



Home Office

**Regulatory Impact Assessment
for work permit fees**

Purpose and intended effect

Objective

1. Last summer the Home Secretary announced the biggest shake-up of the UK's immigration system in its history with the publication of the review of the Immigration & Nationality Directorate (IND). A key component of the new approach is a step-change in the enforcement and compliance activity to ensure that the immigration laws are enforced.
2. The latest chapter in this process was the publication of a comprehensive and radical cross-Government enforcement strategy on 7 March 2007, backed by 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
3. We propose that there should be no increase to general taxation to fund this. 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. In line with our policy to make it easier for those we want to come here, but tougher on those abusing the system, we will also be able to fund improvements to customer service alongside our new points-based system for managed migration, deciding applications more quickly and making it easier for those employers, institutions and other sponsors who abide by the rules.

Background

4. 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 costs (including staffing and overhead costs) of processing applications to the point of making and conveying a decision.
5. The current charging regulations are set out in Table 1, below.
6. The IND Review 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. 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 UK taxpayer through general taxation.

Table 1

| Table 1: Current charging regulations for immigration and nationality applications | | |
|---|---|---|
| Act | Section | Allows charges to be levied for: |
| British Nationality Act 1981 | 41(2) | <ul style="list-style-type: none"> • Naturalisation applications • Registration • Applications to renounce British citizenship • Copies of documents/certificates • Citizenship ceremonies |
| Immigration and Asylum Act 1999 | 5(1)(a) | Leave to remain |
| Immigration and Asylum Act 1999 | 5(1)(b) | Extensions/variations of leave to remain |
| Immigration and Asylum Act 1999 | 5(1)(c) – as amended by Section 43 of the Asylum and Immigration (Treatment of Claimants, etc) Act 2004 | Transfer of conditions of leave to enter or remain |
| Immigration and Asylum Act 1999 | 27 | Travel Documents |
| Nationality, Immigration & Asylum Act 2002 | 10 | Certificate of entitlement to the right of abode |
| Nationality, Immigration & Asylum Act 2002 | 122 | Immigration Employment Documents |
| Asylum and Immigration (Treatment of Claimants, etc) Act 2004 | 42 | Overcost charging |
| Asylum and Immigration (Treatment of Claimants, etc) Act 2004 | 25 | Certificate of Approval |

7. As the Home Office and UKvisas implement the measures outlined in the Review, which included a confirmation of the Government’s plans to introduce the new Points Based System (PBS) for managed migration, we need to consider how immigration services are paid for. We are clear that any changes to the way in which we charge UK based employers and migrant workers 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.

8. At present, most fees are paid by migrants themselves. The exception to this is the work permit system, where responsibility for paying for work permit applications rests with the employer of the migrant. This system will end with the introduction of the Points Based System and will be replaced with a single immigration decision supported by a certificate of sponsorship provided by a UK-based and registered sponsor. We expect that the new system will make it faster and less bureaucratic for trusted employers to bring migrants to the UK.

9. We do not propose making any changes to the way in which fees for immigration and nationality services are charged under the current system. As such employers in the entertainment sector, for example, will continue to be able to apply for group work permits. We are still considering how best to implement the new sponsorship system under the new Points Based System, and will continue our dialogue with the relevant sectors to develop a process that best meets their needs and ours.

10. The Home Office is also committed to a radical shake up of enforcement, border controls and identity checks, to help prevent illegal migration and criminality from damaging the UK. At the same time we are investing in a system that will welcome legitimate travellers: which is easy and attractive for the many migrants vital to the UK's economic competitiveness.

11. We need major investment for these improvements and will generate additional revenue through increased fees for migrants, as we believe it is right that those that benefit from the service should help pay for it.

