

Impact Assessment, The Home Office

Title: Increasing the Immigration Health Surcharge, 2023

Date: 06 October 2023

IA No: HO 0459

Stage: FINAL

RPC Reference No: N/A

Intervention: Domestic

Other departments or agencies:
Department for Health and Social Care

Measure: Secondary legislation

Enquiries:
CompliantEnvironmentandEnforcement@homeoffice.gov.uk

RPC Opinion: N/A

Business Impact Target: Not a regulatory provision

Cost of Preferred Option (in 2023/24 prices)

Net Present Social Value NPSV (£m)	5,400	Business Net Present Value BNPV (£m)	-200	Net cost to business per year EANDCB (£m)	N/A
---	-------	---	------	--	-----

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

The government has committed to increasing the Immigration Health Surcharge (IHS) to ensure that it reflects the average use of NHS services during their stay in the UK. The government needs legislation to increase the full rate of the surcharge from £624 to £1,035 per person per year. The discounted rate for students, their dependants, applicants on the Youth Mobility Scheme (YMS), and applicants under the age of 18 would increase from £470 to £776 per person per year. The increase will apply to relevant immigration applications made on or after the date the new surcharge rates come into force.

What is the strategic objective? What are the main policy objectives and intended effects?

The strategic objective is to enable the legitimate movement of people and goods to support economic prosperity. The policy objective is to ensure that the IHS fee reflects the cost of average use of NHS services provided to those who pay the charge during their temporary stay in the UK. This will contribute to the long-term sustainability of the NHS.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 1: 'Do nothing'. No changes are introduced and the Immigration Health Surcharge remains at the current level. This does not meet the government's objectives.

Option 2: Increase the Immigration Health Surcharge to £1,035 per person per year, with a discounted rate of £776 per person per year applicable to students and their dependants, applicants on the Youth Mobility Scheme, and applicants under the age of 18. **This is the government's preferred option** as it best meets the government's objectives.

Main assumptions/sensitivities and economic/analytical risks	Discount rate (%)	3.5
---	--------------------------	-----

Baseline volumes of visa applications are based on Home Office internal planning assumptions. The volumes used are highly uncertain and may not match actual numbers in future published statistics. The impact of increased IHS on volumes is based on assumptions of price elasticity of demand for visas. The analysis uses proxies of the price elasticity for visa demand from academic literature. Exchequer impacts are based on assumed expenditure and associated tax contributions of migrants. Impacts on affordability and demand for fee waivers on eligible visa routes are highly uncertain.

Will the policy be reviewed? Ongoing review.

If applicable, set review date: N/A

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: 18/10/23

Summary: Analysis & Evidence

Policy Option 2

Description: Increase the Immigration Health Surcharge

FULL ECONOMIC ASSESSMENT

Year(s):	Price Base	2023/24	PV Base	2023/24	Appraisal	5	Transition	0
Estimate of Net Present Social Value NPSV (£m)							Estimate of BNPV (£m)	
Low:	4,400	High:	6,200	Best:	5,400	Best BNPV	200	

COSTS, £m	Transition Constant Price	Ongoing Present Value	Total Present Value	Average/year Constant Price	To Business Present Value
Low	-	270	270	60	0
High	-	2,200	2,200	470	510
Best Estimate	-	1,100	1,100	230	200

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

Direct: Home Office: Increase in IHS processing costs **£110 million**, Public Sector: Additional net cost from increase in visas granted with a fee waiver **£250 million**

Indirect: UK Exchequer: Reduction in tax revenue **£420 million**, Education sector: Reduction in tuition fee revenue **£200 million**, Home Office: Lower visa fee revenue due to lower application volumes from IHS increase **£20 million**, Loss in Premium Service revenue **£2 million**, Department for Health and Social Care: Reduction in IHS revenue **£50 million**

Transfers: His Majesty's Government: **£10 million**

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

The monetised cost of migrant spending modelled in this IA covers the proportion of spending accrued to the government. There may be wider indirect costs to businesses which are not monetised but are considered qualitatively.

BENEFITS, £m	Transition Constant Price	Ongoing Present Value	Total Present Value	Average/year Constant Price	To Business Present Value
Low	-	4,700	4,700	1,000	0
High	-	8,400	8,400	1,800	25
Best Estimate	-	6,500	6,500	1,400	10

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

Direct: Department for Health and Social Care: Increased revenue from higher IHS **£6.2 billion**

Indirect: UK Exchequer: Lower public service provision costs **£270 million**; UK Visa & Immigration: Lower visa processing costs **£4 million** and Lower Certificate of Sponsorship (CoS)/ Confirmation of Acceptance for Studies (CAS) processing costs **£2 million**, Home Office: Lower Immigration Skills Charge (ISC) processing costs **£200,000**

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

Lower immigration to the UK may result in wider benefits, for example, reduced housing costs and reduced transport congestion; such impacts are expected to be small. Ensuring the surcharge is set at a level that reflects the cost of average use of the National Health Service (NHS) services of those who pay it may increase public confidence in the immigration system. Revenue collected from the surcharge will be re-invested in the health service, contributing to its sustainability.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:										
Cost, £m	0	Benefit, £m	0	Net, £m	0					
Score for Business Impact Target (qualifying provisions only) £m:					N/A					
Is this measure likely to impact on trade and investment?					No					
Are any of these organisations in scope?			Micro	N/A	Small	N/A	Medium	N/A	Large	N/A
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)					Traded:	N/A	Non-Traded:	N/A		

PEOPLE AND SPECIFIC IMPACTS ASSESSMENT (Option 2)

Are all relevant Specific Impacts included?	N/A	Are there any impacts on particular groups?	N/A
---	-----	---	-----

A. Strategic objective and overview

A.1 Strategic objective

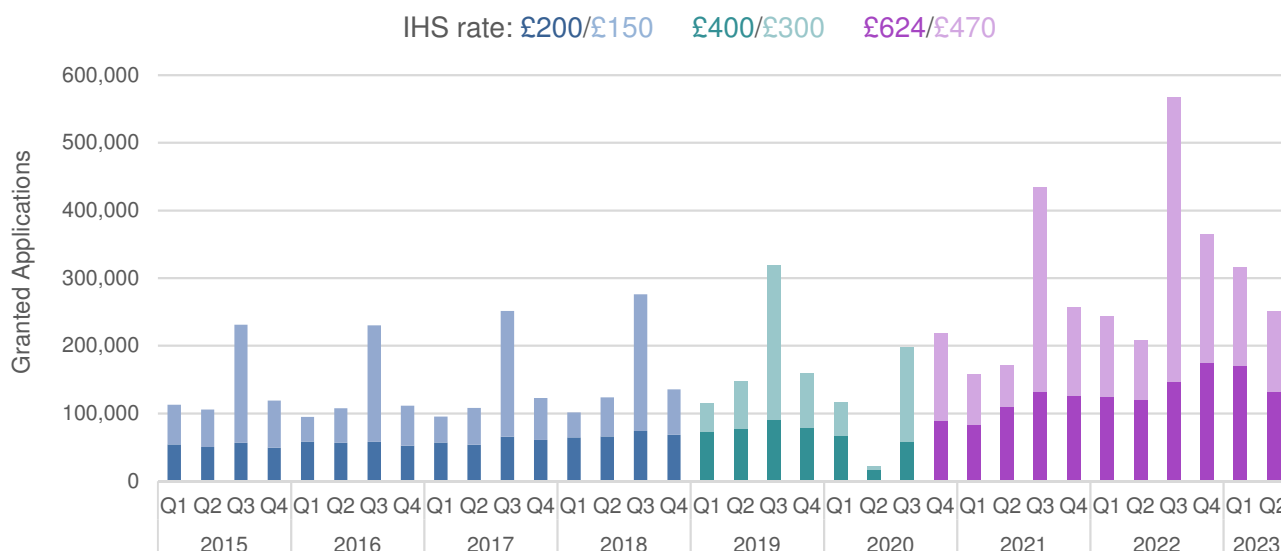
1. The strategic objective is to enable the legitimate movement of people and goods to support economic prosperity. The policy objective is to support the sustainable funding of the NHS. The revenue generated by these changes reflects the increase in costs faced by the NHS in treating migrants on IHS-liable immigration routes since the previous increase in 2020.

A.2 Background

2. The IHS is paid by individuals subject to immigration control coming to the UK to work, study or join family for more than six months and migrants in the UK seeking to regularise or extend their stay. It is paid upfront and covers healthcare for the duration of the person's immigration permission in the UK. Although the majority of migrants are required to pay the IHS to access NHS healthcare, exemptions from the charge exist in line with our international obligations and previous ministerial commitments. These include protection categories, for example asylum applications and those on the Skilled Worker: Health and Care route.
3. The IHS is currently set at a fixed amount: £624 per adult per annum. There is a discounted rate of £470 per annum for students, their dependents, those on Youth Mobility Scheme (YMS) visas and under-18s (the under-18s discount was implemented alongside the last uplift in October 2020 following concerns over affordability).
4. Those who pay the surcharge can access NHS services generally free of charge whilst their immigration permission remains valid, subject to those charges UK residents must pay for, such as prescriptions and dental treatment in England. Those who pay the surcharge are also subject to NHS charges for assisted conception services in England under the National Health Service (Charges to Overseas Visitors) (Amendment) Regulations 2017. Income from the surcharge, minus an amount the Home Office retains to cover its costs, is distributed between the devolved health administrations for health spending purposes under the Barnett Formula.¹
5. In the year to Q2 2023, the latest available data, an estimated 1,500,000 visas were granted on IHS-liable routes; this includes entry clearance visas (out of country) and extensions (in country). Approximately 42 per cent of successful applicants paid the current full IHS rate of £624 per annum, with the vast majority of the remainder paying the reduced rate. Figure 1 illustrates the estimated number of visas issued on IHS-liable routes since the introduction of the surcharge. The surcharge generated over £1.7 billion of NHS revenue for the UK in 2022/23.

¹ see for example, The Barnett formula and fiscal devolution - House of Commons Library (parliament.uk): <https://commonslibrary.parliament.uk/research-briefings/cbp-7386/>

Figure 1: Granted IHS-liable visas, by full and reduced rate, Q1 2015 to Q2 2023



Source: Home Office analysis of published statistics to estimate the volume of IHS applications. While ineligible routes are not included in this analysis (for example, Health and Care, Visit visas, Seasonal Workers), these volumes may represent an overestimate as there may be some applications under an eligible route (for example, Skilled Worker) for a period of under six months which would not be IHS liable but included in this data.

A.3 Groups affected

6. The proposed policy package affects customers applying to come to the UK to work, study or join family for more than six months and migrants seeking to regularise or extend their stay with the exception of certain immigration routes and categories of migrant. There are a range of exemptions from payment of the IHS. These exemptions are broadly based on UK treaty obligations, international agreements and previous ministerial commitments. The exemptions from charge include protection cohorts such as asylum seekers, victims of human trafficking and stateless individuals and cohorts exempt on the basis of international agreements such as applicants to the EU Settlement Scheme.
7. Exemptions are also in place to respond to specific events, for example migrants displaced by the war in Ukraine are exempt from payment of the IHS if applying to the Ukraine schemes.² Migrants employed in the Health and Care Work sectors are also exempt, due to the vital contributions they make to the NHS through their work.
8. Migrants applying to enter the UK for six months or less do not pay the IHS, this reflects the temporary nature of the visa granted. Migrants applying for Indefinite Leave to Remain also do not pay the IHS, this is due to the strength of their connection to the UK, migrants with Indefinite Leave to Remain are deemed ordinarily resident within the UK and can access NHS treatment on the same basis as UK residents.
9. A full list of exemptions from charge can be found on GOV.UK.³

A.4 Consultation

10. No public consultation was undertaken prior to the announcement of the policy. The proposal appraised in this impact assessment has been agreed with other government departments (OGDs).

² [UK visa support for Ukrainian nationals - GOV.UK \(www.gov.uk\)](https://www.gov.uk/uk-visa-support-for-ukrainian-nationals)

³ <https://www.gov.uk/healthcare-immigration-application/who-needs-pay>

B. Rationale for intervention

11. The rationale for the introduction of the immigration health surcharge is set out in the impact assessment dated 28 January 2015 which was laid with the draft Immigration (Health Charge) Order 2015.⁴ In its 2019 Manifesto, the government committed to increasing the surcharge to a level that reflects broadly the cost of average use of NHS by temporary migrants during their stay in the UK.
12. In Spring 2023, the Department for Health and Social Care (DHSC) reviewed the cost to the NHS in England of treating those who pay the surcharge and identified that costs are now higher than the current IHS level of £624. Significant increases in healthcare costs for the whole population since 2020, combined with updated evidence and assumptions about IHS payers' use of services, have led to the rise.
13. Using the same methodology as in 2020, with updated inputs, DHSC have estimated that the average healthcare costs for those who pay the surcharge amounts to £1,036 in 2023/24. Rounded down to the nearest £5, the proposed rate of £1,035 (with a reduced rate of £776 to reflect the continued 25 per cent discount for Students and their dependants, those on the YMS and children aged under the age of 18) most closely reflects the costs to the NHS of treating IHS payers. Further information on the DHSC methodology underpinning the £1,036 cost-recovery estimate can be found in **Annex A**.

