Immigration Fees and Levies Cost Recovery Impact Statement

Agency Disclosure Statement

This Cost Recovery Impact Statement has been prepared by the Ministry of Business, Innovation and Employment. It provides an analysis of options for changing immigration fees and levies.

The proposed increases will provide third-party funding for appropriations approved through Budget 2018, under existing regulatory powers through the Immigration (Visa, Entry Permission, and Related Matters) Regulations 2010.

The proposed increases are set against assumptions of forecast visa volumes and processing time for each visa. There are some uncertainties in these assumptions: fluctuations in volumes are inevitable for the majority of uncapped visa types (e.g. work, visit and study visas), and processing productivity can vary.

Higher volumes than forecast will result in additional revenue and costs, and larger surpluses than the necessary level projected, and a quicker return to balance for the memorandum account, or a larger surplus. Similarly staff efficiencies will mean lower costs leading to larger surpluses. Lower volumes or longer processing times than forecast will, by contrast, create shortfalls. In addition, longer processing times or volumes for some visa types, but not others, will create imbalances between visa categories, leading to cross subsidies by some visa applicants.

Following public consultation, MBIE has developed alternative scenarios in relation to forecast work visa volumes. These alternative scenarios themselves carry uncertainties and pose potential risks to the fee memorandum account. On balance, MBIE considers the current assumptions to be appropriate. MBIE is planning to undertake further work to develop forecast and resourcing models which will inform the next fee and levy review in 2020/21.

There is limited literature, especially in New Zealand, on the potential impact of immigration fees and levies increases on visa applicant behaviours. However, evidence from the last two decades of visa price increases, and also from the introduction of the Border Clearance Levy (BCL) charged on airline tickets would generally indicate low price sensitivity[1]. While any effects cannot be easily quantified, the proposed increases are generally insignificant in the wider context of the costs of travelling to or settling in New Zealand.

Visa fees and levies are set in three bands: NZ, Pacific and Others, reflecting where visa applications are made. Fees and levies in the Pacific band are discounted to reflect the special relationship between NZ and Pacific countries. This fees and levies review does not change the differential between the bands.

The proposed Electronic Travel Authority (ETA), if implemented, will cover the costs of processing visa-waiver travellers, rather than visa applicants. The introduction of the ETA may reduce border security costs related to visa-waiver travellers. While most of these costs are crown-funded, there

[1] While work undertaken in the context of the development of the BCL suggested a potential reduction in tourism resulting in a potential impact on GDP of $37 - $185 million, there was no observable impact following the introduction of the BCL. Budget-driven tourists are generally considered to be the most price sensitive segment of visa applicants.

may be flow-on savings from the ETA for future fee/levy cycles. These will be taken into consideration when they become more concrete.

These assumptions and limitations will be reviewed during the next fee and levy review cycle.

This CRIS was originally published on 24 September 2018 following a review of immigration fees and levies.

Siân Roguski, Manager Immigration Policy, MBIE

24 September 2018

Reviews of cost recovery charges

The immigration system is paid for, in large part, by fees and levies recovered from migrants. This recognises the benefits migrants receive, such as from compliance, border and regulatory activities.

Fees make up the biggest component of third-party revenue, at around $225 million in 2016/17, while levies provide about $25 million. They are collected for different purposes:

- fees are charged on a full cost-recovery basis for the costs and associated overheads of visa decision-making;
- levies contribute to immigration system costs which cannot be directly attributed to a specific applicant, including border processing, compliance, and activities of the Immigration Advisers Authority.

In addition, the Crown makes a contribution to the immigration system in recognition of the public benefits it provides. This includes funding to meet New Zealand's international obligations to refugees, to pay for fraud investigation and prosecution, and to address the costs associated with the border clearance of people who do not pay fees, such as New Zealand citizens.

It is good practice that fees and levies are regularly reviewed. The last review was carried out in 2015. Since then the context of the immigration system and associated cost drivers have changed. A review now is timely.