Rationale for Government intervention

12. We need to change the way we charge in order to generate additional revenue to help fund the transformation of the immigration system. The Government has previously set out the following objectives:

- Key strategic objectives for IND are set out in *Fair, Effective, Transparent and Trusted: Rebuilding confidence in our immigration system* (the report on the IND Review published in July 2006). These include:
 - Strengthen our borders; use tougher checks abroad so that only those with permission can travel to the UK; and ensure that we know who leaves so that we can take action against those who break the rules.
 - Fast-track asylum decisions, remove those whose claims fail and integrate those who need our protection.
 - Ensure and enforce compliance with our immigration laws, removing the most harmful people first and denying the privileges of Britain to those here illegally.
 - Boost Britain's economy by bringing the right skills here from around the world, and ensuring that this country is easy to visit legally.
- Longer term service delivery improvements, especially the new Points Based System, are set out in the Command Paper published by the Home Office in March 2006.

Consultation

13. The Home Office and UKvisas consultation paper, *A consultation on a new charging regime for immigration and nationality fees*, sought views on the proposal to change the principles on which fees are set, away from a cost recovery model to an intelligent one that was based upon factors such as the value to the migrant of a successful application and the need to maintain international competitiveness and the UK position as a place to visit, study, work or to do business in.

14. The consultation ran from 31 October to 22 December 2006. The consultation document was available as a printed document and from the IND website at www.ind.homeoffice.gsi.gov.uk. Over 3000 printed copies were sent out to stakeholders and interested parties and there were 340 formal responses returned. In addition, a number of sector based stakeholder events were conducted, involving over 400 participants.

15. The Government's formal response to the consultation, including analysis of the consultation responses, was published on 7 March 2007. A copy of the response is at Annex A.

Impacts on the economy

16. A change in the pricing regime for immigration and nationality fees could potentially have a number of impacts on the economy. These will vary by sector; by size of business; and by the characteristics associated with each market or industry.

17. Outside of unrelated changes to the economy, key impacts associated with an increase in fees for work permits may occur for two reasons:

- A change in volumes of migrants due to changes in prices for different migration routes (so employers may decide not fill a vacancy); and
- A change in the costs of employment due to changes in work permit costs – that is, the additional burden placed on firms due to increased employment costs associated with higher fees for work permit applications (so employers may decide to pass the higher costs onwards to consumers and other businesses)

Impacts on Employers

18. We have conducted extensive market research to support the new charging approach. We have identified the entitlements and services that employers value and are prepared to pay for. We have also explored likely changes in demand through increased prices, and the key thresholds at which our fees would be too high with the same services and entitlements. In addition, the research has identified employment sectors who use search and selection services (with an additional cost) as part of the recruitment process of hiring a migrant worker.

Work Permit Employers – summary of market research findings

- Nearly half of applicants claim that they would be prepared to pay more for a faster service if the decision making took one or two days, with this stronger among large companies who both expect more, and place greater value on, faster service.
- Two thirds would be prepared to pay more if they had a named contact throughout the application process, with larger companies placing greater value on this potential service change.
- Charges of over £200 would potentially have a significant impact on demand for work permits for the current level of service (49% claim they would not pay over £200).
- Fees set below that level would have limited impact as demand appears to be relatively inelastic to this point
- With new service levels the threshold is nearer £300 for a similar level of rejection (51%) although over half (57%) would not expect to pay over £200.
- Even with new service levels £500 appears to be another threshold – 77% rejecting at this price.

- Those willing to pay more than £500 for application are more in favour of having a named contact.

Work Permit Agents (search and selection services) – summary of market research findings

- Almost half (48%) of the agents charge £650 or more for a WP application, with the average fee at £622.
- The Work Permit application fee, on average, only represents 12% of the total expense to the applicant, when agents are used.
- Two thirds (69%) of the agents present agency fees and UK Work Permit fees separately, whereas 15% decide on an individual basis and another 13% present an ‘all in one’ fee.
- ‘Speed of service’ and ‘work permit restrictions’ are considered to be the most important factors of the application process (scoring 64% and 34% on ‘extremely important’). Application fee to UK Work Permits is rated as extremely important by 18% of agents.
- Almost one third (30%) think that a change in the fee payable to UK Work Permits would influence the number of applications.
- In the scenario of the application fee changing the majority of agents claim their fees would not be changed. However, one-fifth (18%) claim that they would be likely to increase their fees if the application fee increased.

