



COVERSHEET

Minister	Hon Erica Stanford	Portfolio	Immigration
Title of Cabinet paper	Immigration Fee and Levy Review	Date to be published	9 August 2024

List of documents that have been proactively released		
Date	Title	Author
27 June 2024	Immigration Fee and Levy Review – final proposed rates ECO-24-MIN-0117 Minute	Cabinet Office
19 June 2024	Immigration Fee and Levy Review – final proposed rates	Office of the Minister of Immigration
2 May 2024	2324-2878 Immigration fee and levy review – targeted consultation report back	MBIE
2 April 2024	2324-2695 Targeted consultation material – Immigration fee and levy review	MBIE
2 April 2024	Immigration Fee and Levy Review	Office of the Minister of Immigration
27 March 2024	Immigration Fee and Levy Review ECO-24-MIN-0040 Minute	Cabinet Office
4 March 2024	2324-1491 Immigration fee and levy review proposed rates and draft Cabinet paper	MBIE
1 February 2024	2324-1757 Further information on refugee support activities and reallocating ESOL costs	MBIE
31 January 2024	2324-1685 Options to address refugee and protected person claim processing challenges	MBIE
21 December 2023	2324-1069 Further advice on fiscal sustainability options for the immigration system	MBIE
27 November 2023	2324-0932 Fiscal sustainability options for the immigration system	MBIE

Information redacted

YES

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 reasons of international relations; confidential advice to government; legal professional privilege; negotiations; confidentiality; free and frank opinions; maintenance of the law; confidential information entrusted to the government; and privacy of natural persons.



BRIEFING

Further advice on fiscal sustainability options for the immigration system

Date:	21 December 2023	Priority:	Medium
Security classification:	Budget - Sensitive	Tracking number:	2324-1069

Action sought		
	Action sought	Deadline
Hon Erica Stanford Minister of Immigration	Indicate your preferred approach to managing cost pressures, shifting Crown costs to users and adjusting immigration charges.	15 January 2024

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Alison McDonald	Deputy Secretary, Immigration New Zealand	Privacy of natural persons	
Nic Blakeley	Deputy Chief Executive, Labour, Science and Enterprise	Privacy of natural persons	
Jivan Grewal	General Manager, Employment, Skills and Immigration Policy	Privacy of natural persons	✓
Libby Gerard	Acting Manager, Immigration (Border and Funding) Policy	Privacy of natural persons	
Stacey O'Dowd	Principal Policy Advisor, Immigration (Border and Funding) Policy	Privacy of natural persons	

The following departments/agencies have been consulted
The Treasury.

Minister's office to complete:

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments



BRIEFING

Further advice on fiscal sustainability options for the immigration system

Date:	21 December 2023	Priority:	Medium
Security classification:	Budget - Sensitive	Tracking number:	2324-1069

Purpose

The purpose of this briefing is to provide further advice on:

- options for shifting Crown costs to users of the immigration system
- options to manage cost pressures, and
- the fee and levy review.

Executive summary

There are a number of choices required to advance work to achieve an efficient, self-funding and sustainable immigration system. The key choices are set out below.

1. The amount of Crown costs you wish to shift to users Legal professional privilege

We have developed three options which range in the amount of savings generated and Legal professional privilege

Our assessment is that the greatest challenge would likely be about the justification for a wider group of migrants meeting costs to deliver the Refugee Quota programmes, which relate to New Zealand's international and humanitarian commitments.

The lower risk option (shifting approximately \$98 million of Crown costs to users), combined with removing the Crown-funded visa subsidies (\$19.5 million per annum) would achieve the savings goal set out in National's Fiscal Plan. It would also mean Crown funding for the immigration system would be approximately \$36 million (including addressing cost pressures). This corresponds to a \$117 million reduction from 2022/23 funding (\$153 million).

2. Your preference for achieving Crown savings in the short-term

At Budget 2024 Crown-funding for visa subsidies could be removed (\$19.5 million per annum) and/or the Crown-funded tagged operating contingency (a total of \$16.9 million) returned. These savings could also be progressed as part of the fee and levy review.

Alternatively, the tagged operating contingency could be repurposed to address Crown-funded cost pressures (related to increased asylum claims and delivering the Refugee Quota programmes). A Cabinet decision before 1 February 2024 (when the tagged operating contingency expires) would be required to repurpose and extend the funding.