C. Policy objective

14. The policy objective is to increase the surcharge to a level that reflects the average annual cost of NHS services available to those who pay the surcharge. This will contribute to the long-term sustainability of the NHS.

D. Options considered and implementation

15. Two options have been considered:

Option 1 – 'Do nothing'

16. Under **Option 1** 'Do nothing', surcharge liable temporary migrants and their adult dependants would continue to pay the IHS at the current full rate of £624 per person per year and £470 per person per year for the discounted rate, applicable to students and their dependents, those on the YMS and children aged under 18.

Option 2 – Increase the IHS to £1,035 (full rate) and £776 (reduced rate) per person per year

17. Under **Option 2**, surcharge liable temporary migrants and their adult dependants would pay £1,035 per person per year, while students, their dependants, those on YMS and children under 18 would pay a discounted rate of £776 each per year. **This is the government's preferred option as it best meets the government's objectives**, in particular ensuring that those that come to the UK make a contribution that reflects the average annual cost of surcharge payers use of the NHS.

⁴ The Immigration (Health Charge) Order 2015 - Impact Assessment (legislation.gov.uk)
<https://www.legislation.gov.uk/ukdsi/2015/9780111128473/impacts>

E. Appraisal

18. The analysis produces a net present social value (NPSV) of the increase in the IHS under **Option 2** using the Home Office's central scenarios of future visa demand volumes; responsiveness of applicants to changes in the IHS (price elasticity of demand); fiscal pressure (public spending) per migrant; and fiscal revenue collected per migrant. A low scenario is generated around the central fiscal pressure and revenue cases using low elasticity and low visa demand assumptions. Similarly, a high scenario applies high elasticity and high visa demand assumptions around the central fiscal pressure and revenue cases.
19. Section **E.10** on sensitivity analysis outlines further ranges around the central estimate by varying assumptions on application volumes, price elasticity, fiscal pressure per migrant and fiscal revenue collected per migrant.
20. Due to the wide range of estimates outlined in this analysis, a standardised approach to rounding numbers has been implemented. If estimates in this analysis are less than £1 million, it is rounded to the nearest £0.1 million. If it is less than £10 million, it is rounded to the nearest £1 million. If it is between £10 million to £100 million, it is rounded to the nearest £5 million. If it is between £100 million and £1 billion, it is rounded to the nearest £10 million and if it is above £1 billion, it is rounded to the nearest £0.1 billion. Exemptions to this assumption will be set out if and where necessary.

E.1 General assumptions and data

E.1.1 Analytical approach

21. In line with previous Home Office analysis and following recommendations by the Migration Advisory Committee (MAC)⁵, this impact assessment (IA) considers the impact of the options on the welfare of the UK resident population. As the MAC acknowledges, the resident population is not simple to define. In this IA, the resident population is considered to be UK nationals and migrants at the point of application for naturalisation as British citizens. For the purpose of this IA, applicants for entry clearance and leave to remain (LTR) products, therefore all products in scope to pay the IHS, are not considered as part of the resident population.
22. Besides the effect on government revenue and processing costs due to changes in the surcharge level, the NPSV calculation includes the effect of changes in contributions to direct and indirect taxes, the effect on consumption of public services and on tuition fees paid by international students. Foregone migrant wages are not included in the NPSV calculations in line with MAC recommendations, as the IA does not consider the impact on overall GDP.

E.1.2 Appraisal period

23. The policy is appraised for five years, covering the period Q4 2023/24 to Q3 2028/29 (inclusive). The estimates presented in this IA assume that the surcharge level remain at the proposed level throughout the appraisal period. This should not however be interpreted as an indication of future surcharge fee levels beyond 2023/24, as the surcharge level will be kept under review.

E.1.3 Baseline volumes

24. The baseline volume of applicants for each visa product is based on Home Office internal estimates of expected applications over the appraisal period (Q4 2023/24 to Q3 2028/29), notwithstanding the policy change under **Option 2**. The volumes are used as the baseline against which the impact of proposed change in the IHS is assessed. The estimates of future migrant demand for visa products across all immigration routes are projected up to the end of the 2028/29 financial year.
25. The volume estimates used in the baseline are reflective of the state of the immigration system at the time of producing this IA (early October 2023) and, as such, include potential impacts on visa demand

⁵ MAC; "Analysis of the Impact of Migration"; January 2012. <https://www.gov.uk/government/publications/analysis-of-the-impacts-of-migration>

from recent immigration policy such as increasing salary thresholds on the skilled worker route,⁶ restricting who can bring dependants on the student route, and increasing fees across the immigration system.⁷

26. Home Office internal estimates of future application demand are indicative in nature and should be interpreted as such. This is due to uncertainty around the assumed behaviour of future visa applicants, particularly due to any lasting impact of COVID-19 and the associated recovery of visa volumes.
27. Table 1 outlines the estimated volume of applicants affected by the proposed IHS increase, grouped by wider immigration category following the adjustments set out above in the central scenario. The volumes reflect both main applicants and their dependants. The volumes do not represent all immigration products issued by the Home Office because routes which are not impacted by **Option 2** are not included.

Table 1: Estimated visa application volumes (central scenario) for the period 2023/24 to 2028/29

Visa type		2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Out of country	Investor, business development and talent work visas	11,000	11,000	11,000	11,000	11,000	11,000
	Sponsored skilled work visas	219,000	185,000	193,000	200,000	207,000	214,000
	Study visas	641,000	577,000	592,000	612,000	631,000	646,000
	Temporary work visas	50,000	55,000	56,000	57,000	57,000	58,000
	Family visas	64,000	68,000	72,000	73,000	74,000	75,000
	Other visas*	31,000	29,000	28,000	28,000	28,000	28,000
In country	Investor, business development and talent work visas	5,000	5,000	5,000	5,000	5,000	5,000
	Sponsored skilled work visas	220,000	195,000	278,000	395,000	569,000	628,000
	Graduate route	176,000	183,000	201,000	211,000	216,000	208,000
	Study visa	64,000	69,000	78,000	81,000	83,000	82,000
	Temporary work visas	4,000	9,000	16,000	16,000	16,000	16,000
	Family visas	171,000	183,000	185,000	187,000	189,000	190,000
	Other visas*	12,000	10,000	8,000	7,000	7,000	7,000

Source: internal Home Office planning assumptions, rounded to the nearest thousand.

* Other visas include the Hong Kong BN(O) scheme and the Ancestry route

28. Low and high volume scenarios are generated to account for the uncertainty of the baseline. The low volume scenario is constructed under the assumption of baseline volumes being 25 per cent lower than in the central case. In a similar manner, the high volume scenario assumes that baseline volumes are 25 per cent above the central level.

E.1.4 Grant rates

29. IHS revenue is only collected on granted visas, as the charge is refunded on applications which are refused, void, or rejected. The rates of visas granted under each route is calculated using internal Home Office data and are summarised in **Annex B**. Table 2 illustrates the estimated numbers of granted visas in the baseline in the central scenario.

⁶ [Immigration Rules salary impact assessment \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

⁷ [Impact assessment for Immigration and Nationality \(Fees\) Regulations \(Amendment\) 2023 RPC Opinion: N/A \(legislation.gov.uk\)](https://legislation.gov.uk)

Table 2: Estimated visa application grants (central scenario) for the period 2023/24 to 2028/29

Visa type		2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Out of country	Investor, business development and talent work visas	10,000	10,000	10,000	10,000	10,000	10,000
	Sponsored skilled work visas	205,000	173,000	180,000	186,000	193,000	200,000
	Study visas	614,000	558,000	572,000	592,000	610,000	624,000
	Temporary work visas	49,000	54,000	54,000	55,000	56,000	57,000
	Family visas	56,000	60,000	63,000	64,000	65,000	66,000
	Other visas	31,000	29,000	28,000	28,000	28,000	28,000
In country	Investor, business development and talent work visas	5,000	5,000	5,000	5,000	5,000	5,000
	Sponsored skilled work visas	204,000	182,000	259,000	368,000	529,000	584,000
	Graduate route	173,000	179,000	197,000	207,000	211,000	204,000
	Study visa	64,000	69,000	78,000	81,000	83,000	81,000
	Temporary work visas	4,000	9,000	16,000	15,000	16,000	16,000
	Family visas	169,000	181,000	183,000	184,000	186,000	188,000
	Other visas	12,000	10,000	8,000	7,000	7,000	7,000

Source: internal Home Office planning assumptions, rounded to the nearest thousand.

E.1.5 Length of Stay

30. The IHS levied is based on the length of visa, or immigration permission, granted:

- **Full year charge:** For each full year, under **Option 2**, a full rate of £1,035 or a reduced rate of £776 would be charged.
- **Six months or less:** For a period of six months or less from outside the UK, there is no requirement to pay the surcharge. For a period of six months or less from inside the UK, half the annual cost (£517 full rate and £388 reduced rate) would be charged.
- **More than six months but less than one year:** A full rate of £1,035 and a reduced rate of £776 would be charged.
- **More than one year:** For visas, or leave to remain, granted for more than a year, the yearly cost plus half the yearly cost is chargeable for 18 months or less while the cost of 2 full years is chargeable if it is for more than 18 months but less than 2 years.

31. In order to estimate the revenue generated through the increase in the charge under **Option 2**, the average length of visas granted under each of the IHS liable routes is multiplied by the six-monthly IHS rate to generate the average IHS payable under each route.

E.1.6 Fee levels and unit costs

32. **Annex C** outlines the published visa and unit costs for each IHS chargeable immigration route and provides further detail on how these are calculated. Unit costs and visa fees are assumed to remain

unchanged across the appraisal period; this should not be treated as an indication of future policy as visa fees are reviewed and amended on a regular basis.

33. In addition to visa fees, migrants may wish to receive an expedited decision on their application, if the underlying visa route offers this option. A priority service, which costs £500, has a turnaround time of 5 days; a super priority service processes the application in a day and costs £1000 per person. Any impact on priority service revenue collected by the Home Office is included in the analysis.
34. Fees are also levied on organisations sponsoring migrants for a visa. Domestic businesses wishing to sponsor foreign workers are subject to pay a Certificate of Sponsorship (CoS) fee, currently levied at £199 per individual migrant on skilled work routes and £21 on temporary work routes. Similarly, domestic education institutions sponsoring international students to enter and/or remain in the UK through the Student route are subject to a Confirmation of Acceptance for Studies (CAS) fee, set at £21 per individual. Sponsorship fees are only applicable to main applicants (that is, the sponsored individual), not their dependants. Any impact on CoS/CAS revenue and burden is included in the analysis.

E.1.7 Immigration Skills Charge (ISC)

35. Employers sponsoring migrant workers under Skilled Worker, Global Business Mobility, Health and Care (not included in this analysis as the route is exempt from paying the IHS), and Shortage Occupation List visa products are subject to pay the ISC⁸, for every employee who is assigned a CoS when applying to work in the UK for six months or more. ISC is applicable to overseas hires (out-of-country applicants), visa extensions and visa switches (in-country applicants). For the first 12 months of the length of employment stated on the CoS, current ISC fees are set at £364 for small or charitable sponsors, or at £1,000 for medium or large sponsors. Each additional six-month period of time is charged at £182 for small or charitable sponsors, or at £500 for medium or large sponsors. The level of the ISC is assumed to remain unchanged across the appraisal period.

E.1.8 Price elasticity of demand

36. An increase in the surcharge level could deter some potential migrants from applying to enter or remain in the UK. The increase in the surcharge level could therefore have an impact on the number of visa applications received each year.
37. There is very limited academic research on the price elasticity of demand for visas. Home Office internal research has not found any evidence of a statistically significant relationship between small changes in visa fees and application volumes for visa products. Absence of evidence does not necessarily imply that application volumes are independent from visa fees.
38. To avoid the risk of under-estimating the impact of the changes, the analysis approximates the price elasticity of demand for visas to estimates from academic literature developed in similar contexts. Further detail can be found in the Home Office's *(A) review of evidence relating to the elasticity of demand for visas in the UK* published in March 2020.⁹
39. The elasticity assumptions used to estimate the impact on application volumes from an increase in the IHS across products are detailed in Table 3. The elasticities identified for each visa category, alongside assumptions on baseline application volumes, are used to produce a range around the NPSV impact of the proposed fee maxima in **Option 2**. These are discussed below.

Work-related visas

40. Estimates for the wage elasticity of labour supply are applied to approximate the price sensitivity of applicants for work-related visas (such as those under high value, sponsored skilled work, and temporary work routes). Wage elasticity of labour supply measures the responsiveness of an individual's willingness to work (in essence, supply labour) to changes in wages. This is applied to expected migrant earnings (over the whole duration of the visa) to estimate any impact on migrant

⁸ Some exemptions may apply. Exemptions are set out in UK visa sponsorship for employers: Immigration skills charge - GOV.UK: <https://www.gov.uk/uk-visa-sponsorship-employers/immigration-skills-charge>

⁹ A review of evidence relating to the elasticity of demand for visas in the UK – GOV.UK:

<https://www.gov.uk/government/publications/a-review-of-evidence-relating-to-the-elasticity-of-demand-for-visas-in-the-uk>

volumes arising from the proposed fee changes. Increases in visa fees are considered as equivalent to a reduction in the overall benefit of working in the UK (representing a pay cut) and are thus estimated to reduce labour supply and, in turn, application volumes.