Elasticity of demand for Work Permits – theory and empirics

19. The demand for migrant labour will be subject to elasticity of demand effects (i.e. where a change in price leads to a change in quantity demanded). Where the demand is inelastic, a change in the relative price of migrant labour will not lead to a change in the quantity of labour demanded. Where the demand is elastic, a change in the relative price of migrant labour will lead to a reduction in the quantity of labour demanded.

20. The work permit system is designed to help employers fill skill shortages, and contains three broad categories:

- **Tier 1** - a list of skills shortage occupations is identified – employers that need to recruit labour in these occupations are allowed to employ a migrant on a work permit
- **Tier 2** - where the occupation is not on the shortage list, an employer must undergo the Resident Labour Market Test (RLMT). The RLMT requires an employer to advertise the vacancy in an appropriate medium for 4 weeks in the resident labour market. If no suitably skilled applicants are available within the UK or EEA labour market, the employer may employ a non-EEA national on a work permit. The employer must provide evidence that they have made reasonable attempts to fill the vacancy from the resident labour market.
- **Intra-Company Transfer (ICT)** - companies that have offices in more than one country can apply for an employee to be transferred from an office in one country to an office in another. They must demonstrate that the employee

will be working in a job that no other employee in the company has the ability to perform as successfully.

21. The elasticity effect will vary by industry, by the available pool of skilled labour, and by the industries' ability to respond to the price change. The elasticity effect will be higher where an industry has low demand for specialised migrant labour, where the available pool of skilled labour is high domestically and where the firm has lower ability to respond to an increase in the price of labour through changing business strategies (costs, profits, production, quality, diversification, expansion etc). Usually this will depend on the elasticity of demand for the goods/services they produce.

22. Demand from employers in areas where there is an identified skill shortage is relatively inelastic overall. However, there may be some sectors where an increase in fees could impact on demand for work permits.

23. If the demand for migrant is elastic, an increase in the price of labour will lead to a fall in the quantity of labour demanded. In this context the price of labour depends not just on the price of a work permit, but on the total employment costs. This will include the wage, national insurance contributions, the costs of advertising and recruiting the employee, and any additional bonuses or perks that are offered to the employee. The percentage change in total employment costs of an increase in the work permit price will be relatively small, implying insignificant impacts on volumes unless there is a significant price change. It is therefore important to determine which sectors may have a more elastic demand for migrant labour as these will be the employers most affected by an increased work permit fee.

Impact on sectors

24. Table 2, below, shows the twelve sectors that had the highest number of work permits approvals in 2006.

25. The sector with the highest number of work permit applications is Health and Medical Services, followed by; Computer Services; Administration, Business & Management; Hospitality & Catering; Education; and Financial Services.

Options

26. All charging regimes presented within this assessment meet the revenue envelope limits agreed with HM Treasury. This enables IND to seek to recover £100m over its cost base for financial year 2007/08 within the spirit of the Fees and Charges Guidance. In doing so the regime will attempt to balance entitlements to the users and immigration control at no further increase to general taxation. As a result, the direct users of the service may need to pay more for access to it.

Application demand forecasting

27. There is a potential that fee levels rise to a point that discourages applicants from applying. The costs of the immigration controls are not directly linked to volume and will remain even if volume should fall. If we see volume fall because we have not priced sensitively we put at risk business income and the activity we seek to drive that will threaten the maintenance of these new controls.

28. Forecast demand is calculated using regression analysis on previous fee levels, coupled with key price thresholds identified from market research. Findings from the market research suggest a key price threshold of £200 for work permit applications. Thus, any increase in fee above £200 would be expected to result in a drop in application volume. Analysis of the price demand curve suggests an impact of 1% drop for every £8 rise above £200. All volume predictions used in the regimes below utilise this model.

