10/11	Proposed Fee for 10/11	Dependents Fee
PBS - Migrants Inside UK				
T4 - Postal *	357	357	357	80
T5 – Postal	125	359	128	12
T5 CESC Postal	110	380	112	11
* The fees for these applications include a contribution of £50 per person to the migration impacts fund.				

[1] The Council of Europe Social Charter. Signed in Turin on 18th October 1961 (CETS NO. 035). The UK has an obligation to abolish or reduce fees in respect of workers who are nationals of states who have ratified the CESC.

PBS SPONSORSHIP FEES

PRODUCTS	2009/10 Fees (£)	Estimated Unit Cost for 10/11	Proposed Fee for 10/11
PBS SPONSORSHIP FEES			
T2 Sponsor licence - small business	300	880	300
T4 Sponsor licence	400	950	400
T5 Sponsor licence	400	880	400
T2&4 Sponsor licence - small business	400	950	400
T2&5 Sponsor licence - small business	400	880	400
T4&5 Sponsor licence	400	950	400
T2, 4 & 5 Sponsor licence - small business	400	950	400
T2 & T4, T5 Licence – Medium/Large Sponsor, where they currently hold T4 &/or T5 Licence	600	950	600
T4 &/or T5 Licence – Small Sponsor, where they currently hold T2 Licence	100	950	100
T4 Certificate of Acceptance of Studies	10	25	10
T5 Certificate of Sponsorship	10	25	10
Sponsorship Action Plans	0	600	600

Short term Visit Visas

7.9 We recognise that the importance of the visitor route to the UK economy. That is why we have sought to bear down on the fee for short-term visit visas. Our proposal to increase this fee by £1 to £68 (1.5%) represents an increase lower than the general level of increase stated above. However the costs to us associated with this route continue to rise, the proposed fee recovers only around half of the total costs we face. In addition, family visit visas carry rights of appeal, which continue to impose costs on the UK Border Agency and Ministry of Justice. Nevertheless, we propose to continue to hold down increases in fees for this route to protect the competitiveness of the UK economy.

7.10 The following paragraphs explain the fee increases above inflationary rates.

Tier 4 Visa (Student)

7.11 We have proposed an increase of the Tier 4 visa fee to £199. We recognise this is an increase on the current fee of £145, but it is still below the full cost to the UK Border Agency of considering the application - which is estimated to be approximately £242.

7.12 This is a key route to us in the UK Border Agency, to the education system in general, and to the broader UK economy. We understand this, and we have worked hard to preserve a fee structure which supports collective objectives in this area. However, we must recognise that in the current climate where resources are tight and pressure on those resources is increasing, maintaining Tier 4 visa fees at their current level is simply unsustainable. Currently every student

visa application is being cross-subsidised by almost £100. If students coming to the UK are not meeting the costs of providing the visa and immigration services they use, then by default others are paying for them. In the current climate this is increasingly difficult to justify.

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

7.14 Furthermore, we have held the fees for Tier 4 leave to remain applications made in the UK at their current level of £357.

Tier 1 Post Study Visa

7.15 We propose an above-inflationary £50 increase to the fee for Tier 1 post-study visa.

7.16 We believe this increase better aligns this fee with that for other Tier 1 routes, where the entitlements, such as the ability to come and stay unsponsored, and unlimited access to the labour market, are most similar.

Dependants Applying to Extend their Leave in the UK.

7.17 Currently the UK Border Agency processes applications from dependants free of charge if they are submitted at the same time as the main application, although for each dependant the main applicant is required to contribute £50 to the Migration Impact Fund (MIF). This new fee reconciles our UK-based application fee structure with the way we charge for visas. Individuals applying from overseas (including dependants) each pay a separate fee, and we wish to move to the same model for applications made in the UK, to reflect the fact that each individual within any given application bears a processing cost to us (as well as sometimes an independent set of entitlements for the individual).

