

Executive Summary

This Impact Assessment considers the costs and benefits of implementing sponsorship arrangements for the Points Based System. Sponsorship is based on the principle that those who benefit most directly from migration (that is, the employers, educational institutions or other bodies who are bringing in migrants) should play their part in ensuring that the immigration system is not abused. Sponsors will need to be licensed by the Border and Immigration Agency and meet requirements and carry out certain duties.

The preferred option is to adopt sponsorship for all Tiers except Tier 1, where migrants do not need a prior job offer. Tier 3 for low-skilled workers is currently suspended. The total net economic benefit of sponsorship is estimated to be in the region of £10m derived from administrative savings and a faster filling of job vacancies.

There are also substantial non-quantifiable benefits for sponsors, migrants and the BIA. The sponsorship arrangements will make it much more difficult for rogue employers and 'bogus colleges' to operate. Genuine employers and educational establishments will benefit from fair competition, not being undercut by non bona-fide colleges or employers taking on and often exploiting illegal migrants. They will have more confidence in being able to bring in the migrants they want relatively quickly and easily – provided they carry out some basic checks including that those migrants meet the rules. Educational establishments will have more assurance that students will enrol at their institution.

We will publish an up to date list of approved sponsors, including their sponsor rating, so that migrants will be able to see at a glance who are the trusted sponsors and will have more confidence that they are coming to work or study in the UK for a genuine employer or educational establishment. No sponsor will get a licence without being checked by BIA, which will target its compliance resource at sponsors who appear to present the greatest control risk. If abuse is uncovered BIA will take swift and proportionate action against the sponsors concerned who may be prevented from bringing in any more migrants.

The UK economy as a whole will benefit from a Points Based System which enables us to identify and bring in the migrants the UK needs, underpinned by the strong control element provided by sponsorship. The Border and Immigration Agency will be informed by the independent expertise provided by the Migration Advisory Committee, which will provide advice on where migration can sensibly fill gaps in the economy, and the Migration Impacts Forum, which will provide information on the impacts of migration on local areas and services. Sponsorship is fundamental to such as a system.

Summary: Intervention & Options

Department /Agency:
**Border and immigration
Agency**

Title:
**Impact Assessment of Sponsorship for the Points Based
System**

Stage: Final

Version: 1.8

Date: 18th February 2008

Related Publications: Sponsorship under the Points Based System: Statement of Intent; Sponsorship Rules

Available to view or download at:

<http://www.bia.homeoffice.gov.uk/sitecontent/documents/managingourborders/pbsdocs/>

Contact for enquiries: Managed Migration Policy, 11th Floor, Apollo house, Wellesley Road, Croydon CR9 3RR

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

Government intervention is necessary to control immigration so as to profit the UK and ensure that:

- We only allow in genuine migrants that the UK needs
- Only genuine employers and educational establishments can operate to bring in migrants to work or study.

What are the policy objectives and the intended effects?

Sponsorship is based on two fundamental principles:

- Those who benefit most directly from migration (that is, the employers, educational institutions or other bodies who sponsor migrants) should play their part in ensuring that the immigration system is not abused; and
- BIA needs to be sure that those applying to come to the UK to do a job, or to study, are eligible to do so and that a reputable employer or educational establishment genuinely wishes to take them on, and that for workers appropriate resident labour market tests have been conducted.

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

Option 1: Do nothing – Introduce the Points-Based System without sponsorship

Option 2: Adopt sponsorship for Tier 2 (skilled workers with a job offer), 4 (students) and 5 (youth mobility and temporary workers)

Option 2 is the preferred option because it generates the greatest net benefit. It fully addresses the policy objectives and maximises the benefits from a Points Based System which enables us to identify and bring the migrants the UK needs, underpinned by the strong control element provided by sponsorship.

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

The PBS is to be continuously monitored as part of the review of progress towards meeting our PSA target to boost Britain's economy through migration to reduce the vacancy rate in shortage occupations as defined by the Migration Advisory Committee. The Migration Impacts Forum will advise on the wider impacts.

Ministerial Sign-off For final proposal/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:



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Date:

Summary: Analysis & Evidence

Policy Option: 2

Description: **Adopting sponsorship for Tier 2, 4 and 5 (skilled workers with a job offer, students and youth mobility and temporary workers)**

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' BIA costs. Operational resources: £35m (PV). Set-up costs: £28m (PV) Increase in administrative burden to employers: £14m (PV) Increase in administrative burden to educational establishments from sponsorship duties: £25m (PV)
	One-off (Transition)	Yrs	
	£ 29m	5	
	Average Annual Cost (excluding one-off)		
	£ 16m	Total Cost (PV)	£ 101m
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' Vacancies in the labour market being filled more quickly: £82m (PV) Reduction in administrative burden for employers who previously used the work permit system: £29m (PV)
	One-off	Yrs	
	£ 0	5	
	Average Annual Benefit (excluding one-off)		
	£ 21m	Total Benefit (PV)	£ 111m
Other key non-monetised benefits by 'main affected groups' Genuine sponsors will benefit from fair competition. Migrants will have more confidence that they are coming to work or study for a genuine employer or educational establishment.			

