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Minister	Hon Michael Wood	**Portfolio**	Immigration
Title of Cabinet paper	2022 Immigration Fee and Levy Review	**Date to be published**	18 August 2022

List of documents that have been proactively released		
Date	**Title**	**Author**
6 April 2022	2022 Immigration Fee and Levy Review	Office of the Minister of Immigration
11 April 2022	2022 Immigration Fee and Levy Review CAB-22-MIN-0121 Minute	Cabinet Office

Information redacted **YES / NO**

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reasons of confidential advice to Government.

Budget Sensitive

Office of the Minister of Immigration

Cabinet Economic Development Committee

2022 Immigration Fee and Levy Review

Proposal

1 This paper reports back on the Immigration Fee and Levy Review (following targeted consultation with stakeholders) and seeks approval to new fee and levy rates to apply from 1 August 2022.

2 It also seeks approval to:

2.1 change the allocation of costs, primarily from fees to the levy

2.2 the Crown writing-off the accumulated deficits in the visa fee and eTA memorandum accounts; and subsidising particular visa products where the government chooses to limit price increases.

Relation to government priorities

3 This paper is consistent with the Government's objectives of accelerating the recovery and rebuild from the impacts of COVID-19, and prudent financial management.

Executive Summary

4 In November 2021 Cabinet agreed to the scope and objectives of a comprehensive funding review to return the immigration system to a financially sustainable position [DEV-21-MIN-0221]. This paper reports back on the first stage of this review.

5 Current fee and levy rates are not sufficient to cover the costs of running the immigration system. The under-recovery of costs has been exacerbated since New Zealand closed its borders in March 2020 in response to COVID-19. If the Government wishes to maintain resourcing at current levels without any increase to fee and levy rates, additional funding of up to $210 million over the next two financial years will be required (assuming visa application volumes return to around two thirds of pre-COVID levels by June 2024). This would reduce funding available for other Government priorities.

6 The key aim of this review is to bring fees and levies closer to an appropriate level of cost recovery; this is necessary to support an effective and efficient immigration system. However, I also want to ensure that we do not deter migrants from coming to New Zealand. For this reason, and to acknowledge the considerable uncertainty about how quickly visa volumes will recover, I

propose that we close half of the projected revenue shortfall over the next two years. This will moderate the size of the required fee and levy rate increases.

7 Another aim of this review is to ensure that the mix of revenue (from fees, levy and the Crown) is aligned with best practice cost recovery principles. Current cost recovery arrangements are too heavily weighted towards fees (56%), with comparatively little levy funding (6%), and do not appropriately reflect the share of immigration system activities that benefit all users of the system. To address this, I propose shifting a portion of the cost of activities related to maintaining the immigration system from fees to the levy. This produces a new cost allocation split between fees (44%) and the levy (25%). Most users will not notice any immediate impact of this shift on the price they pay for a visa or eTA. Confidential advice to Government [redacted]

8 The combined impact of closing half of the projected revenue gap over the next two years and revising the cost allocation split produces fee and levy rate increases of: 90% for eTA fees,12% for visa fees, and 279% for immigration levy rates. This translates to an average increase in the price of affected immigration services (excluding eTA) of $76 (42%), from $179 to $255, with the largest increases for residence class visas (e.g. an increase of $2810 for Investor visas).

9 Overall, even with these increases, the price of a visa will remain a small proportion of the total cost of travelling to New Zealand to visit, work or study. Therefore, it is reasonable to assume that these increases in isolation are unlikely to have a significant effect on demand. However, I acknowledge that these increases could be significant for some migrants, particularly households seeking multiple visas. I also wish to ensure that immigration fee and levy rates remain competitive with other comparable jurisdictions. Hence, I propose limiting price increases for certain categories, namely key Pacific visas, Visitor and Skilled Migrant visas.

10 MBIE consulted with key stakeholders on an earlier version of the proposals that included an amount for the recovery of pre-COVID and COVID-related deficits in the fee and levy accounts. After considering the feedback from stakeholders, I recommend that the Crown write-off the deficits accrued to the end of June 2022, rather than seeking to recover these from users. There are no additional fiscal implications associated with these write-offs, because funding provided through Budget 2021 (up to $173 million) is more than sufficient.

11 As the proposed fee and levy adjustments do not fully close the projected revenue gap, deficits of around $135 million are expected to accrue by June 2024. However, the size of the deficits depends on how quickly volumes recover. I will continue to monitor the visa fee and eTA balances and provide further advice on this as part of the next stage of the Funding Review.

12 Confidential advice to Government [redacted]

Confidential advice to Government

13 I propose that the changes to fee and levy rates take effect from 1 August 2022, as the earliest feasible date.

Background

14 New Zealand's immigration system supports the government's economic, social and humanitarian objectives. It is an important lever to support government priorities as New Zealand reconnects to the world and looks towards the recovery from the impacts of COVID-19.

15 Approximately two-thirds of the cost of the immigration system are intended to be recovered from third-party users of the immigration system through fees and levies charged for visa applications. It is good regulatory practice to regularly review visa fee and immigration levy rates, to ensure that the funding of the immigration system remains consistent with cost recovery principles. The last Immigration Fee and Levy Review took place in 2018 [DEV-18-MIN-0178].