3. How you want to manage immediate (2023/24) costs pressures (driven by increased demand for visas, increased asylum claims and delivery costs for refugee quota programmes)

If you choose to address cost pressures through additional funding, the majority (92 per cent) can be managed using third-party revenue. The alternative is to operate within current funding. This would increase visa and asylum claim processing times, reduce the level of verification and require places for refugees to reduce by a third.

- Joint Ministers could approve a fiscally neutral adjustment for fee-funded cost pressures (increases to appropriations can be approved if they are fully offset by increases in third-party revenue) at the March Baseline Update.
- Cabinet would need to approve the use of the levy funding. Although the levy hypothecation account is in deficit, the fee and levy review is intended to address this deficit.
- Crown-funded cost pressures could be managed by seeking Cabinet's approval to repurpose the Crown-funded tagged contingency (for 2023/24 and a further two financial years). Alternatively, a submission for Budget 2024 could be made, depending on the Budget strategy.

We propose that cost pressures for outyears are addressed as part of the fee and levy review.

4. The extent that you want adjusted fee and levy rates to provision for uncertainty

Shifting Crown costs to users and increasing the Immigration Services MCA (to manage cost pressures) means the immigration funding model would be more susceptible to funding shortfalls if visa volumes and revenue drop.

We have modelled (at an illustrative and aggregate level) four different approaches for adjusting fee and levy rates. The rate change depends on the amount of Crown costs to be reallocated to users and whether uncertainty (i.e. visa volumes and revenue drop) is provisioned for. Depending on the preferred approach, the levy rate would increase by between 195 to 279 per cent, and the fee rate would range from an 8 per cent decrease to an 11 per cent increase.

5. Setting charges (at a visa product level)

Following your direction on your preferred approach for adjusting fee and levy rates, there will be further choices available about how charges are set at a visa product level. Namely, whether to remain competitive with Australia and how to align visa product charges with other policy objectives. For example, the partnership resident visa charge is below 90 per cent of Australia's. All charges, however, must be justified based on authority in the *Immigration Act 2009* and be consistent with cost recovery principles.

6. Timeframes for consulting on adjusted fee and levy rates

Our proposed timeframes for the 2024 fee and levy review reflect a best practice process to allow for targeted consultation and to meet cost recovery impact assessment requirements. We have scheduled targeted consultation for March 2024 which is ahead of Budget 2024 and BEFU.

While consulting on rates ahead of Budget does not constrain subsequent Budget decisions, you have a choice to delay targeted consultation until Budget 2024 which would mean adjusted rates taking effect in November 2024 (rather than September 2024). We recommend you seek an in-principle agreement from Cabinet to the adjusted rates and targeted consultation ahead of Budget 2024.

Following your direction, we will progress detailed work on adjusted rates at a visa product level and prepare advice for Cabinet as required.

Recommended actions

The Ministry of Business, Innovation and Employment (MBIE) recommends that you:

Options to return savings and shift Crown costs to users

- a. **Note** that MBIE has identified that Crown savings could be achieved from the immigration system by:
- i. **returning Crown funding for visa subsidies** (\$19.57 million per annum)
 - ii. **returning the Crown-funded tagged operating contingency** (\$16.9 million totalled over two years)
 - iii. **shifting Crown costs to users** as part of a fee and levy review

Noted

- b. **Direct** officials to progress further work to shift Crown costs to users as part of a fee and levy review (details set out in **Annex Two**):

EITHER

- i. **Option 1:** Maximum allocation (\$128 million), **Confidential advice to Government** but would achieve the savings set out in the Fiscal Plan

Agree / Disagree / Discuss

OR

- ii. **Option 2:** Lower risk (\$98 million), which would achieve the savings set out in the Fiscal Plan only if funding outlined in recommendation (a)(i) is also returned (**recommended**)

Agree / Disagree / Discuss

OR

- iii. **Option 3:** Maximum allocation, excluding the Refugee Quota and related programmes costs, which is unlikely to achieve the savings set out in the Fiscal Plan (\$76 million)