41. The central NPSV scenario assumes a relatively small inelastic reduction in the aggregate willingness to supply labour as a result of changes in visa fees, applying an elasticity of -0.3. This is within the range of the most relevant UK study by Blundell, Bozio and Laroque (2011), who estimated an elasticity of -0.3 to -0.44.¹⁰ A low scenario assumes a zero response to the change in wage, while a high scenario uses an elasticity twice that of the central scenario, equal to -0.6.

Study visas

42. Student visa products allow applicants to purchase education in the UK. The price sensitivity of international students can be estimated using the price elasticity of demand for higher education. This is applied to the overall costs of undertaking higher education in the UK to estimate any changes in application volumes from individuals entering the UK for study-related reasons as a result of changes to study-related visa fees.
43. A central NPSV scenario assumes an inelastic reduction in the demand for higher education as a result of changes in visa fees. The elasticity value was chosen from a study consistent with international students coming to the UK (Conlon, Ladher and Halterbeck, 2017)¹¹ where a weighted average of -0.4 was calculated as a central estimate. A low scenario assumes a zero response to the change in price, while the high scenario assumes that the response is twice as strong as the central scenario, with a value of -0.8.

Family visas

44. The price sensitivity of applicants under the family route is assumed to be similar to that of migrants supplying labour. Family visas grant permission to undertake paid work, therefore it is reasonable to assume that applicants under the family route are likely to either search for or undertake paid work.
45. A wage elasticity of -0.3 is applied to the central scenario. It is possible that the true elasticity would be closer to zero, as applicants are joining family members rather than applying for strictly economic reasons such as to work. The analysis uses an elasticity range of 0 to -0.6 reflecting the available evidence, uncertainty, and range of possible deterrence risks.

Dependants of migrants

46. Individuals applying to join family members who are in the UK with a valid work or study visa are assumed to have the same price sensitivity as main applicants under those routes. The wage elasticity of labour supply would apply for dependants of work-related visa holders, whereas the price elasticity of demand for higher education would be applicable to dependants of students.
47. Individuals applying to remain in the UK as a dependant under their family member's visa are also assumed to have the same price sensitivity as the main applicant. Although in-country dependants are already in the country, their decision on whether to renew the visa they currently hold is conditional on the main applicant's leave to remain in the UK. The wage elasticity of labour supply would apply for dependants of work-related visa holders, whereas the price elasticity of demand for higher education would be applicable to dependants of students.

¹⁰ Blundell, Richard, Antoine Bozio, and Guy Laroque. 2011. "Labor Supply and the Extensive Margin." *American Economic Review*, 101 (3): 482-86. <https://www.aeaweb.org/articles?id=10.1257/aer.101.3.482>

¹¹ Conlon, G.P., Ladher, R., Halterbeck, M. (2017) The determinants of international demand for UK higher education: <https://www.hepi.ac.uk/wp-content/uploads/2017/01/Hepi-Report-91-Screen.pdf>

Table 3: Elasticities used to analyse the impact of changing fees

Elasticity type	Justification	Applicable immigration product	Magnitude		
			Low	Central	High
Price elasticity of demand for higher education	Price elasticity of demand for higher education is used as a proxy for migrant price elasticity of demand for all types of education accessed through the student route.	Student visa and dependants	0	-0.4	-0.8
Wage elasticity of labour supply	The wage elasticity of labour supply is used to estimate the impact on migrant volumes of the proposed fee changes, as fee changes represent a change in expected wages, and thus changes to labour supply	All sponsored skilled work, and temporary work visas; and their dependants	0	-0.3	-0.6
	The price sensitivity of long-term migrants is assumed to be similar to that of migrants supplying labour. Family visas grant permission to undertake paid work, therefore it is reasonable to assume that applicants under the route are likely to either search for or undertake paid work.	Family routes			

Source: A review of evidence relating to the elasticity of demand for visas in the UK: <https://www.gov.uk/government/publications/a-review-of-evidence-relating-to-the-elasticity-of-demand-for-visas-in-the-uk>

E.1.9 Fee Waivers

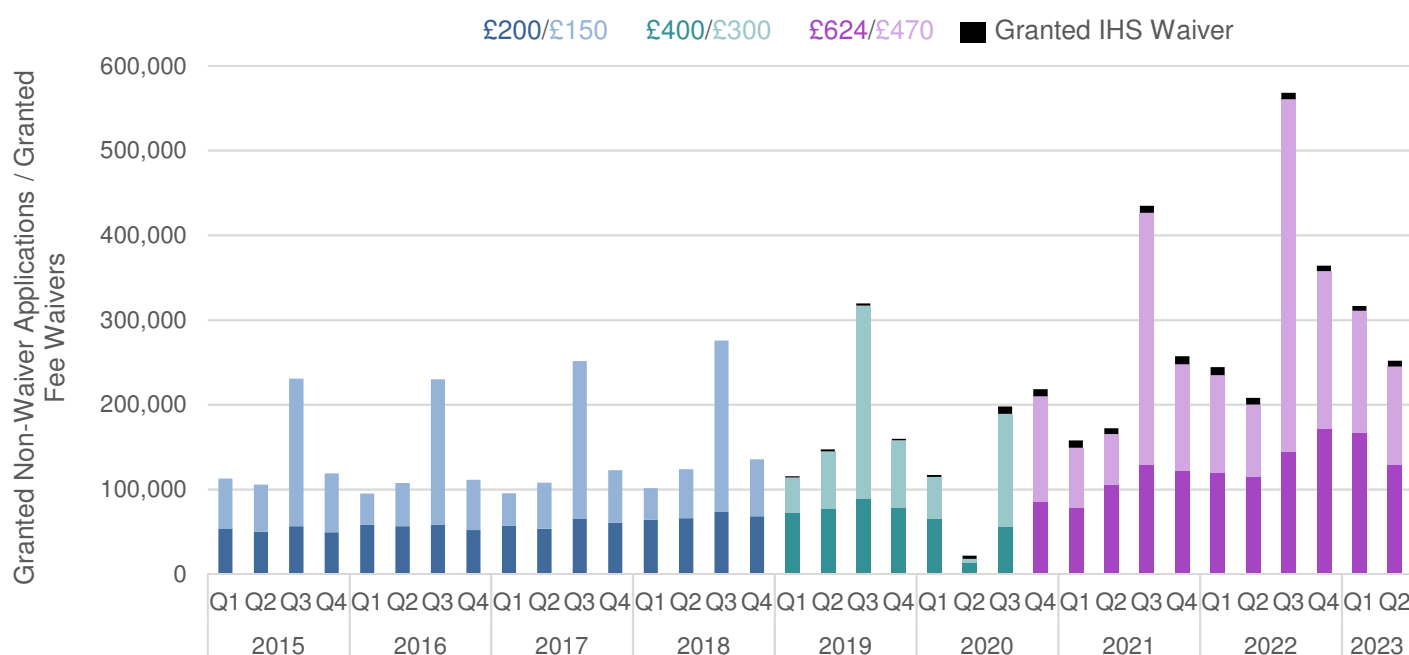
48. The provision of fee waivers for Human Rights applications is necessitated by the European Convention on Human Rights and the Human Rights Act, fee waiver applications ensure the Home Office is compliant with convention rights. These waivers ensure that the department meets its international obligations including under Article 8 of the European Convention on Human Rights. The Home Office offers a discretionary affordability-based fee waiver for applicants on a limited selection of Family and Human Rights (FHR) immigration routes, should the applicant be deemed not to be able to afford to pay their visa and/or IHS fees due to:
- not having a place to live in the UK or not being able to afford one;
 - having a place to live but not being able to afford essential living costs like food or heating;
 - having a very low income and paying immigration fees and charges would harm their child's wellbeing.
49. A fee waiver can be either full (where both the visa and/or nationality fee and payment of the IHS are waived) or partial (where only the payment for the IHS is waived, while the immigration and nationality fees are still applicable).
50. Table 4 summarises the historic number of FHR visa applications and applications for fee waivers from in-country applicants from April 2019 to March 2023. Figure 2 puts the volume of granted fee waivers in the context of all granted IHS-liable visa grants since the IHS was introduced in 2015.

Table 4: In-country FHR applications and fee waiver applications

	Total FHR Applications	FHR paid applications [1]	Fee Waiver Applications [2]	Granted Fee Waiver Applications
Year ending March 2023 [3]	79,000	51,000	42,000	28,000
Year ending March 2022	95,000	59,000	49,000	36,000
Year ending March 2021 [4]	79,000	49,000	38,000	30,000
Year ending March 2020	54,000	44,000	20,000	11,000

Source: Home Office analysis of internal Management Information data¹² rounded to the nearest thousand.

Figure 2: Volumes of granted visas on IHS-liable routes, by full and reduced rate and granted fee waivers, Q1 2015 to Q2 2023



Source: Home Office analysis of published statistics to estimate the volume of IHS applications. While ineligible routes are not included in this analysis (for example, Health and Care, Visit visas, Seasonal Workers), these volumes may represent an overestimate as there may be some applications under an eligible route (for example, Skilled Worker) for a period of under six months which would not be IHS liable but included in this data.

51. FHR visas are estimated to represent 1.9 per cent of IHS-liable routes in 2023/24. Since Q4 2020 when the IHS was increased to its current level, granted fee waiver volumes have only represented around less than three per cent of total IHS-liable visa grants. The latest available data show that fee waivers represented less than two per cent of total IHS-liable visa grants in Q1 2023. The six-monthly rolling

12 [1] Assuming that every applicant who was unsuccessful at obtaining a fee waiver paid for their subsequent visa.

[2] All data represents the volume of applications, grants and rejections at a set point in time. Fee waiver applications which were outstanding at the point the data was collected are not included within the figures, as such the total applications do not match the outcomes (grants/ rejections).

[3] Data for the year ending March 2023 is from the central management information estimates, which will not align with published statistics.

[4] The IHS was last increased in 2020. Evidence suggests the increase in Fee Waiver applications since 2020 is at least partly attributed to the previous increase to the IHS. However, due to further external factors such as the COVID-19 pandemic, the cost-of-living crisis and changes to immigration rules it is not possible to confirm direct causality.

average fee waiver demand across the in-country FHR route indicates that 56 per cent of FHR migrants apply for their visa and IHS fees to be waived and 35 per cent are granted a fee waiver.

52. The increase in fee waiver applications (and subsequent grants) coincides with the most recent increase of the IHS, as well as the COVID-19 pandemic and restrictions of movement of people across international borders and it is unclear the magnitude to which each affected waiver applications.
53. The above data considers the impact of in-country FHR applications only. Recent policy changes enable individuals applying out-of-country to come to the UK on an FHR visa, to also be able to apply for their visa and IHS fees to be waived. However internal Home Office evidence suggests that number of out of country fee waiver applications is very small, in the order of magnitude of hundreds of applications. Due to this, and an absence of historic data on out of country fee waiver applications and decisions, only in-country fee waiver applications have been considered further.

Assessment of the impact of increases to the IHS on fee waiver volumes

54. The elasticity methodology used to appraise behavioural changes in response to changes in fees and charges assesses migrants' willingness to pay for immigration products and services, not their ability to do so. As the IHS is levied upfront for the entire duration of a visa, a higher surcharge level may put a financial constraint on migrants on visa routes with longer leave. Applicants for FHR visas where a waiver is available, may be particularly impacted, as the route is long-term and requires continuous applications¹³ from individuals who have links to the UK through their family.
55. While a number of factors will affect the level of fee waivers granted in the absence of further policy changes, this IA assumes that throughout the appraisal period a baseline of 56 per cent of all FHR applications would have been accompanied by a fee waiver application, and 35 per cent of FHR applications would have been submitted using a granted fee waiver in line with the latest data set out in paragraph 51.
56. There is limited evidence to suggest the impact of the changes set out in **Option 2** on the volume of fee waivers applied for and granted. However, given the significant increase in fee waiver applications that correspond with the last increase in the IHS in 2020, it is important to capture the potential impact of this increase on fee waivers.
57. As such, scenario analysis has been used to assess the potential impact on fee waiver demand as a result of policy changes under **Option 2**. In the low scenario, fee waiver grants remain at the most recent level (35 per cent) and there is no increase in granted fee waiver applications. In the high scenario, the proportion of FHR visas granted with a fee waiver doubles, to 70 per cent. The central scenario assumes fee waiver demand increases to the midpoint between the low and high scenarios (to an overall 52.5 per cent of FHR applications).
58. Table 5 lays out the estimated volume of visa applications on the FHR route under each fee waiver scenario. These are estimates to represent approximately three per cent of all IHS-liable granted visas per year in the low scenario, rising to approximately five per cent and seven per cent in the central and high scenarios, respectively.