16 Although there have been negative balances in the visa fee memorandum account since 2009/10 and in the levy hypothecation account since 2017/18, COVID-19 has also had a significant impact on immigration funding due to border closures. The decline in visa application volumes to approximately a third of pre-COVID levels led to a significant decrease in third-party revenue. This means there are now significant deficits in the fee and levy accounts, and these are projected to grow by approximately $210 million over the next two years.

17 Immigration New Zealand has taken steps to reduce costs in response, for example by closing a number of offshore offices. However, there has been limited scope to reduce expenditure further, particularly as we reopen our borders.

18 In November 2021, Cabinet agreed to the objectives and scope of a first principles Immigration Funding Review [DEV-21-MIN-0221]. This paper reports back on the first stage of that Review, which proposes an interim adjustment to fees and levies to apply from 1 August 2022 (which is the earliest feasible date for implementation).

19 The accompanying Cost Recovery Impact Statement includes details of the feedback received on the initial options that were consulted on with key stakeholders. Following consultation, the proposals were modified to reduce the scale of the proposed increases to fees and levies.

Objectives of the Immigration Fee and Levy Review

20 A good cost recovery regime should be consistent with a number of key principles, including fairness/equity, effectiveness, efficiency, and transparency.

21 The specific objectives of this interim review are to:

21.1 Bring revenue from immigration fees and levies closer to cost recovery (while remaining within the range of what comparable jurisdictions charge)

21.2 Ensure the mix and level of charges support an efficient and effective immigration system

21.3 More efficiently allocate Government resources

21.4 Improve transparency, accountability, and equity of the charging regime.

Immigration revenue, at current fee and levy rates, is not sufficient to cover costs

22 To maintain current resourcing for the immigration system without increases in third-party revenue through higher fees and levies, additional Crown funding of up to $210 million would be needed over the next two years. This is in addition to up to $173 million that was provided through Budget 2021 to cover the anticipated revenue shortfall in 2021/22.

23 Table 1 below shows that fee and levy revenue, at current rates, is not sufficient to cover costs. It shows that large funding shortfalls across fee and levy accounts are expected by the end of June 2024, despite:

23.1 The additional revenue expected in the short-term due to the one-off surge in applications for the 2021 Resident Visa

23.2 The gradual recovery of visa applications and requests for eTAs as the border is progressively re-opened.

*Table 1: Estimated deficits in immigration fee and levy accounts**

	Jun-19 $m	Feb-20 $m	Jun-20 $m	Jun-21 $m	Jun-22 $m	Jun-23 $m	Jun-24 $m
Visa fee	-65.1	-56.3	-127.1	-56.3	-156.5	-241.1	-326.8
eTA fee	-2.0	-2.2	-7.5	-2.2	-22.4	-40.3	-55.1
Total fee	**-67.2**	**-58.5**	**-134.6**	**-58.5**	**-178.9**	**-281.4**	**-381.9**
Immigration levy	-7.2	-5.27	-11.1	-30.6	11.0	14.4	4.3
Total fee and levy	**-74.4**	**-63.7**	**-145.7**	**-89.1**	**-167.9**	**-267.0**	**-377.6**

** This table shows the effects of the prior write-off of COVID-related deficits in the fees account to return the balance (as at June 2021) back to the lower pre-COVID deficit balance (as at 29 Feb 2020)*

Increases to fees and levies will bring third-party revenue closer to cost recovery

24 To meet the objectives for the interim review, I propose to:

24.1 *Bring revenue from immigration fees and levies closer to appropriate cost recovery*. However, to limit the risk of over-recovery if visa volumes exceed current planning assumptions, I propose to close only half the projected revenue shortfall over the next two years. This will mean users will continue to pay less than they otherwise would.[1]

24.2 *Adjust the mix of funding between fees and levies*, to better align with cost recovery principles, particularly that the "club" of users benefiting from the immigration system should pay for the costs of maintaining the system. Confidential advice to Government [redacted] Further detail on this proposal is outlined in Appendix Two.

25 I am recommending across-the-board increases for most visa fee and immigration levy rates. These across-the board adjustments comprise increases of 90 percent for eTA fees,12 percent for visa fees, and 279 percent for immigration levy rates.

26 This translates to an average increase in the price of affected immigration services (excluding eTA) of $76 (42%), from $179 to $255, with the largest increases for residence class visas (e.g. $2810 for Investor visas).

27 Across-the-board increases is a blunt approach, and carries the risk that some fees are set at rates that exceed the underlying cost. Consideration was given to aligning the fees for each type of visa application with the underlying costs; however, INZ does not currently collect enough detailed cost data to enable this approach. For this reason, I propose more tailored adjustments to certain fee and levy categories, where an across-the-board approach may not be appropriate. This approach takes the form of price caps on certain visa categories, that will effectively be Crown subsidies for the following categories:

27.1 Caps on the prices of Visitor and Skilled Migrant visas (at a cost of approximately $26 million over two years), to ensure New Zealand's rates remain within the range of what other countries charge for equivalent visas, and

27.2 Subsidies for key Pacific visas (Recognised Seasonal Employer (limited work), Pacific Access Category (Registration and Permanent Resident visa), and Samoan Quota) so that there is no price increase

[1] The intended level of cost recovery from users is 73 percent of total immigration system costs.

for these applicants (at a cost of approximately $4 million over two years), and

27.3 Retaining the fee rates that have already been announced for the Accredited Employer Work Visa – only the levy applicable to the Migrant check would be increased.