Agree / Disagree / Discuss

Risks to manage

- c. **Note** that the risk of increasing the Immigration Services baseline to offset Crown costs is that if visa volumes drop, revenue may be insufficient to cover costs leading to:
- i. reputational and/or fiscal risk to the Crown if Crown funding is required to maintain services and meet commitments (eg delivery of the Refugee Quota programme)
 - ii. an unsustainable financial position if significant deficits occur in the fees memorandum and levy hypothecation account

Noted

- d. **Direct** MBIE to develop a financial management plan to support a sustainable immigration funding model and an efficient and effective delivery of services, with a report back in March 2024

Agree / Disagree / Discuss

- e. **Confidential advice to Government**

Agree / Disagree / Discuss

Options for managing cost pressures

f. **Note** that MBIE is seeking to manage cost pressures of approximately \$46 million for 2023/24 (Annex Two) of which 92 per cent are third-party funded:

- i. **Fees-funded:** an expanded workforce (visa processing, risk and verification, identity) and associated ICT overheads to manage increased demand for visas and New Zealand electronic Travel Authority requests **(\$36.7 million)**
- ii. **Levy-funded:** appropriately resourcing the compliance and investigation function to address immigration non-compliance (migrant exploitation and trafficking) **(\$5 million)**
- iii. **Crown-funded:** managing increased asylum claims **(\$1.3 million)** and meeting higher operating costs of delivering the Refugee Quota and related programmes **(\$3 million)**

Noted

g. **Direct** officials to manage 2023/24 fee-funded cost pressures by either:

- i. funding the cost pressures through a fiscally neutral adjustment approved by joint Ministers at the March Baseline Update (MBU), per Cabinet Office Guidelines CO (18) 2, noting the immigration fees memorandum is \$53 million in surplus as at October 2023 **(recommended)**

Agree / Disagree / Discuss

OR

- ii. operating within current funding which would mean a slow-down of visa processing timeliness which would impact on businesses and sectors, and reducing verification which could increase immigration risk (including migrant exploitation)

Agree / Disagree / Discuss

h. **Direct** officials to manage 2023/24 levy-funded cost pressure by either:

- i. funding the cost pressure using levy funding - requires agreement from Cabinet **(recommended)**

Agree / Disagree Discuss

OR

- ii. operating within current funding, which would mean reduced compliance and investigations into immigration non-compliance (migrant exploitation and trafficking), impacting on the integrity of the immigration system and leading to downstream harm and costs

Agree / Disagree / Discuss

i. **Direct** officials to manage 2023/24 Crown-funded cost pressures by either:

- i. seeking Crown funding through Budget 2024 (dependent on Budget strategy) for the 2023/24 asylum claim cost pressure and for the Refugee Quota and related programmes for 2023/24 and outyears

Agree / Disagree Discuss

OR

- ii. repurpose and extend the Crown-funded tagged operational contingency (see recommendation a(ii)) to fund the cost pressures for 2023/24 and a further two financial years, noting additional funding would be required from 2026/27 – requires a Cabinet decision before 1 February 2024 **(recommended)**

Agree / Disagree / Discuss

OR

- iii. operating within current funding, which would increase processing timeframes (and downstream costs) for asylum claims and require a reduction in the number of places

by a third for the Refugee Quota and related programmes (a Cabinet policy decision would be required)

Agree / Disagree / Discuss

- j. **Note** that cost pressures from 2024/25 are proposed to be addressed as part of the fee and levy review, and that MBIE is continuing to explore efficiencies to reduce costs

Noted

- k. **Note** that MBIE is working through details of expected costs for the ^{Confidential advice to Government} Recognised Seasonal Employer Scheme and Collective Bargaining, a provisional amount has been factored into the adjusted rates presented in this advice, and you will be updated further as costs are confirmed

Noted

March Baseline Update

- l. **Note** that joint Ministers can make technical adjustments to baselines (CO(18)2), and that MBIE will submit proposals to be considered at MBU including:

- i. an expense transfer to fund travel costs for the Community Organisation Refugee Sponsorship (CORS) pilot (approximately \$68,000)
- ii. a drawdown of Prepaid English Language Tuition funding to accredit translators as part of the Language Assistance Services Programme that supports settlement outcomes for migrants and refugees (approximately \$2.335 million in 2023/24 and \$0.145 million outyears funding)

Noted

A fee and levy review

- m. **Agree** that MBIE undertake a fee and levy review with the following objectives:

- i. Achieve Crown savings from the immigration system
- ii. Reset fee and levy rates that are reasonable, defensible and sustainable, including to:
 - a. recover costs over a three-year period, including addressing cost pressures and to better account for uncertainty of visa volumes and revenue
 - b. rebalance accumulated fee and levy account balances over a three-year period
 - c. remain competitive with Australia's charges
- iii. Support MBIE to deliver efficient and effective immigration services

Agree / Disagree / Discuss

- n. **Note** that immigration charges would need to be adjusted (requiring an amendment to immigration visa regulations) to offset Crown costs, address cost pressures, and appropriately recover costs

Noted

- o. **Direct** officials to prepare adjusted fee and levy rates (a summary is set out in **Annex Four**) for targeted consultation, based on:

EITHER

- i. Approach 1 (a): Fee and levy rates are adjusted to offset the maximum reallocation of Crown costs (see recommendation b). This would result in a levy rate increase of 235 per cent and a fee decrease of 8 per cent.

Agree / Disagree / Discuss

OR

- ii. Approach 1 (b): Approach 1 (a) plus provisioning for uncertainty of visa volumes. This would result in a levy rate increase of 279 per cent and a fee increase of 11 per cent.

Agree / Disagree / Discuss

OR

- iii. Approach 2 (a): Fee and levy rates are adjusted to offset the lower risk reallocation of Crown costs (see recommendation b). This would result in a levy rate increase of 195 per cent and a fee decrease of 8 per cent.

Agree / Disagree / Discuss

OR

- iv. Approach 2 (b): Approach 2(a) plus provisioning for uncertainty of visa volumes. This would result in a levy rate increase of 235 per cent and a fee increase of 11 per cent (**recommended**).

Agree / Disagree / Discuss

p. **Agree** that MBIE undertake targeted consultation with the following stakeholders:

- i. **Businesses / employers:** Business New Zealand and the Employers and Manufacturers Association
- ii. **Immigration professionals:** Immigration Reference Group
- iii. **Refugees:** Refugee Advisory Panel, Red Cross
- iv. **International students:** Universities New Zealand and Independent Tertiary Education New Zealand
- v. **Tourism / airlines:** Tourism Industry Association
- vi. **Workers:** Council of Trade Unions and Union Network of Migrants

Agree / Disagree / Discuss

q. **Agree** to the proposed timeframes:

- i. **Targeted consultation:** March 2024
- ii. **Cabinet Committee policy decisions:** June – July 2024
- iii. **Cabinet Committee legislation decisions:** August 2024
- iv. **Regulations take effect:** 30 September 2024

Agree / Disagree / Discuss

r. **Discuss** the proposals in this paper with the Minister of Finance (supporting material is provided in **Annex Five**).

Agree / Disagree / Discuss



Libby Gerard
**Manager, Immigration (Border and Funding)
Policy**
Labour, Science and Enterprise, MBIE
.21. / 12. / 2023.

Hon Erica Stanford
Minister of Immigration
..... / / 2023...

Background

1. MBIE provided you with advice on options to reallocate a greater portion of the Crown-funded costs of the immigration system to users, and to ensure the immigration system has a resilient and sustainable funding base [2324-0932 refers].
2. In your meeting with officials on 7 December you agreed to a fee and levy review in 2024 as the mechanism to shift some Crown costs to fee and levy payers, address the accumulated deficit in the levy hypothecation account and recoup any agreed ongoing cost pressures from 2024/25. You also expressed your interest in:
 - a. the engagement approach for the fee and levy review
 - b. exploring setting immigration charges:
 - i. above 90% of Australia's rates (e.g. for residence visas), provided they meet cost-recovery guidelines and remain competitive
 - ii. to account for uncertainty (i.e. a contingency)
 - c. MBIE developing and implementing a financial management plan to support a sustainable immigration funding model and efficient and effective delivery of services, and
 - d. Confidential advice to Government
3. This paper provides further advice on:
 - a. options to achieve Crown savings through Budget 2024 and the fee and levy review
 - b. immediate cost pressures to be addressed in 2023/24, and
 - c. the 2024 fee and levy review, including approaches to adjusting rates and timeframes.