¹³ An average migrant coming to the UK on an FHR visa would need to renew their visa every 30 months for a duration of 5 or 10 years before being eligible to apply for settlement.

Table 5: Estimated number of granted fee waivers for the period Q4 2023/2024 to Q3 2028/2029

	2023/24*	2024/25	2025/26	2026/27	2027/28	2028/29**
Low scenario – fee waiver grants remain at current level	9,000	39,000	40,000	40,000	41,000	41,000
Central scenario – 50 per cent increase in fee waiver grants	14,000	59,000	60,000	60,000	61,000	62,000
High scenario – 100 per cent increase in fee waiver grants	19,000	79,000	80,000	80,000	81,000	82,000

Source: Home Office analysis

Volumes rounded to the nearest thousand, *Appraisal period starts Q4, ** Appraisal period ends Q3

59. The NPSV estimation presented in this IA incorporates the central fee waiver increase scenario; the full range of impacts associated with changes to fee waiver grants in the low and high scenarios are presented as sensitivity analysis in section **E.10**.

60. The estimated cost to process a fee waiver application is assumed to be £177 throughout the analysis, equivalent to the estimated unit cost of processing an affordability-based fee waiver application for child citizenship.¹⁴

E.2 VOLUMES

61. Aside from direct IHS revenue raised, the main impact of changes in the surcharge level is in relation to any reduction in visa applications and, therefore, visas granted. Most of the costs and benefits of the proposed policy arise as a consequence of this potential effect on volumes.

62. Applying the central elasticity assumptions to the increase in the IHS level generates the estimated reduction in visa applications submitted by individuals. The latest grant rates per visa product are then applied to estimate the resulting reduction in visas granted. The same analysis undertaken for the high scenario is set out in **Annex D**; in the low scenario, there is no behavioural response to the IHS increase as the low elasticity assumption is null.

E.2.1 Impact on application volumes

63. Table 6 outlines the estimated effect of price elasticity of demand on visa applications resulting from the proposed increase in the IHS. This impact is expected to be relatively small, due to the increase in the IHS representing a relatively small proportion of the overall cost, or benefit, of an individual moving to or remaining in the UK.

64. In the first full financial year of the appraisal period (2024/25), Option 2 represents:

- no estimated significant impact on applications for an investor, business development, and talent work visas, regardless of whether these submitted by out-of-country or in-country applicants;
- an estimated reduction in the number of sponsored skilled work visa applications of 0.3 per cent for out-of-country applicants and 0.2 per cent for in-country applicants;
- an estimated reduction in the number of visa applications on the student route of 0.2 per cent for out-of-country applicants and 0.3 per cent for in-country applicants;
- an estimated reduction in the number of temporary work visa applications of 1 per cent for out-of-country applicants and 0.6 per cent for in-country applicants;
- an estimated 0.8 per cent fall in the total number of applicants under the graduate route;
- an estimated reduction in applications under the family route in the magnitude of 0.3 per cent for out-of-country and 0.1 per cent of in-country applicants on family routes which are not eligible for fee waivers;

¹⁴ The Immigration and Nationality (Fees) (Amendment) Regulations 2022 (legislation.gov.uk): https://www.legislation.gov.uk/ukia/2022/47/pdfs/ukia_20220047_en.pdf

- an estimated 0.3 per cent fall in the number of applications for other visa routes submitted by out-of-country applicants, and an accompanying 0.5 per cent fall in in-country applications for these routes.

65. As a result of the inelastic behavioural response set out in Table 3, these estimated changes in volumes are relatively small in comparison to the strong demand for visas and immigration products which has been observed in recent years.

Table 6: Estimated reduction in visa applications under Option 2, central case

		Baseline applications 2024/2025	Estimated change in applications compared to the baseline					
			2023/2024*	2024/2025	2025/2026	2026/2027	2027/2028	2028/2029**
Out of country	Investor, business development and talent work visas	11,000	~	~	~	~	~	~
	Sponsored skilled work visas	185,000	-100	-450	-500	-500	-500	-400
	Study visas	577,000	-150	-1,400	-1,450	-1,450	-1,500	-1,150
	Temporary work visas	55,000	-150	-600	-600	-600	-600	-450
	Family visas	68,000	-50	-200	-200	-200	-200	-150
	Other visas	29,000	~	-100	-100	-100	-100	-50
In country	Investor, business development and talent work visas	5,000	~	~	~	~	~	~
	Sponsored skilled work visas	195,000	-150	-500	-700	-950	-1,350	-1,100
	Graduate route	183,000	-450	-1,400	-1,500	-1,550	-1,500	-1,100
	Study visas	69,000	-50	-200	-200	-250	-250	-150
	Temporary work visas	9,000	~	-50	-50	-50	-50	-50
	Family visas	183,000	-50	-200	-200	-200	-200	-150
	Other visas	10,000	~	-50	~	~	~	~

Source: Home Office analysis

Baseline volumes rounded to the nearest thousand, estimated change in applications rounded to the nearest 50, ~ denotes an impact of fewer than 50 applications

* Appraisal period starts Q4, ** Appraisal period ends Q3

E.2.2 Impact on visa grants volumes

66. Table 7 sets out the corresponding effect on visas granted using central elasticity and volume assumptions. The corresponding impacts under the high scenario are set out in **Annex D** while the behavioural impact under the low scenario is zero.

Table 7: Estimated reduction in visas granted under Option 2, central case

		Estimated change in visas granted compared to the baseline						
		Baseline grants 2024/2025	2023/2024*	2024/2025	2025/2026	2026/2027	2027/2028	2028/2029**
Out of country	Investor, business development and talent work visas	10,000	~	~	~	~	~	~
	Sponsored skilled work visas	205,000	-100	-450	-450	-450	-450	-350
	Study visas	614,000	-150	-1,350	-1,400	-1,400	-1,450	-1,100
	Temporary work visas	49,000	-150	-550	-550	-550	-550	-450
	Family visas	56,000	-50	-200	-200	-200	-200	-150
	Other visas	31,000	~	-100	-100	-100	-100	-50
In country	Investor, business development and talent work visas	5,000	~	~	~	~	~	~
	Sponsored skilled work visas	204,000	-150	-450	-650	-900	-1,250	-1,050
	Graduate route	173,000	-450	-1,400	-1,450	-1,500	-1,500	-1,050
	Study visas	64,000	-50	-200	-200	-250	-250	-150
	Temporary work visas	4,000	~	-50	-50	-50	-50	-50
	Family visas	169,000	-50	-200	-200	-200	-200	-150
	Other visas	12,000	~	-50	~	~	~	~

Source: Home Office analysis

Baseline volumes rounded to the nearest thousand, estimated change in applications rounded to the nearest 50, ~ denotes a change of fewer than 50 grants

* Appraisal period starts Q4, ** Appraisal period ends Q3

E.3 COSTS

E.3.1 Set-up costs

67. **Option 2** will require technical change within the existing IHS infrastructure. The associated implementation cost is being assessed with the incumbent third party supplier and set-up costs are assumed to be minimal. There are no, or no significant, set-up or familiarisation costs identified to arise.

68. Familiarisation costs are assumed to be negligible as a result from changing the level of the IHS. It is assumed to be a negligible time commitment for current sponsors, immigration lawyers and immigration advisors to familiarise themselves with these changes, as the guidance being produced is an update to existing immigration rules and does not amount to a significant additional number of words to read and interpret. As such, familiarisation costs have not been included in the NPSV for this policy.

E.3.2 Ongoing and total costs

69. Direct costs are defined as those that are immediate and unavoidable consequences of the policy decision. The processing costs borne by the Home Office in processing the additional IHS revenue

and the net additional costs associated with the assumed increase in visas granted with a fee waiver are considered both immediate and unavoidable. The remaining costs are incurred as a result of the willingness rather than affordability of a potential applicant to either come to, or remain in, the UK or not, therefore the remaining costs are considered to be indirect.

Direct costs

Increase in Immigration Health Surcharge processing costs

70. Handling IHS payments incurs a small processing cost, which is proportionate to the amount of IHS revenue collected. Hence, increasing the level at which the IHS is charged is anticipated to increase payment processing costs. While these payments are handled by a third party, the Home Office covers this cost and so this is considered a direct cost to the public sector.
71. The resulting cost increase is estimated to be between £85 million and £140 million, with a central estimate of £110 million (PV, 2023/24 prices) over the appraisal period.

Additional net costs from an increase in granted fee waivers

72. As discussed in section **E1.9**, increasing the IHS is likely to affect both willingness to apply for a visa and individual migrants' affordability. Although the evidence base is limited and unable to predict a casual impact of the scale of such effects, the analysis incorporates an assumption of 50 per cent increase of FHR applications (to 59,000 per full financial year, as described in Table 5) obtaining a fee waiver for the IHS and accompanying visa fee.
73. Fee waiver applications impact the following four types of costs and benefits:
 - **Reduction in visa fee revenue** – more granted fee waivers lead to less revenue collected by the Home Office from visa fees. This impact is estimated by multiplying the additional number of granted fee waivers by the baseline visa fee applicable to the FHR.
 - **Reduction in IHS revenue** – an additional number of granted fee waivers also leads to less revenue collected through the IHS. This is estimated by multiplying the increase of fee waiver volumes by the current IHS level and the average length of a FHR visa.
 - **Increase in Home Office fee waiver application processing costs** - An increase in fee waiver applications by 50 per cent results in higher processing costs for the Home Office, as more applications are reviewed by visa caseworkers. The unit cost of processing a fee waiver application on the FHR is assumed to be equivalent of that for the child citizenship affordability fee waiver, at £177 per application. This is applied to the estimated increase in the number of fee waiver applications received by the Home Office.
 - **Reduction in IHS processing cost** – a rise in the number of granted fee waivers is estimated to reduce the overall cost of processing IHS payments discussed in paragraph 70. This is a benefit to the Home Office, quantified as the product of the foregone IHS revenue resulting from the increase in granted fee waivers and the proportion that would have been charged to process those payments should a waiver had not been granted.
74. The resulting net cost associated with the assumed increase in granted fee waivers is estimated to sit within the range of £190 million and £320 million, with a central estimate of £250 million (PV, 2023/24 prices) over the appraisal period.
75. In the central scenario, the majority (57 per cent) of this impact arises from the additional reduction in IHS revenue from the increase in visas granted with a fee waiver; the additional fall in visa fee revenue accounts for another 39 per cent. The increase in processing costs for fee waiver applications make up another four per cent and the benefit of a lower IHS processing costs is less than 0.5 per cent.

Indirect costs

Loss of visa application revenue to the Home Office

76. A reduction in visa applications (as a consequence of the assumed behavioural responses of migrants to the increased IHS level) is assumed to result in lost Home Office revenue. This loss in revenue is quantified by multiplying the estimated reduction in the volume of applications granted per type of visa

by the associated baseline visa fee. Changes in revenue collected through CoS, CAS, and ISC fees are not captured; these impacts are discussed in section **E.5**.

77. **Option 2** could result in loss of Home Office revenue of up to £50 million, with a central estimate of £20 million (PV, 2023/24 prices) over the five-year appraisal period.

Loss of Immigration Health Surcharge revenue

78. A fall in visa grants is also assumed to result in lost IHS revenue, which is collected by the Home Office and attributed to DHSC. The loss of IHS revenue is calculated as the product of the change in IHS visas issued on eligible routes (sponsored skilled work, study, graduate, family, settlement and ILR, and some temporary work), the current IHS level, as set out in section **E.1.6**, and internal Home Office data on average length of visas granted per individual route.
79. The cost to the government from the reduction in IHS revenue due to the change in visa volumes is estimated to amount to up to £120 million, with a central estimate of £50 million (PV, 2023/24 prices) over the five-year appraisal period.

Loss of tax revenue to the Exchequer

80. Any reduction in the number of migrants may result in a loss to the Exchequer in the form of reduced fiscal contributions, due to a reduction in direct and indirect tax payments made by fewer individuals in the UK. The Exchequer loss is calculated as the change in granted volumes as a result of the IHS uplift, multiplied by the average fiscal revenue contributions for each visa route. This is derived using a bottom-up approach to estimate the expected contribution to direct and indirect taxes from migrants based on individual characteristics and data on their earnings and spending patterns. The methodology and assumptions follows the approach set out in various Home Office IAs¹⁵ with the estimated per migrant revenue impacts (central assumption) updated to 2023/2024 prices.
81. The resulting loss to the Exchequer is estimated to be up to £1 billion, with a central estimate of £420 million (PV, 2023/24 prices) over the five-year appraisal period.

Loss of tuition fee revenue

82. A fall in the number of international students would lead to a fall in revenue for domestic education institutions collected from tuition fees. This impact is quantified by considering the average tuition fee for international students (estimated at £17,200 in 2023/24 prices).
83. The cost to the education sector is estimated to amount to up to £510 million, with a central estimate of £200 million (PV, 2023/24 prices) over the five-year appraisal period.
84. The analysis makes no assumptions on the replacement rate of students between regions, that is, the extent to which Higher Education institutions may offer vacant places to more domestic students. Therefore, the estimated impact of **Option 2** should be considered as an upper estimate, as any student replacement could mitigate the effect of lost tuition fee income to a given degree. Further, the costs of providing courses may fall if no replacement takes place.