28 Table 2 gives an overview of the proposed adjustments to key visa products. The detailed changes are included as Annex One.

Table 2: Summary of proposed adjustments to key visa products

Visa product	**Current price (fee and levy)**	**Proposed price (fee and levy)**
eTA (visitor)	12	23
Visitor	210	**210**
Working Holiday Scheme	245	420
Fee-paying Student	275	375
RSE	325	**325**
Post-study work	495	700
AEWV (migrant check)	595	750
Partnership – Work	635	860
Partnership – Resident	1480	2750
Skilled Migrant - Resident	3240	**5000**
Entrepreneur	4140	6855
Investor Migrant	5070	7895

*These prices reflect the price of a visa application made in New Zealand (**bold text** reflects proposals to cap price increases) Prices exclude the International Visitor and Conservation Levy (IVL) charged on top of some short-term visas.*

29 My recommendations for changes to fees and levies take into account the impact on potential migrants. The costs of immigration fees and levies will remain a small proportion of the total costs to come to New Zealand to visit, study, or work. The proposed fee and levy rates will also remain competitive with comparable jurisdictions. Table 3 shows how the proposed adjustments to key visa products compared to Australia, the United Kingdom[2] and Canada.

Table 3: Comparison of proposed adjustments with other jurisdictions

Visa product	**Proposed price (fee and levy)**	**Australia ($NZD)**	**Canada ($NZD)**	**United Kingdom ($NZD)**
eTA (visitor)	23	20	10	60
Visitor	**210**	155	120	195
Working Holiday Scheme	420	535	185	500
Fee-paying Student	375	680	175	710
RSE	**325**	340	185	500
Post-study work	700	1815	300	1430
AEWV (migrant check)	750	1395	365	1435
Partnership – Work	860	N/A	650	1435
Partnership – Resident	2750	8480	1240	7980

[2] UK prices do not reflect an additional increase to fee rates of approximately $30NZD that will be implemented from mid-April 2022

Skilled Migrant – Resident	**5000**	4445	1565	6765
Entrepreneur	6855	4445	2450	2605
Investor Migrant	7895	9640	N/A	8185

The adjustments reflect pragmatic estimates of volumes, revenue and expenditure in the current environment

30 There is significant uncertainty about how quickly visa volumes will recover as the border reopens. It is highly likely that offshore visa applications and eTA requests will be well below pre-COVID levels for the foreseeable future. This paper assumes that overall visa volumes return to approximately half and two-thirds of 2018/19 volumes over the next two years, respectively (with eTA volumes returning to approximately one quarter and half of 2018/19 volumes over the next two years, respectively). However, some categories are expected to recover more slowly, such as visitor visas, and others to recover more quickly, such as Recognised Seasonal Employer.

31 It is important that the immigration system retains the capability to support the border re-opening, which is essential to our recovery from COVID-19, and other key deliverables including:

31.1 The 2021 Resident Visa processing and ongoing work associated with border exceptions,

31.2 Implementation of the new Accredited Employer Work Visa

31.3 Phased implementation of automation to aspects of visa processing.

32 For this reason, the current funding baseline of $454 million has been used as the most realistic assumption of expenditure for the purposes of this interim fee and levy review.

These adjustments will reduce the projected deficits in the immigration fee and levy accounts by around two-thirds compared to the status quo

33 If no change is made, the total deficit across the visa and eTA fee and immigration levy accounts would reach $378 million by the end of June 2024.

34 As I am proposing to close only half of the projected revenue shortfall at this time, deficits will remain, but would be considerably smaller. I expect my proposed adjustments to result in deficits of $42 million, $11 million, and $83 million by the end of June 2024 in the visa fee, eTA fee, and immigration levy accounts respectively ($135 million total).

35 The remaining shortfall in revenue is an issue that can be addressed in the next stage of the Immigration Funding Review. Confidential advice to Government [redacted]

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I propose that accrued deficits are written off by the Crown to reduce the size of the increases to fee and levy rates

36 This immigration fee and levy review also considered the treatment of accrued deficits in the immigration accounts. The total deficit stands at approximately $164 million, comprised of:

36.1 The remaining pre-COVID deficits of $42 million in visa fees and $2 million in eTA fees.

36.2 The COVID-related deficits (to the year ending 30 June 2022) are estimated to be around $100 million in visa fees and $20 million in eTA fees.

37 The indicative fee and levy rates that MBIE consulted on included amounts to recover all of the pre-COVID deficits and a portion of the COVID-related deficits (based on the historical rate of under-recovery prior to COVID) in the visa and eTA memorandum accounts. There is precedent for recovering deficits through fees, for example in the 2018 Immigration Fees and Levies Review.

