

## Summary: Intervention & Options

Department /Agency:  
UK Border Agency

Title:  
Impact Assessment of Fees for Tier 5 of the Points Based System for Immigration

Stage: Final

Version: 1.1

Date: 07/05/2008

Related Publications: Temporary Workers and Youth Mobility Under the Points Based System: Statement of Intent; Points Based System: tier 5 impact assessment.

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 5 of the Points Based System for managed migration, based on that operated in Australia. The fee for this route must be set at a level that will continue to ensure that the UK receives the cultural, religious, social and international development benefits of particular types of temporary workers and youth mobility.

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

The Government's general 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.

The specific policy objective of Tier 5 is that the UK will continue to receive cultural, social, religious and international development benefits from Tier 5 migrants, whilst reducing risks of abuse of the immigration system. Although the objective of end-to-end cost recovery will apply in aggregate, it will not, therefore, be a specific objective of Tier 5.

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

Option 1: Do minimum, Retain current fees of £65 to £205 for visas for current equivalent routes and £395 for leave to remain

Option 2: Set fee for initial entry at £99 and leave to remain at £100

The preferred option is option 2 as this reduction in fees helps support both charging and Tier 5 policy objectives.

**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 SELECT 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: Set Tier 5 fee for initial entry at £99 and leave to remain at £100**

<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups'. Lowering of fees reduces government revenue from abroad and requires fees for other PBS tiers to be increased to meet objectives of charging policy.
	<b>One-off</b> (Transition)	<b>Yrs</b>	
	<b>£ 0</b>	10	
	<b>Average Annual Cost</b> (excluding one-off)		
	<b>£ 8.1 million</b>		<b>Total Cost (PV)</b> <b>£ 69.8 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' Increase in economic output from modest increased take up of Tier 5 routes in response to price fall.
	<b>One-off</b>	<b>Yrs</b>	
	<b>£ 0</b>	10	
	<b>Average Annual Benefit</b> (excluding one-off)		
	<b>£ 3.9 million</b>		<b>Total Benefit (PV)</b> <b>£ 33.5 million</b>
Other <b>key non-monetised benefits</b> by 'main affected groups' Increased support for fulfilling Tier 5 objectives through modest increase in volumes of migrants. Realisation of 3 <sup>rd</sup> objective of charging policy that fees should be clear, straightforward and easily understandable to our customers			

**Key Assumptions/Sensitivities/Risks** Estimate is dependant upon price elasticity assumptions of migrant workers.

Price Base Year 1008	Time Period Years 10	<b>Net Benefit Range (NPV)</b> <b>£ -61m to +4m</b>	<b>NET BENEFIT (NPV Best estimate)</b> <b>£ -31.6 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 5

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.

Tier 5 of the points based system comprises the Youth Mobility Scheme and temporary worker categories which will allow people to travel to the UK to satisfy principally non-economic objectives.

Tier 5 will embrace:

#### **Temporary worker – Creative and Sporting**

For those coming to the UK as sportspeople, entertainers or creative artists for short periods of time, primarily to perform, compete or otherwise take part in one event or a series of events.

#### **Temporary worker - Charity Workers**

For migrants coming to work temporarily in the UK as voluntary workers for a charity.

#### **Temporary worker – Religious Workers**

For migrants coming to work temporarily in the UK either as a religious worker in a non-pastoral role, where the duties include performing religious rites but not preaching to a congregation, or as a visiting religious worker.

#### **Temporary worker – Government Authorised Exchange**

For migrants coming through approved schemes aimed at sharing knowledge, experience and best practice.

#### **Temporary worker – International Agreement**

For migrants who are coming to the UK under contract to provide a service that is covered under international law, including GATS, similar bilateral agreements, employees of overseas governments and international organisations, and the provision for private servants in diplomatic households.

#### **Youth mobility Scheme**

For young people to travel to the UK to satisfy principally non-economic objectives.

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

- Entering the UK under Tier 5;
- Extending a stay in the UK in Tier 5.

There will be a single application process, whether in or outside the UK. All Tier 5 migrants will require a certificate of sponsorship in order to obtain leave. Any Tier 5 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 5 migrant tier which is to be implemented before the end of 2008. A separate Impact Assessment considering the wider impacts of the policy for Tier 5 has been published at [www.ukba.homeoffice.gov.uk](http://www.ukba.homeoffice.gov.uk)

For further information on Tier 5, please refer to '*Temporary workers and youth mobility under the Points Based System – (Tier 5): Statement of Intent*' also published at [www.ukba.homeoffice.gov.uk](http://www.ukba.homeoffice.gov.uk)

## 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 wider 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 Tier 5, and is fully outlined in the Government's charging strategy for immigration and nationality fees:

<http://www.ukba.homeoffice.gov.uk/sitecontent/documents/aboutus/consultations/closedconsultations/newchargingregime/responses.pdf>

The Government's policy objectives on charging are:

- 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
- To rebalance the funding of the immigration system to ensure that those who benefit most from the service make a larger contribution
- To develop a fees model that is clear, straightforward and easily understood to our customers

The Government's policy objective on the implementation of Tier 5 is:

- To ensure that the UK continues to receive the cultural, social, religious and international development benefits of particular types of temporary workers and youth mobility, whilst reducing risks of abuse of the immigration system.