Key Assumptions/Sensitivities/Risks The net present value calculation is dependent on our assumption about the time saved in the end-to-end process. In the central case an assumption of a saving of time at the point when certificates are issued, partly offset by additional time expended in checks at the leave to enter stage, gives an overall average saving of one day which leaves the overall NPV near to break-even. It also depends on the proportion of employers that currently maintain employee records and report migrant behaviour to the BIA; how many fewer educational establishments will apply to be on the sponsorship register either because they will fear they would not be accredited or for some other reason – and the resulting reduction in student numbers; and the proportion of sponsors we rate as B.

Price Base Year 2007/8	Time Period Years 5	Net Benefit Range (NPV) £ -66m to 53m	NET BENEFIT (NPV Best estimate) £ 10m
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What is the geographic coverage of the policy/option?	UK			
On what date will the policy be implemented?	From February 2008			
Which organisation(s) will enforce the policy?	BIA			
What is the total annual cost of enforcement for these organisations?	£ 0 additional cost			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	£ N/A			
What is the value of changes in greenhouse gas emissions?	£ N/A			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro minus £248	Small minus £284	Medium minus £369	Large minus £387
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices) NB relates to firms only			Decrease
Increase of	£ 12.5m	Decrease of	£ 26.6m
		Net Impact	£14.1m (minus)
Key:	Annual costs and benefits: Constant Prices		(Net) Present Value

Evidence Base (for summary sheets)

BACKGROUND

Sponsorship and the Points Based System

1. In 2006, following an extensive public consultation, we published proposals to modernise and strengthen our immigration system by bringing in an Australian-style points system. Anyone wanting to come to the UK under the Points-Based System (PBS) will need to show that he or she has enough points to qualify. However, before he or she is even eligible to apply, the migrant will require a **sponsor** (this relates to migrants applying under a sponsorship tier only).
2. The sponsor will normally be a business or educational establishment in the UK that wishes to employ the migrant, or has accepted him or her onto a course of study. In order to become a sponsor, the organisation will need to be licensed by the Border and Immigration Agency (BIA). The licensing of sponsors is one of the key changes that will make PBS robust.
3. Sponsorship in the PBS is based on two fundamental principles:
 - a. Those who benefit most directly from migration (that is, the employers, educational institutions or other bodies who are bringing in migrants) should play their part in ensuring that the immigration system is not abused, e.g. by alerting us if their migrants do not turn up for their job or course; and
 - b. BIA needs to be sure that those applying to come to the UK to do a job, or to study, are eligible to do so and that a reputable employer or educational establishment genuinely wishes to take them on.
4. In accordance with the above principles, sponsors will have to meet certain requirements and carry out certain duties to help the government manage the system.
5. Sponsorship is part of a package of reforms to the immigration system. In parallel to the new system of sponsorship, we are introducing a regime of offences relating to the employment of illegal migrant workers. These measures for the first time introduce a two-pronged approach to tackling illegal working. For further information on tackling illegal working, please refer to <http://www.bia.homeoffice.gov.uk/employers/preventingillegalworking>. In the future all migrants allowed to come here will need to obtain a biometric identity card, so we know exactly who they are and what they are entitled to do.
6. For further information on sponsorship, please refer to the sponsorship rules published on 22nd February 2008 and Sponsorship under the Points Based System: Statement of Intent (<http://www.bia.homeoffice.gov.uk/sitecontent/documents/managingourborders/pbsdocs/>).

Policy proposal: Sponsorship

7. The introduction of sponsorship is one of the key changes that will make the PBS robust and ensure compliance. Employers will be required to apply for a **sponsorship licence** and if approved by the BIA, they will then be able to issue **certificates of sponsorship** to migrants who pass the appropriate points test.
8. Similarly, educational establishments will be required to apply for a sponsorship licence providing evidence that they have been inspected or accredited by one of the BIA's approved accreditation bodies to demonstrate that they are bona fide. Accreditation is key to sponsorship for educational institutions and will create significant benefits for the sponsor, students and the BIA. In particular, sponsorship will ensure that non bona-fide establishments do not get a licence and will not be able to bring in migrants.
9. Sponsorship will allow better and more informed use of BIA resources. BIA compliance activity will be targeted at institutions which are, or appear they might be, not genuine. We may refuse to issue a licence if there is anything in the sponsor body's history, or that of the people managing or

controlling it, which suggests that it could be a threat to immigration control or that it would be unable or unwilling to carry out its obligations. Where a sponsor does not comply with its duties, has been dishonest in its dealings with us or otherwise poses a threat to immigration control, we may withdraw its licence. Without a licence they will not be able to bring migrants to the UK.