7.18 The majority of respondents to our recent consultation were not in favour of charging an additional, separate fee for each dependant, with only a third in favour. We therefore think it is

fair to just introduce a nominal charge of 10% of the main applicant's fee for all UK-based dependant applications. This helps to reduce the amount of cross-subsidy and then over time we would look to further align our dependant charging in the UK with the visa model overseas, but we plan keep volumes under close review to manage that transition carefully.

7.19 For each dependant, this fee is calculated as 10% of the main applicant's fee plus a contribution to the Migration Impacts Fund (MIF). For example, the indefinite leave to remain application for the main applicant costs £840, including a £50 to contribution towards the MIF. Each dependant would therefore cost a further £129 (10% of £790 plus their own MIF contribution of £50).

Convention Travel Documents Adult and Child

7.20 Convention Travel Documents are issued to persons of refugee status and who are unable to receive a passport from their country of origin. These fees are set in line with the fees for a UK passport.

7.21 These Regulations amend the fee for Convention Travel Documents in line with the increase to the fee for a UK passport implemented on 3 September 2009.

Renunciation of Nationality

7.22 As part of our annual review of fees, this fee is being moved to the cost recovery Regulations as it is expressed as a charge for a service which is not provided for by s.42 of the 2004 Act which only provides for fees for applications or processes, we have therefore taken this opportunity to adjust the fee for declaration of renunciation of British Citizenship from £395 to £208 and to insert it into these Regulations.

7.23 A cost recovery fee for this service also increases alignment with the other Nationality products that we offer. Volumes are very low for this route, meaning that wider cost charging objectives are not affected by this change.

Nationality Reconsideration Fee

7.24 For 2010/11 we propose to introduce a fee for reconsidering Nationality applications. Although Nationality applications do not have a legal right of appeal, we reconsider our decisions to refuse an application without a charge. We want to introduce a formal charged process for these reconsiderations, with the aim of discouraging unfounded reconsideration requests and also to recover the cost of the reconsideration.

7.25 Customers will be able to use this service to ensure that the initial decision was made correctly. This would not be a full secondary consideration which might justify payment of the full application fee, it would be to reconsider the initial decision to ensure that it was made correctly. If the original decision is reversed the fee will be returned (less the citizenship ceremony fee which would have been returned with the initial refusal decision). This new process will be more efficient and quicker for customers who will not need to re-apply for a citizenship ceremony.

Sponsor Action Plans

7.26 We propose to introduce a new fee for Sponsor Action Plans. These are currently produced by the UK Border Agency and issued to certain sponsors without charge. The Action Plan will explain in detail the steps a sponsor must take to become fully compliant with their duties to get an A rating. For example, this might include making specific improvements to recordkeeping, improving control over the staff employed to issue certificates of sponsorship or improving communication between different branches of a business to know when a migrant has not turned up for work.

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

Migration Impact Fund (MIF)

7.28 For certain routes the fees will continue to incorporate a contribution to a fund to manage the transitional impacts of migration, in accordance with the Government's policy to create a fund to help local service providers deal with transitional pressures of migration.

7.29 The Government response to the Green Paper 'The Path to Citizenship', (July 2008) confirmed the creation of a fund, paid for by certain migrants, to support public services in managing the local transitional pressures from migration. The MIF went live on 6 April 2009 and has provided £35 million in 2009-10 to support projects across a number of key areas including: community safety; English for speakers of other languages; children and young people's services;

health; housing and homelessness support; advice and interpretation. A further £35 million will be spent in 2010-2011.

7.30 The Prime Minister in his immigration speech on 12 November 2009, recognised that whilst migration brings benefits to the UK, there are risks and costs which the Government should acknowledge and do its best to minimise. He identified understanding and managing the impact of immigration at local as well as national level as a priority and the Migration Impact Fund is a key element of this.

Fees for Sponsorship under the Points Based System

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

- ***Consolidation***

7.32 There have been no amendments to the Immigration and Nationality (Cost Recovery Fees) Regulations 2009.

7.33 These Regulations revoke and replace the Immigration and Nationality (Cost Recovery Fees) Regulations 2009 (S.I. 2009/421) to improve their legibility for all stakeholders, customers, practitioners and officials.