Options to achieve Crown savings

4. The National Party's Fiscal Plan set out an intention to make Crown savings of around \$123 million a year from the immigration system. Progress to reallocate costs can be made through Budget 2024 and the proposed fee and levy review.

Savings could be achieved through Budget 2024

5. Crown savings from the immigration system could be made by:
 - a. removing Crown funding to subsidise fee and levy rates provided for some visa types in the 2022 fee and levy review (just under \$20 million per annum), and
 - b. returning the Crown-funded tagged operating contingency from Budget 2023 to maintain visa assessment and processing capacity (just over \$8 million in each of 2024/25 and 2025/26 only – a total of \$16.9 million).
6. There is a choice to repurpose and extend the tagged operating contingency to fund Crown-funded cost pressures for the asylum claims in 2023/24 and cost pressures for the Refugee

Quota and related programmes until 2025/26. Further detail is included in the cost pressure section of this briefing (from paragraph 19).

7. Overall, these proposed savings would reduce Crown spending and increase spending against the fees memorandum and levy hypothecation accounts from 2024/25.
8. Any adjustments to charges to appropriately recover costs would be made through the proposed fee and levy review. An increase to Skilled Migrant Category (SMC) charges for future fee and levy payers would be expected if the subsidies are removed. We will provide advice on the adjusted charges for visitor visas and Pacific-related visas in February 2024, noting the Government's commitment to not adjust these rates.

Further Crown savings could be achieved through the fee and levy review

9. You could allocate a greater proportion of the Crown-funded costs of operating the immigration system to users, based on the principle that those who benefit from immigration services or create risks should meet the costs [2324–0932 refers].
10. Our analysis has been informed by the authorising provisions in the Act which are fairly broad, providing flexibility about how costs are allocated:
 - **Immigration fees** can be prescribed for any matter or service (associated with visa decision-making and NZeTA requests) and in different ways, to recognise that services can vary in how they are provided (Section 393 of the Act).
 - **Levy funding** is for specified activities such as maintenance costs of the immigration system, including system infrastructure, managing immigration risks, supporting migrant settlement and the attraction of migrants. Only visa applicants can be charged a levy (Section 399 of the Act).
11. We have also considered cost recovery principles outlined in guidelines for the setting of fees and charges in the public sector provided by the Treasury¹ and the Office of the Auditor General². The guidance states that a robust cost recovery regime should be consistent with key principles (equity, fairness, efficiency and justifiability) and minimise cross-subsidisation, where possible. **Annex One** provides more information on cost recovery principles and their relevance to the immigration system.

We have developed three options to reallocate Crown costs to users

12. Crown costs include policy advice, passenger clearance and border risk management, compliance, and refugee services. We have developed three options for shifting Crown costs to users, that range in the amount of Crown savings and risk of legal challenge:
 - a. **Option 1: Maximum allocation (approximately \$128 million)**. Achieves the Crown savings objective identified in the National Party's Fiscal Plan. Legal professional privilege ██████████ for costs related to refugee quota programmes being charged to third parties.
 - b. **Option 2: Lower risk (approximately \$98 million)**. This option is based on shifting 50% of Crown Legal professional privilege ██████████ T There would be approximately a \$6 million per annum shortfall against the Fiscal Plan target if Crown funding for visa subsidies are also removed.

¹ The Treasury (New Zealand). (2017). *Guidelines for Setting Charges in the Public Sector: April 2017*.

² The Office of the Auditor General (New Zealand). (2021). *Setting and administering fees and levies for cost recovery: Good practice guide*.

c. **Option 3: Maximum allocation, excluding refugee quota and related programmes (\$76 million).** There would be approximately a \$27 million per annum shortfall against the Fiscal Plan target.

13. The lower risk option would mean Crown funding for the immigration system would be approximately \$36 million. This is a decrease of \$117 million (compared to 2022/23) if all cost pressures are also addressed. More detail on the options to reallocate Crown costs to users is set out in **Annex Two**.

Legal risks to manage

14. Legal professional privilege

[Redacted]

15. Following the 2022 fee and levy review, Confidentiality [Redacted] he response was that the increase was fair and reasonable due to shifting costs from fees to levy, and to appropriately recover the cost of levy funded services.