SPONSORSHIP OPTIONS

10. This impact assessment considers two options for the implementation of sponsorship. Option 1 is to introduce the Points-Based System without sponsorship. This is used as the baseline for comparison and has no costs or benefits. Option 2 considers adopting sponsorship for Tiers 2 (skilled workers with a job offer), 4 (students) and 5 (youth mobility and temporary workers). The possibility of extending sponsorship to Tier 1 (highly skilled migrants) was considered but was dismissed on the grounds that it would make the UK less attractive for highly skilled migrants. Such migrants would no longer be able to come to the UK to look for work. They would need to have a prior job offer which would have a negative impact on the UK's ability to attract the 'brightest and best'. A key objective of Tier 1 is to provide labour market flexibility for highly skilled workers. Extending sponsorship to Tier 1 would limit that flexibility.
11. A model has been developed to examine the **additional** monetised costs and benefits of option 2 over option 1. The results are presented below and in tables 2 and 3. All costs and benefits are presented in discounted terms for a five-year period from 2007/08 to 2011/12. Further details on the assumptions used and analysis carried out to generate the costs and benefits are available in Annex A.
12. This assessment covers sponsorship arrangements only and not the associated fee changes. As such it is assumed throughout that fees are held constant. The impact of fee changes is assessed in separate impact assessments on charging.¹
13. **The estimated numbers of sponsors and certificates of sponsorship used in the baseline are based on historical numbers.** The benefits of option 2 over option 1 have been calculated based on these figures. It is difficult to estimate the potential impact on numbers of sponsors and certificates of sponsorship as a result of sponsorship policy and so the assessment of costs and benefits to employers is conducted in a framework in which numbers of approvals are held constant. A small reduction in student numbers is assumed as a number of educational establishments will not get onto the register either because they will not get accreditation or choose not to register. These educational establishments are most likely to be in the current unaccredited private sector. This reduction is expected to be temporary. Accreditation will improve the reputation of the education sector and quality of education offered to international students. So over time there is the potential for more international students to choose the UK as the destination of choice thus increasing student numbers.
14. The two options and the key monetised and non-monetised costs and benefits are outlined below:

Option 1 (Do Nothing): Introduce the Points-Based System without sponsorship
<p>Description</p> <ul style="list-style-type: none"> ▪ Introduce the five-tier structure but without sponsorship. Essentially, maintaining the two-stage process whereby the employer applies for a work permit and then the migrant applies for a visa or leave to remain will continue and not requiring them to apply for licenses or take on any extra obligations. ▪ Employers will continue to incur high administrative burdens in taking on migrants to work in the UK, through the two-stage process in which they need to apply for a work permit in the UK and then the migrant applies for entry clearance abroad. Delays in filling vacancies will remain. ▪ Educational establishments will continue to experience uncertainty around student enrolment as student visas are not tied to a particular institution making planning difficult. ▪ There will be continued scope for subjective decision-making by BIA and UKVisas at work permit, entry clearance and leave to remain stages. ▪ Risks of non-compliance with immigration rules remain significant as employers are not obliged to maintain records or report non-compliance and 'bogus colleges' continue to

¹ [http://www.bia.homeoffice.gov.uk/sitecontent/documents/managingourborders/pbsdocs/](http://www.bia.homeoffice.gov.uk/sitecontent/documents/managingourborders/pbsddocs/)

operate.

- It will be difficult to target compliance activities effectively thus increasing scope for abuse and not making best use of resources.

Option 2: Adopt sponsorship for Tiers 2, 4 and 5 (skilled workers with a job offer, students and youth mobility and temporary workers).

Description

- Adopt sponsorship as described in the statement of intent.
- Employers and educational establishments will be required to apply for a sponsorship licence, to be renewed every four years. If their licence application is approved by the BIA, they will then be able to allocate certificates of sponsorship to migrants coming to the UK to work for or to study with it. Certificates of sponsorship will be tied to specific employers and educational institutions.

Key monetised benefits

- Vacancies in the labour market can be filled leading to higher output. This is the largest monetised benefit.
- Applications for certificates of sponsorship will be less time-consuming and less administratively onerous for employers removing the requirement to resubmit their own company details each time resulting in a reduction in administration burden for employers who currently use the work permit system.
- Clearer guidance and sponsorship requirements are expected to result in a drop in inappropriate applications for employers leading to an administrative saving. This will also result in a saving from lost application fees to employers (note that this is a transfer from employers to BIA and is not a loss to the economy).

Key non-monetised benefits

For sponsored employers

- The sponsorship arrangements will make it much more difficult for rogue employers to operate so genuine employers will benefit from fair competition, not being undercut by employers taking on and often exploiting illegal migrants.