29. Table 4, below, compares the work permit fee levels for the three proposed models for the new charging regime against the price threshold identified from the market research.

Table 4

| Current work permit fee level | Price threshold based on market research | Cost Recovery (option i) | Pricing based on value to migrant (option ii) | Pricing based on value and UK competitiveness (option iii) |
|-------------------------------|--|--------------------------|---|--|
| £153 | £200 | £181 | £350 | £190 |

(i) Pricing based on cost recovery (i.e. maintain the status quo)

30. Under this regime the fee levels for all chargeable migration routes would be set at cost recovery except where there are known limits (e.g. the fees for convention travel documents for refugees who do not have a national passport cannot legally be set above UK passport fee levels).

31. This would result in a work permit fee of £181 for 2007/08, a rise of £28 from current levels, but this would not raise sufficient revenue to fund the increased controls and service enhancements. Neither would it provide for sufficient flexibility across all fee levels to allow IND and UKvisas to price sensitively those routes that the research shows to be price sensitive.

Costs

32. Working on the volume forecasts for the business of 153,765 applications, the increased impact on UK business compared to 2006/07 fee levels is forecast at £4.3m.

Benefits

33. This model provides a straightforward link between costs and fees, which is easy to explain to both migrants and the UK taxpayer.

(ii) Pricing based on value to migrant only

34. Under this model IND would set fee levels to overcost charge using existing legislation. This would mean using a section 42 order under the Asylum and Immigration (Treatment of Claimants, etc) Act 2004 to overcost charge for applications made in-country.

35. This new charging model would set prices according to the value of the end user only. It would not allow us to take into consideration such issues as international competitiveness or wider Government objectives, such as the Prime Minister's Initiative to promote student exports.

36. We would continue to set fees for some administrative services at cost recovery levels. Where there were pre-determined limits to the fee that can be charged, such as the legal limits for charging certain travel documents, we would set fees at these levels.

37. The new official level cross-Government Fees Committee would have a significant part to play in determining appropriate fee levels based on the value to the end user. New fees would be laid before Parliament to agree prior to implementation.

38. Dependant upon assessment of value, and given that the revenue envelope limit agreed with HM Treasury remains the same, this would result in a work permit fee of up to £350, a rise of £197 from current fee levels.

Costs

39. With demand impact adjusted to take into account the higher fee, the volume forecast of 124,934 applications represents a fall in application volumes over cost recovery volumes of 28,831 in total. The increased impact compared with 2006/07 fee levels is forecast at £24.6m. This is an additional £20.3m burden above cost recovery regime (option i) levels.

40. There is likely to be a reduction in volumes due to decreased demand for work permits at a price in excess of indicated threshold levels (see market research, above). 49% of employers indicated that they would not pay over £200 for a work permit.

Benefits

41. Employers are charged a fee level that reflects the relatively high value of this service. Reflecting the benefits recruitment of overseas workers bring to UK based employers where existing labour market shortages exist.

42. Assuming volume risk forecasts are accurate; this regime would allow the Government to recover the costs of administrating the immigration service and deliver the transformation set out.

(iii) Pricing based on value to migrant and other factors

43. This model is similar to option ii) set out above except that as well as taking into account the value to the end user, IND would also be able to take account of other factors such as UK international competitiveness and value to the UK of the migrant. We would use the market research and regression analysis to set fees at a level that would not impact on demand.

44. The work permit fee would rise £37 above 2006/07 fee levels to £190.

Costs

45. This regime brings some additional impact on UK business. With volume forecast for this price level of 153,765 applications, the increased impact on UK business compared to 2006/07 fee levels is forecast at £5.7m, an additional burden of £1.4m above cost recovery levels.

Benefits

46. This regime achieves all of the stated objectives in that it allows the Government to recover the required costs of administrating and transforming the immigration system.

47. In addition the fee level is set at a level which the research indicates will continue to attract those workers we wish to welcome to the UK. By pricing in a way that is sensitive to any impact on falling volumes we will manage this risk. Sustained levels of applications will reduce distortion of prices and overall support the strategic business objectives.