Loss of Premium Service revenue

85. It is assumed that the increase in the IHS would not impact the overall composition of migrants applying for Priority or Super Priority services. As a result of the reduction in standard application volumes, there is estimated to be a corresponding proportion of visa applicants using the Priority and Super Priority service who are assumed to no longer use the service and will lead to a reduction in Home Office revenue.
86. The loss in Premium Service revenue under **Option 2** is estimated to amount up to £6 million, with a central estimate of £2 million (PV, 2023/24 prices) over the five-year appraisal period.

¹⁵ such as The Immigration and Nationality (Fees) (Amendment) (No. 3) Regulations 2020 Impact Assessment https://www.legislation.gov.uk/ukia/2020/48/pdfs/ukia_20200048_en.pdf#page=23

E.4 BENEFITS

E.4.1 Set-up benefits

87. There are no set-up or transitional benefits identified to arise from the proposed IHS uplift.

E.4.2 Ongoing and total benefits

88. Direct benefits are defined as those that are immediate and unavoidable consequences of the policy decision. Only the additional revenue generated by the Home Office and passed to DHSC is considered both an immediate and unavoidable consequence of the policy. The remainder of the benefits stem from the choice of a potential applicant of whether to come to, or remain in, the UK or not, and so are considered to be indirect.

Direct benefits

Increase in Immigration Health Surcharge revenue

89. An increase in the annual rate of the IHS is expected to generate an increase in revenue, which is collected by the Home Office and attributable to DHSC. This benefit is calculated as the change IHS rate, multiplied by average length of visa grant for each immigration route and by the baseline visa volumes minus any estimated fall in volumes as a result of the IHS change.

90. The benefit to the government from increases in IHS revenue is estimated to be between £4.7 billion and £7.7 billion, with a central estimate of £6.2 billion (PV, 2023/24 prices) over the five-year appraisal period.

Indirect benefits

Reduction in Home Office visa processing costs

91. A lower number of applications as a result of higher IHS would lead to a fall in the visa processing costs incurred by the Home Office. This impact is quantified by multiplying the published unit cost for each visa product (as set out in **Annex C**) by the change in applicants following the behavioural response.

92. The administrative saving to the Home Office is estimated to be up to £10 million, with a central estimate of £4 million (PV, 2023/24 prices) over the five-year appraisal period.

Reduction in Home Office CoS and CAS processing costs

93. As well as processing fewer applications by individuals, the Home Office incurs a cost of processing CoS and CAS applications per eligible worker and per international student, respectively. As with visa processing costs, this impact is calculated by multiplying the CoS and CAS unit costs by the lower volumes of sponsored workers and students and the change in applications by individuals under these routes.

94. The administrative benefit to the Home Office under the proposed IHS level could amount to up to £4 million, with a central estimate of £2 million (PV, 2023/24 prices) over the five-year appraisal period.

Reduction in Home Office Immigration Skills Charge processing costs

95. A final set of administrative benefits to the Home Office results from a fall in processing costs for applications on routes in scope of the ISC, discussed in section **E.1.6**. This impact is calculated by multiplying internal Home Office estimates of ISC by the reduction in applicants on eligible routes.

96. The Home Office is estimated to benefit from reduced ISC processing costs by up to £0.4 million, with a central estimate of £0.2 million (PV, 2023/24 prices) over the five-year appraisal period.

Reduction in fiscal pressure

97. Any reduction in the number of migrants due to the IHS uplift would result in an Exchequer gain from lower public service provision costs, such as healthcare and education, as the UK population eligible for public services could be lower. This is calculated by multiplying the average annual use of public services of each route by the reduction in volumes following the behavioural response. The

methodology and assumptions follow the approach set out in various Home Office IAs¹⁶ with the estimated per migrant revenue impacts (central assumption) updated to 2023/24 prices.

98. Under **Option 2**, the benefit to the Exchequer from lower public service expenditure is estimated at up to £670 million, with a central estimate of £270 million (PV, 2023/24 prices) over the five-year appraisal period.

E.5 TRANSFERS

99. Some of the impacts from the policy proposal represent a transfer between domestic parties where a cost incurred on one side is fully absorbed as a benefit received by another. Transfer payments may change distributions of income or wealth of the resident population, but do not give rise to direct economic costs and benefits; thus, such impacts are not counted in the NPSV of the option considered.

Immigration Skills Charge liability

100. Domestic businesses sponsoring workers under ISC-liable routes could face a reduction in costs (a benefit) from the fall in visas resulting from the increase in the IHS. This is calculated by multiplying the weighted average ISC fee by the estimated reduction in eligible visas granted. The reduction in ISC liability represents a transfer of revenue from the public sector to business, at scale of up to £21 million, with a central estimate of £8 million (PV, 2023/24 prices) over the five-year appraisal period.

CoS and CAS liability

101. Domestic businesses sponsoring workers and education institutions sponsoring international students could incur lower costs from the estimated decrease in applications across sponsored work routes and the study route. This is quantified as the product of the CoS or CAS fee and the change in granted visas. The benefit to organisations represents a transfer of revenue from the public sector, at a magnitude of up to £3 million, with a central estimate of £1 million (PV, 2023/24 prices) over the five-year appraisal period.

E.6 Summary of results

E.6.1 NPSV

102. The overall economic and social impacts of **Option 2** are summarised in Table 8 below; the figures presented may not sum up due to rounding. All estimates are subject to uncertainty and should be treated as indicative of the scale of impacts, not precise predictions of actual impacts.
103. The central estimate for the NPSV of the policy is estimated at £5.4 billion (PV, 2023/24 prices) over the five-year appraisal period.

¹⁶ such as The Immigration and Nationality (Fees) (Amendment) (No. 3) Regulations 2020 Impact Assessment https://www.legislation.gov.uk/ukia/2020/48/pdfs/ukia_20200048_en.pdf#page=23

Table 8: Costs and benefits of Option 2, central assumptions (£ million)

Present values (2023/2024 prices)	2023/24*	2024/25	2025/26	2026/27	2027/28	2028/29**	NPSV
Benefits							
Additional IHS revenue	250	1,100	1,200	1,300	1,400	1,050	6,200
Reduction in Home Office visa processing costs	0.2	0.8	0.9	0.9	0.9	0.7	4
Reduction in Home Office CoS and CAS processing costs	0.1	0.3	0.3	0.3	0.4	0.3	2
Reduction in Home Office ISC processing costs	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Exchequer gain from lower public service provision	2	30	55	60	65	50	265
Total Benefits (PV)	250	1,200	1,200	1,300	1,400	1,100	6,500
Costs							
Increase in Home Office IHS processing costs	4	20	20	25	25	20	110
Reduction in Home Office fee revenue	1	4	4	4	4	3	20
Reduction in IHS revenue	2	10	10	10	10	8	50
Exchequer loss from reduction in tax revenue	3	45	85	95	105	85	420
Reduction in tuition fee revenue	0.7	25	50	50	45	35	200
Reduction in Premium Service revenue	0.1	0.4	0.4	0.5	0.5	0.4	2
Additional net cost from an increase in fee waiver grants	15	55	50	50	50	35	250
Total Costs (PV)	25	160	220	230	240	180	1,100
Net Impact (NPSV)	220	1000	1000	1100	1200	900	5,400

Source: Home Office analysis

figures may not sum up due to rounding, * Appraisal period starts Q4, ** Appraisal period ends Q3

104. Table 9 presents the total NPSV of **Option 2** under the low, central, and high scenarios. Under the low scenario where individuals are not price sensitive to the proposed increases in the IHS and application volumes are at the low assumption, the NPSV of the policy falls to £4.4 billion (PV, 2023/24 prices)

over the five-year appraisal period. This impact is driven mainly by the lower IHS revenue collected by the Home Office/DHSC.

105. Under the high scenario where the decision of migrants to apply for a visa is the most sensitive to the increases in the IHS and application volumes are the highest, the NPSV of the policy increases to £6.2 billion (PV, 2023/2024 prices) over the five-year appraisal period. This scenario estimates the highest costs which could arise under **Option 2**.

Table 9: Comparison of costs and benefits and NPSV of Option 2 under low, central, and high scenarios over a 5-year appraisal period (£ million)

Present values (2023/2024 prices)	Low scenario	Central scenario	High scenario
Benefits			
Additional IHS revenue	4,700	6,200	7,700
Reduction in Home Office visa processing costs	-	4	10
Reduction in Home Office CoS and CAS processing costs	-	2	4
Reduction in Home Office ISC processing costs	-	0.2	0.4
Exchequer gain from lower public service provision	-	270	670
Total Benefits (PV)	4,700	6,500	8,400
Costs			
Increase in Home Office IHS processing costs	85	110	140
Reduction in Home Office fee revenue	0	20	50
Reduction in IHS revenue	0	50	120
Exchequer loss from reduction in tax revenue	0	420	1,040
Reduction in tuition fee revenue	0	200	510
Reduction in Premium Service revenue	0	2	6
Additional net cost from an increase in fee waiver grants	190	250	320
Total Costs (PV)	270	1,100	2,200
Net Impact (NPSV)	4,400	5,400	6,200

Source: Home Office internal analysis, figures may not sum up due to rounding

106. As discussed in section **E.5**, transfer impacts represent a reduction in cost to domestic sponsors of migrants (from a reduction in visa demand) and a reduction in benefit to central government through a reduction in revenue. Total transfers to the public sector are estimated to amount to £10 million (PV, 2023/24 prices) over the five-year appraisal period in the central case. Transfers are not included in the NPSV as the net impact of such costs and benefits is zero.

Table 10: Transfer costs and benefits of Option 2, central scenario (£ million)

Present values (2023/2024 prices)	2023/24*	2024/25	2025/26	2026/27	2027/28	2028/29**	Total
Reduction in ISC revenue	0.3	1	1	2	2	1.6	8
Reduction in CoS/ CAS revenue from behavioural response	~	0.2	0.2	0.3	0.3	0.2	1.2
Total change in transfers to the government	0.4	1	2	2	2	1.9	10

Source: Home Office analysis,

~ indicates impact lower than £100,000, figures may not sum up due to rounding

* Appraisal period starts Q4, ** Appraisal period ends Q3

E.6.2 BNPV

107. The proposed uplift of the IHS could lead to a reduction in costs to domestic businesses and education institutions in the form of reduced CoS/CAS and ISC liability payable. Education institutions face an additional cost as the estimated reduction of study visa grants would lower tuition fee revenue. These costs and benefits are indirect as they arise as a secondary impact linked to the behavioural response of migrants to the increase of the IHS.

108. Table 11 outlines the estimated magnitude of the costs and benefits incurred by domestic businesses and education institutions. The estimated reduction in ISC and CoS/CAS liability faced by institutions sponsoring skilled and temporary workers and students are transfers and are absorbed by the public sector. Therefore, these components of the BNPV are not included in the NPSV values presented in Tables 8 and 9.

109. The estimated reduction in tuition fee revenue to domestic education institutions is not a transfer cost, and is therefore included in the NPSV of **Option 2**.

Table 11: Costs and benefits to businesses under Option 2 (central case, £ million)

Present values (2023/2024 prices)	2023/24*	2024/25	2025/26	2026/27	2027/28	2028/29**	BNPV
Benefits							
Reduction in CoS/CAS liability	~	0.2	0.2	0.3	0.3	0.2	1
Reduction in ISC liability	0.3	1	1	2	2	2	8
Total benefits	0.4	1	2	2	2	2	10
Costs							
Reduction in tuition fee revenue	0.7	25	50	50	45	35	200
Total costs	0.7	25	50	50	45	35	200
Net business impact	-0.3	-25	-45	-45	-45	-35	-200

Source: Home Office analysis

~ indicates impact lower than £100,000, figures may not sum up due to rounding

* Appraisal period starts Q4, ** Appraisal period ends Q3

110. The Business Net Present Value (BNPV) of the policy is estimated to be up to -£490, with a central estimate of -£200 million (PV, 2023/24 prices) over the five-year appraisal period. Table 12 presents the BNPV over the three impact scenarios.

Table 12: Comparison of costs and benefits and NPSV BNSV of Option 2 under low, central, and high impact scenarios over a 5-year appraisal period (£ million)

Present values (2023/24 prices)	Low scenario	Central scenario	High scenario
Benefits			
Reduction in CoS/CAS liability	0	1	3
Reduction in ISC liability	0	8	20
Total benefits	0	10	25
Costs			
Reduction in tuition fee revenue	0	200	510
Total costs	0	200	510
Net business impact	0	200	490

Source: Home Office internal analysis, figures may not sum up due to rounding

E.7 Value for money (VfM)

111. Under the central scenario, the theoretical benefit-cost ratio (BCR) of **Option 2** is 6.1. The potential BCR falls to 3.9 in the high scenario and increases to 17.0 in the low scenario. This indicates that the hypothetical benefits of the proposed policy package exceed the costs regardless of the range of price sensitivity of visa demand and visa application volumes.