8. Consultation outcome

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

8.2 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 was also sent to 3000 people. The formal Government response to the public consultation was published on 7 March 2007, and is published at: http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/consultations/closedconsultations/newchargingregime/

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

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

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

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

8.7 The formal Government response to the public consultation was published on 14 January 2010 at the UK Border Agency website

http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/consultations/closedconsultations/charging09/

9. Guidance

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

10. Impact

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

11. Regulating small business

11.1 The legislation applies to small business.

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

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

12. Monitoring & review

12.1 We will closely monitor the impact of fees for the application and services contained in these Regulations. We review fees and charges for Immigration and Nationality applications annually, and application trends are monitored by UK Border Agency on a monthly basis. Analysis of application trends is monitored by the cross-Whitehall fees committee to ensure that fee levels generate sufficient revenue to cover UK Border Agency delivery costs but do not adversely impact on the UK economy. We would seek to amend these fee levels were there evidence of such adverse impact.

13. Contact

13.1 Geetha Muthusamy at the Charging Programme of the UK Border Agency, [Tel: 0114 207 2295 or email: Geetha.Muthusamy@homeoffice.gsi.gov.uk] can answer any queries regarding the instrument.

Summary: Intervention & Options

Department /Agency: UK Border Agency	Title: Impact Assessment of Fee Changes for Tier 4 Visas and Tier 1 (Post Study) Visa.	
Stage: Final	**Version: 0.3**	**Date: 1 February 2010**
Related Publications: Consultation on Charging for Immigration & Visa Applications, Earning the right to stay: A new points test for citizenship, The path to citizenship: next steps in reforming the immigration system.		

Available to view or download at: www.ukba.homeoffice.gov.uk

Contact for enquiries: Charging Policy, Vulcan House, Sheffield, PO Box 3468, S3 8WA.

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

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

What are the policy objectives and the intended effects?

The Government's charging policy objectives are:

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

The specific objective for the fees covered in this impact assessment is that applicants should pay more than the administrative cost of their application in recognition of the benefits they receive from that application. The revenue generated is used to fund the wider immigration system and to cross subsidise lower fees to support wider Government objectives (such as offering tourist visas below administrative cost in recognition of the economic benefits tourism brings to the UK).

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

Option 1: Do Nothing, Retain current fee levels for Tier 4 Visas and Tier 1 (Post Study) Visa.

Option 2: Increase the fee for Tier 4 Visa to £199 and increase the fee for Tier 1 (Post Study) visa to £315.

The preferred option is option 2.

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

We regularly review of volumes of applications against projected demand with the assumption of fee changes where necessary to reflect the cost changes or significant demand impacts.

Ministerial Sign-off For Implementation Stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

Phil Woolas

.....Date: 4th February 2010

Summary: Analysis & Evidence

Policy Option: 2	Description: Increase the fee for Tier 4 Visa to £199 and increase the fee for Tier 1 (Post Study) visa to £315.

COSTS

ANNUAL COSTS	
One-off (Transition)	**Yrs**
£ 0	5
Average Annual Cost (excluding one-off)	
£ 19.1m	

Description and scale of **key monetised costs** by 'main affected groups'. The economy will lose £89.1m (PV) in output and income from a reduction in the numbers of migrants coming or remaining in the UK to work, study and visit. UKBA will lose £0.4m (PV) from a net decrease in the volume of applications as a result of fee changes.

Total Cost (PV) **£ 89.5m**

Other **key non-monetised costs** by 'main affected groups' Risks to UK economy of significant impact on volumes.

BENEFITS

ANNUAL BENEFITS	
One-off	**Yrs**
£ 0	5
Average Annual Benefit (excluding one-off)	
£ 19m	

Description and scale of **key monetised benefits** by 'main affected groups' Higher immigration and visa fees will increase fee income to the UK from those that still apply to come to the UK.

Total Benefit (PV) **£ 88.9m**

Other **key non-monetised benefits** by 'main affected groups' Reduction in the costs associated with transitional impacts of migration.