Impact on Sectors

48. Table 5 shows the additional burden to employers associated with the change in cost-recovery baseline fees for the regimes. Cost recovery is the situation that would occur without any change to the pricing regime.

49. Pricing based on value to the migrant alone has a larger impact on all work permit employers and on individual sectors than pricing on value to the migrant and international competitiveness. In option (ii), six sectors face an additional burden of over £1m (this includes the Health and the Education sectors); whereas only the Health and Medical services sector faces a burden of over £1m in option (iii). However, it should be noted that for both options (ii) and (iii), the additional burdens on each sector are negligible as a proportion of their respective turnovers.

Small Firms Impact Assessment

50. When assessing the impact of a new regulation on small firms, we want to see whether any significant impacts will arise that may have a disproportionate impact on small firms, or that may affect their competitiveness with larger firms. A change in the pricing strategy for immigration and nationality fees could have two types of impacts we need to be aware of:

- A decrease in demand for goods/services due to increased fees
- An increase in the costs of employing migrants

Table 5

| Industry/Sector | Cost Recovery (option i) | | Pricing based on value to migrant (option ii) | | Pricing based on value and UK competitiveness (option iii) | |
|--|--------------------------|-------------------|---|--------------------|--|-------------------|
| | Work Permits | Burden | Work Permits ¹ | Burden | Work Permits | Burden |
| Health & Medical Services | 42,712 | £1,195,929 | 34,704 | £6,836,605 | 42,712 | £1,580,344 |
| Computer Services | 25,581 | £716,261 | 20,784 | £4,094,500 | 25,581 | £946,497 |
| Admin, Bus & Management | 16,833 | £471,314 | 13,677 | £2,694,361 | 16,833 | £622,821 |
| Hospitality & Catering | 13,528 | £378,797 | 10,992 | £2,165,330 | 13,528 | £500,536 |
| Education & Cultural Act. | 11,998 | £335,936 | 9,748 | £1,920,389 | 11,998 | £443,926 |
| Financial Services | 10,328 | £289,179 | 8,392 | £1,653,129 | 10,328 | £382,136 |
| Entertainment & Leisure Serv. | 5,946 | £166,487 | 4,831 | £951,780 | 5,946 | £220,002 |
| Manufacturing | 4,524 | £126,681 | 3,676 | £724,216 | 4,524 | £167,388 |
| Construction & Land Services | 3,509 | £98,253 | 2,851 | £561,592 | 3,509 | £129,833 |
| Sporting Activities | 2,228 | £62,374 | 1,810 | £356,529 | 2,228 | £82,436 |
| Retail & Related Services | 2,137 | £59,849 | 1,736 | £342,077 | 2,137 | £79,069 |
| Transport | 1,746 | £48,877 | 1,418 | £279,333 | 1,746 | £64,602 |
| Extraction Industries | 1,708 | £47,817 | 1,387 | £273,296 | 1,708 | £63,196 |
| Meat Processing - SBS | 1,662 | £46,539 | 1,350 | £265,979 | 1,662 | £61,494 |
| Hospitality - SBS | 1,661 | £46,508 | 1,349 | £265,796 | 1,661 | £61,457 |
| Law Related Services | 1,542 | £43,173 | 1,253 | £246,771 | 1,542 | £57,054 |
| Telecommunications | 1,536 | £43,017 | 1,248 | £245,857 | 1,536 | £56,832 |
| Government | 1,140 | £31,920 | 926 | £182,380 | 1,140 | £42,180 |
| Agricultural Activities | 949 | £26,558 | 771 | £151,831 | 949 | £35,113 |
| Utilities - Gas, Elect, Water | 865 | £24,220 | 703 | £138,477 | 865 | £32,005 |
| Other Food Processing SBS | 816 | £22,849 | 663 | £130,611 | 816 | £30,192 |
| Real Estate & Property Services | 354 | £9,913 | 288 | £56,708 | 354 | £13,098 |
| Fish Processing SBS | 298 | £8,354 | 242 | £47,744 | 298 | £11,026 |
| Security & Protective Services | 165 | £4,613 | 134 | £26,342 | 165 | £6,105 |
| TOTAL | 153,765 | £4,305,420 | 124,934 | £24,611,998 | 153,765 | £5,689,342 |
| Total (Excl. Public Sector)² | 107,636 | £3,013,794 | 87,454 | £17,228,399 | 107,636 | £3,982,539 |