E.8 Place-based analysis

112. Visas give migrants the permission to enter the UK and do not impose restrictions on where in the country individuals may subsequently travel to. The primary benefit from **Option 2** accrues to central government. Negative place-based impacts could arise due to the behavioural response of individuals to the increase in the IHS, however such impacts are likely to be small.

113. No disproportionate place-based impacts are anticipated in relation to the estimated fall in applicants on work and study routes, as these are likely to be dependent on the geographical location of the employer or education institution.

114. Specific place-based impacts are also not anticipated in relation to the estimated fall in applicants on the family route. These are expected to follow the population density across the UK.

E.9 Impact on micro, small and medium-sized businesses

115. The analysis presented in this IA does not analyse the cohort of migrants deterred from migrating to or remaining in the UK beyond visa type. Consequently, the type of employers who could have hired potential work migrants or the type of education institutions which could have enrolled potential international students is unknown.

116. The number of migrants deterred from migrating to or remaining in the UK is not expected to have a large impact on businesses, due to the small proportion those individuals represent across each immigration route and across their wider immigration system.

E.10 Sensitivity analysis

117. The NPSV estimates discussed in section **E.6** are constructed under central estimates public service provision per migrant, and fiscal contribution of migrants and varying combinations of low, central, and high assumptions of application volumes and price sensitivity. This subsection incorporates a set of sensitivity measures around each of those four assumptions against the central scenarios of the remaining three.

E.10.1 Volumes

118. Given the degree of uncertainty over the future volume of applicants affected by the uplift of the IHS under **Option 2**, sensitivity analysis has been carried out in an attempt to disaggregate the degree to which the estimated NPSV of the policy could be driven by baseline application volumes being lower and higher than those used in the central case. The low and high volume scenarios assume that baseline volumes are 25 per cent below or above the central case respectively, with the remaining assumptions, including the elasticity, held constant at the level in the central scenario. Tables 13 and 14 below outline each scenario.

Table 13: Estimated visa application volumes (low scenario) for the period 2023/24 to 2028/29

Visa type		2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Out of country	Investor, business development and talent work visas	8,000	8,000	8,000	8,000	8,000	8,000
	Sponsored skilled work visas	165,000	139,000	145,000	150,000	155,000	161,000
	Study visas	481,000	433,000	444,000	459,000	473,000	484,000
	Temporary work visas	38,000	41,000	42,000	42,000	43,000	44,000
	Family visas	48,000	51,000	54,000	54,000	55,000	56,000
	Other visas	23,000	22,000	21,000	21,000	21,000	21,000
In country	Investor, business development and talent work visas	4,000	4,000	4,000	4,000	4,000	4,000
	Sponsored skilled work visas	165,000	147,000	209,000	296,000	427,000	471,000
	Graduate route	132,000	137,000	151,000	158,000	162,000	156,000
	Study visa	48,000	52,000	59,000	61,000	63,000	61,000
	Temporary work visas	3,000	7,000	12,000	12,000	12,000	12,000
	Family visas	128,000	138,000	139,000	140,000	141,000	143,000
	Other visas	9,000	8,000	6,000	5,000	5,000	5,000

Source: internal Home Office planning assumptions, rounded to the nearest thousand.

Table 14: Estimated visa application volumes (high scenario) for the period 2023/24 to 2028/29

Visa type		2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Out of country	Investor, business development and talent work visas	14,000	14,000	14,000	14,000	14,000	14,000
	Sponsored skilled work visas	274,000	232,000	241,000	249,000	258,000	268,000
	Study visas	801,000	721,000	740,000	766,000	789,000	807,000
	Temporary work visas	63,000	69,000	70,000	71,000	72,000	73,000
	Family visas	80,000	85,000	89,000	91,000	92,000	93,000
	Other visas	39,000	36,000	34,000	34,000	34,000	34,000
In country	Investor, business development and talent work visas	6,000	7,000	7,000	7,000	7,000	7,000
	Sponsored skilled work visas	274,000	244,000	348,000	494,000	711,000	785,000
	Graduate route	220,000	229,000	251,000	264,000	269,000	260,000
	Study visa	80,000	86,000	98,000	102,000	104,000	102,000
	Temporary work visas	5,000	12,000	20,000	20,000	20,000	20,000
	Family visas	214,000	229,000	231,000	234,000	236,000	238,000
	Other visas	14,000	13,000	9,000	9,000	8,000	8,000

Source: internal Home Office planning assumptions, rounded to the nearest thousand.

119. Assuming baseline volumes are equivalent to the low scenario:

- The central elasticity estimate of the NPSV falls by £1.3 billion, from £5.4 billion to £4.1 billion (PV, 2023/24 prices).
- Transfers (foregone revenue transferred to the Home Office) would increase by £3 million, from £10 million to £7 million (PV, 2023/24 prices). By definition, transfers are not included in the NPSV.

120. Assuming baseline volumes are equivalent to the high scenario:

- The central elasticity estimate of the NPSV increases by £1.4 billion from £5.4 billion to £6.8 billion (PV, 2023/24 prices).
- Transfers (foregone revenue transferred to the Home Office) would fall by £2 million, from £10 million to £12 million (PV, 2023/24 prices). By definition, transfers are not included in the NPSV.

E.10.2 Price elasticity of visa demand

121. The price sensitivity of individual migrants and domestic sponsors is highly uncertain. The following set of sensitivity analysis disaggregates the variation of the NPSV of the policy driven by the change in elasticity assumptions across the main scenarios, while holding volumes at their central level.
122. Assuming that a higher IHS level has no impact on migrants' willingness to apply for a visa, the NPSV of **Option 2** increases by £500 million, from £5.4 billion to £5.9 billion (PV, 2023/24 prices).
123. Assuming that the IHS uplifts plays a more significant part in the decision to apply for a visa, the NPSV of **Option 2** falls by £400 million, from £5.4 billion to £5.0 billion (PV, 2023/24 prices).

Additional sensitivities outside the low, central and high scenarios

E.10.3 Minimum and maximum IHS revenue impact

124. Additional sensitivity analysis explores an additional alteration of the volume and elasticity assumptions in order to estimate the minimum and maximum IHS revenue which could be collected as a result of the policy change. A revenue maximising scenario is constructed around the high assumption of visa applications on IHS-liable routes and the low price sensitivity of migrants to the IHS uplift. Conversely, a minimum IHS revenue level is estimated by applying the high elasticity assumptions to the low future visa volumes.
125. Under the IHS revenue maximising scenario, the NPSV of **Option 2** increases by £1.9 billion, from £5.4 billion to £7.3 billion (PV, 2023/24 prices). IHS revenue over the appraisal period is estimated at £7.8 billion (PV 2023/24 prices).
126. Under the IHS revenue minimising scenario, the NPSV of **Option 2** decreases by £1.7 billion, from £5.4 billion to £3.7 billion; IHS revenue is estimated at £4.6 billion (PV, 2023/24 prices).

E.10.4 Fiscal pressure (public service provision)

127. The level of average cost of public service provision to migrants is uncertain, so sensitivity analysis tests how various estimates of the value of average public service consumption by migrants affects the NSPV. The difference between the low and high scenario is the inclusion of pure public goods (e.g. military defence) and welfare costs in the estimate; the central case does not include pure public goods and includes half of the estimated welfare cost, as not all migrants may be eligible to receive welfare payments.
128. Assuming public spending at the low scenario, the NPSV of Option 2 falls by £100 million, from £5.4 billion to £5.3 billion (PV, 2023/24 prices). This result implies that the government saves less as a result of migrants being deterred from entering or remaining in the UK by the increased IHS level.
129. Assuming public spending at the high scenario, the NPSV of Option 2 increases by £100 million, from £5.4 billion to £5.5 billion PV, 2023/24 prices). This result implies that the government does not save more as a result of migrants being deterred from entering or remaining in the UK by the higher IHS.

E.10.5 Fiscal revenue

130. The level of the average fiscal revenue collected from migrants is also uncertain, so sensitivity analysis has been carried out to generate a range around the estimated impact on the Exchequer. All scenarios include estimated contributions of foreign nationals to income tax, national insurance, indirect tax (such as VAT), council tax, and corporation tax. The central scenario incorporates business rates, and the high scenario adds gross operating surplus and other taxes.
131. Assuming fiscal revenue collection at the low scenario, the NPSV of **Option 2** does not significantly change from the £5.4 billion estimate in the central scenario (PV, 2023/24 prices). This result implies that the government does not lose less tax revenue as a result of migrants being deterred from entering or remaining in the UK by the higher IHS level.
132. Assuming fiscal revenue collection at the high scenario, the NPSV of **Option 2** falls by £100 million, from £5.4 billion to £5.3 billion (PV, 2023/24 prices). This result implies that the government foregoes more tax revenue as a result of migrants being deterred from entering or remaining in the UK by the IHS uplift.

E.10.6 FHR applications granted with a fee waiver

133. The impact of the IHS uplift to an increase in demand (and subsequent grants) of applications for fee waivers on eligible FHR routes is highly uncertain, due to a limitation of the evidence base to establish a causal effect of historic IHS increases on fee waivers. This set of sensitivity analysis explores the full plausible range of an increase in the proportion of FHR visas granted with a fee waiver. In the low scenario, the analysis assumes that fee waivers remain at the current level of 35 per cent into future years. The high scenario is constructed under a doubling of fee waivers, to 70 per cent of FHR applications.
134. In the low scenario, the NPSV of **Option 2** increases by £300 million, from £5.4 billion to £5.7 billion (PV 2023/24 prices). This impact is mainly driven by higher revenue collected through visa fees and IHS.
135. In the high scenario, where all FHR applications are granted with a fee waiver, the NPSV of **Option 2** falls by £300 million, from £5.4 billion to £5.1 billion (PV 2023/24 prices).

F. Proportionality

136. The analysis presented in this IA builds on analysis produced as part of the Immigration and Nationality (Fee) Order 2023 IA,¹⁷ Immigration Health Surcharge 2020 IA¹⁸ and the Immigration and Nationality (Fees) (Amendment) (No.3) Regulations 2020 IA.¹⁹ The impacts of uncertain assumptions have been tested using low and high scenarios around the central assumptions, and additional sensitivity analysis has been carried out to test for uncertainties in volumes, public service provision per migrant and fiscal revenue collected per migrant.

G. Risks

137. All estimates presented throughout this IA are indicative. The analysis serves to provide a sense of scale and estimated impacts should be read in that context; estimated future behaviour and outcomes are particularly uncertain. The main identified risks of the analysis are outlined below.

G.1 Adverse selection

138. Whilst there is no evidence of this, under the appraised option, there is a risk of adverse selection. By increasing the surcharge, there may be a risk that the probability of attracting migrants who are more likely to require healthcare services increases. This could result in higher NHS expenditure on those migrants not deterred from entering or remaining in the UK but is unlikely to significantly impact the estimated NSPV. However, acknowledging the link between wealth and health, increasing the IHS may result in a healthier pool of migrants coming to the UK.

G.2 Perverse incentives

139. An increase in the IHS may create an incentive for migrants who pay the surcharge to use the NHS more than they would otherwise do, if they felt that they would get better value for money by consuming an increased quantity of healthcare. This would result in higher NHS spend but is unlikely to significantly impact the estimated NSPV of Option 2.

¹⁷ Home Office, Impact Assessment for the Immigration and Nationality (Fees) Order 2023: <https://www.legislation.gov.uk/ukdsi/2023/9780348248531/impacts>

¹⁸ Home Office: Updating the Immigration Health Surcharge, 2020: https://www.legislation.gov.uk/ukia/2020/30/pdfs/ukia_20200030_en.pdf

¹⁹ Home Office, The Immigration and Nationality (Fees) (Amendment) (No. 3) Regulations 2020: https://www.legislation.gov.uk/ukia/2020/48/pdfs/ukia_20200048_en.pdf

G.3 Upfront payment

140. Within the surcharge modelling, the elasticity assumption is applied to the estimated income of a migrant (or in the case of students, on the tuition fee liability plus living costs) over the duration of the visa. Elasticity estimates are used to estimate the volume of migrants deterred from coming to or remaining in the UK. However, the surcharge liability of a migrant over the course of their visa is payable in full prior to entry. Due to differences in timing between when surcharge and visa fees are payable and when expected future income is redeemed, it is possible that these fees are paid for with accumulated savings. Therefore, while migration may have a positive NSPV to a migrant over the duration of the visa, the upfront nature of costs may make that unaffordable.
141. Due to variation within the incoming migrant population (for example, country of origin, profession, home currency etc.) and ambiguity as to the extent to which employers may contribute to or mitigate these costs, the Home Office does not attempt to estimate the affordability of fees. It should be considered that the impact on visa applications and granted visa applications of the proposed policy indicated by this modelling approach may fail to capture this. Subsequently, the estimated NSPV of the policy should be treated as indicative and subject to uncertainty.