For sponsored educational establishments

- Accreditation will improve the reputation of the education sector and quality of education offered to international students. Potentially over time, more international students will choose the UK as the destination of choice thus raising the income of bona-fide establishments.
- Bogus colleges will no longer be able to undercut bona-fide establishments, again raising the income of genuine educational establishments.
- There will be more assurance that students will turn up as they will be tied to a particular institution. This will enable the educational establishment to plan its resources more efficiently ensuring that all its places are filled.
- Significant improvements are expected in compliance.

For migrants

- There will be more confidence that they are coming to work or study in the UK for a genuine employer or educational establishment.

Other

- Better reputation of the immigration system.
- Compliance with sponsorship duties including maintaining records and reporting non-compliance will assist BIA in enforcing immigration rules.
- Bogus students will be less likely to be offered a place so there will be an improvement in immigration control.
- Ensuring only genuine employers can bring in migrants provides BIA much better assurance that migrants meet the rules, and enables BIA to target resources better by focussing on sponsors or prospective sponsors who appear to pose a risk to the immigration control thus minimising opportunities for employers to take on and often exploit illegal migrants.

Key monetised costs

For sponsored employers

- Employers will be required to apply for a sponsorship licence, to be renewed every *four* years, as opposed to resubmitting employer details every *five* years under the work permit system thus bringing forward existing costs.
- Sponsors will be required to fulfil certain duties including record-keeping and reporting non-compliance which will result in an increase in administrative burden for those employers not currently carrying out these duties voluntarily. B-rated sponsors will have to carry out additional duties increasing administrative costs.

For sponsored educational establishments

- Educational establishments will have an increase in administrative burden. They will be required to:
 - Apply for a sponsorship licence, to be renewed every four years.
 - Apply for certificates of sponsorship which they will allocate to each international student in order for them to apply to BIA for entry clearance.
 - Comply with other sponsorship duties including maintaining records, and reporting non-attendance and non-compliance of students.

There are also additional responsibilities for B-rated sponsors.

Other

- Initial set up and sponsorship licensing and compliance costs. Additional ongoing operational resources for compliance functions to bring about increased control. This does not include enforcement costs. We will be using the current level of enforcement resources to deal with all BIA enforcement business, including sponsorship, implying zero additional enforcement costs for Option 2.
- Loss in fee revenue from failed applications to BIA (as outlined above, this is simply a transfer from employers to BIA and not a cost to the economy). Although there is a loss in revenue to BIA, dealing with unsuccessful applications is an inefficient use of resource so this will enable BIA to re-deploy staff to more efficient use.
- Loss in fee revenue from failed entry clearance applications. As migrants are applying from abroad, this is a loss to the UK economy (and not a transfer). Note that failed leave to remain applications are simply a transfer from migrant to BIA and not a cost to the economy as they occur within the UK.

15. The table below summarises the additional monetised cost and benefits of option 2 relative to option 1 and presents the estimated net benefits **to the economy** for 2007/8 to 2011/12.

Table 1: Cost and benefits to the economy of sponsorship (2007/8 to 2011/12)

£, Thousands

	Option 2
BENEFITS	
Higher output from vacancies in the labour market being filled more quickly	82,390
Reduction in administrative burden for employers from replacement of work permits with certificates	28,844
Total benefit	111,234
COSTS	
Administrative burden: applying for sponsorship licence	292
Administrative burden: applying for certificates ²	7,355
Administrative burden: maintaining records, and reporting changes and non-compliance	18,944
Administrative burden: B-rated sponsor costs	12,159
Set-up resources, and sponsorship licensing and compliance costs	27,736
Operational resources	34,783
Total cost	101,269
Net benefit	9,965

² For educational establishments and Tier 5 permit-free employers

16. The net benefit to the economy of option 2 is estimated at **£10 million** over five years. This is due to the output gain from vacancies in the labour market being filled and the reduction in administrative burden for employers who currently use the work permit system. Given the significant net benefit, **option 2 is the preferred option**. In addition to the quantifiable benefits, there are also substantial non-quantifiable benefits to implementing sponsorship as outlined above.
17. The table below presents the costs and benefits to sponsors. For employers and educational establishments, there is an estimated net benefit in the region of £85.2m over five years. Employers who currently use the work permit system are expected to see the greatest quantifiable benefits from reductions in administrative burdens and higher output from vacancies in the labour market being filled more quickly. Educational establishments are expected to see an increase in administrative burden but the non-quantifiable and longer term benefits for these sponsors are significant. In particular, accreditation will improve the reputation of the education sector and quality of education offered to international students. Potentially over time, more international students will choose the UK as the destination of choice thus raising the income of bona-fide establishments.