¹ Application levels varied to reflect projected impact of different fee levels

Employment Costs for Small Firms

51. During 2006 IND received approximately 154,000 work permit applications from approximately 30,000 different employers. Within these figures there are some very large users – one employer accounts for over 4,000 applications – and many thousands of employers who have made only one application. Table 6 below shows the number of firms that employ certain numbers of migrant workers on a work permit.

Table 6³

| Number of Work Permits Issued to Firm | Number of firms |
|---------------------------------------|-----------------|
| > 500 | 26 |
| 250-499 | 40 |
| 100-249 | 90 |
| 50-99 | 184 |
| 25-49 | 488 |
| 10-24 | 1,564 |
| 5-9 | 2,762 |
| 4 | 1,458 |
| 3 | 2,518 |
| 2 | 5,793 |
| 1 | 18,716 |
| Total | 33,639 |

52. We do not hold statistical information on the size of a company making an application. It is therefore difficult to profile a typical customer, and to assess the financial impact on them. Figures taken from a Work Permits (UK) consultation in 2002 showed that approximately 27% of applications were made by small businesses.⁴ We have used this assumption in the below calculations as we would expect work permit applications to be mainly generated by middle to large businesses.

53. Assuming small businesses still account for approximately 27% of the applications then the additional employment costs for small firms would be:

- Cost recovery regime – **£1.1m** to move to new baseline cost-recovery fees
- Value to the migrant regime - **£6.6m** to move to this pricing strategy
- Value to the migrant and UK PLC competitiveness - **£1.5m** to move to this pricing strategy

² We estimate that the approximately 30% of work permits are issued to the public sector; hence the impact on the private sector will be 70% of the total additional burden.

³ The data come from Work Permits Management Information on all work permit approvals in 2006 excluding members of groups. The data are not 100% accurate as the same firm may be recorded under two different names, meaning the data are likely to over-estimate the total number of firms, and under-estimate the average number of work permits issued to some firms. These figures should therefore be treated with caution.

⁴ <http://www.ind.homeoffice.gov.uk/6353/6356/17715/closedconsultationsworkperm2.pdf>

54. These additional costs will be spread amongst all the small businesses that employ migrant workers. Many will only employ one migrant worker and hence would only face small additional employment costs. The average turnover for small businesses was approximately £1.4 m in 2005, although the median will be significantly lower than this.⁵ The additional employment costs associated with a change in the pricing strategy for work permit fees will hence be insignificant as a proportion of small firms' average turnovers.

Table 7

| Number of enterprises, employees and turnover in the whole economy by number of employees, UK, start 2005 ⁶ | | | | |
|--|-------------|-------------------------|---|------------------------------------|
| | Number | | | Average Turnover (/ £ million) |
| | Enterprises | Employees (/ 1,000) | Turnover ⁷ (/ £ million) | |
| Whole economy | | | | |
| All enterprises ⁸ | 4,423,500 | 25,094 | 2,636,420 | 596,003 |
| With no employees ⁹ | 3,169,370 | 407 | 193,460 | 61,041 |
| All employers | 1,254,135 | 24,687 | 2,442,960 | 1,947,924 |
| 1-4 | 823,085 | 1,797 | 210,141 | 255,309 |
| 5-9 | 220,470 | 1,440 | 151,317 | 686,338 |
| 10-19 | 113,250 | 1,527 | 157,433 | 1,390,137 |
| 20-49 | 59,355 | 1,804 | 198,518 | 3,344,588 |
| 50-99 | 18,910 | 1,306 | 151,410 | 8,006,875 |
| 100-199 | 8,945 | 1,240 | 170,791 | 19,093,460 |
| 200-249 | 1,880 | 418 | 50,005 | 26,598,404 |
| 250-499 | 3,730 | 1,300 | 197,137 | 52,851,743 |
| 500 or more | 4,510 | 13,856 | 1,156,208 | 256,365,410 |
| Small (1-49) | 1,216,160 | 6,568 | 717,409 | 1,419,093 |
| Medium (50-249) | 29,735 | 2,964 | 372,206 | 17,899,580 |
| Large (>250) | 8,240 | 15,156 | 1,353,345 | 154,608,576 |