Key Assumptions/Sensitivities/Risks A price elasticity for the demand of higher education of -1.0 for Tier 4 visa and a wage elasticity of labour supply of 0.5 for Tier 1 post study were used to estimate the likely decrease in numbers of applications as a consequence of the proposed fee increases. The range used below is -2.0 to 0 based on price and wage elasticities.

Price Base Year 2010	Time Period Years 5	**Net Benefit Range** (NPV) **- £90.4m to + £89.1m**	**NET BENEFIT** (NPV Best estimate) **- £0.6m**

What is the geographic coverage of the policy/option?			Worldwide	
On what date will the policy be implemented?			April 2010	
Which organisation(s) will enforce the policy?			UK Border Agency	
What is the total annual cost of enforcement for these organisations?			£0	
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?			£0	
What is the value of changes in greenhouse gas emissions?			£0	
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**

1. BACKGROUND

The UK Border Agency was established in April 2008 to create a strong new force at the border by bringing together immigration, customs and visa checks to strengthen the UK Border. We want the UK to stay open and attractive for both business and visitors, but at the same time we are determined to deliver a system of border control which is among the strongest in the world.

We are all familiar with the high public interest which surrounds immigration as a whole and this is only right. Increased flows of people around the world make securing our border one of our toughest challenges. There is widespread acceptance that migration is a key factor in our economic growth but also concern about the possible impact on public services and communities.

We have made substantial progress in recent years in meeting the challenges posed by migration. The introduction of the Points Based System (PBS) allows us to operate a flexible migration system to the benefit of the UK. PBS helps us support employers who comply with the rules, and targets those who abuse them. PBS also encourages the Government policy to up-skill resident workers and only bring skilled migrant workers where an employer has carried out a resident labour market test or the job is on the shortage occupation list, as identified by the Migration Advisory Committee.

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

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

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

The consultation is published at:
http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/consultations/closedconsultations/charging09/

2. RATIONALE FOR GOVERNMENT INTERVENTION

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

3. POLICY OBJECTIVES

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

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

This Impact Assessment examines the costs and benefits of the different options considered for the fees for:
Tier 4 Visas
Tier 1 (Post Study) Visa

Tier 4 Visa

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

We propose a £54 increase to the fee for Tier 4 visa fee to £199. We recognise this is a significant increase on the current fee of £145, but it is still below the full cost to the UK Border Agency of considering the application - which is estimated to be approximately £242.

This is a key route to us in the UK Border Agency, to the education system in general, and to the broader UK economy. We understand this, and we have worked hard to preserve a fee structure which supports collective objectives in this area. However, we must recognise that in the current climate where resources are tight and pressure on those resources is ever-increasing, maintaining Tier 4 visa fees at their current level is simply unsustainable. Currently every student visa application is being cross-subsidised by almost £100. If students coming to the UK are not meeting the costs of providing the visa and immigration services they use, then by default others are paying for them. In the current climate this is increasingly difficult to justify.

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

Tier 1 Post Study

The Tier 1 (Post-Study Work) category aims to retain the most able international graduates who have studied in the United Kingdom. It will also enhance the United Kingdom's overall offer to international students.

We propose a £50 increase to the fee for Tier 1 post-study route overseas.

We believe this increase better aligns this fee with that for other Tier 1 routes, where the entitlements (such as the ability to come and stay unsponsored, and unlimited access to the labour market) are most similar.

4. OPTIONS

We have not considered options that increase fees payable by UK businesses. In the current economic circumstances, UK Border Agency wants to play its part by minimising the burden on UK businesses where possible.

The different immigration routes and the complexity of inter-related factors involved means that there are a number of ways this could be done within our flexible approach to charging. To keep this impact assessment workable, we have narrowed this scope to considering 2 options:

Option 1: Do Nothing, Retain current fee levels for Tier 4 Visas and Tier 1 (Post Study) Visa.

Option 2: Increase the fee for Tier 4 Visa to £199 and increase the fee for Tier 1 (Post Study) visa to £315.

The preferred option is option 2 as this will help reduce the level of risk to the UK Border Agency where the numbers of migrants applying to come to the UK is uncertain, and will also and balance this with the interests of the taxpayer. The preferred option also meets the UK Border Agency's 3 Charging Policy objectives.