16. Legal professional privilege

[Redacted]

Legal professional privilege

[Redacted]

17. Legal professional privilege

[Redacted]

18. Confidential advice to Government

[Redacted]

Options for managing cost pressures

Managing cost pressures for 2023/24

19. Our earlier advice informed you of funding pressures the immigration system is facing [2324-0932, 2324-1077 and 2324-1101 refers]. The cost pressures for 2023/24 (detailed in **Annex Three**) are approximately \$46 million:
 - a. **Fee-funded:** Expanded workforce and associated ICT costs to manage increased demand for visas (covering visa processing, risk and verification) **(\$37.6 million)**.
 - b. **Levy-funded:** Compliance and investigation funding shortfall **(\$5 million)**.
 - c. **Crown-funded:** a surge in asylum claims following the removal of COVID-19 border restrictions **(\$1.3 million)**, and delivering an increased Refugee Quota and related programmes largely driven by third party costs **(\$3 million)**.

Fee and levy funded cost pressures

20. The majority of the cost pressures (92% or \$42.6 million) can be addressed using third party funding which would impact the balances of the fees memorandum account (\$53 million in surplus at the end of October) and levy hypothecation account (-\$54 million in deficit at the end of October). There would be no impact on the Crown's operating balance.
21. Joint Ministers could approve a fiscally neutral adjustment for fee-funded cost pressures at the March Baseline Update (MBU). As per CO (18) 2, increases to appropriations can be approved if they are fully offset by increases in third-party revenue. Cabinet would be required to approve levy funding.
22. If the cost pressures are not addressed, timeframes to process visas would increase, the necessary level of verification would reduce, and addressing serious instances of immigration non-compliance (migrant exploitation and trafficking) would be impacted.

Crown-funded cost pressures

23. Cabinet decisions on how to address the Crown-funded cost pressures are required. The choices are to:
 - a. seek funding through Budget 2024 (dependent on Budget 2024 strategy)
 - b. repurpose and extend the Crown-funded tagged contingency to fund the cost pressures up to \$16.9 million, noting there would be a shortfall from 2026/27 (requires a Cabinet decision before 1 February 2024)
 - c. reduce the number of places by a third in the Refugee Quota (to 1,000) and Refugee Family Support Category (to 400) to operate within current funding.
24. Option (c) would have a significant impact on New Zealand's humanitarian reputation. It would be inconsistent with the approach of Migration 5 partners, who are increasing complementary migration pathways for refugees and those in humanitarian need.

Next steps

25. We seek your direction on your preferred approach for managing the 2023/24 cost pressures. Decisions ahead of the tagged contingency expiring (1 February 2024), MBU and Budget 2024 are required to ensure the Immigration Services MCA appropriation is not breached and to continue to deliver immigration services, manage immigration risk and meet

international commitments. Should you wish to repurpose and extend the tagged contingency, we will provide you with a Cabinet paper in mid-January 2024 for your review.

26. We propose to submit the following technical adjustment proposals for the MBU process:
 - a. An expense transfer to fund travel costs for the Community Organisation Refugee Sponsorship (CORS) pilot (approximately \$68,000). The 2024/25 and 2025/26 cost pressure (\$1.150 million total) would require Crown funding.
 - b. A draw down of Prepaid English Language Tuition funding to accredit translators as part of the Language Assistance Services Programme that supports settlement outcomes for migrants and refugees (approximately \$2.335 million in 2023/24 and \$0.145 in outyears).
27. MBIE continues to explore options to reduce these cost pressures by making a range of reductions against planned spend (e.g. through reduced use of contractors and consultants). Savings from the all-of-MBIE fiscal efficiency process would also be factored in once confirmed, which could reduce the overall cost pressure from 2024/25.

Addressing outyear cost pressures or new initiatives through the fee and levy review

28. We propose that ongoing (from 2024/25) cost pressures, time bound funding or new initiatives be addressed as part of the fee and levy review. The full list of cost pressures and initiatives is included in **Annex Three**.
29. Below, for your visibility, we have signalled significant upcoming cost pressures or investments. Detailed costings for these activities are not yet available, however, we have provisioned for these costs to the extent possible in our modelling of adjusted rates.