38 However, feedback from consultation with stakeholders (detailed in paragraphs 42 to 45) challenged the fairness of recovering these deficits through fees, particularly from future visa applicants who would have not benefited from previous charges that were set below cost-recovery.

39 Having considered this feedback, I propose that the Crown writes off the remaining accrued deficits to the end of June 2022, estimated to total $164 million. Writing off these deficits would also:

39.1 Mitigate the risk that New Zealand's visa rates get out of step with comparable jurisdictions, which could deter people from coming to New Zealand

39.2 Mitigate the risk of over-recovery, if visa volumes recover more quickly than expected, and

39.3 Recognise that a portion of the pre-COVID deficits from users who would have benefited from past under-recovery is being recovered through the fees set for the 2021 Resident Visa and Accredited Employer Work Visa.

40 There would be no fiscal impact associated with writing off the deficits:

40.1 Capital funding of $173 million has been provided for the 2021/22 deficits (COVID-related), of which $86.5 million remains in contingency

40.2 Cabinet previously delegated authority to the Minister of Finance and myself to jointly decide whether any fee account deficits in 2021/22 (i.e. the COVID-related deficit) should be recovered from users (or written off) [CAB-21-MIN-0116.04]

40.3 This paper seeks Cabinet agreement to draw down approximately $44 million capital from the remaining $86.5 million contingency to cover the pre-COVID deficit.

Confidential advice to Government

[redacted]

Consultation feedback

42 MBIE consulted with selected stakeholders on draft proposals for the Immigration Fee and Levy Review in early March 2022. Stakeholders consulted included groups representing the tourism sector, immigration advisers, business and employers, workers, and the international education sector.

43 Feedback focussed on concerns about the size of the proposed fee and levy increases. Stakeholders noted that as New Zealand is reopening to the world, significant fee and levy increases would send the wrong signal, and may make us less attractive compared to the countries we compete with for migrants. Substantial increases would negatively impact particular migrant groups such as those with larger families, those coming from lower-income countries, and students.

44 Particular concern was raised through Ministerial and agency consultation that the proposed increases for Pacific migrants would be inconsistent with the Government's commitments to support Pacific resilience and economic development.

45 Most stakeholders also questioned the fairness of including deficit recovery in the new fee rates. They reasoned that the Government should cover the cost of the decision to keep the border closed, and that new visa applicants should not be held responsible for past under-recovery of costs.

46 Having considered stakeholders' feedback, I recommend that Cabinet agree to:

46.1 Write-off the accrued pre-COVID and COVID-related deficits

46.2 Subsidise key Pacific visas.

47 As a result, the fee and levy adjustments I am proposing are considerably lower than the indicative rates that were consulted on.

48 The proposed fee and levy rates are comparable to the charges set for equivalent visas by our international counterparts, so I am confident they will

not deter potential migrants, notwithstanding that the costs and barriers to travel may be elevated as the world recovers from COVID-19.

Implementation and monitoring

49 I propose that the changes to fee and levy rates take effect from 1 August 2022. This is the earliest feasible date, taking into account the significant change programme to enable INZ to deliver on the reopening of the border alongside other key Government priorities.

50 Implementation requires amendments to the fee and levy schedules in the Immigration (Visa, Entry Permission, and Related Matters) Regulations 2010, updates to INZ's internal systems to change the amounts charges to applicants for different visa products, and communications to applicants and stakeholders as soon as the regulatory changes are confirmed.

51 MBIE will monitor changes in visa volumes, and therefore how effectively fees and levies are recovering costs, and will advise me if adjustments are required sooner than planned (if fees and levies are recovering significantly more or less costs than intended).

Confidential advice to Government

Financial Implications

53 Overall, I expect these decisions to reduce the size of the third-party revenue shortfall by $78 million and reduce operating costs for the Crown by $18 million over two years (reflecting the net impact of reducing the share of Crown funding in the immigration revenue mix, offset by the estimated cost to the Crown of the proposed caps and subsidies). This should improve the affordability of the immigration system to the Crown.

54 Table 4 shows the expected impact of the proposal on memorandum account balances at the end of June 2024 (assuming the Crown writes off the deficits accrued to June 2024).

Table 4: Deficits expected at the end of June 2024 ($ millions)

	Status quo	Proposed adjustment	Difference
Visa fee	-326.8	-41.7	285.1
eTA fee	-55.1	-10.9	44.2
Total fee	**-381.9**	**-52.6**	**329.3**
Immigration levy	4.3	-82.6	-86.9
Total fee and levy	**-377.6**	**-135.2**	**242.4**

Implications for Budget 2022

55 I have submitted a Budget bid through Budget 2022 $155 million in capital funding to cover the projected revenue shortfall in the 2022/23 financial year only. Subject to Cabinet agreement to the new fee and levy rates proposed in this paper, the funding required will significantly reduce.

Legislative Implications

56 The proposed changes to immigration fees and levies will require amendments to the Immigration (Visa, Entry Permission, and Related Matters) Regulations 2010 (the Regulations).