Immigration fees and levies are set out in the schedules of the Immigration (Visa, Entry Permission, and Related Matters) Regulations 2010, which was last updated in 2015.

The review identified a number of issues associated with the status quo.

Under recovery for work visas, and over recovery for other visa types means that cross-subsidisation is occurring

Over and under recoveries have emerged since 2015, partly as visa volumes can be volatile and underlying processing efforts can change due to a range of factors. The following table illustrates the volatility across selected types of work visas:

Visa Types		2015/16	2016/17	2017/18	Total
Essential Skills	number	38241	40322	46742	125305
	year on year growth	-	5%	16%	-
Work to Residence	number	3331	4794	8767	16892
	year on year growth	-	44%	83%	-
Partner of a worker	number	17981	21022	22974	61977
	year on year growth	-	17%	9%	-
Specific Purpose or event	number	16313	15108	11317	42738
	year on year growth	-	-7%	-25%	

Currently visa fees are too high in some areas, including visitor, student and business visas, and too low in others such as work visas. This is reflected in the deficits and surpluses in different visa categories that have emerged since 2015 as set out below:

	Revenue* ($m)	Costs ($m)*	Surplus /(Deficits) ($m)*
Business / Skilled	$33.4	$28.4	$5.0
Group Visitors	$8.3	$3.3	$5.1
International / Humanitarian**	$1.1	$7.5	($6.3)
Parent Sibling Adult Child Stream	$1.9	$2.6	($0.7)
Returning Residence	$5.7	$7.2	($1.5)
Student	$21.6	$16.7	$5.0
Transit	$0.1	$0.2	($0.1)
Uncapped Family Sponsored Stream	$11.1	$8.6	$2.4
Visitor	$51.0	$50.4	$0.6
Work	$44.3	$68.2	($23.9)
Working Holiday	$11.6	$8.1	$3.4
Work - RSE	$2.7	$0.6	$2.1
Section 61***	$1.6	$1.3	$0.3
APEC Cards**	$0.5	$2.7	($2.2)
Work online	$0.0	$0.0	$0.0
Student online****	$1.6	$2.2	($0.6)

* Dollar figures shown are rounded.

**Deficits for the international/humanitarian/APEC cards visas are technical as the revenue comes mainly from the Crown.

*** section 61 of the Immigration Act provides for the grant of visa in special cases where the applicants are in New Zealand unlawfully but are not subject to deportation or removal orders.

**** Student online visas are largely processed by education providers. The cost structure is therefore different from individual student applications.

The roots of the problem are complex, and it is difficult to pinpoint a specific cause. Under recovery in the work visa category is likely to have been generated by a greater focus in recent years on managing risks associated with processing work visas. For example, Immigration New Zealand (INZ) is doing more to ensure the sustainability of work offers. This increases the time taken to process these visas. As processing time is the single largest component of cost, average cost per visa increases. It is possible too that the initial estimates of the individual processing time for work visa were over ambitious. When aggregated, this can create large variance at the category level given the high volume of work visas.

Over recovery in the student, group visitor and business/skilled residence visa categories is likely to have been a result of the internal operating efficiencies, new online tools and automation introduced as part of the $140 million 2015 visa change programme and new management practices to triage low-risk visas.

The Government has agreed to increase funding for border security and the regulation of immigration advice

As part of Budget 2018, the Government has agreed to investments in improving border security and migrant protection and the regulation of immigration advisers. This investment is essential to ensure the integrity of the immigration system, in light of the growing volumes of applications and increased complexity of migration to New Zealand.

For example, over the last two years, the number of airlines flying to New Zealand has increased from 19 to 31. Some of these flights are from high-risk ports. While the increase in volume brings a proportional increase in revenue through an increased number of visas applied for, it does not compensate for changes in risk profiles. There is a need for INZ Border Services to lift the assessment of travellers on high-risk routes and boost compliance activities.