Table 2: Cost and benefits of sponsorship to sponsors (2007/8 to 2011/12)

£, Thousands

	<i>Option 2</i>
BENEFITS	
Higher output from vacancies in the labour market being filled more quickly	82,390
Reduction in administrative burden for employers from replacement of work permits with certificates	28,844
Fee saving to firms from moving to one-stage process ³	12,686
Total benefit	123,920
COSTS	
Administrative burden: applying for sponsorship licence	292
Administrative burden: applying for certificates ⁴	7,355
Administrative burden: maintaining records, and reporting changes and non-compliance	18,944
Administrative burden: B-rated sponsor costs	12,159
Total cost	38,751
Net benefit	85,170

Sensitivity analysis

18. The cost-benefit analysis is based on a number of assumptions (see Annex A for the full list of assumptions). The key assumptions that may significantly affect the results are outlined below:
- Higher output from vacancies in the labour market being filled more quickly (central estimate: the end-to-end application process will be faster by 1.0 days).
 - Reduction in the number of educational establishments applying for a sponsorship licence either because they will not get accreditation or they choose not to apply. For the purposes of this Impact Assessment, it is assumed that this will impact 10% of the current 2,000 unaccredited private colleges. It is further assumed that 50% of students at these colleges find an alternative sponsor.
 - Proportion of sponsors who currently maintain records, and report changes and non-compliance voluntarily (central estimate: 50% for Tier 2 and 5 sponsors, 75% for Tier 4 sponsors).
 - Proportion of sponsors who are B-rated (central estimate: 10%).

Changes to these assumptions will lead to either an increase or decrease in the net benefit. Table 3 shows the results of altering the assumptions.

³ Currently around 16% of work permit applications are refused resulting in a loss in fees paid by employers. Under sponsorship, due to the one-stage process, employers will issue certificates instead.

⁴ For educational establishments and current permit-free employers who will fall under Tier 5.

19. In the best case scenario, the net benefit increases to £53m whereas in the worst case scenario, there is a net cost of £66m.

Table 3: Option 2 sensitivity analysis

Assumption	Worst-case scenario	Central assumption	Best-case scenario
End-to-end time saving in application process	1.0	1.0	2.0
Percentage of unaccredited colleges that will not apply for a sponsor licence	20%	10%	5%
Proportion of sponsors who already maintain records and report changes/non-compliance voluntarily	25% for all Tiers	75% for Tier 4, 50% for Tiers 2 and 5	75% for all Tiers
Proportion of B-rated sponsors	30%	10%	10%
Cost of action plan	Three times cost of maintaining A-rated records	Twice cost of maintaining A-rated records	Same as cost of maintaining A-rated records
NPV	-£66m	£10m	£53m

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	No	Yes
Small Firms Impact Test	No	Yes
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	Yes
Disability Equality	No	Yes
Gender Equality	No	Yes
Human Rights	No	No
Rural Proofing	No	No

Annexes

ANNEX A – KEY ASSUMPTIONS

This section outlines the assumptions used in the cost-benefits model.

General notes

1. Costs and benefits over a five-year period (2007-8 to 2011-12) are considered.
2. **The estimated numbers of sponsors and certificates of sponsorship used in the baseline are based on historical numbers.**

Baseline Volume Assumptions

Year	Tier 2		Tier 4		Tier 5	
	Licence Applications	Certificates	Licence Applications	Certificates	Licence Applications	Certificates
2008/09	14,700	60,000	2,100	75,000	1,900	6,000
2009/10	20,000	120,000	1,300	450,000	2,000	13,000
2010/11	7,200	120,000	700	450,000	900	13,000
2011/12	7,200	120,000	700	450,000	900	13,000

All volume assumptions here are based on historical data from BIA management information 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. The Tier 2 baseline differs from the PBS Charging Impact Assessment; this policy IA assumes a baseline of PBS with a two-stage application process, whereas the charging IA assumes a baseline of PBS with a one-stage application process. Tier 5 figures are estimates for Temporary Workers only and are a combination of those who previously qualified under the work permit system, and some permit-free routes. Tier 5 figures are a minimum estimate due to data limitations associated with Tier 5. We assume that Tier 4 is launched in Quarter 1, 2009.

3. For Tier 5, only temporary workers are relevant to the quantified aspect of the IA. Youth mobility migrants are sponsored by foreign governments. The UK does not bear the costs of applications (other than set up costs for IT infrastructure and monitoring and enforcement). Sponsorship arrangements for youth mobility do not bring any quantifiable benefits.
4. The median gross hourly pay of administrative and secretarial occupations (ASHE 2007: £8.92 per hour) is used as the hourly wage costs for sponsors to register and apply for certificates. 30% is added on top of the hourly wage for on-costs (e.g. pensions, NI) in line with the Admin Burden Calculator. This gives an hourly wage cost of £11.60.
5. All prices are in 2007 prices. Resource costs in the Admin Burden Calculator (2005) are updated using the Average Earnings Index (the average growth rate from 2000 to 2006).
6. Note that the assumptions used are based on our current knowledge and best assessment at the time of publication. As the sponsorship arrangements are new, it has not been possible to base all assumptions on evidence as no evidence is available. Key assumptions are tested in the sensitivity analysis.