G.4 Volumes

142. The visa demand volume estimates used as a baseline for the appraisal are subject to significant uncertainty. This has been highlighted throughout the IA and sensitivity analysis has been carried out in order to produce a wider range of the potential impact of the policy. However, all results, including calculated changes in the volumes of granted visas and NSPV estimates, should be treated with caution.

G.5 Behavioural response

143. Internal Home Office analysis has not found evidence of a significant relationship between small increases in fees and visa demand. Absence of evidence does not necessarily imply there is no relationship and the proposed IHS increases may represent a larger rise in the overall price of moving to, or remaining in, the UK than historic changes. The estimates of a potential negative effect on visa demand are presented, however, these may overstate the actual impact.

G.6 Fee waiver applications

144. Individuals making in country applications or extensions of their family visa may find a substantial increase in the surcharge unaffordable and therefore apply for a waiver of their visa fee on destitution grounds. Therefore, the increase in the surcharge level may result in an increase in affordability waiver applications. Should this result in an increase in the cases where visa fees are waived, the expected increase in surcharge revenue may be lower than estimated. Revenue from the visa fee would also reduce. An increase in cases where visa fees are waived would therefore result in lower revenue for the Home Office from the surcharge and visa fee, and higher costs to government from providing public services and support.

G.7 Fiscal impact

145. The fiscal impact related to changes in volumes is particularly uncertain. This IA uses a marginal approach of measuring the impact of migration policy on the UK Exchequer and excludes fiscal spend and revenue components that are unlikely to vary according to the number of individuals moving to the UK. Under the marginal approach, newly arrived migrants are assumed to have little or no impact on spending on services such as pure public goods and debt interest, or on revenue streams such as capital gains tax, inheritance tax and gross operating surplus. However, they are assumed to have an impact on congestible public goods and taxes paid by businesses such as corporation tax and business rates. These assumptions are uncertain and the true fiscal impact of such a migrant may differ, either positively or negatively.

G.8 Wider assumptions

146. Some assumptions, for example length of stay and visa grant rates, are based on evidence from recent years. The behaviour of current and prospective visa holders may not mirror those in the past. Varying

fiscal, baseline volumes and behaviour assumptions may help account for some of the wider uncertainties from data.

H. Direct costs and benefits to business calculations

147. There are no direct costs or benefits to business of this policy, so the equivalent annual net direct cost to business is zero.

I. Wider impacts

148. In ‘The UK’s future skills-based immigration system’, the government set out a framework for assessing the impact of migration policy.²⁰

149. Migrants play an important role in the economy. The impact of proposals that affect the number of migrants coming to, or leaving, the UK will be dependent on which migrants are in scope; their characteristics such as their age, income, health and wealth; and the nature of any proposal (for example, who may come to the UK and what they do whilst here). These factors combine to determine the size of the impact on the UK economy. The analysis assesses these impacts on the resident population and UK economy under the following broad categories:

- Macroeconomic impacts (for example, economic output, economic output per head, and the impact on the Exchequer);
- Labour market outcomes (for example, the ability of firms to hire migrant workers);
- Spill-over impacts on resident population (for example, cultural exchange or congestion/inflation impacts in local areas);
- Policy design impacts on users of the system (individuals, businesses and the government).

150. Some of these categories are inter-related, such as the link between labour market outcomes and macroeconomic impacts, while some are harder to quantify than others, such as the spill-over impacts of ‘cultural exchange’. Of these, only the impact on users of the system is quantified in the main body of this IA.

151. While not negligible, the expected reduction in visas granted as a result of these changes is small compared to the total number of visas granted. Therefore, the macroeconomic effects as well as labour market and spill-over impacts on resident population are likely to be small. Additionally, the MAC acknowledges that the wider dynamic effects and congestion impacts are not possible to quantify, so this IA does not attempt to measure them, but it is assumed they would be small due to the small numbers involved.

152. Economic output is a function of labour used and capital employed and can be measured impartially by GDP. Each worker is a unit of labour and contributes to the creation of economic output. If all else is equal, higher work immigration means more workers in the economy and therefore higher economic output. Equally, a very small decrease in migration volumes caused by the increase in visa fees may have some impact in reducing economic output but this is unlikely to be significant. Whilst aggregate economic output is an important measure, when considering the economic impact of immigration, it is also important to consider GDP per capita / per person. On this measure, particularly in the short run, impacts will be small on aggregate as increased economic output are shared across a larger population. In line with MAC advice, it is important to note that although migration may affect GDP per head (by a

²⁰ The UK’s future skills-based immigration system, HMG, 2018:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/766465/The-UKs-future-skills-based-immigration-system-print-ready.pdf

small amount) mainly due to higher pay and employment rates of migrants compared to natives, it is the immigrants, rather than the resident population, who are the main gainers/losers. Therefore, it is important to focus on the impact migration has on the GDP of residents through dynamic effects on productivity and innovation and this is dependent on the skill level of the migrants.

J. Trade Impact

153. There are a number of channels through which immigration may affect trade and, in general, the external literature finds a positive relationship between the stock of immigrants and trade. At a macro-level high immigration to the UK increases the UK population and consequently aggregate demand and the demand for imports. UK exports may also increase if immigration can enhance the international competitiveness of the UK. For example, Gould (1994) argues that immigrants have individual-specific knowledge of home-country markets which could enhance trading opportunities.²¹ For example, immigrants may have a greater knowledge of foreign languages which helps improve communication in trading relationships, and immigrants may have a greater understanding of legal arrangements which may help lower the fixed costs of trade. Other mechanisms through which immigrants may affect trade include a preference for home-country goods, which could increase the demand for UK imports through an increase in consumption.
154. As outlined above – while not negligible, the expected reduction in visas granted as a result of the preferred option is small compared to the total number of visas granted. Therefore, any trade impacts are expected to be small.

J. 1 Trade impact on domestic businesses

155. Access to international talent continues to be very important for businesses based in and setting up in the UK and there could be implications associated with the higher cost of sponsoring international workers or these individuals' willingness to work in the UK under the proposed IHS uplift. In addition, if businesses choose to pay a worker's IHS contributions, the IHS uplift could be interpreted as an increase in the costs to hire workers from other countries, which may create a perception of reduced UK competitiveness for foreign investors looking to set up or invest into a UK-based company.

J.2 Trade impact on the education sector

156. In 2018, the MAC found that international students bring a significant economic benefit to the UK and at the local and regional level through their spending on tuition fees and broader living expenditure and are an important export market.²² International students provide higher education providers with income that is used to cross-subsidise research and the teaching of domestic students. More broadly, international students also contribute to the UK's soft power, enhancing the UK's political, diplomatic, and cultural influence in international relations and global affairs.²³
157. Given the temporary nature of student migration, it is unlikely that student migration specifically will directly impact trade flows during their time studying in the UK. However, international students may have an impact on trade if they choose to stay in the UK and work after graduation. The extent of this impact is likely to vary depending on how policy changes affect those switching from study to work, and the consequential changes to the stock of immigrants in the UK, which will impact trade.

²¹ Gould (1994) 'Immigrant Links to the Home Country: Empirical Implications for U.S. Bilateral Trade Flows' <https://www.jstor.org/stable/2109884>

²² ²² See: <https://www.gov.uk/government/publications/migration-advisory-committee-mac-report-international-students>

²³ See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/240407/bis-13-1172-the-wider-benefits-of-international-higher-education-in-the-uk.pdf

K. Monitoring and evaluation plan

158. The impact of the increase will be monitored by the Home Office, with support, as appropriate, from the DHSC and the devolved health ministries.
159. The Home Office will continue to work closely with the DHSC and will engage with other government departments as required. The Home Office will maintain open lines of communication with migrants via a dedicated email address and may also receive feedback as part of its normal visa issuing processes, through its public enquiry lines, and through formal correspondence with interested parties.

Annexes

Annex A: DHSC cost-recovery estimate

Scope

1. The IHS is calculated as the value of the healthcare budget for 2023/24 that an “average” IHS payer accounts for. The fee is applicable to UK visas but the model is based on England data only due to its availability at service-setting level. For the purposes of modelling, the value of services within scope of the IHS is assumed to be all those provided by NHS England as well as public health services.
2. Migrants in England make up around 85 per cent of total migrants to the UK; as such, using England data provides a strong indication of the healthcare costs per migrant. Indicative estimates of per capita healthcare costs across the Devolved Administrations suggest that costs in Wales and Northern Ireland are broadly similar to England but costs in Scotland could be slightly higher.
3. The Department of Health and Social Care does not hold person-level information about the costs of accessing healthcare services and is therefore unable to identify the exact cost of individual IHS payers to the NHS. Instead, since 2020, DHSC has estimated the cost of providing healthcare services to IHS payers by estimating the extent to which an “average” IHS payer uses services compared to an “average” member of the general population. This is done by:
 - Identifying the relevant expenditure by care setting (such as primary care, secondary care and other services) for services in scope, both for the “base year” and “implementation year”
 - Estimating a “per person” cost of the general population for each care setting for the base year
 - Estimating the cost of treating an “average” IHS payer in each setting for the base year
 - Applying the ratio of the difference in costs between IHS payers and the general population to the budget for services in the IHS fee implementation year.

Identify relevant expenditure and budgets

4. The historic expenditure used to estimate the proportion of costs in each care setting is for 2019/20. While more recent data is available, this year is least impacted by the disruptions to service provision due to COVID-19 and so it is expected to best reflect the future distribution of spend across care settings.
5. Published accounts data by NHS England and Public Health England (now the UK Health Security Agency) are the basis for identifying expenditure within scope. The NHS National Cost Collection for acute, community, ambulance and mental health providers and DHSC unpublished data are used to apportion the values reported in the accounts to service settings. The relevant expenditure in scope from the base year (2019/20) is £123.3 billion.
6. The implementation year is 2023/24 and the total budget considered for setting the IHS is £153.6 billion, reflecting spending on public health and NHS England commissioned services in 2023/24. The budget is NHS England’s revenue resource limits for 2023/24 (excluding depreciation and impairments as well as non-recurrent budget lines) with adjustments to include public health services and exclude income from other sources. These adjustments are based on actual data from NHS England and Public Health England’s Annual Report and Accounts.

Estimate a “per person” figure for the general population by setting in the base year

7. Dividing the base year expenditure in each setting by the England population of 56.3 million in 2019/20 produces a simple average of the per person cost of each setting.

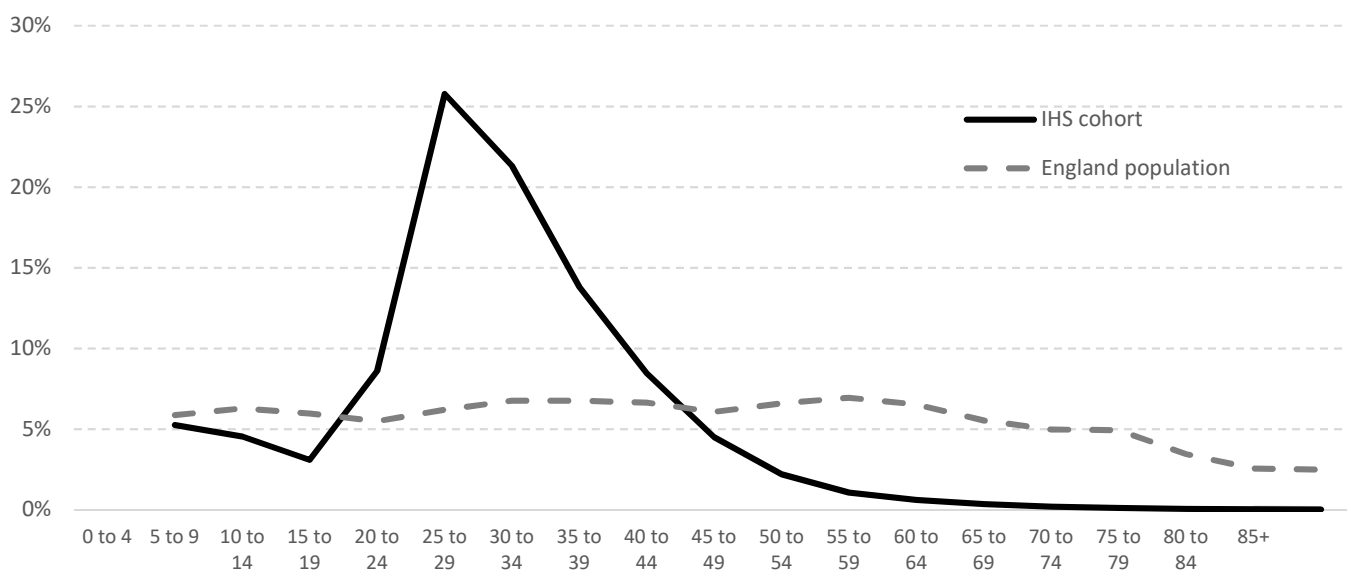
Estimate an average cost per IHS payer for each setting in the base year

8. Estimating IHS payers' use of services in different settings takes account of expected differences in their average healthcare costs compared to the general population. These differences arise from service utilisation trends and demographic effects as explained below.