Additional investment has also been agreed so that the Immigration Advisers Authority can increase regulatory activities to improve the standards of immigration advice.

The Government has agreed to increase funding to meet INZ cost pressures

Immigration fees and levies were last reviewed in 2015. Since that time, the operating context for INZ has continued to evolve. Increasing volumes of migrants adds pressure on INZ infrastructure, and this is not fully offset the revenue growth. A growing focus on compliance and verification against a changing profile of risks, as well as higher public expectations for service standards and risk management, require more investment and create further strain on the system.

Against this backdrop, INZ has been undertaking further change processes and investment which will result in a significant reduction to INZ's off-shore footprint and growing specialisation in visa processing. This is expected to improve both efficiency and the consistency of decision making. However this has not been enough to offset cost pressures. The Government has therefore agreed to provide additional operating funding over 2017/18 to 2021/22 to address the shortfall, including $119.774 million for visa processing and $39.576 million to enhance border security and migrant protection, to be funded by third-party revenue.

The memorandum account deficit is at an unsustainable level

Since 2015, the fee memorandum account position in particular has deteriorated. It was in deficit by $50 million at the end of 2017/18. This indicates under-recovery of the costs of the immigration system on current settings, even before allowing for new cost pressures, and underscores the timeliness of this review.

There is a case to make other minor changes

Removing online discounts

Currently there is a $20 online discount for student, work and visitor visa applications, which was aimed at encouraging greater uptake of online channels, and based on an expectation that online applications would be quicker to process. The discounts are no longer required, as online take up is at acceptable levels. In addition, experience now shows that the processing efforts for online and hardcopy applications are essentially the same, and continuing discounting would mean under-recovering some costs.

Adjusting accreditation fees

Secondly, Cabinet agreed in 2016 to extend the period of accreditation granted under the Talent (Accredited Employer) policy, from 12 months to up to two years for initial accreditation and up to five years for renewal applications, and directed INZ to introduce an audit programme [EGI-16-MIN-0284]. These mean an increase in monitoring costs over the period of accreditation, paid for through the relevant fees. The accreditation fees were not adjusted at that point so need to be increased.

Cost Recovery Principles and Objectives

Section 393 and 399 of Immigration Act 2009 provide authority to set immigration fees and levies through regulations made under section 400 of the Act. The Immigration (Visa, Entry Permission, and Related Matters) Regulations 2010 prescribe fees and levies.

This review of fees and levies is underpinned by the following cost recovery principles:

Principle	Description
Equity (between migrants and New Zealand taxpayers)	Costs are fully recovered from fee and levy payers for the provision of services and management of risks associated with migration. Unlike other jurisdictions, New Zealand uses a cost recovery, as opposed to willingness-to-pay, model to set immigration charges. Where the activities have both public and private benefits, costs are shared between the Crown and migrants.
Authority	The Immigration Act and the Regulations provides authority to recover costs of the immigration system through fees and levies.
Transparency and consultation	MBIE has undertaken public consultation, for the first time, for changes to immigration fees and levies, including targeted engagement with key stakeholders. Information on the underlying drivers of costs, including financial information, has been provided through the discussion document. Detailed financial modelling has also been made available to stakeholders on request.
Efficiency	Regular review of fees and levies ensures that fees reflect the costs of underlying services and support efficient resource allocation. Efficiency gains achieved through INZ's transformation process have ameliorated cost pressures that would have otherwise occurred and the proposed increase in fees and levies has factored in the expected efficiency gains from additional investment.
Simplicity	Fees and levies for individual visa applications are fixed in regulations and charged at the point of application. Information is readily available through the visa application process.
Accountability	Fees and levies must be set by regulation approved by the Government where the usual regulatory accountability mechanisms apply. Furthermore, INZ fees and revenues are scrutinised as part of its public sector financial accountability arrangements. In addition this is the first year that public consultation has been undertaken on fees and levies. It is intended that this would continue for future fees/levy setting processes to allow greater transparency and accountability.