5. APPRAISAL

5.1 Costs and Benefits

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

5.2 Impact on Volumes

The key impact of increasing fees to generate the fund will be that productive migrants will be deterred from coming to the UK. Initial modelling based on a number of uncertain assumptions has been used to estimate the potential impacts of additional fees on volumes of migrants willing to supply their labour to the UK or demanding to come to the UK for study purposes.

To work out the impact of additional fees on application volumes; elasticities were applied to the proposed routes. For the Tier 1 (Post Study) visa route we used a wage elasticity of labour supply of 0.5; applied to the full expected wage of the applicant during their stay in the UK, which is consistent with previous fee impact assessments. A price elasticity for the demand of higher education of -1.0 for Tier 4 visa was applied to estimate the likely decrease in numbers of applications as a consequence of the proposed fee increases. However, no empirical studies on the wage elasticity of migrant labour supply and price elasticity of high education to the UK have been found so general studies on these respective elasticities are used as an estimate.

5.3 Net Benefit

This results in a decrease in output of £89.4 million over 5 years but an increase in government revenue from outside the UK of £88.9million (discounted by 3.5% a year). The NPV calculation is therefore -£0.6 million over 5 years. The NPV range of -£90.4m to +£89.1m is calculated using an elasticity range of -2.0 to 0 as indicated by available evidence in the annex to this assessment.

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

Key Costs and Benefits of Fee Increases
Key Monetised Costs *To economy* • **Reduction in fee income from deterred out of country immigration applications**: income to UK economy (UKBA) from overseas may be deterred as a result of fee increases Option 2: This is estimated at £89,391 for 2010/11 and £446,955 for the next five years. • **Reduction in output from deterred migrants**: costs of lost productive output and income where migrants are deterred from coming to or remaining in the UK for work, study or visit. Option 2: This is estimated at £19.1m for 2010/11 and £95.4m for the next five years.

Key Non- Monetised Costs

- Administration costs of administering the collection and allocation of the Fund; which is assumed negligible as using current charging administration.
- Risks to UK economy of significant impact on volumes

Key Monetised Benefits

To economy

- **Increased fee income to the UK**: higher immigration and visa fees will increase fee income to the UK from those that still apply to come to the UK

  Option 2: This is estimated at £19m for 2010/11 and £95m for the next five years.

Key Non- Monetised Benefits

- Option 2: Reduction in the costs associated with transitional impacts of migration;
- Option 2: Public confidence that migrants are contributing towards the transitional impacts of migration;
- Option 2: Applying the contribution across all dependent migrants means the charging system for the fund is easier to explain, understand and administer.

Under option 2, there is a potential net loss to the economy of £89,390 in 2010/11 and £417,700 for the next five years (present value); falling marginally short of the value of output lost from those who decide to no longer apply to come to the UK. Overall we expect volumes to decrease by approximately 615 for these routes in response to the rise in price.

Table 1: Summary results of cost-benefit analysis

	OPTION 2	
	2010/11	10/11-14/15
Benefits		
Net Revenue raised from fee changes for those who continue to apply:		
Tier 1 (Post Study)	£150,348	£702,574
Tier 4	£18,873,284	£88,194,854
Combined Net Revenue (Tier 1 (Post Study) and Tier 4)	£19,023,631	£95,118,156
Total Benefits (PV)	**£19,023,631**	**£88,897,429**
Costs		
Revenue from net decrease in the volume of applications as a result of fee changes:		
Tier 1 (Post Study)	-£543	-£2,713
Tier 4	-£88,848	-£444,242
Combined Net Revenue (Tier 1 (Post Study) and Tier 4)	-£89,391	-£446,955
Output loss from net decrease in migrants coming/ remaining in the UK:		
Tier 1 (Post Study)	-£75,768	-£378,838
Tier 4	-£18,995,220	-£94,976,102
Combined Net Revenue (Tier 1 (Post Study) and Tier 4)	-£19,070,988	-£95,354,940
Total costs (PV)	**-£19,160,379**	**-£89,536,451**
Net benefit (PV)	**-£136,748**	**-£639,023**

