

## Summary: Intervention & Options

Department /Agency:  
**Border Agency**

Title:  
**Impact Assessment of Fees for Tier 2 of the Points Based System for Immigration**

Stage: Final

Version: 1.0

Date: 21/04/2008

Related Publications: **Skilled Workers Under the Points Based System (Tier 2) – Statement of Intent**

Available to view or download at: [www.ukba.homeoffice.gov.uk](http://www.ukba.homeoffice.gov.uk)

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

The Border Agency wishes to implement Tier 2 of the Points Based System for managed migration, based on that operated in Australia. The route will enable skilled workers from outside the EEA to fill shortage vacancies in the UK where it is sensible to do so. The Government must set fees at a level where the end to end costs of providing the service are recovered from those who use and benefit from it.

What are the policy objectives and the intended effects?

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

- to charge fees that recover the true end to end costs of the system from those who use it;
- that those who benefit most should pay proportionately more, helping to reduce the burden on the taxpayer;
- that fees should be clear and straightforward, and easily understandable to our customers.

Within this framework, we want to see fees set at a reasonable level that reflects the benefits and entitlements to customers, and that also contributes additional resource to improve the system.

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

Option 1: Do minimum, Retain current fee of £350 for leave to remain

Option 2: Set fee for leave to remain at £400

The preferred option is option 2 as this fully satisfies the objectives of charging policy

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 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:

.....Date:

## Summary: Analysis & Evidence

Policy Option: 2

Description: Increase leave to remain fee from £350 to £400

<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups' Loss of output from modest reduction in numbers of work permit holders remaining in the UK. This cost will mostly be borne by employers.
	<b>One-off</b> (Transition)	<b>Yrs</b>	
	<b>£ 0</b>		
	<b>Average Annual Cost</b> (excluding one-off)		
<b>£ 758 thousand</b>		<b>Total Cost (PV)</b>	<b>£ 6.3 million</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' Government stands to raise £1.8 million in revenue each year. This is a transfer and so doesn't contribute to NPV calculation.
	<b>One-off</b>	<b>Yrs</b>	
	<b>£ 0</b>		
	<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 those who benefit most from the migration systems pay more towards its costs			

Key Assumptions/Sensitivities/Risks Estimate is dependant upon wage elasticity of labour supply assumptions for migrant workers already working in the UK.

Price Base Year	Time Period Years	<b>Net Benefit Range (NPV)</b> <b>£ 0m to -13.9m</b>	<b>NET BENEFIT (NPV Best estimate)</b> <b>£ -6.3 million</b>
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What is the geographic coverage of the policy/option?	UK Wide			
On what date will the policy be implemented?	Autumn 2008			
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

<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

## Evidence Base (for summary sheets)

### 1. BACKGROUND TO TIER 2

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.

The new skilled migrant tier will enable UK employers to recruit individuals from outside the European Economic Area (EEA) to fill a particular job that cannot be filled by a British or EEA worker. By filling this job the migrant will contribute to the growth and productivity of the UK without displacing British workers.

The skilled migrant tier will embrace:

#### **Skilled workers**

For employers to recruit individuals from outside the European Economic Area (EEA) to fill a particular job that cannot be filled by a British or EEA worker.

#### **Intra company transfers**

For employees of multinational companies being transferred by their employer overseas to a skilled post in a UK based branch of the company.

#### **Ministers of Religion**

For those coming to fill vacancies as religious workers with recognised religions.

#### **Sportspeople**

For elite sportspeople and coaches who are internationally established at the highest level, whose employment will make a significant contribution to the development of their sport at the highest level in the UK, and who intend to base themselves in the UK.

There will be three ways of applying under this tier of the points system:

- Entering the UK under the skilled migrant tier;
- Extending a stay in the UK in the skilled migrant tier;
- Switching while in the UK into the skilled migrant tier.

There will be a single application process, whether in or outside the UK. All skilled migrants will require a certificate of sponsorship in order to obtain leave. Any skilled migrant wishing to enter the UK under PBS will require prior entry clearance.

This Impact Assessment examines the costs and benefits of the different charging options for the Tier 2 migrant tier which is to be implemented from the first quarter of 2008. A separate Impact Assessment considering the wider impacts of the policy for Tier 2 will be published on [www.ukba.gov.uk](http://www.ukba.gov.uk) alongside the Statement of Intent, prior to implementation.

For further information on the skilled migrant tier, please refer to '*Skilled workers under the Points Based System – (Tier 2): Statement of Intent*' to be published in due course.

### 2. BACKGROUND TO CHARGING

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 (<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.

As the UK Border Agency implements 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**

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.