Objectives of the fees and levies proposal

Objective	Description
Equity (between visa applicants)	The provision of visa services provides private benefits to individual migrants, which do not overlap. As much as possible, the relativity between visa categories should reflect the relativity of the underlying processing efforts so that cross-subsidisation is minimised. This ensures both horizontal and vertical equity.
Effectiveness	Funding is set at a level that ensures the level of service is maintained against increasing volume pressures and changing risk profiles. Cost recovery decisions also take into account specific policy objectives and international obligations, for example related to the Working Holidays and Recognised Seasonal Employer schemes, and New Zealand's special relationship with certain Pacific countries.

Policy rationale for reviewing fees and levies

The fees and levies review overall seeks to uphold the cost recovery principle outlined above in a transparent and accountable manner. This is also aimed at ensuring that best regulatory practice is applied.

A key reason to reset fees and levies is to address the over and under recoveries that have emerged over time. This ensures that costs are apportioned equitably for different visa holders. The rebalancing excludes the Recognised Seasonal Employer scheme and Working Holiday visas. This ensures that the specific policy objectives of these classes of visa, which are distinct from general work visas, are effectively achieved.

In addition, the additional investment in risk management and regulatory activities, as a result of increased risks created by migration as a whole, should be recovered through levies. With the proposed increase in levies, the Crown will provide for around 49 per cent of the costs for regulatory and compliance activities. This provides for an equitable division of costs between migrants and New Zealanders.

The increased cost pressure in relation to visa services will also be fully recovered through visa fees. This will aim to maintain an appropriate level of services against rising service volume and increasing complexity of compliance and verification. It is equitable that migrants who benefit directly from visa services should pay for the full costs attributable to them individually.

Finally, it is proposed that fees are increased to address the memorandum account deficit that has arisen. This implies cross-subsidisation of past visa applicants by future visa applicants, which is explicitly allowed for under the fee-setting powers of the Immigration Act 2009. The three-year recovery timeframe proposed means that fewer visa applicants will be affected than if a five-year recovery period had been chosen, though those visa applicants will pay slightly more as a result.

The three-year recovery period would also ensure that the memorandum account functions effectively as intended, to manage unavoidable revenue and cost fluctuations. Having visa applicants pay off the deficit is a more equitable response to factors outside the control of the immigration system, than allowing the burden or risk to fall on New Zealanders.

The level of the proposed fee and its cost components (cost recovery model)

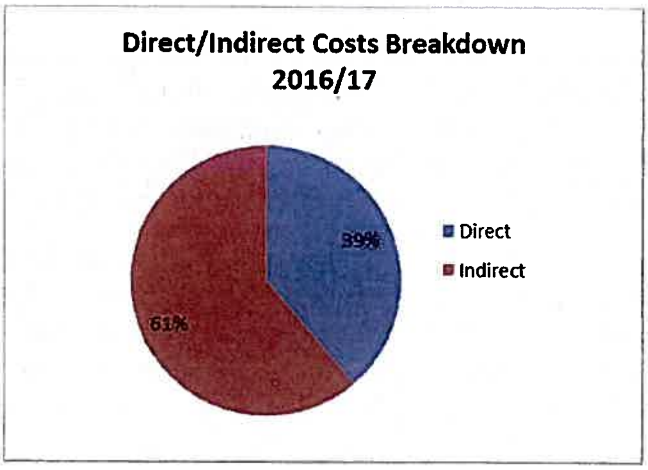
A detailed list of existing and new visa costs by categories is attached in the Appendix. The levy rates will increase by 43% for all migrants. The increases in broad visa fee categories are set out in the table below:

