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|---|---|
| <b>Title:</b><br><b>Impact Assessment of Fee Changes for Tier 4 visas, Tier 1 post study visa, In UK Dependant Application, Nationality, Transfer of Condition, and Sponsor Action Plan.</b><br><br><b>Lead department or agency:</b><br>UK Border Agency<br><br><b>Other departments or agencies:</b><br>N/A | <b>Impact Assessment (IA)</b>                 |
|   | <b>IA No:</b> HO0010                          |
|   | <b>Date:</b> 07/09/2010                       |
|   | <b>Stage:</b> Final                           |
|   | <b>Source of intervention:</b> Domestic       |
|   | <b>Type of measure:</b> Secondary legislation |

## Summary: Intervention and Options

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

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

**What are the policy objectives and the intended effects?**

The Government's charging policy objectives are:

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

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

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

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

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

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

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

**Ministerial Sign-off** For final proposal stage Impact Assessments:

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

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

## Summary: Analysis and Evidence

## Policy Option 2

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

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

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

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

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

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

Risks to UK economy of significant impact on volumes

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

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

Higher visa fees will increase fee income to the UK for those out of country applicants who still apply to come to the UK.

Fees from applicants inside the UK are transfers from applicants to UKBA and are discussed in the Evidence Base below.

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

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

| Key assumptions/sensitivities/risks  | Discount rate (%) |
|--|-------------------|
| <p>Wage elasticity of labour supply of 0.5 used for PBS Tier 5 dependants, Nationality Reissues, and Transfer of Conditions. Price elasticity of demand for higher education of -1 used for Tier 4 visas and Tier 4 dependants. Wage elasticity of labour demand of -0.75 used to estimate the impact on volumes of the proposed fee change for the Sponsor Action Plan.</p> <p>Ranges are applied to elasticities to obtain a range around the NPV. The low estimates for costs are associated with the high estimates for benefits, and vice versa: lower elasticities imply smaller reductions in volumes, generating lower costs in terms of lost revenue and output and higher revenue benefits from those who continue to apply.</p> | 3.5               |

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

## Enforcement, Implementation and Wider Impacts

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

## Specific Impact Tests: Checklist

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

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

# Evidence Base (for summary sheets) – Notes

## References

| No. | Legislation or publication  |
|-----|---|
| 1   | <a href="http://webarchive.nationalarchives.gov.uk/20100422120657/http://www.ukba.homeoffice.gov.uk/sitecontent/documents/managingourborders/pbsdocs/">http://webarchive.nationalarchives.gov.uk/20100422120657/http://www.ukba.homeoffice.gov.uk/sitecontent/documents/managingourborders/pbsdocs/</a>             |
| 2   | <a href="http://webarchive.nationalarchives.gov.uk/20100422120657/http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/consultations/charging09/">http://webarchive.nationalarchives.gov.uk/20100422120657/http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/consultations/charging09/</a> |
| 3   | <a href="http://www.opsi.gov.uk/stat">http://www.opsi.gov.uk/stat</a>   |
| 4   |   |

+ Add another row

## Evidence Base

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

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

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

# Evidence Base (for summary sheets)

## 1. PROBLEM UNDER CONSIDERATION

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

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

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

## 2. RATIONALE FOR GOVERNMENT INTERVENTION

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

## 3. POLICY OBJECTIVES

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

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

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

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

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

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

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

#### **Tier 4 Visas and In-Country Applications**

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

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

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

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

#### **Tier 1 Post Study**

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

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

#### **In UK Dependant Fee**

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

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

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

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

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

### **Transfer of Condition & Vignette Transfer Fee**

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

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

### **Reissued Certificates of Nationality**

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

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

### **Nationality – Right of Abode & Overseas Certificate of Entitlement**

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

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

### **Sponsor Action Plan**

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

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

## **4. OPTIONS**

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

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

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

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

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

## 5. COSTS AND BENEFITS

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

### 5.1 Impact on Volumes

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

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

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

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

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

### 5.2 Net Benefits

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

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



## Transfer Payments

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

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

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

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

### Key Costs and Benefits of Fee Increases

#### Key Monetised Costs

*To economy*

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

#### Key Non- Monetised Costs

- Risks to UK economy of significant impact on volumes

#### Key Monetised Benefits

*To economy*

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

#### Key Non- Monetised Benefits

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

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

**Full results of Cost Benefit Analysis**

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

Numbers may not sum due to rounding.

## 6. SENSITIVITY ANALYSIS

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

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

## 7. MONITORING and EVALUATION

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

## 8. FEEDBACK

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

## Annex 1: Post Implementation Review (PIR) Plan

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

## Annex 2: Elasticities of Demand and Supply

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

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

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

**Table 1b: Empirical studies of the price elasticity of demand for education**

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

**Table 1c: Empirical studies of the wage elasticity of labour demand**

| Source  | Estimate of wage elasticity of demand | Measure   |
|---|---------------------------------------|---|
| The relationship between employment and wages.<br>HMT, January 1985   | Between -0.1 and -0.5                 | Econometric studies reviewed: elasticity of labour demand to changes in the real wage             |
| David Metcalf (2004), "The impact of the National Minimum Wage on the Pay Distribution, Employment and Training," <i>The Economic Journal</i> , 114, March, C84-86. | -0.3                                  | Elasticity of demand for labour in the first 5 years following introduction of the NMW in the UK. |

Taeil Kim and Lowell Taylor (1995), "The employment effect in retail trade of California's 1988 minimum wage increase." Between -0.7 and -0.9

Elasticity of demand for labour in California's retail trade.

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