5.4 Sensitivity Analysis

The key unknown variables are wage elasticity of labour supply, price elasticity of demand for higher education and airfare elasticity of demand. A literature review of empirical studies suggests a wide range of aggregate wage elasticity of labour supply from –0.1 to 1.1 and price elasticity of higher education demand from -1.0 to -2.0 (see table 1 in the annex for further details). A lower bound price elasticity of -2.0 could result in 1,230 and 6,150 fewer applications for option 2 in 10/11 and over the next five years respectively resulting in a decrease in net benefits (PV) to the economy of £19.3m and £90.4m respectively.

For consistency with previous Fee Impact Assessments, an upper bound of zero is used for the elasticity of labour supply and higher education demand. For option 2, this gives an expected net benefit of £89.1m over the next five years from the gain in revenue from overseas applications (there is no output loss). Full sensitivity analysis results are in table 6 of the annex to this assessment.

6. MONITORING and EVALUATION

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

7. FEEDBACK

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

8. OTHER SPECIFIC IMPACT TESTS

Having carefully considered the remaining specific impact tests, we believe that these proposals will have no significant discernable impact on these areas. The fees are not payable by UK businesses; they apply to migrants applying to come to the UK (not including EEA nationals or refugees).

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

Source	Estimate of wage elasticity of labour supply*	Measure
R. E Lucas and L. A. Rapping, "Real Wages, Employment and Inflation", *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 1b: Empirical studies of the price elasticity of demand for education

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

Table 2: Estimated Impact on Volumes of Option 2

Application type	**A**	**B**	**C**	**D**	**E**
Visas	Change in fee	Annual expected wage	Expected wage over leave entitlement	% change in expected wage (A/C)	% change in volumes (D*elasticity of labour supply)
Tier 1 (Post Study) Visa	£50	£17,715	£36,999	0.14%	-0.07%
Student/Tier 4 Visa	£54	£10,251	£31,000	0.18%	-0.18%

Table 3 - T1 (Post Study) Full results of Cost Benefit Analysis

	2010/11	2011/12	2012/13	2013/14	2014/15	Total	Average
Benefits							
Net Revenue raised from fee changes for those who continue to apply	£150,348	£150,348	£150,348	£150,348	£150,348	**£751,738**	£150,348
Total Benefits (PV)	£150,348	£145,266	£140,349	£135,599	£131,013	**£702,574**	£140,515
Costs							
Revenue from net decrease in the volume of applications as a result of fee changes	-£543	-£543	-£543	-£543	-£543	**-£2,713**	-£543
Output loss from net decrease in migrants coming/ remaining in the UK	-£75,768	-£75,768	-£75,768	-£75,768	-£75,768	**-£378,838**	-£75,768
Total costs (PV)	-£76,310	-£73,731	-£71,236	-£68,824	-£66,497	**-£356,598**	-£71,320
Net benefit (PV)	£74,037	£71,535	£69,114	£66,774	£64,516	**£345,976**	£69,195

Table 4 – T4 Full results of Cost Benefit Analysis

	2010/11	2011/12	2012/13	2013/14	2014/15	Total	Average
Benefits							
Net Revenue raised from fee changes for those who continue to apply	£18,873,284	£18,873,284	£18,873,284	£18,873,284	£18,873,284	**£94,366,418**	£18,873,284
Total Benefits (PV)	£18,873,284	£18,235,367	£17,618,210	£17,021,815	£16,446,179	**£88,194,854**	£17,638,971
Costs							
Revenue from net decrease in the volume of applications as a result of fee changes	-£88,848	-£88,848	-£88,848	-£88,848	-£88,848	**-£444,242**	-£88,848
Output loss from net decrease in migrants coming/ remaining in the UK	-£18,995,220	-£18,995,220	-£18,995,220	-£18,995,220	-£18,995,220	**-£94,976,102**	-£18,995,220
Total costs (PV)	-£19,084,069	-£18,439,027	-£17,814,978	-£17,211,922	-£16,629,857	**-£89,179,853**	-£17,835,971
Net benefit (PV)	-£210,785	-£203,661	-£196,768	-£190,107	-£183,678	**-£984,999**	-£197,000