Table A1: Key assumptions for additional costs and benefits of options 2 relative to the do nothing option

DESCRIPTION OF COST	Tier 2	Tier 5	Tier 4
Administrative burden (for sponsor) – applying for sponsorship licence	Work permit employers currently need to register with BIA every five years, providing evidence that they are a genuine business. Under PBS this cost will be incurred every four years, to renew sponsorship licences. So there is an increase in costs as a result of registration/application moving from every 5 to every 4 years (bringing forward costs). Estimated cost based on Administrative Burden Calculator.	Increase in cost due to (i) more frequent re-registration for those who currently have to register to apply for work permits (ii) new cost for those who currently do not have to apply for work permits (permit-free routes). Estimated cost based on Administrative Burden Calculator.	Increase in costs due to having to apply and renew sponsorship licence every four years. Currently educational establishments do not have to register with BIA to bring in students. Estimated cost assumed to be the same as that for an employer.
Administrative burden (for sponsor) – applying for certificates	Reduced burden. See “benefits”.	Reduced burden. See “benefits”.	New cost - equivalent does not exist under current system. Time taken to apply for certificate assumed to be around 30 minutes. Wage cost for an administrator used (ASHE 2007).
Administrative burden (for sponsor) – maintaining records and reporting changes and non-compliance	Not all employers currently maintain records and make reports to BIA in the way they will be required to under sponsorship, for example by keeping employee contact details and reporting to BIA when a migrant worker does not turn up for a job or goes missing. Central assumption: 50% of sponsors currently maintain records and voluntarily report changes/non-compliance (this is tested in the sensitivity analysis). For those who don't currently maintain records, there will be an increase in administrative burden. Annual cost of maintaining records per migrant: assumed to be 2 hours at hourly wage cost for an administrator (ASHE 2007). To estimate the stock of migrants that records need to be maintained for, it was assumed that each employee has a length of leave of 2.5 years (average length of a current work permit). Under sponsorship, there will be an increase in compliance checks. BIA will carry out checks on all sponsors every 4 years on renewing sponsorship license thus 0.25 times a year. This will be the minimum number of compliance checks. Compliance checks will be targeted and made on a risk basis. <i>Estimated time taken to report one record now: average 3 hours. Time taken to report one record under PBS: 2 hours.</i>	Increase in cost as for Tier 2. To estimate the stock of migrants that records need to be maintained for, it was assumed that each employee has a length of leave of 6 months.	Not all educational establishments currently maintain records. Central assumption: 75% currently maintain records and voluntarily report changes/non-compliance (this is tested in the sensitivity analysis). To estimate the stock of migrants that records need to be maintained for, it was assumed that each student has a length of leave of 3 years (this is likely to be an overestimate).
Administrative burden: B-rated sponsor costs	<i>Assumed 10% B-rated sponsors, who complete an action plan costing, per migrant employed, twice the total cost of maintaining a record at an A-rated organisation (this assumption has not been tested)</i>		
Other sponsorship duties as per SOI	Other duties could include employers informing DWP of the grant of EC or LTR to initiate the issue of a NINO. These have not been costed: assumed they are business as usual costs for any new employee.	No additional duties costed.	No additional duties costed.
Set-up resources	Comprises recruitment, extra training, the IT service contract, extra communications and extra accommodation. The figures are correct at the time of publication but are subject to change.	As per Tier 2.	As per Tier 2.

DESCRIPTION OF COST	Tier 2	Tier 5	Tier 4
Operational resources	Additional pay and non-pay costs above current work permit function. The figures are correct at the time of publication but are subject to change.	As per Tier 2.	As per Tier 2.
Loss in revenue to BIA from failed work permit applications (transfer from government to sponsor – assumed to be paid for by employer)	Loss in fee revenue due to reduction in refusals and reapplications. Around 16% of current WP applications are refused (BIA: Management Information). Fee: £205.	No loss in revenue. No Tier 5 work permit applications were refused over the baseline period considered.	N/A
Loss in revenue to BIA from failed EC/LTR where WP is successful (partial transfer: In-country = transfer; out-of-country = loss; assumed that migrant pays for this)	Assumed refusal rates under option 1 and 2 are the same.	As per Tier 2.	N/A

