

## Summary: Intervention & Options

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

### Available to view or download at:

<http://www.bia.homeoffice.gov.uk>

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### 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 institutions 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:

.....Date:

## Summary: Analysis & Evidence

Policy Option: 2

Description: :Charge at differential rates by size of business

<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups' Decrease in volumes of migrants reduces output from prospective migrant workers and tuition fees/spending from overseas students
	<b>One-off</b> (Transition)	<b>Yrs</b>	
	<b>£ 0</b>	7	
	<b>Average Annual Cost</b> (excluding one-off)		
	<b>£ 5.1m</b>		<b>Total Cost (PV)</b> <b>£ 31.9m</b>
Other <b>key non-monetised costs</b> by 'main affected groups'			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups' No monetised benefits identified
	<b>One-off</b>	<b>Yrs</b>	
	<b>£ 0</b>	7	
	<b>Average Annual Benefit</b> (excluding one-off)		
	<b>£ 0</b>		<b>Total Benefit (PV)</b> <b>£ 0</b>
Other <b>key non-monetised benefits</b> 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	<b>Net Benefit Range (NPV)</b> <b>£ -63.5m to -19.1m</b>	<b>NET BENEFIT (NPV Best estimate)</b> <b>£ -31.9m</b>
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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

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)			(Increase - Decrease)	
Increase of	£ 0	Decrease of	£ 0	<b>Net Impact</b> <b>£ 0</b>

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

<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups' Decrease in volumes of migrants reduces output from prospective migrant workers and tuition fees/spending from overseas students
	<b>One-off</b> (Transition)	<b>Yrs</b>	
	<b>£ 0</b>	7	
	<b>Average Annual Cost</b> (excluding one-off)		
	<b>£ 5.5m</b>		<b>Total Cost (PV)</b> <b>£ 34.2m</b>
Other <b>key non-monetised costs</b> by 'main affected groups'			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups' No monetised benefits identified.
	<b>One-off</b>	<b>Yrs</b>	
	<b>£ 0</b>	7	
	<b>Average Annual Benefit</b> (excluding one-off)		
	<b>£ 0</b>		<b>Total Benefit (PV)</b> <b>£ 0</b>
Other <b>key non-monetised benefits</b> 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	<b>Net Benefit Range (NPV)</b> <b>£ -69.3m to -20.2m</b>	<b>NET BENEFIT (NPV Best estimate)</b> <b>£ -34.2m</b>
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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

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)			(Increase - Decrease)		
Increase of	£	Decrease of	£	<b>Net Impact</b>	£

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

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.

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.

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.

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

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.

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

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

A full description of the proposed policy of sponsorship under the points based system is contained in the statement of intent.<sup>1</sup> 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 as an employer or education institution. This sponsor will need to register as a sponsor which will then allow them to issue

<sup>1</sup> <http://www.bia.homeoffice.gov.uk/sitecontent/documents/managingourborders/pbsdocs/statementofintent/sponsorshippbs.pdf>

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 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](http://www.bia.homeoffice.gov.uk)

### 3. OPTIONS

For this assessment we consider 3 options:

#### ***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

#### ***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<sup>2</sup>.

##### ***Differential Charges***

<b><i>Tier</i></b>	<b><i>Licence Fee</i></b>	<b><i>Certificate Fee</i></b>
<b><i>Tier 2 – small business</i></b>	<b><i>£300</i></b>	<b><i>£170</i></b>
<b><i>Tier 2 – medium/large business</i></b>	<b><i>£1000</i></b>	<b><i>£170</i></b>
<b><i>Tier 4 &amp; 5</i></b>	<b><i>£400</i></b>	<b><i>£10</i></b>

#### ***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

<sup>2</sup> 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)).

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.

#### 4. COST AND BENEFITS

##### ***Option 2 over Option 1***

###### 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

##### ***Option 3 over Option 2***

###### Benefits

- Simpler to administer

###### Costs

- No protection for small businesses

#### 5. NET BENEFIT CALCULATION

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

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	2010/11	2011/12	2012/13	2013/14	2014/15
<b>Cost Benefit Impact Discounted at 3.5%</b>							
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
<b>Total</b>	<b>-£2,800</b>	<b>-£6,000</b>	<b>-£5,800</b>	<b>-£4,300</b>	<b>-£3,900</b>	<b>-£4,600</b>	<b>-£4,500</b>

### Sponsorship Revenue Impact (over option 1)<sup>3</sup>

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
<b>Total</b>	<b>£10,700</b>	<b>£14,500</b>	<b>£7,400</b>	<b>£7,400</b>	<b>£9,800</b>	<b>£12,000</b>	<b>£8,800</b>

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

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
<b>Cost Benefit Impact Discounted at 3.5% (000's)</b>							
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
<b>Total</b>	<b>-£3,000</b>	<b>-£6,500</b>	<b>-£6,300</b>	<b>-£4,600</b>	<b>-£4,100</b>	<b>-£4,900</b>	<b>-£4,800</b>

### 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
<b>Total</b>	<b>£10,600</b>	<b>£14,300</b>	<b>£7,300</b>	<b>£7,300</b>	<b>£9,700</b>	<b>£11,900</b>	<b>£8,700</b>

## 6. SENSITIVITY ANALYSIS

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%
<b>Total</b>	<b>-1.3%</b>	<b>-0.2%</b>	<b>-1.4%</b>	<b>-0.2%</b>

Average economic cost per year:	£10.1m	£11.0m
Average Revenue per year:	£4.1m	£4.0

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

<sup>3</sup> 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

***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

**7. COMPETITION ASSESSMENT**

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) <sup>4</sup>

INDUSTRY 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)

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.

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.

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.

<sup>4</sup> Includes only those work permit applications likely to qualify under the criteria for Tier 2 set out in the PBS command paper

## 8. SMALL BUSINESS ASSESSMENT

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<sup>5</sup>***

Size of Employer (No. of Employees <sup>6</sup> )	as %age of all Employers issuing work permits	Proportion issued with only 1 work permit in year
<b><i>Employers with less than 50 Employees</i></b>		
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%
<b><i>Employers with more than 50 Employees</i></b>		
51 to 100	7.3%	47%
101 to 150	3.7%	44%
151 to 200	2.1%	43%
201 to 250	0.8%	49%
<b><i>Other</i></b>		
Entered as 0	0.7%	38%
Blank Entry	51.8%	58%
<b>Total</b>	<b>100%</b>	<b>58%</b>

Source: Work Permits (UK)

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.

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%.

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.

<sup>5</sup> 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

<sup>6</sup> 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](http://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](http://www.bia.homeoffice.gov.uk/sitecontent/documents/aboutus/workingforus/Three-strand_Equality_Scheme.pdf)

<b>Type of testing undertaken</b>	<b><i>Results in Evidence Base?</i></b>	<b><i>Results annexed?</i></b>
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		Tier 4		Tier 5	
	Licence	Certificates	Licence	Certificates	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.