



CONSULTATION ON CHARGING FOR MIGRATION SERVICES PARTIAL REGULATORY IMPACT ASSESSMENT

OCTOBER 2006

Purpose and Measure of Policy

1. The proposal is to consider changes to the way in which fees are set the consideration of applications for visas and in-country immigration and nationality services.
2. This partial RIA will consider where a burden may arise. A full RIA will accompany the Government's response to the consultation next year, including consideration of increased impact and any appropriate off-setting measures.

Background/Consultation

3. The IND review said 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. At present however only the basic administrative costs of processing work permits are recovered, Compliance and enforcement activity against both employers and migrants is funded solely by the taxpayer.
4. There are a number of new control measures and service improvements due to be implemented in the next few years, such as the further roll-out of biometric capture and the extended use of commercial partnerships overseas to process applications. There are costs associated with these that will be passed onto the users of the immigration system.
5. As the Home Office ("HO") and the Foreign and Commonwealth Office ("FCO") implement the measures outlined into the review, which included a confirmation of the Government's plans to introduce the PBS, we need to consider how immigration services are paid for. We are clear that any changes to the way in which we charge migrant workers and students who come to the UK must not adversely impact on the many benefits that legal migration brings. But it is right to consider whether our charging strategy should better reflect the end-to-end cost of the whole immigration system.
6. We intend to introduce a new charging strategy and revised fees from April 2007. A full consideration of the impact of the changes will accompany the Government's response to the consultation next year.

Wider Considerations

7. The options proposed in the consultation paper should be taken in the context of:
 - The strategic objectives for IND set out in *Fair, Effective, Transparent and Trusted: Rebuilding confidence in our immigration system* (the report on the IND Review published in July 2006) ¹
 - The strategic objectives of UKvisas as set out in its Business Plan 2005/06 ²
 - Wider policy development, especially the new PBS, set out in the Command Paper published by the Home Office in March 2006 ³

IND Review

8. The IND Review has highlighted some of the failings of the current system and set the following objective related to attracting skilled migrants:
 - **IND Review Strategic Objective 4** - Boost Britain's economy by bringing the right skills here from around the world, and ensuring that this country is easy to visit legally.

Consultation

9. The consultation process will run from 30 October to 22 December 2006. A number of focussed stakeholder events will happen during this time. Where appropriate, they will be combined with events to support the consultation on a new Migration Advisory Committee which is running concurrently.
10. The results and feedback of the formal consultation process will lead into policy development so that we can limit any adverse impacts where appropriate.

Risk Assessment

11. An effective managed migration system relies upon providing controlled routes of entry to benefit the UK in an efficient and robust way, while preventing abuse.
12. There is evidence of abuse of the system which we are tackling in a comprehensive way, drawing on intelligence, the experience of front line staff and information from across the system to allow resources to be accurately targeted. Areas of abuse include exploitation of particular routes, covert entry and illegal working. Unchecked illegal working depresses wages, encourages poor working conditions, discourages the employment of legal migrants and can disadvantage genuine employers whose products and services are undercut by unscrupulous employers exploiting cheap, illegal labour.

¹ <http://www.ind.homeoffice.gov.uk/6353/aboutus/indrev.pdf>

² <http://www.ukvisas.gov.uk/Files/KFile/UKvisas%20Business%20Plan%2005-06.0.pdf>

³ <http://www.homeoffice.gov.uk/documents/command-points-based-migration?view=Binary>

13. By not charging a fee which reflects the cost of administering and enforcing the immigration system from end to end, the Government will continue to rely on subsidisation from the public purse to fund this activity.

Sustainable Development

14. We can see no social or environmental sustainable development issues within the proposals in the consultation document. There may be an economic sustainable development issue where employment vacancies remain unfilled with a consequent drop in growth. This risk will be considered further when the strategic approach has been determined.

Options and impact

15. Within this RIA we consider two possible options:

- **Option 1** - Maintain status quo
- **Option 2** – Adopt a new charging regime to better reflect the end-to-end cost of the whole immigration system

16. The summary tables below provide a description of each option and the associated key concerns and benefits.

Option 1 – Maintain status quo
Description <ul style="list-style-type: none">• Continue to charge applicants as per current charging strategy
Key Concerns <ul style="list-style-type: none">• Limited scope to set process flexibly and intelligently, to take into consideration range of relevant factors• No additional revenue from migration fees
Key Benefits <ul style="list-style-type: none">• No additional expenditure to users of the system beyond current plans for increased controls and service improvements• No major policy change/business change programme i.e. no transaction costs