Table 5 - T1 (Post Study) & T4 - Combined Full results of Cost Benefit Analysis

	2010/11	2011/12	2012/13	2013/14	2014/15	Total	Average
Benefits Net Revenue raised from fee changes for those who continue to apply	£19,023,631	£19,023,631	£19,023,631	£19,023,631	£19,023,631	**£95,118,156**	£19,023,631
Total Benefits (PV)	£19,023,631	£18,380,633	£17,758,560	£17,157,413	£16,577,192	**£88,897,429**	£17,779,486
Costs Revenue from net decrease in the volume of applications as a result of fee changes	-£89,391	-£89,391	-£89,391	-£89,391	-£89,391	**-£446,955**	-£89,391
Output loss from net decrease in migrants coming/ remaining in the UK	-£19,070,988	-£19,070,988	-£19,070,988	-£19,070,988	-£19,070,988	**-£95,354,940**	-£19,070,988
Total costs (PV)	-£19,160,379	-£18,512,758	-£17,886,214	-£17,280,746	-£16,696,354	**-£89,536,451**	-£17,907,290
Net benefit (PV)	-£136,748	-£132,126	-£127,654	-£123,333	-£119,162	**-£639,023**	-£127,805

Table 6 – Sensitivity Analysis Results

Option 2 - 2010/11 Fee Proposals Tier 1 (Post Study) & Tier 4 (Lower Bound Elasticity Estimates)

	2010/11	2011/12	2012/13	2013/14	2014/15	Total	Average
Benefits							
Net Revenue raised from fee changes for those who continue to apply	£18,990,412	£18,990,412	£18,990,412	£18,990,412	£18,990,412	**£94,952,059**	£18,990,412
Total Benefits (PV)	£18,990,412	£18,348,536	£17,727,549	£17,127,452	£16,548,245	**£88,742,195**	£17,748,439
Costs							
Revenue from net decrease in the volume of applications as a result of fee changes	-£178,934	-£178,934	-£178,934	-£178,934	-£178,934	**-£894,670**	-£178,934
Output loss from net decrease in migrants coming/ remaining in the UK	-£38,157,173	-£38,157,173	-£38,157,173	-£38,157,173	-£38,157,173	**-£190,785,865**	-£38,157,173
Total costs (PV)	-£38,336,107	-£37,040,346	-£35,786,756	-£34,575,335	-£33,406,083	**-£179,144,627**	-£35,828,925
Net benefit (PV)	**-£19,345,695**	**-£18,691,810**	**-£18,059,206**	**-£17,447,882**	**-£16,857,839**	**-£90,402,433**	**-£18,080,487**

Option 2 - 2010/11 Fee Proposals Tier 1 (Post Study) & Tier 4 (Upper Bound Elasticity Estimates)

	2010/11	2011/12	2012/13	2013/14	2014/15	Total	Average
Benefits							
Net Revenue raised from fee changes for those who continue to apply	£19,056,822	£19,056,822	£19,056,822	£19,056,822	£19,056,822	**£95,284,110**	£19,056,822
Total Benefits (PV)	£19,056,822	£18,412,701	£17,789,543	£17,187,348	£16,606,115	**£89,052,529**	£17,810,506
Costs							
Revenue from net decrease in the volume of applications as a result of fee changes	£0	£0	£0	£0	£0	**£0**	£0
Output loss from net decrease in migrants coming/ remaining in the UK	£0	£0	£0	£0	£0	**£0**	£0
Total costs (PV)	£0	£0	£0	£0	£0	**£0**	£0
Net benefit (PV)	£19,056,822	£18,412,701	£17,789,543	£17,187,348	£16,606,115	£89,052,529	£17,810,506

	Option 2	
	Lower	Upper
Total Net Benefit Range (Tier 1 (Post Study) & Tier 4)	**-£90,402,433**	**£89,052,529**