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 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>

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. The increased fee for Leave to Remain applications under Tier 2 will contribute to this overall total.
- To develop a fees model that is clear, straightforward and easily understood to our customers

### **4. OPTIONS**

#### **Option 1: Do nothing**

Maintain the existing fees charged for the routes on which Tier 2 is based. Currently fees for equivalent Tier 2 routes are £205 for initial applications and £350 for further leave to remain. This option will see those fees continue with implementation of Tier 2.

#### **Option 2: Increase fee for leave to remain to £400**

This represents a £50 increase on the current fee for extending a work permit in the UK

## 5. COSTS AND BENEFITS

### Benefits

- Additional revenue to cover the administrative costs of providing the visitor visa service and contribute towards the costs for the effective delivery of enforcement activity to tackle illegal working and unscrupulous employers
- Rebalancing of funding of the immigration service to ensure that those who benefit most from the service make a larger contribution to the costs of administrating and enforcing it.

### Costs

- Reduction in fee revenue from resulting fall in volumes of migrants applying for leave to remain
- Negative impact on economic output from reduced stock of skilled migrant workers

## 6. NET BENEFIT CALCULATION

At the leave to remain stage, we expect skilled migrant workers to not be very sensitive to changes in the price of extending their leave to remain in the UK. For consistency with other fees impact assessments, we assume a wage elasticity of labour supply of -0.5 applied to the total salary during the future stay in the UK assumed to be 5 years on average. Based on historical data, we assume that in the absence of any price rises, around 35,100 migrants apply for extension each year. Note that this estimate is based on historical information on the volumes of migrants through current migration channels whose route into the UK is likely to be covered by Tier 2 of the PBS after its implementation. It is not a forecast and so does not account for future trends. Productivity is proxied by salary assumed to be £38,000 per migrant<sup>1</sup>.

Using these assumptions, the average cost to the UK in lost productivity is around £758,000<sup>2</sup> a year over 10 years. This equates to an NPV of -£6.3 million over 10 years. Using a range of wage elasticities from 0 to -1.1 (a summary of wage elasticity research is contained in the annex to this assessment) gives an NPV range of £0 to -£13.9 million

Under these assumptions, the Government stands to raise £1.8 million each year to contribute towards charging policy objectives. This is a transfer and so does not contribute to the NPV calculation.

## 7. COMPETITION ASSESSMENT

The proposals to charge fees under Tier 2 could have an effect on any company that is employing (or will employ) non-EU workers. These companies could face extra costs if a migrant worker chooses not to continue to work in the UK as a result of fee increases. As previously stated, we expect only a very minimal effect of this fee increase on the decision to remain in the UK by migrant workers.

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

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<sup>1</sup> Note that these estimates of historical data are based on management information which is not subject to ONS protocols and so should be regarded as provisional and subject to change.

<sup>2</sup> To perform this calculation: The £50 increase in price reduces the expected salary (£38,000 \* 5 years) of the migrant by 0.03%. The price elasticity of -0.5 is multiplied by this figure to produce the expected volume reduction of -0.014%. This level of volume reduction (-0.014% \* 31,500) is multiplied by productivity (in this case proxied by the £38,000 salary) to get the output loss per year. This loss accumulates over 5 years, the assumed average length of stay of the migrant worker.

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.

## **8. SMALL FIRMS IMPACT TEST**

The fee for applications for Leave to Remain in the United Kingdom is charged to migrants rather than employers, therefore there is no direct impact of this policy change on small and medium sized companies.

There may be an indirect risk that any reduction in migrant inflows as a result of this policy may adversely impact small firms. Our previous analysis<sup>3</sup> of the numbers of work permits issued to different sized companies showed that on average activity, we estimate that larger companies tend to employ more migrant workers than smaller employers. Furthermore, we estimate that around 70% of employers who were issued with work permits in the period Oct 2006 to Sept 2007, were small employers (employing less than 50 people). For those issuing extensions, we estimate this figure to drop to around 60%<sup>4</sup>. For comparison, the proportion of all employers in the UK who are small employers is 97%<sup>5</sup>. Hence any possible reduction in migrant inflows as a result of this policy would tend to impact more on larger employers, and less on smaller employers.

## **9. OTHER SPECIFIC IMPACT TESTS**

Having carefully considered the remaining specific impact tests, we conclude that this fee increase will have no significant effect in those areas.

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<sup>3</sup>

<http://www.ukba.homeoffice.gov.uk/sitecontent/documents/managingourborders/pbsdocs/impactassessments/sponsors/hipchargingia.pdf?view=Binary>

<sup>4</sup> Note that employer size data is not collected uniformly in our management information. This estimate is our best guess based on the information available and so should be treated with caution

<sup>5</sup> Source: BERR Enterprise Directorate Analytical Unit

## 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	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
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

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

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