Confidential advice to Government

[Redacted content]

Recognised Seasonal Employer (RSE) scheme

32. Funding to support the RSE scheme has not increased since its establishment in 2007. The RSE scheme has grown significantly from 5,000 RSE workers in 2007 to 19,500 in 2023/24, which has placed particular pressure on operational and compliance activities. Some RSE scheme activities are performed by the Labour Inspectorate, and funded through the Employment Relations Services appropriation (Crown funded), which is also facing cost pressures (\$1.017 million from 2024/25).
33. You will shortly receive advice on the 2022/23 review of the RSE scheme [2324-1157 refers]. Depending on how you wish to address the recommendations of the RSE review, there will be choices about funding for RSE and the resources allocated for compliance.

Responding to migrant exploitation

34. The immigration and employment systems are currently receiving and responding to historically high levels of reports of migrant exploitation, beyond levels funded through Budget 2020 (which provided \$6.363 million in the Employment Relations Services appropriation for 2023/24). There is a \$1.013 million shortfall in the Employment Relations Services appropriation for triage and Labour Inspectorate resourcing. Going forward, we propose that the cost pressure is met by the Immigration Services MCA and shift from Crown to levy or fee funding.

Collective bargaining

35. MBIE's collective agreement has been in place since 1 July 2022 and expires 1 July 2024. The recent Public Sector Pay Adjustment has set a level of expectations with the Public Service Association. **Negotiations**
Immigration makes up approximately 45% of MBIE's total workforce.

Risks to manage with shifting costs to users and increasing baselines to address cost pressures

36. Strong governance and financial management controls are key features of a high performing regulatory system, and underpin a sustainable funding model that minimises costs to businesses and reduces fiscal risk to the Crown. In addition, taking a more measured and sequenced pace of policy and operational change can help to manage costs.
37. The main risk with shifting costs to users and increasing baselines is that immigration expenditure may be unable to adjust in the event that visa volumes and revenue drop. The immigration system cost structure is relatively fixed (70% of costs are workforce and ICT related). This would mean a funding shortfall and could lead to a deficit position for the immigration fees memorandum and levy hypothecation accounts.
38. If there is insufficient funding for the Refugee Quota and related programmes, this would impact MBIE's ability to deliver on New Zealand's international commitments, creating reputational risk for the Government and impact settlement outcomes for refugees.
39. A drop in revenue could also create a fiscal risk to the Crown, in the event that Crown funding is required (capital injections were provided during COVID-19) to fund immigration system activities and meet Cabinet commitments, such as delivering the Refugee Quota.

Fiscal management plan

40. We recommend MBIE develop a fiscal management plan for the immigration system, with a report back in March 2024 that would help to:
 - a. improve scrutiny of proposals with financial implications or changes to baselines in order to manage any fiscal risk to the Crown
 - b. ensure the effective and efficient use of resources, and
 - c. increase stakeholders' confidence that immigration charges are reasonable.
41. MBIE proposes that the plan include the following components:
 - a. **A robust cost-to-serve and cost allocation model**, supported by long-term investment and workforce plans, to provide reliable information on the drivers of the current costs of

providing different visa services and enable decision-makers to identify scope for simplification and efficiency savings – *under development*.

- b. **A thorough and well documented forecasting methodology** (for visa volumes and revenue) with variance reporting to support continuous improvement – *developed and continues to be refined*.
- c. **Strong oversight and governance** by decision-makers of financial management practices and processes – *MBIE has established immigration system governance*.
- d. **Regular reporting to Ministers** to provide transparency around how expenditure is tracking relative to revenue, and on the progress of measures to improve the effectiveness and efficiency of visa processing services – *propose to commence in 2024*.

The 2024 fee and levy review, including approaches to adjust rates

Objectives of the review

- 42. To guide the scope of the fee and levy review and support the engagement process, we seek your agreement to the proposed objectives:
 - a. Achieve Crown savings from the immigration system
 - b. Reset fee and levy rates that are reasonable, defensible and sustainable, including to:
 - i. recover costs over a three-year period, including addressing cost pressures and to better account for uncertainty of visa volumes and revenue
 - ii. rebalance accumulated fee and levy account balances over a three-year period
 - iii. remain competitive with Australia's charges (within 90% or higher for residence class visas where reasonable)
 - c. Support MBIE to deliver efficient and effective immigration services.