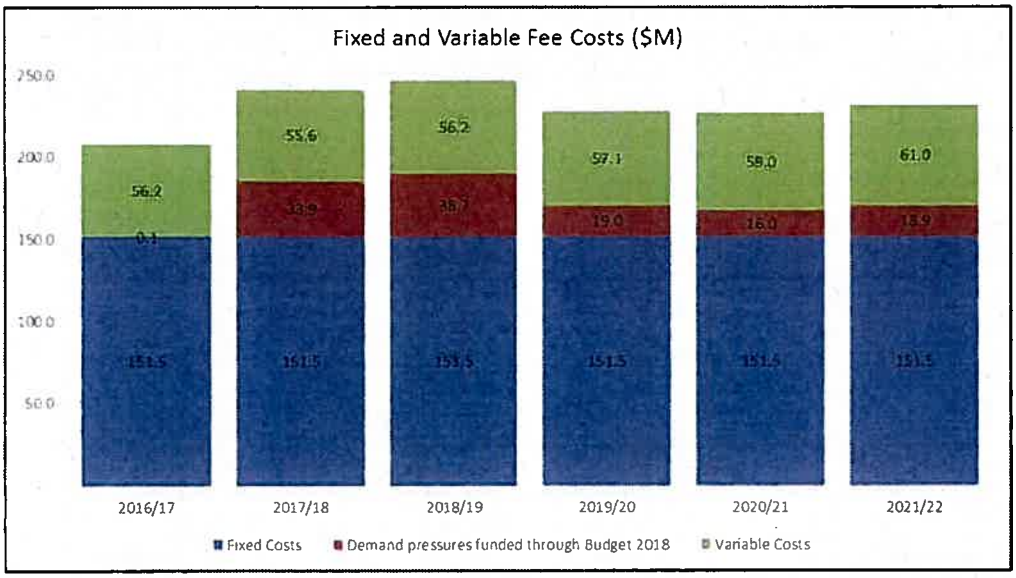
Class of applicant	Proposed changes
Business / Skilled	-1%
Group Visitors	-45%
International / Humanitarian	10%
Parent Sibling Adult Child Stream	10%
Returning Residence	10%
Student	-6.5%
Transit	10%
Uncapped Family Sponsored Stream	10%
Visitor	10%
Work	54%
Working Holiday*	10%
Work – RSE*	10%
Section 61	10%
APEC Cards	10%
Work online	54%
Student online	10%

*work visa associated with the working holiday and recognised seasonal employer schemes are exempted from the rebalancing. However they are subject to the 10% increase for all other visas.

As discussed on page 5 to 6, it is also proposed that the $20 online discount for work and student visa application is removed. It is also proposed that the employer accreditation fee will increase by 20 percent, to match the longer accreditation period.

The drivers of these funding needs are discussed above on page 3 to 6. In terms of the broader cost structure, the following tables provide breakdowns of INZ fee-related costs, by direct/indirect and fixed and variable costs:





Fees and levies are apportioned based on average processing effort (time per application), multiplied by forecast volumes. As the time spent to decide individual visa applications can vary, sometimes significantly, depending on individual circumstances even for the same type of visa, it is impractical to measure processing efforts directly against individual visas. Rather, INZ uses available information about average times to provide a stable basis for calculations. Further moderation is then applied if necessary.

Assumptions about volumes are also set at broad level, as factors influencing future volumes – e.g. expectations of a buoyant labour market – do not necessarily flow through to all individual visa types.

Following consultation and feedback from stakeholders, we have opted to maintain the assumptions as consulted, taking into account the uncertainties in forecasting and potential impact on the memorandum account. This will be revised for the next review. The volume assumptions for the proposed changes are as follows:

By Visa Product Group:	Visa types	Year 1 2017/18	Year 2 2018/19	Year 3 2019/20	Year 4 2020/21	Year 5 2021/22
Residence	Business/Skilled	-20.0%	-5.0%	-3.0%	0.0%	0.0%
	Returning Residence					
	Parent Sibling Adult Child stream					
	Uncapped Family Sponsored Stream					
Visitor	Group visitor	12.0%	10.0%	10.0%	10.0%	10.0%
	Visitor					
Student	Student	-10.0%	-3.0%	0.0%	0.0%	0.0%
Work	Work	4.0%	-1%	-2%	0.0%	0.0%
	Work online					
Other Temporary	Transit	0.0%	0.0%	0.0%	0.0%	0.0%
	International/Humanitarian					
	Working Holiday					
	Work-RSE					
	Section 61					
	APEC cards					
	Student online					

Changes in actual volumes of visa applicants will have impacts on INZ's overall costs and revenues as well as on relativities between different visa types. Generally, a higher volume than forecast means more revenue will be collected. As a relatively high proportion of fees are to cover overhead costs, this means that INZ will receive more revenue than required to meet the marginal costs. On the other hand, if volumes are lower than forecast, INZ will receive less revenue than needed to meet its operational costs. In addition, if the volume relativity changes between visa types, the cost allocation may also change.

INZ's anticipated efficiency gains from its recent investments are already factored into the calculation of funding needs. Over the next three to five years, INZ is forecasting an operational expenditure saving around $10.3 million per annum from 2021/22 and outyears, if the initial investment is made. However, this is not sufficient to offset the risk- and demand-driven cost pressures.

Impact analysis

The proposed increases in fees and levies will impact on all visa applicants. In 2016/17 the volume of applicants by main visa types is as follows

	ACTUAL VOLUMES		
Application Type	**New Zealand**	**Pacific**	**Other**
Business / Skilled	13,566	0	1,078
Group Visitors	0	196	12,914
International / Humanitarian	1,100	760	96
Parent Sibling Adult Child Stream	995	46	315
Returning Residence	25,490	241	1,026
Student	45,093	1,696	53,330
Transit	283	736	507
Uncapped Family Sponsored Stream	10,588	1,198	547
Visitor	31,480	56,171	284,157
Work	111,951	3,209	46,525
Working Holiday	76,756	1	1,877
Work - RSE	560	9,388	1,453
Section 61	5,837	0	0
APEC Cards	33,610	0	0
Student online	18,898	0	0

The impact of cost increases is likely to fall primarily on visa applicants, although in some cases the costs may be met by others, such as employers or New Zealand family members.

While there are significant increases in fees for some visa types compared to current levels, existing evidence suggests that it is unlikely that the demand for visas will decline as a result. The immigration-related costs will remain generally a small portion of the total costs and benefits incurred when people come to work, study or visit New Zealand.

With the proposed increases, New Zealand will remain competitive compared to other jurisdictions. The following table outlines the differences in visa fees in selected comparable categories:

	New Zealand (proposed fee and levy)	**Australia**	**United Kingdom**
Student	$275	$597	$587
Work (skilled)	$495	$1,225	$825
Skilled Migrant	$2,710	$6,235	$2,172

MBIE acknowledges that there is a need to improve the evidence base around the impacts of fee changes on demand from visa applicants. Further work will be carried out in preparation for the next review cycle.

In terms of the removal of online discount and the increase in accreditation fees, the changes are minor and are likely to have negligible (if any) impacts. Student, work and visitor visa applicants will still derive private benefits from the convenience of online applications. Businesses will still benefit from a longer period of accreditation, and the accreditation fee will be lower than previously on a per year basis.

Consultation

Public consultation on the immigration fees and levies review took place from 15 June to 22 July 2018. Ten submissions were received. The list of submitters is included in the Annex.

MBIE undertook targeted consultation with industry stakeholders. This included meetings with the Board of Airline Representatives New Zealand, BusinessNZ, Federated Farmers and Tourism Industry Aotearoa. MBIE also provided a presentation on the Immigration Resourcing model to representatives of the latter three stakeholder groups.