55. The impact on small firms will vary by sector and by their ability respond to employment cost increases compared to competing firms. However, it is important to note two things: firstly, it is likely that many firms employ migrants in each sector – hence many firms will face similar increases in employment costs; secondly, total employment costs will only rise by a small proportion, as the main costs of employment are associated with wages and NICs rather than the price of a work permit or work permit LTR application.

56. We therefore judge that there will be no significant or disproportionate impact on small businesses due to the proposed regulations. However, it is clear that cost recovery will have the lowest impact on small firms, the value to migrant and UK PLC's competitiveness pricing regime will have the next lowest impact and pricing solely on the value to the migrant will have the greatest impact.

⁵ Small Business Service Analytical Unit: www.sbs.gov.uk

⁶ Data from the Small Business Service Analytical Unit, 2005.

⁷ All turnover figures exclude financial intermediation firms where turnover is not available on a comparable basis.

⁸ Numbers of enterprises are rounded in order to avoid disclosure. Consequently, the "All Enterprises" and "All Employers" may not exactly match the sum of their parts.

⁹ "With no employees" comprises sole proprietorships and partnerships comprising only the self-employed owner-manager(s), and companies.

Small Firms Consultation Responses

57. The consultation set out to assess the impact on small businesses, and question 7 asked: *“How might any impact on small and medium-sized businesses be minimised?”*

58. Popular responses to this question included:

- Support to businesses through simple guidance and access to consistent helpline advice. A specific example highlighted was for clear and coherent routes from study into work for international students so that employers are able to understand these and what they must do to recruit international graduates.
- Competitive prices and benchmarked against other countries
- Introduce differential pricing for the non-profit sector and also a group fee for entertainers and cultural artists.
- Review the impact of the charging system regularly.

Competition assessment

59. The proposals to change the pricing strategy for immigration and nationality fees could have a number of possible impacts that may affect competition among markets:

- Impact on tourism industry due to a fall in visitor numbers (due to increased visa fee).
- Impact on employers of migrant workers (higher employment costs due to increased work permit fee).
- Spillover impacts to firms with significant links to tourism industry.
- Spillover impacts to firms with significant links to sectors in which high numbers of migrants are employed.
- Impacts on universities and colleges educating foreign students.

60. The impact of an increase in the price of a work permit could have an effect on any company that is employing (or will employ) non-EU workers. 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 2 above).

61. 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.

62. The largest sector is the Health sector. The majority of these workers will be employed by the NHS and hence do not need to be included for the purposes of a regulatory impact assessment. The next largest sectors are Computer Services and Administration, Business and Management (a catch-all category that comprises of firms in a wide range of sectors – the largest in terms of migrant employment being the management consulting sector). The next largest sectors are Hospitality & Catering, Financial Services and Education.

63. In none of these sectors do we estimate that any one firm has more than 10% of the market share. The use of migrant workers by employers is the result of shortages of particular types of labour. Migrant workers tend to be concentrated in sectors rather than specific firms within sectors. This should not create any competition issues as the proposals apply equally to all firms in a particular sector.

64. Whilst we do not anticipate any significant impacts on competition, it should be noted that we would expect any impacts to be greater for the regimes where the price of a work permit changes the most. In this case, cost recovery would have the lowest impact on competition. Pricing on value to migrant and international competitiveness would have a slightly higher impact and pricing on value to migrant alone would have the highest impact.