<p>Option 2 – Adopt a new charging regime to better reflect the end-to-end cost of the whole immigration system</p>
<p>Description</p> <ul style="list-style-type: none"> • Adopt a flexible approach to setting fees, taking into consideration relevant factors
<p>Key Concerns</p> <ul style="list-style-type: none"> • A new charging strategy has volume risk issues • Need to ensure that changes do not impact on UK’s global competitive position
<p>Key Benefits</p> <ul style="list-style-type: none"> • We would raise additional revenue from migration fees • We could take into account factors such as the value to the UK in attracting a particular applicant and/or the value to the applicant in terms of the entitlements that are likely to accrue as a result of a successful application to set fees intelligently and flexibly

17. Within Option 2 there are a number of variables, including a greater alignment of in-country and visa fees; and the range of factors to be taken into consideration in setting fees. The costs and benefits of the option taken forward will be analysed in the full RIA to be published next year.

18. The sub-options that may be analysed (subject to consultation outcomes) include:

- i) **Cost and price by visa type:** to recover the costs of administering visa and in-country applications by type. This would have the advantage of simplicity, but would limit our flexibility in determining fee levels, and would not allow us to take factors such as the prices of key international competitor countries into consideration for certain routes.
- ii) **Flexible pricing:** taking a number of factors into consideration. These could include the value of the entitlements to the migrant, the degree to which attracting them here is in the interests of the UK; demand; or the fees charged by other countries for a similar applications.
- iii) **Price on benefit to applicant:** This would look at the value of an application based only on the benefit to the applicant of the entitlements associated with a particular route. These could include whether a successful applicant would be able to work in the UK; whether they could bring dependants with them; and whether there was a route to settlement in due course.]

Impact on Tourism

18. The UK is already a relatively high-tax economy for tourists⁴. It is the Government's intention to promote tourism as a key part of the UK economy. The full RIA will assess options for changes to visitor visas in this context.

Impact on Educational establishments

19. The education sector provides a variety of services to overseas students including language courses of up to a year and multi-year degree courses. The status of English as the leading language for international affairs means that the UK currently gains a high proportion of this trade and wishes to maintain and promote its position. International comparatives for student visa costs are important in achieving this objective. The full RIA will assess options for changes to visitor visas in this context.

Impact on Businesses employing migrant labour

20. The increased cost to business of employing a migrant worker may lead to a number of strategic responses:

- By increasing employment of UK and EU workers – this would be a positive response from the UK perspective
- Substitute labour for capital
- Attempts to substitute more illegal migrant labour in place of legal migrants – increasing enforcement problems
- Increase prices of their goods/services to consumers
- Accept a decrease in profits to remain competitive
- Adapt a new business strategy

21. Which of these applies depends in part on price elasticity of demand, discussed below.

Price elasticity of work-permit demand

22. It is likely that the demand for migrant workers is relatively inelastic, as the employer should only employ a migrant worker when they cannot find the required skills from the UK and EU labour force at the price offered. If this is the case, we can assume a relatively inelastic response from employers to an increase in the price of a work permit, assuming they pay this cost rather than charge it to the employee.

23. Changes in the cost of a work permit need to be taken in the context of the overall cost to an employer of employing a migrant worker. The total costs will include the annual salary, employer National Insurance Contributions, the cost of Advertising the position, and the cost of the Work Permit. The cost of a Work Permit therefore makes up a relatively small proportion of the total employment costs, and hence any increase will be a small proportion of the overall costs to the employers.

⁴ Tourism expenditure in the UK: Analysis of Competitiveness using a Gravity-Based Model, Ramesh Durbarry, Nottingham University Business School, 2000/1

24. To support considerations of a new charging strategy we are undertaking research into international competitiveness and price elasticity.

Small Firm Impact Assessment

25. The consultation process will aim to determine the likely impact on small and medium businesses and specialist areas and groups. More detail will follow in the full RIA.

Competition Assessment

26. The proposals for the Points Based System could have an effect on any company that is employing (or will employ) non-EU workers.
27. The key industries currently using work permits - covering the private and public sector - and potentially affected are Health, Computer Services, Hospitality and Admin and Business Services(see table below).

Applications for Work Permits (2005)⁵

INDUSTRY BREAKDOWN	Applications (2005)	Percentage (%)
Total	157,951	100
Health & Medical	47,353	30.0
Computer Services	23,303	14.8
Hospitality & Catering	18,329	11.6
Admin, Bus. and Management	17,323	11.0
Education & Cultural Activities	11,623	7.4
Financial Services	9,135	5.8
Entertainment & Leisure	5,768	3.7
Manufacturing	4,973	3.1
Construction and Land Services	3,470	2.2
Retail & Related	3,091	2.0

Source: Work Permits (UK)

28. 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.
29. 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; Hospitality; Administration, Business and Management. The latter is a catch all category that comprises

⁵ Total number includes all types of work permit (work permits, first permissions, changes of employment and extensions). It does not include applications under the Sector Based Scheme

of firms in a wide range of sectors (the largest in terms of migrant employment being the management consulting sector).