We also worked with the Ministry for Pacific Peoples to consult Pasifika communities on the potential impacts on Pasifika citizens, as well as offering to meet with stakeholders in person. s 6(a) [redacted]

Withheld under s6(a) of the Official Information Act 1982

The key feedback received and MBIE's response is as follows (a detailed submission analysis is attached as Annex)

Volume assumptions

- *Some stakeholders questioned the volume assumptions underpinning the review. In particular, BusinessNZ noted that the assumed decline of the number of work visas might not be realistic, given the forecasts for continued growth in sectors such as tourism and construction.*

  MBIE response:

  There are some uncertainties around the current work visa volume assumptions used, although we note that any alternative forecasts would have the same uncertainties. In response to the feedback, MBIE developed two alternative scenarios (one assuming a zero growth rate and the other four percent through to 2021/22) and found that changing the assumptions and resetting the pricing could pose considerable risks to the memorandum account (between -$2 and -$20 million deficit by 2021/22).

  If, by contrast, the work visa volumes fall by 2% for 2020/21 and 2021/22, the memorandum account balance at the proposed price level will reduce to around 2.5 million compared to the current assumptions.

  Given the uncertainties and the risks, MBIE considers that the current assumptions remain valid for the purpose of this fees and levies review.

  However, MBIE will monitor work visa costs and revenue trends to manage any risks associated with forecast uncertainty and to inform the next fee and levy review scheduled for 2021/22. Officials will also work to improve the forecasting and costing models for the review.

Efficiency measures

- *A number of stakeholders argued that INZ should minimise costs and maximise efficiencies.*

  MBIE response:

  We note that the proposals have already factored in the significant savings (projected to be around $10.3 million per year from 2021/22) from INZ's ongoing transformation project. While there may be further opportunities for efficiency gains, higher expectations at this stage would be unrealistic.

Memorandum Account Deficit

- *BusinessNZ submitted that the memorandum account deficit should be absorbed by INZ rather than being passed onto new visa applicants, and that it should be subject to annual review.*

  MBIE response:

  The memorandum account is set up for the purpose of addressing fluctuation in immigration volumes by registering surpluses and deficits over the short term, and balancing these surpluses and deficits over time. While recovering the deficit means cross-subsidisation of previous visa applicants by new visa applicants, this is still fairer than letting such costs associated with immigration fall on New Zealand taxpayers. Resetting fees annually would be impractical and still imply some cross subsidisation across years.

Public/Private Benefits

- *BusinessNZ submitted that the proposed border security and compliance related costs provide public benefits to New Zealand, and therefore should ideally be recovered entirely through general taxation.*

  MBIE response:

  Given that the need for border security and the consequent benefit arises out of the risks posed by migration, MBIE considers the current split of Crown and levy funding is generally appropriate.

Conclusions and recommendations

MBIE proposes to increase fees and levies to address the issue of cross-subsidisation, to address demand pressures and the need for investment in border security and migrant protection, and to recover the fees memorandum account deficit within three years.

The proposals give effect to the cost recovery principles that provide an equitable, transparent and efficient way to address costs arising out of service provision and risk management of claimants.

In addition, the proposals improve equity between visa applicants, and are set in a way that reflects up-to-date cost assumptions, allowing for more effective responses in the future.

Implementation plan

It is proposed that the changes will take effect in November 2018. As the changes concern only the levels of existing fees and levies, implementation is straightforward. Immigration New Zealand will develop a communication strategy to inform applicants and stakeholders as soon as regulatory changes are confirmed prior to the changes taking effect on 5 November.

Monitoring, Evaluation and Review

MBIE is committed to monitoring the impact of the changes in fee and levy levels, including MBIE's ability to cover costs and the impact, if any, on application numbers and the extent to which underlying assumptions are borne out in practice. Expected efficiency gains will be monitored. MBIE will also redevelop the forecasting and resourcing model to inform the next fees and levies review scheduled for 2021.

Version control

Other version	Date	Link
V1	01/08/18	
V2	14/08	
V3	17/08	
V4		