Social impacts

65. No impacts on health or rural proofing were identified.

66. Please see the Race Equality Impact Assessment, which can be found on the Immigration and Nationality Directorate's website: www.ind.homeoffice.gov.uk.

Environmental impacts

67. None identified.

Legal aid impacts

68. The fee changes will not involve a change to the qualifying criteria for work permit or leave applications. As a result, no increase in the number of appeals is anticipated. In view of this and as many migrants do not qualify for legal aid, no impact is identified.

Enforcement, sanctions and monitoring

69. It will be important to monitor impacts on volumes, sectors, small businesses and competition after the regulations have been introduced. This will ensure that any adverse impacts or unintended consequences that arise can be monitored, and any mitigating action be identified effectively and efficiently.

Implementation and delivery plan

70. We are working with policy colleagues throughout IND to ensure that all forms and guidance are amended as part of the implementation of the new work permit fee. We will provide advice on the IND website for the new fee levels and a Frequently Asked Questions document for customers to explain the changes.

Post-implementation review

71. Application trends are monitored by IND on a monthly basis. This analysis will be considered by the cross-Whitehall Fees Committee to ensure that the fee levels generate sufficient revenue to meet delivery costs but do not adversely impact on the UK economy. In addition, more qualitative information from stakeholder groups will be incorporated into fee reviews.

72. As the Government begins to implement the transition to the Points Based Scheme, we will review the impact of fee levels to ensure that the objectives continue to be delivered.

Summary and recommendation

Summary costs and benefits table

| Option | Total benefit per annum: economic, environmental, social | Total cost per annum: - economic, environmental, social - policy and administrative |
|--|---|--|
| (i) Pricing based on cost recovery: Work permit £181 | <ul style="list-style-type: none"> ○ Clear link between costs and fee levels ○ Lowest impact on competition and small firms | <ul style="list-style-type: none"> ○ £4.3m impact on UK business above 2006/07 levels ○ Does not raise sufficient revenue to support objectives |
| (ii) Pricing based on value to migrant only: Work permit £350 | <ul style="list-style-type: none"> ○ Fees set on value to migrant | <ul style="list-style-type: none"> ○ £20.6m impact above current levels on UK business ○ Substantial volume risk including 28,831 reduction in work permit applications ○ Highest impact on competition and small firms |
| (iii) Pricing based on value to the migrant and international competitiveness: Work permit £190 | <ul style="list-style-type: none"> ○ Fees set according to variety of factors; value to the migrant, price sensitivity, value to the UK ○ Volume risk minimised as fee levels are able to take into account demand thresholds – no forecast work permit reductions ○ Low impact on competition and small firms | <ul style="list-style-type: none"> ○ £5.7m impact above current levels on UK business |

73. We believe that pricing on cost-recovery alone would fail to achieve the Home Office's objectives of funding the additional resources needed to police an effective, end-to-end migration system and so would incur a burden on the UK taxpayer. Cost-recovery would not raise sufficient revenue to fund the transformations proposed. Without a contribution from the UK taxpayer, the fee demands to meet revenue targets would place many migration routes into known volume risk levels.

74. Likewise, we believe that implementing a pricing model based solely upon value to the applicant will also bring about significant volume risk. The indicative work permit fee levels would be far in excess of the price threshold of £200 demonstrated in the market research.

75. The Home Office's recommended regime therefore is pricing immigration fees flexibly based on value to the migrant and other factors, including, for example, international competitiveness. Application modelling forecasts support the belief that this model will generate sufficient funding to meet the Home Office's objectives; the users of the system will pay for more of the costs of its end-to-end operation; fees will be set at levels to reflect the entitlements they benefit from, whilst maintaining the UK as an attractive destination for those coming here to work, study or visit.

Declaration and publication

I have read the regulatory impact assessment and I am satisfied that the benefits justify the costs

Signed

Date

Liam Byrne MP, Minister of State, Home Office

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