## 4. OPTIONS

The first objective of our charging strategy is to be met by setting higher fees for various routes within the PBS. For Tier 5, we have decided to reduce the fees and so this Tier will not fully contribute to the objectives of our charging strategy. Reducing fees will, however, help to achieve the Tier 5 policy objective.

**Option 1: Do nothing, retain current fees of £65 to £205 for initial entry and £395 for Leave to Remain**

**Option 2: Set fee at £99 for initial entry and £100 for leave to remain**

## 5. COSTS AND BENEFITS

### Benefits

- Increased support for fulfilling Tier 5 objective through modest increase in flows of temporary workers resulting from lower fees.
- Supports the charging objective that those who benefit most from the system pay most. Reduced entitlements to migrants applying under Tier 5 compared to other PBS tiers.
- Supports the charging objective to have clear and straightforward fees that are easily understandable, by simplifying a range of fees into 2 single fees.

### Costs

- Reduced contribution to recovering end-to-end costs of the immigration system necessitates higher fees for other PBS routes.

## 6. NET BENEFIT CALCULATION

Current Tier 5 equivalent routes charge between £65 and £205 for entry to the UK. Some routes already currently charge £99 but others will see changes in prices as a result of the flat £99 charge for all Tier 5 migrants. In addition, charges for leave to remain will reduce from £395 to £100. Though currently only a relatively small number of migrants apply for leave to remain for these routes. The table below show the current prices charged for temporary migrants.

### ***Categories / current fees for temporary migrant routes:***

<b>Categories</b>	<b>Current Fee £</b>
<b>Temporary Worker sub category</b>	
Entertainers concession	99
Some Work Permits in the creative and sporting sector	205
Exchange teachers and language assistants	205
General Agreement on Trades in Services (GATS)	205
International Association for the Exchange of Students of Technical Experience (IAESTE)	205
International Fire Fighter Fellowship Programme	65
EU Leonardo da Vinci Programme	99
Rudolf Steiner	205
Sportspersons concession	99
Medical Training Initiative	205
Training and Work Experience Scheme (TWES)	205
China Graduate Work Experience Programme	205
Vander Elst	205
Non-pastoral religious workers	205

Visiting religious workers	205
Voluntary workers	99
Overseas Domestic Workers (in Diplomatic Households)	205
Overseas Government Employees	205
<b>Youth Mobility sub-category</b>	
Commonwealth Working Holidaymaker Scheme	205
Au Pair rules	205
BUNAC Scheme concession	205
Gap Year entrants concession	205
Japan: Youth Exchange Scheme concession	205
Research assistants to Members of Parliament concession	205
<b>Leave to Remain (for temporary routes)</b>	<b>395</b>

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Many of the above routes are very small with only a few migrants per year admitted to the UK. For many of these, only very limited data exists and so it is not possible to undertake NPV calculations to any degree of accuracy. The objectives of many of these routes are also largely non-economic so making any costing exercise problematic. For these reasons, we focus on the routes with the largest volumes of migrants, the most easily assessable data and the most clearly identified economic impacts for the NPV calculation. These routes include the creative and sporting work permits and the youth mobility sub category.

Data is available for the TWES scheme with which we could estimate impacts. However, we choose not to as there are no specific provisions for this scheme within Tier 5, some may choose to enter the UK through Tier 2 of the PBS and, given that this is a training and work experience scheme, the impact on UK output may well be limited.

From historical data, we estimate that around 33,400 migrants entered the UK with work permits in the creative and sporting categories and 500 applied for leave to remain, a further 42,100 entered under routes that would qualify under youth mobility. In line with the Impact Assessment published for the Tier 5 policy, we assume that migrants through the creative and sporting category increase UK output by £7,000 per head. For youth mobility migrants, we assume that 50% work full time (37 hours a week) for the first year and a further 40% of those work full time for their second year in the UK with productivity assumed to be proxied by salary (minimum wage of £5.52 an hour)<sup>1</sup>.

Assuming a wage elasticity of labour supply of 0.5 applied to the full expected wage during their stay in the UK, we expect volumes to increase by 246 and 292 for these routes respectively for creative and sporting and youth mobility in response to the lowering of price. A further increase of 10 migrants applying for leave to remain is estimated. This results in an increase in output of £33.5 million over 10 years but a decrease in government revenue from outside the UK of £69.8 million (discounted by 3.5% a year). The NPV calculation is therefore -£31.6 million over 10 years. The NPV range of -£61m to £4m is calculated using a wage elasticity range of 0 to 1.1 as indicated by available evidence in the annex to this assessment.

## 7. 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>1</sup> Please see Tier 5 Impact assessment for further explanation of these assumptions

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

# Annexes

**Table 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.