DESCRIPTION OF BENEFIT	Tier 2	Tier 5	Tier 4
Vacancies can be filled more quickly	Replacement of work permits, which take an average of 5.6 working days to be issued, by certificates which are assumed to be issued pretty instantaneously, allows employers to fill vacancies more quickly. However, it is assumed that the visa/leave to remain stage will take longer due to extra compliance requirements. In total, it is estimated there will be an average time saving of one day. This leads to an increase in output over the former waiting period, valued at the average hourly wage of a work permit employee.	Benefit as per Tier 2 for those who previously used the work permit system.	N/A
Admin burden saving from issuing certificates compared to applying for work permit	Lower administrative burden, as applying for certificates takes less time and resources for firms than applying for work permits. Time taken to apply for certificate assumed to be 30 minutes. Time taken to apply for work permit: 4.1 hours (Admin Burden Calculator, “Applying for a Tier 2 Work Permit WP1”)	Lower burden, for those who previously used the work permit system. Assumptions as per Tier 2. The additional burden for former permit-free routes is outweighed by the reduction in burden for work permit routes.	Increased cost – see “costs”.
Savings to firms from reduction in failed work permits (fees) (transfer from government to firms)	Gain in fee revenue for firms. Assumptions as in “Loss in revenue to BIA from failed work permit applications” above.	No gain in fee revenue. See “Loss in revenue to BIA from failed work permit applications” above.	N/A
Reduction in admin burden to firms from reduction in failed work permits	Reduction in admin burden associated with current refused work permit applications (16% - source: BIA Management Information). This benefit estimates the admin burden saving – the processing time saving is captured in “Vacancies can be filled more quickly”.	No benefit, as there were no failed T5 work permits over the time considered.	N/A

ANNEX B - SPECIFIC IMPACT TESTS

Competition Assessment

20. The proposal to move to a system of sponsorship under Tier 2 could have an effect on any company that is employing (or will employ) non-EEA workers. The key industries currently using the work permits system – which Tier 2 sponsorship will replace –cover both the private and public sector. Potentially key affected sectors are Health, Computer Services, Hospitality and Admin and Business Services.
21. 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.
22. 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 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.
23. 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, the sponsorship proposal under Tier 2 should not create any competition issues as the proposals apply equally to all firms in a particular sector.

Small Firms Impact Test

24. While it is not necessarily the case that larger employers will employ more migrants than small businesses, we would expect that on average this would be the case. The table below shows average work permit activity by size of employer. This gives us an idea of the likely distribution of certificates and migrant workers across different sized businesses.

Table 5: Average Work Permit Activity by Size of Employer Oct '06 to Sep '07

Size of Employer (No. of Employees[1])	as %age of all Employers issuing work permits	Average Chargeable Work Permit Activity in year	Proportion issued with only 1 work permit in year
Employers with less than 50 Employees			
1 to 10	15.40%	3.67	69%
11 to 20	7.90%	3.08	61%
21 to 30	4.60%	3.74	55%
31 to 40	3.10%	4.67	53%
41 to 50	2.70%	5.28	55%
All 1 to 50	33.60%	3.76	63%
Employers with more than 50 Employees			
51 to 100	7.30%	5.5	47%
101 to 150	3.70%	4.17	44%
151 to 200	2.10%	7.06	43%
201 to 250	0.80%	5.11	49%
Other			
Entered as 0	0.70%	101.61	38%
Blank Entry	51.80%	5.72	58%
Total	100%	5.67	58%

Source: BIA Management Information

25. Although this data is not wholly reliable (for example, over 50% of work permit employers are unclassified), it is clear that small businesses do, on average, employ fewer work permit employees. Around one third of work permit employers are small businesses. Some small firms may find the new sponsorship system with its specific duties and requirements intimidating. However we have designed the system with business representatives and with the aim of making the system as easy to use for sponsors as possible, while providing BIA with the necessary control. And our regional and sector-based sponsor management teams will be on hand to assist sponsors. Overall, sponsorship reduces firms' administrative burden, so there should be no adverse impact on small firms who would have used the work permit system.
26. To estimate the annual benefit per organisation, the proportion of certificate activity from each organisation size (micro, small, medium and large) was calculated using the above table. It was assumed that blank entries were large firms. The total annual benefit of sponsorship was split according to these proportions, and then divided by the number of firms in each category, to give annual benefit per organisation. As larger firms employ more migrants on average, they gain slightly more of the benefits from sponsorship.

Annual cost (£-£) per organisation (excluding one-off)	Micro minus £248	Small minus £284	Medium minus £369	Large minus £387
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27. Around two-thirds of educational establishments on the REP are private firms. Under sponsorship these firms will face an increased admin burden. The establishments with more migrant employees and students will face a higher administrative burden than those sponsoring fewer migrants. However, there is no data on the sizes of private educational establishments, so it is not possible to calculate whether they will be disproportionately affected by the increase in admin burden.