57 No statutory changes are required.

Impact Analysis

Regulatory Impact Statement

58 A Stage 2 Cost Recovery Impact Statement has been prepared and is attached as Appendix Three.

59 MBIE's Regulatory Impact Analysis Review Panel has reviewed the attached Cost Recovery Impact Statement (CRIS) prepared by MBIE and has provided the following assessment:

"The Panel considers that the information and analysis summarised in the CRIS ***partially meets*** *the quality assurance criteria necessary for Ministers to make informed decisions on the fee proposals in this paper. The CRIS clearly sets out the nature and scale of the problem and the case for change. However, the impact analysis is constrained by limitations on the information available, and uncertainties associated with expected demand for visas and the costs of providing immigration services. The speed at which the changes to fees and levies are required to be implemented also limited the extent to which broader consultation could be completed. The impact of these limitations can be mitigated through the monitoring and collection of better data on costs and demand for immigration services post-COVID. The improved data and information would allow fees and levies to be set more accurately (and their impacts better understood) when the interim fees and levies are reviewed again, as part of a wider fees review, within the next two years."*

Climate Implications of Policy Assessment

60 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal as the threshold for significance is not met.

Population Implications

61 The proposed increases to fee and levy rates include a Crown subsidy for key Pacific visas to leave these prices at their current levels. This includes the Samoan Quota, Pacific Access Category, and the Recognised Seasonal Employer (limited work) visa. In addition, the discount that is currently applied to most applications made from the Pacific will be retained in the new schedule of prices. Together, these changes should ensure that the changes are consistent with the Government's commitments to support Pacific resilience and economic development.

62 We do not expect the price increases to have a disproportionate impact on other population groups.

Human Rights

63 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993, and with New Zealand's international commitments to enabling movement of people. The Immigration Act 2009 recognises that immigration matters inherently involve different treatment on the basis of personal characteristics, but immigration policy development seeks to ensure that any changes are necessary and proportionate.

Consultation

64 This paper has been prepared by MBIE. The following agencies were consulted on this paper and their views taken into account during its development: NZ Customs Service, the Ministry of Education, the Ministry of Foreign Affairs and Trade, the Ministry for Pacific Peoples, the Ministry of Primary Industries, the Ministry of Transport, the Ministry for Ethnic Communities and the Treasury. The Department of the Prime Minister and Cabinet was informed. Minor clarifications have been made in response to agency feedback.

65 We consulted with the Treasury to ensure the financial recommendations in this paper capture all the technical changes necessary to give effect to the policy proposals in this paper, and to confirm that the proposed write-off of pre-COVID deficits in the visa and eTA memorandum accounts is considered fiscally neutral.

Communications

66 Feedback from consultation suggests that many groups will raise concerns about the size of the increases. A communications strategy will be developed to ensure the rationale for the increases is well-explained and transparent.

67 The new fees and levies will be published on the INZ website ahead of the changes taking effect.

68 Notice of the amendments to Regulations will be published in the Gazette.

Proactive Release

69 I propose to release this paper proactively. Any redactions made will be consistent with the Official Information Act 1982.

Recommendations

The Minister of Immigration recommends that the Committee:

1 **note** that in November 2022, Cabinet agreed to a comprehensive review of the immigration system funding model, commencing with options for an interim adjustment to fees and levies [DEV-21-MIN-0221]

2 **note** this interim review has been guided by the following objectives:

2.1 Bringing revenue from immigration fees and levies closer to cost recovery (while remaining within the range of what comparable jurisdictions charge)

2.2 Ensuring the mix and level of charges support an efficient and effective immigration system

2.3 More efficiently allocate Government resources

2.4 Improving transparency, accountability, and equity of the immigration charging regime

Adjusting the mix of Crown, fee and levy funding

3 **note** that the current fee and levy structure relies too heavily on fee funding (61 percent), and that funding a larger share of costs associated with maintaining the immigration system (such as ICT costs) from levies would better align with cost recovery principles and provide scope to broaden the future payer base

4 **agree** to shift the mix of funding sources to partially reallocate costs from fees to levies, alongside other minor changes that result in the following allocation of costs (shown for 2022/23 below, but applied similarly for out-years):

Intended cost allocation (2022/23) by revenue source					
	eTA fee	Visa fees	Immigration Levy	**Total 3rd party**	Crown
Nominal allocation	$22m / 5%	$257m / 56%	$29m / 6%	$308m / 67%	$148m / 33%
Proposed allocation	$16m / 4%	$200m / 44%	$116m / 25%	$332m / 73%	$124m / 27%

Bringing revenue from fees and levies closer to cost recovery

5 **note** that the proposals in recommendations 6 and 7 are intended to close the projected revenue shortfall by June 2024 by 50 percent, to mitigate the risk of over-recovery of costs should visa volumes recover more quickly than currently expected

6 **agree** to increase fee and levy rates across-the-board (subject to the exceptions in recommendation 7) as follows:

6.1 Electronic Travel Authority (eTA) fees will increase by 90%

6.2 Visa fees will increase by 12%

6.3 Immigration Levy rates will increase by 279%

7 **agree** the following exceptions to these across-the-board adjustments:

7.1 Accredited Employer Work Visa fees will remain at the level agreed by the Cabinet Economic Development Committee on 16 February 2022 [DEV-22-MIN-0009], although the associated levy will increase