30. In none of these sectors do we estimate that any one firm has more than 10% of market share.
31. 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. This should not create any competition issues as the proposals apply equally to all firms in a particular sector.
32. The consultation process will aim to determine the impacts on competition and further detail will be included in the full RIA.

Annex A: The Proposed New Points-Based System

33. As set out in the section on 'rationale for government intervention' there is a clear need to simplify and rationalise the current immigration system and the complexity and inefficiency which has developed within it. This complexity is reflected in the number of different routes, subjective criteria for entry and the inconsistency and inaccuracy in decisions which result. This proposal represents an attempt to address this significant issue.

Five Tiers

34. Central to the simplification of the system is a reduction from the over 80 different routes which currently exist to a clear and rationalised system around a 5 tier framework – making it easier for those using the system (e.g. firms, colleges, the individual migrants themselves) as well as the Home Office in operating the system. It will help people understand how the system works and direct applicants to the category that is most appropriate for them.
- Tier 1: Highly skilled individuals to contribute to growth and productivity
 - Tier 2: Skilled workers with a job offer to fill gaps in UK labour force
 - Tier 3: Limited numbers of low skilled workers needed to fill specific temporary labour shortages
 - Tier 4: Students
 - Tier 5: Youth mobility and temporary workers: people allowed to work in the UK for a limited period of time to satisfy primarily non-economic objectives

Points and structured decision-making

35. For each Tier, applicants will need sufficient points to obtain entry clearance or leave to remain in the UK. Points will be scored for attributes, which predict a migrant's success in the labour market, and/or control factors, which relate to whether someone is likely to comply with the conditions of their leave.
36. Points will be awarded according to objective and transparent criteria in order to produce a structured and defensible decision-making process. Prospective migrants will, prior to making their application, be able to assess themselves against these criteria, reducing the number of speculative and erroneous applications.
37. It is proposed that self-assessment will form the first step of the application process for all applicants. This will be online where possible in order to further simplify the process for applicants and reduce the time taken to complete an application. Only if the applicant scores the required number of points will an application to a UK visas post overseas or to a caseworker in the UK be possible. The completed self-assessment will form the basis of the application, and the applicant will have to provide independently verifiable documentation to support his application. 'Independently verifiable documentation' means documentation that can be checked with an independent third party such as, for example, a bank,

in the case of bank statements, or a university, in the case of a degree certificate.

Sponsorship

38. All applicants in Tiers 2-5 will need to provide a certificate of sponsorship from an approved sponsor when making their application. The certificate of sponsorship will act as an assurance that the migrant is able to do a particular job or course of study and intends to do so. The sponsor's rating, an expression of their track record or policies (i.e. the procedures they have in place for fulfilling their requirements) will then determine whether applicants receive more or fewer points for their certificate.
39. In order to sponsor migrants, employers and educational institutions will need to make an initial application to IND, satisfy the requirements for the particular Tier in which they wish to sponsor migrants, and accept certain responsibilities in relation to helping with the immigration control (principally with regard to co-operating with IND's monitoring of the sponsor and the migrants).

Procedures

40. The first step for a firm wishing to bring in a migrant worker under the PBS will be to register as a sponsor. The sponsor will then issue a certificate of sponsorship which acts to provide an assurance that the individual meets the criteria for work or the course of study. Sponsors will be required to inform us if a sponsored migrant fails to turn up for their first day of work, or does not enrol on their course. Similarly they will be expected to report any prolonged absence from work or discontinuation of studies, or if their contract is being terminated, the migrant is leaving their employment, or is changing educational institution.

Financial securities

41. In due course, financial securities will be required of those whose personal circumstances or route of migration suggests that they present a high risk of breaching the immigration rules.
42. Securities will only be included in the new system where there is objective management information that demonstrates that a particular route or migrants within a route are disproportionately likely to breach their immigration conditions.

Key objectives

43. The key underlying objectives of the proposed new system are that:

Applicants will find the system simpler to understand and the rules for entry clearer and more consistently applied. It will be quicker and simpler for employers and educational institutions to bring in the migrants they need. The public will better be able to understand who we are allowing into the UK and why, and have confidence that the system is not being abused. It will also be more straightforward for entry clearance officers and caseworkers to administer.