Other specific impact tests

28. The remaining specific impact tests were considered but no impacts are expected.

ANNEX C – EQUALITY IMPACT ASSESSMENT

Aims and Objectives

1. We are introducing a system of sponsorship within the new Points Based System for managed migration to the UK for work and study. Under this system anyone wishing to come to the UK from outside the European Economic Area (EEA) for work or study – apart from certain highly skilled migrants who will not need a prior job offer - will need a licensed sponsor in the UK.
2. Sponsorship is based on two fundamental principles:
 - Those who benefit most directly from migration (that is the employers, educational institutions or other bodies who are bringing in migrants) should play their part in ensuring that the immigration system is not abused, eg by alerting us if their migrants do not turn up for their job or course, or if they disappear; and
 - The Border and Immigration Agency (BIA) needs to be sure that those applying to come to the UK to do a job, or to study, are eligible to do so and that a reputable employer or college genuinely wishes to take them on.

Whom will the policy affect?

3. It will affect in particular employers who employ workers from outside the EEA and educational institutions which bring in foreign students. They will have to apply for a sponsorship licence in order to do so. In order to obtain a licence they will need to provide evidence to show that they are bona fide institutions, and in the case of private educational institutions outside the system of public inspection, show that they are accredited by one of a limited number of BIA-approved accreditation bodies or Ofsted. Prospective sponsors of skilled migrant workers under the Tier 2 general and intra company transfer routes can apply for licences from 29 February 2008. Other prospective sponsors will be able to apply from the summer.
4. Once a sponsor has a licence they can issue certificates of sponsorship to individual migrants whom they wish to sponsor, who would then use the certificates as part of applications for entry clearance to come to the UK.
5. Sponsors need to fulfil certain duties including reporting to the BIA when migrants do not turn up for jobs or courses of study, or go missing; ensuring migrants they are sponsoring meet the rules and have any necessary professional qualifications to do their job; keep certain records including migrants' last known contact details; co-operating with the BIA, including by allowing access to BIA staff to sponsors' premises. For employers wishing to sponsor migrants for skilled employment, ensuring that migrants meet the rules will normally include carrying out a resident labour market test which involves advertising the job to the domestic work-force first. The only exceptions to this requirement to carry out the resident labour market test will be: where the job is in an occupation which is on a list of designated shortage occupations; where the salary offered is above a certain salary threshold; or where the job is an Intra Company Transfer.
6. Employers will continue to be able to recruit migrant workers from within the EEA as now. It remains Government policy that low-skilled labour should be found from within the EEA. Tier 3 of the Points Based System (PBS) covering migration for low-skilled work from outside the EEA is currently suspended.
7. We will announce separate arrangements to deal with those people who are already here in the UK legally, as part of our transition plan.

Is there evidence that certain groups experience the policy issues in a different way? How can I remove barriers to equality of opportunity?

8. The policy affects companies and other sponsors such as colleges, charities and sports clubs. Registration criteria are objective and aimed at ensuring that the institution concerned is bona fide. The implementation of the policy will benefit prospective migrants who will be able to see at a glance which employers and educational institutions are licensed sponsors and therefore approved by the BIA.

9. We have set sponsor licensing requirements in order to confirm the bona fides of a sponsor without imposing an undue or bureaucratic burden. All suitable types of enterprise, including small businesses, start-up companies, franchises and sole traders, are eligible and will be able to meet our criteria. We will provide regional and sector-based teams to support sponsors and prospective sponsors with assistance on what evidence they need to provide to meet our criteria. Sponsors will also be able to engage representatives to provide advice, as long as the representative is either regulated by the Office of the Immigration Services Commissioner or exempt from such registration.

10. Sponsor duties apply equally to all sponsors within a Tier or category. We have set out duties which we believe give us the control we need while not imposing unnecessary bureaucracy on sponsors.

11. We have designed the sponsorship arrangements to be fair to all prospective sponsors. We do not believe that there is any particular impact on minority groups, either in terms of the policy operated on sponsor organisations or indirectly on migrants from outside the EEA. However we acknowledge the possibility that the sponsorship rules, or the way in which we operate them, might have unintended consequences in terms of disproportionate impact on particular groups.

12. We have established various arrangements for consulting stakeholders on the Points Based System, in particular three task forces bringing together stakeholders from the employment, education and arts and entertainment sectors. We will consider the operation of sponsorship arrangements at those task forces.

13. We will also bring together a small focus group comprising representatives of sponsors from ethnic minority communities, including ethnic minority businesses. We will seek views from this group on the way the sponsorship licensing regime is operating to inform our consideration of whether any changes are needed either in the sponsor rules or the way in which we operate them.

Summary

14. We do not believe that the introduction of sponsorship under the Points Based System will have any adverse impact on any group, but we will monitor this after implementation by active stakeholder engagement, including a focus group of representatives from ethnic minority sponsor organisations.