7.2 Visitor visas will be capped at the current price (fee plus levy) of $210

7.3 The Skilled Migrant – Resident visa will be capped at a total price (fee plus levy) of $5000, to stay within the range of our international counterparts

7.4 The price of key Pacific visas (Recognised Seasonal Employer (limited work), Pacific Access Category (Registration and Permanent Resident visa), and Samoan Quota) will remain unchanged

8 **agree** that the adjustments in recommendations 6 and 7 will take effect from 1 August 2022

9 **note** that this means that the price (fee plus levy) of key visa products, when applied for in New Zealand, will change as follows:

9.1 eTA will increase from $12 to $23

9.2 Working Holiday Scheme visas will increase from $245 to $420

9.3 Student visas will increase from $275 to $375

9.4 Post-study work visas will increase from $495 to $700

9.5 Accredited Employer Work Visas (migrant check) will increase from $595 to $750 (noting the only increase is to the levy component)

9.6 Partnership – Work visas will increase from $635 to $860

9.7 Partnership – Resident visas will increase from $1480 to $2750

9.8 Skilled Migrant – Resident visas will increase from $3240 to $5000 (capped)

9.9 Entrepreneur visas will increase from $4140 to $6855

9.10 Investor Migrant visas will increase from $5070 to $7895

Addressing the deficits that accrued to the end of 30 June 2022

10 **note** that Cabinet has previously taken decisions to fully write-off COVID-related deficits in the immigration fee memorandum accounts, covering the period 1 March 2020 to 30 June 2021 [DEV-21-MIN-2021]

11 **note** that this immigration interim review seeks decisions on the treatment of deficits in the immigration fee memorandum accounts that:

11.1 accrued prior to the COVID-related closure of the border (the pre-COVID deficits)

11.2 will accrue over the 2021/22 fiscal year (COVID-related deficits)

12 **note** that the pre-COVID deficits (approximately $58 million) will be reduced by approximately $14 million due to the setting of fees for the Accredited Employer Work Visa (migrant check) and 2021 Resident Visa that include an amount for deficit recovery [CBC-21-MIN-0114 and DEV-22-MIN-0009 refer]

13 **agree** that the adjustment to fees and levies will not include an amount intended to partially recover any remaining pre-COVID deficits; but rather that the remaining pre-COVID deficits (approximately $44 million) would be written off, reducing the accumulated deficits by 30 June 2022

14 **agree** that the adjustment to fees and levies will not include an amount intended to partially recover any COVID-related deficits that will have accrued in the immigration fee memorandum accounts by 30 June 2022; but rather that the remaining COVID-related deficits (approximately $120 million) would be written off, reducing the accumulated deficits by 30 June 2022.

Expected impacts of these decisions

15 **note** that, taken together, these proposals will:

15.1 Ensure that users of the immigration system are meeting an appropriate share of costs, and are therefore contributing to maintaining the capability of the immigration system

15.2 Creating the foundation for a more sustainable funding model, by shifting a greater proportion of costs from fees to levies, which gives more choices about sharing the burden of future increases

15.3 Ensuring the price of key Pacific visas remains the same for Pacific migrants, reflecting New Zealand’s commitments to resilience and economic development in the Pacific

15.4 Keeping visa prices broadly in the range of comparable countries

15.5 Improving affordability to the Crown, by reducing the size of the third-party revenue shortfall by $78 million and reducing operating costs for the Crown by $18 million over two years (reflecting the net impact of reducing the share of Crown funding in the immigration revenue mix, offset by the estimated cost to the Crown of the proposed caps and subsidies)

16 **note** that MBIE consulted with a targeted group of stakeholders on an earlier iteration of these proposals, and the final price changes outlined in recommendation 6 are considerably lower than those that were consulted on

Financial implications – adjusting the revenue mix

17 **agree** to decreases in both revenue Crown and third-party revenue (eTA and visa fees), and a corresponding increase in third-party revenue (immigration levy) to provide for the revenue mix adjustments outlined in recommendations 3 and 4 above, with the following impact on the operating balance and net core Crown debt:

	$m – increase/(decrease)				
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26 & Outyears**
Operating Balance and Net Core Crown Debt Impact	-	(23.667)	(22.826)	(22.768)	(22.768)
Operating Balance Only Impact	-	-	-	-	-
Net Core Crown Debt Only Impact	-	-	-	-	-
No Impact	-	23.667	22.826	22.768	22.768
Total	-	-	-	-	-

18 **approve** the following changes to baselines to reflect the revenue changes in recommendation 17 above

	$m – increase/(decrease)				
Vote Labour Market **Minister of Immigration**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26 & Outyears**
Multi-Category Expenses and Capital Expenditure:					
Immigration Services MCA					
Departmental Output expenses:					
Assessment and Processing Services (funded by revenue other)		(62.712)	(63.600)	(63.600)	(63.600)
Assessment and Processing Services (funded by revenue Crown)		62.712	63.600	63.600	63.600
Total Operating	**-**	**-**	**-**	**-**	**-**

19 **note** that the appropriation changes in recommendation 18 above reflect the aggregate change in funding sources across each category of the MCA, which comprise the following changes:

	$m - increase/(decrease)			
	2022/23	**2023/24**	**2024/25**	**2025/26 & Outyears**
Assessment and Processing Services				
Revenue from fees	(62.712)	(63.600)	(63.600)	(63.600)
Revenue from Levy	66.532	66.957	66.957	66.957
Revenue from the Crown	(3.820)	(3.356)	(3.356)	(3.356)
	-	-	-	-
Integrity and Security of the New Zealand Immigration System				
Revenue from fees	-	-	-	-
Revenue from Levy	18.985	17.525	17.525	17.525
Revenue from the Crown	(18.985)	(17.525)	(17.525)	(17.525)
	-	-	-	-
Services for the Attraction of Migrants				
Revenue from fees	-	-	-	-
Revenue from Levy	0.830	0.830	0.830	0.830
Revenue from the Crown	(0.830)	(0.830)	(0.830)	(0.830)
	-	-	-	-
Settlement and Integration of Refugees and Other Migrants				
Revenue from fees	-	-	-	-
Revenue from Levy	0.031	1.115	1.056	1.056
Revenue from the Crown	(0.031)	(1.115)	(1.056)	(1.056)
	-	-	-	-

Financial implications – Subsidising the price increases of selected visas

20 **agree** to an increase in revenue Crown and corresponding decreases in third-party revenue (visa fees and immigration levy) to provide for explicit price subsidies for selected visa outlined in recommendations 7.2, 7.3 and 7.4 above, with the following impact on the operating balance and net core Crown debt:

	$m – increase/(decrease)				
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26 & Outyears**
Operating Balance and Net Core Crown Debt Impact	-	9.509	18.828	18.828	18.828
Operating Balance Only Impact					
Net Core Crown Debt Only Impact					
No Impact	-	(9.509)	(18.828)	(18.828)	(18.828)
Total	-	-	-	-	-

21 **approve** the following changes to baselines to reflect the revenue changes in recommendation 20 above

Vote Labour Market **Minister of Immigration**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26 & Outyears**
Multi-Category Expenses and Capital Expenditure: Immigration Services MCA Departmental Output expenses:					
Assessment and Processing Services (funded by revenue other)	-	(2.788)	(5.300)	(5.300)	(5.300)
Assessment and Processing Services (funded by revenue Crown)	-	2.788	5.300	5.300	5.300
Total Operating	**-**	**-**	**-**	**-**	**-**

22 **note** that the financial implications for subsiding the price increases of selected visas assumes visa volumes in 2024/25 and out-years are the same as in 2023/24, and that if those volumes were higher or lower, the fiscal costs would be higher or lower accordingly;

23 **note** that the appropriation changes in recommendation 21 above reflect the aggregate change in funding sources across the *Assessment and Processing Services* category of the MCA, which comprises the following changes:

	$m - increase/(decrease)			
	2022/23	**2023/24**	**2024/25**	**2025/26 & Outyears**
Assessment and Processing Services				
Revenue from fees	(2.788)	(5.300)	(5.300)	(5.300)
Revenue from Levy	(7.091)	(14.249)	(14.249)	(14.249)
Revenue from the Crown	9.880	19.549	19.549	19.549
	-	-	-	-

24 **note** the combined impacts of *adjusting the revenue mix* (recommendation 17) and *subsidising the price increases of selected visas* (recommendation 20) are as follows:

	$m – increase/(decrease)				
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26 & Outyears**
Operating Balance and Net Core Crown Debt Impact	-	(14.158)	(3.998)	(3.940)	(3.940)
Operating Balance Only Impact					
Net Core Crown Debt Only Impact					
No Impact	-	14.158	3.998	3.940	3.940
Total	**-**	**-**	**-**	**-**	**-**

25 **agree** that the combined operating balance impacts of the revenue changes in recommendation 24 above are not managed against allowances as there is a positive impact to the Crown at an aggregate level

Financial implications – Addressing the remaining pre-COVID deficits

26 **approve** the following capital injection to the Ministry of Business, Innovation and Employment to give effect to the policy decision in recommendation 13 above, with a corresponding impact on net core Crown debt:

	$m – increase/(decrease)				
Vote Business, Science and Innovation **Minister for Regional and Economic Development**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26 & Outyears**
Ministry of Business, Innovation and Employment Capital injection	43.900	-	-	-	-

27 **agree** that the departmental capital injection for 2021/22 above be included in the 2021/22 Supplementary Estimates and that, in the interim, the capital injection be met from Imprest Supply

28 **note** that Cabinet approved $173 million capital funding through Budget 2021 for *Financial Sustainability Funding to Address the Third-Party Revenue Shortfall in the Immigration System* [CAB-21-MIN-0116.04 refers], including $86.5 million that was held in contingency and has not yet been required by the Ministry of Business, Innovation and Employment (MBIE)

29 **agree** that although the primary purpose for the funding was to cover the anticipated revenue shortfall in the 2021/22 year primarily arising from border closure in response to COVID, the purpose of these funds be widened to include addressing the pre-COVID revenue shortfall

30 **agree** that the net core Crown debt only impact in recommendation 26 above of departmental capital injections incurred under recommendation 13 above, be charged against the *Financial Sustainability Funding to Address the Third-Party Revenue Shortfall in the Immigration System* tagged contingency