Demographic effects:

9. People's needs for different healthcare services tend to vary by age and gender. The population of IHS payers is younger than the general population with over two-thirds of the group in the UK between May 2021 and May 2023 aged between 20 and 40. By comparison, around one-quarter (26%) of the England population are in this age bracket. Figure 1 shows the distribution of the two populations by five-year age groups.

Figure 1: Distribution of IHS payers and England population by five-year age group, 2021 - 2023



Sources: IHS cohort information provided by Home Office, England population accessed from the Office for National Statistics

10. Evidence produced by NHS England shows how costs of healthcare vary with age. Published “Age-cost curves” show the relative per-person costs of providing services to people in different age and sex groups.²⁴ The curves are derived from research to inform NHS resource allocations. Since no age-cost curves are available specifically for IHS payers, DHSC assumes that an IHS payer's costs are similar to a member of the general population.
11. The curves are available for the following service settings: primary care, primary care prescribing, general and acute, community and mental health services. Since no specific age-cost curve is produced for ambulance services, as a proxy the curve for general and acute services is applied.
12. Across most settings young adult to middle-aged age groups have the lowest relative service costs. Since the cohort of IHS payers has a higher proportion of people in these age groups than the general population, the costs of delivering these services to IHS payers will be lower. The exception is for mental health services where costs of service delivery are higher for 20- to 40-year-olds than for 50 to 70 year olds.

Service utilisation:

13. Evidence about IHS payers' use of services after controlling for demographic effects is mixed. There are reasons to believe that migrants' service use may be lower due to factors such as language barriers and

²⁴ <https://www.england.nhs.uk/wp-content/uploads/2023/01/allocations-2023-24-to-2024-25-technical-guide-to-formulae-v5.pdf>

lower understanding of and familiarity with the services available and how to access them. On this basis, an adjustment for IHS payers' lower likelihood of using services is considered.

14. In the absence of evidence from IHS payers specifically, the modelling assumption is based on data from the Health Survey for England (HSE). Analysis of the latest published survey results (2019) shows that non-UK nationals are likely to have fewer contacts with GP services per year than UK nationals: on average, for every 100 GP practice appointments by UK nationals, non-UK nationals have 87.

Estimating IHS payers' costs by care setting:

15. **Secondary care - general and acute and A&E:** for care in hospital settings we have data about actual services used by IHS payers in England between April 2015 and September 2019. Using visa information collected by the Home Office and Hospital Episode Statistics (HES) captured by NHS Trusts, NHS Digital conducted internal analysis to identify services provided to visa holders and the associated costs. This analysis is used in the IHS fee model.
16. **Other services:** No IHS payer-specific data exists for other care settings. Instead, the average cost per head of England population is estimated and two adjustments are made to reflect expected service use by IHS payers:
 - a. The impact of demographics is estimated by applying NHS England's published age-cost curves. The cost curves provide weights or coefficients for different age groups and these are multiplied by the number of people in each age-sex group to create a weighted population. This is done for both the general population and the IHS population and the ratio between the two shows the relative cost of IHS payers' service use. For all services except mental health, this analysis shows that IHS payers have lower service needs than the general population. For mental health services, a higher proportion of IHS payers are in age groups with higher cost weightings, increasing their costs relative to the general population.
 - b. Applying the HSE evidence that IHS payers are likely to access primary care services less than the general population. In the absence of comparable evidence for other care settings, it is assumed that the same ratio applies across all other service settings.

Estimating the cost for an average IHS payer in the implementation year

17. Overall, the cost of providing healthcare to an "average" IHS payer is expected to be around two-fifths (38%) of the cost of an "average" member of the general population. This is calculated as the difference between the sum of costs across all care settings for an IHS payer and the general population. From a total budget in 2023/24 of £153.6 billion, the per capita cost for the England population of the services in scope is £2,718 while the cost per IHS payer is lower, at £1,036.
18. Rounded down to the nearest £5, the proposed rate of £1,035 most closely reflects the costs to the NHS of treating those who pay it. This modelling is used to calculate the full IHS rate and as previously, a 25 per cent discounted rate is applicable to students, their dependants, those on the YMS visa and under-18s.

Annex B: Grant rates per route

Visa and applicant type			Weighted average grant rate
Out of country	Investor, business development and talent	Main	93%
	Investor, business development and talent	Dependant	97%
	Sponsored skilled work	Main	94%
	Sponsored skilled work	Dependant	93%
	Study	Main	97%
	Study	Dependant	92%
	Temporary work	Main	98%
	Temporary work	Dependant	99%
	Family	All	88%
	Other	All	100%
In country	Investor, business development and talent	Main	97%
	Investor, business development and talent	Dependant	94%
	Sponsored skilled work	Main	93%
	Sponsored skilled work	Dependant	92%
	Graduate	Main	98%
	Graduate	Dependant	98%
	Study	Main	100%
	Study	Dependant	99%
	Temporary work	Main	99%
	Temporary work	Dependant	98%
	Family	All	99%
	Other	All	98%

Annex C: Visa fee levels and unit costs, per route

Route	In or out of country	Fee level	Unit cost
Investor, business development and talent work: Innovator	In country	£1,486	£428
	Out of Country	£1,191	£428
Investor, business development and talent work: Tier 1 Investor	In country	£1,884	£428
Investor, business development and talent work: Entrepreneur	In country	£1,486	£428
Investor, business development and talent work: High Potential Individual	Both	£822	£231
Investor, business development and talent work: Scale-Up	Both	£822	£211
Investor, business development and talent work: Start-up	In country	£584	£428
	Out of Country	£435	£428
Investor, business development and talent work: Global Talent – Main Applicant	In country	£192	£283
	Out of Country	£167	£488
Investor, business development and talent work: Global Talent – Dependent	In country	£716	£499
	Out of Country	£623	£488
Sponsored skilled work: Skilled Worker (< 3 years)	In Country	£827	£151
	Out of Country	£719	£129
Sponsored skilled work: Skilled Worker (> 3 years)	In Country	£1,500	£151
	Out of Country	£1,420	£129
Sponsored skilled work: Global Business Mobility Senior Managers & Specialists (< 3 years)	In Country	£827	£122
	Out of Country	£719	£129
Sponsored skilled work: Global Business Mobility Senior Managers & Specialists (> 3 years)	In Country	£1,500	£122
	Out of Country	£1,420	£129
Sponsored skilled work: Skilled Worker – Shortage Occupation List (< 3 years)	In Country	£551	£151
	Out of Country	£551	£129
Sponsored skilled work: Skilled Worker – Shortage Occupation List (> 3 years)	In Country	£1,084	£151
	Out of Country	£1,084	£129
Sponsored skilled work: Representative of an Overseas Business	In Country	£827	£150
	Out of Country	£719	£125
Sponsored skilled work: T2 Minister of Religion	In Country	£827	£151
	Out of Country	£719	£129
Sponsored skilled work: International Sportsperson (> 12 months)	In Country	£827	£151
	Out of Country	£719	£129
Graduate Route	In Country	£822	£103
Student Route	In Country	£490	£179
	Out of Country	£490	£179
Child Student	In Country	£490	£179
	Out of Country	£490	£179
Short-term study	Out of Country	£200	£148
Temporary Worker	Both	£298	£137
Temporary work: Global Business Mobility – Other routes	Both	£298	£129
Route To Settlement	Out of Country	£1,846	£366
Leave to remain	In Country	£1,048	£399
Family and Private Life	In Country	£1,048	£399
Hong Kong BN(O): 5 Years	Out of Country	£250	£170
Hong Kong BN(O): 2.5 Years	Both	£180	£170
Employment LTR outside PBS Postal	In Country	£1,033	£399

Unit costs calculation

The unit cost is the calculated estimate of the full financial cost for providing a service, including direct costs and relevant local and central overheads (for example, accommodation, HR, Finance and IT), plus depreciation, cost of capital employed, and other factors that are in connection to immigration and nationality, such as operational policy.

The approach the Home Office uses to calculate the published unit costs for all UK Visa, immigration and citizenship services considers the entire forecast cost of the relevant chargeable functions, including all related indirect costs. Weightings are then used, based on operational business planning data, to apportion the total cost across the range of services and products.

Unit costs may be influenced by changes in the way that applications in certain routes are processed from year to year, for example where additional checks are introduced or required, or by changes elsewhere within the overall system which impact on the weighting calculations and therefore the amount apportioned to any individual service.

The Home Office publishes all immigration fees and unit costs on GOV.UK.²⁵

²⁵ [Visa fees transparency data - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

Annex D: Estimated fall in granted visas in the high scenario (high volumes, high elasticity assumptions)

		Baseline grants 2024/2025	Estimated change in visas granted compared to the baseline					
			2023/24*	2024/25	2025/26	2026/27	2027/28	2028/29**
Out of country	Investor, business development and talent work visas	13,000	~	-50	-50	-50	-50	-50
	Sponsored skilled work visas	216,000	-250	-1,100	-1,100	-1,150	-1,200	-900
	Study visas	697,000	-350	-3,400	-3,450	-3,550	-3,600	-2,750
	Temporary work visas	67,000	-350	-1,400	-1,400	-1,400	-1,400	-1,050
	Family visas	75,000	-100	-450	-450	-450	-450	-350
	Other visas	36,000	-50	-200	-200	-200	-200	-150
In country	Investor, business development and talent work visas	6,000	~	-50	-50	-50	-50	~
	Sponsored skilled work visas	228,000	-300	-1,100	-1,550	-2,200	-3,150	-2,550
	Graduate route	224,000	-1,150	-3,450	-3,650	-3,750	-3,750	-2,650
	Study visas	86,000	-100	-500	-550	-550	-600	-400
	Temporary work visas	12,000	~	-100	-150	-150	-150	-100
	Family visas	226,000	-150	-550	-550	-550	-550	-400
	Other visas	13,000	-50	-100	-50	-50	-50	-50

Mandatory specific impact test - Statutory Equalities Duties	Complete
<p>Statutory Equalities Duties</p> <p>Increasing the IHS is deemed to impact either directly or indirectly on multiple protected characteristics. The summary of the direct and indirect impacts on protected characteristics is summarised below -</p> <p>Direct Discrimination –</p> <p>The IHS is differentiated directly on the basis of age. Migrants under the age of 18 are subject to the discounted surcharge rate. Although the full and discounted surcharge rates are increasing by the same proportion, increases to the IHS are therefore likely to have a higher impact on migrants aged over 18.</p> <p>No further circumstances of direct discrimination on the basis of protected characteristics have been identified.</p> <p>Indirect discrimination –</p> <p>Migrants in specific age categories are potentially likely to be impacted more due to their average earnings. Individuals aged below 30 and above 65 generally earn on average less than those in the prime age range. This could mean that increases to the IHS have a higher proportional impact on these age cohorts due to affordability caused by limitations in earning potential.</p> <p>Individuals with the protected characteristic of disability are likely to earn less than individuals who do not share the protected characteristic. Increases to the IHS may have a higher impact on individuals with the protected characteristic of disability due to lower average earnings. However, the surcharge is paid at a flat rate which doesn't take account of the usage that an individual makes of the NHS. As individuals with the protected characteristic of disability are likely to use NHS services more intensively, the IHS may proportionally represent better value for money for this cohort.</p> <p>Individuals with the protected characteristic of marriage and civil partnership may be impacted more than individual who do not share this characteristic. Partners applying at the same time to enter or remain in the UK would face a higher cost burden than migrants applying alone.</p> <p>Individuals who share the protected characteristic of pregnancy and maternity are likely to earn less than those who do not share the protected characteristic due to statutory maternity pay and as such are likely to be impacted to a higher extent due to the increase. However, migrants sharing the protected characteristic of Pregnancy and Maternity are likely to receive better value from payment of the IHS. The surcharge is paid at a flat rate which doesn't take account of the usage that an individual makes of the NHS. As individuals with the protected characteristic of pregnancy and maternity are likely to use NHS services more intensively and the cost of those services to the NHS is substantial, the IHS may proportionally represent better value for money for this cohort.</p> <p>UK visa applications are predominantly from a small number of countries, therefore migrants with shared characteristics of Race from certain nationalities are potentially likely to be impacted more than other nationalities. This is due to the proportional usage that certain nationalities make of the UK visa system (for example, India, Pakistan, Nigeria).</p> <p>Due to the nationalities which have a high usage of the UK immigration system and the high proportionality of visa granted to individuals in these countries, it is likely that the increase to the surcharge will have a higher impact on certain Religions and Beliefs. For example, the predominant religions in India are Hinduism, Sikhism and Islam, as such due to the volumes of applications, the increase to the IHS may impact on individuals who follow certain religions more heavily.</p>	<p>Yes</p>

The gender pay gap means that women on average earn less than men, as such individuals with the protected characteristic of **Sex** may be affected more by increase to the IHS on the basis of affordability.

No indirect impacts have been determined on the protected characteristics of **Gender Reassignment** or **Sexual Orientation**.

The SRO has agreed these summary findings.