31 **note** that using the capital contingency in this way has no additional financial implications for the Crown

32 **note** that following the adjustment in recommendation 30 above, the remaining balance and indicative phasing of the capital contingency described in recommendation 28 above will be:

	$m				
	2021/22	2022/23	2023/24	2024/25	2025/26 & Outyears
Financial Sustainability Funding to Address the Third-Party Revenue Shortfall in the Immigration System – Tagged Capital Contingency	42.600	-	-	-	-

Financial implications – Addressing the COVID-related deficits for the 2021/22 year

33 **note** that Cabinet has delegated authority to the Minister of Finance and Minister of Immigration to write off COVID-related deficits in the immigration fee memorandum accounts for the 2021/22 fiscal year, up to the amount of capital funding provided through Budget 2021 ($173 million) for *Financial Sustainability Funding to Address the Third-Party Revenue Shortfall in the Immigration System* [CAB-21-MIN-0116.04 refers]

34 **note** that in addition to the $86.5 million capital injection provided immediately through Budget 2021, the remaining capital contingency of $42.6 million should be sufficient to write-off the remaining COVID-related deficits (approximately $120 million), and that using capital injections in this way has no additional financial implications,

35 **agree** that the expiry date of the tagged capital contingency in recommendation 32 above be extended to 1 February 2023, to enable the Minister of Finance and Minister of immigration to confirm the final amount to be written-off once the final memorandum account position is known, following completion of the 2021/22 audited financial statements in November 2022

36 **note** that recommendations 17 to 34 above will have implications for the presentation of the immigration fee memorandum accounts in the Estimates/Supplementary Estimates of Appropriations and in MBIE’s annual report

Regulation changes

37 **authorise** the Minister of Immigration to amend the schedule of fees and levies as set out in Annex One of this Cabinet paper, and to make minor adjustments as necessary

38 **invite** the Minister of Immigration to issue drafting instructions to the Parliamentary Counsel Office for the proposed changes

39 **note** that this paper, alongside the Stage 2 Cost Recovery Impact Assessment and related documents, will be proactively released following public announcement of the changes, subject to any appropriate redactions.

Authorised for lodgement

Hon Kris Faafoi

Minister of Immigration

Appendix One: Schedule of proposed changes to immigration fees and levies

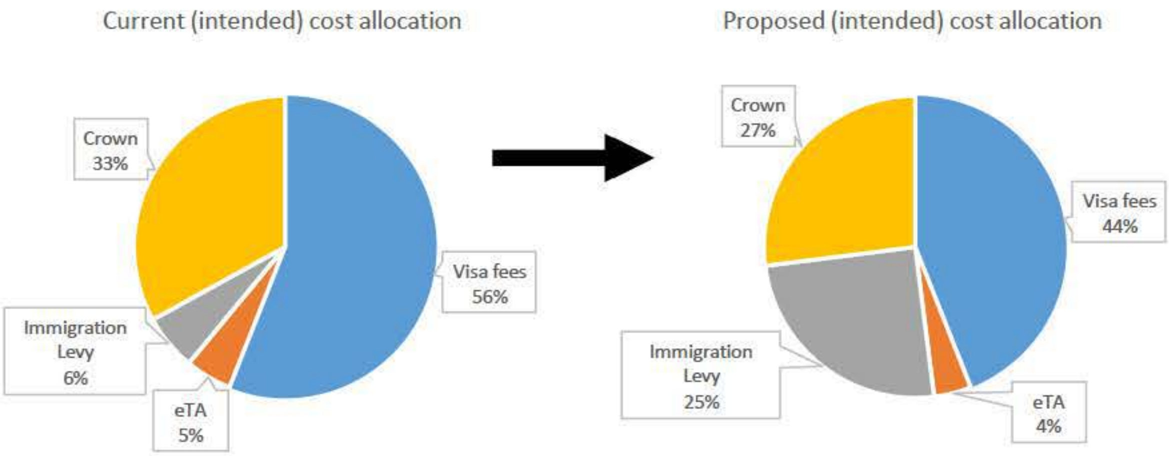
Appendix Two: Further details on proposal to shift the mix of funding sources

1 I am proposing a shift in the mix of funding sources to better reflect the share of immigration services that relate to the overall operation and integrity of the immigration system that benefits all system users.

2 The main shift I am proposing is from fee to levy funding, followed by some Crown to levy funding. Around two-thirds of the shift from fee to levy funding are partial reallocations of ICT infrastructure costs that support the overall operation of the immigration system ($28 million), and risk and verification activities that are associated with visa decisions, but benefit a wider club of users by maintaining the integrity of the system ($9 million).

3 Figure 1 shows the intended shift over time in the mix of funding sources (before taking caps/subsidies into account) would reduce the proportion of costs intended to be recovered by visa and eTA fees by about 14 percent and increase the proportion intended to be funded from levies by about 19 percent. Crown funding would also reduce by about 5 percent.

Figure 1: Proposed cost reallocation



Appendix Three: Cost Recovery Impact Statement

BUDGET SENSITIVE