Approaches to adjusting fee and levy rates

- 43. Immigration charges are generally adjusted through a fee and levy review. This process ensures a robust cost recovery impact analysis process and targeted consultation with key stakeholders on rates to inform policy decisions by Cabinet and subsequent amendments to immigration visa regulations.
- 44. We have modelled four different approaches (illustrative and at an aggregate level) for adjusting fee and levy rates in order to achieve the objectives of the review. The scale of adjustments depends on the amount of Crown costs being reallocated to users and whether we provision for uncertainty.
- 45. The four approaches are:
 - a. **Approach 1 (a):** Fee and levy rates are adjusted to offset the maximum reallocation of Crown costs. This would result in a levy rate increase of 235% and a fee decrease of 8%.
 - b. **Approach 1 (b):** Approach 1 (a) plus provisioning for uncertainty of visa volumes. This would result in a levy rate increase of 279% and a fee increase of 11%.
 - c. **Approach 2 (a):** Fee and levy rates are adjusted to offset the lower risk shift of Crown costs (see recommendation b). This would result in a levy rate increase of 195% and a fee decrease of 8%.

- d. **Approach 2 (b):** Approach 2(a) plus provisioning for uncertainty of visa volumes. This would result in a levy rate increase of 235% and a fee increase of 11%.
46. The fee rate increase is the same for Approaches 1 (a) and 2 (b) because there is no change to the proposed Crown to fee swap. These approaches highlight how visa volumes are closely linked to revenue. At the next stage, we will also review the fee/levy allocation to ensure it remains appropriate.
47. **Annex Four** provides further detail including a comparison to Australia's charges. Following direction on your preferred option, we will calibrate the fee and levy rates at a visa product level and provide updated rates to you in early February 2024 ahead of targeted consultation.

Comparison with Australia's charges

48. Most visa product charges would remain within 90% of Australia's charges. The next phase of analysis could explore setting higher charges for (e.g. for partnership resident visas which under all scenarios are below 90%) which is authorised under the Act. Indirect costs can be averaged between different visa products, and a greater share of the aggregate fixed costs can be allocated to groups of payers that reflect different levels of sensitivity to price.
49. Charges, however, must be reasonable and defensible, and any significant increase would likely be questioned. Currently all visa charges are required to be paid at the point of lodgement of an application.

We recommend targeted consultation ahead of reporting back to Cabinet

50. Consistent with previous fee and levy reviews, we propose targeted consultation with government agencies and key stakeholders over a four-week period from March 2024. Targeted consultation ensures a robust process and provides an opportunity for stakeholders to understand the rationale for changes and to provide any feedback on the likely impact of proposed adjustments, particularly in the context of inflationary pressure and a review of border processing charges. It would also give us visibility of the likelihood of legal challenge where Crown costs are proposed to shift to users, particularly refugee quota costs.
51. We recommend targeted consultation with the following stakeholders, who were also consulted as part of the 2022 Immigration Fee and Levy Review:
- a. **Businesses / employers:** Business New Zealand and the Employers and Manufacturers Association
 - b. **Immigration professionals:** Immigration Reference Group
 - c. **International students:** Universities New Zealand and Independent Tertiary Education New Zealand
 - d. **Refugees:** Refugee Advisory Panel, Red Cross,
 - e. **Tourism / airlines:** Tourism Industry Association
 - f. **Workers:** Council of Trade Unions and Union Network of Migrants
52. We note your interest in establishing your own advisory group, who you may wish to consult on the proposed changes. We are providing you with advice on establishing such a group in an upcoming paper [2324-1376 refers].

Timing for the review and choices with Budget 2024 processes

53. Table 2 sets out the proposed timeframes for a robust process, including cost recovery impact analysis and targeted consultation. New fee and levy rates would take effect in September 2024.
54. The proposed timeframe would be mean targeted consultation ahead of BEFU and Budget 2024. This could be managed by seeking in principle decisions from Cabinet and approval to consult ahead of Budget 2024.
55. While consulting on rates ahead of Budget does not constrain subsequent Budget decisions, you could also consider targeted consultation after Budget 2024 which would mean new rates taking effect in November 2024. There is also an option to not consult on the proposed adjustment, which is not recommended because it would likely lead to adjusted rates being challenged and would not meet best practice standards for cost recovery processes.

Table 2: Fee and levy review timeframes 2024

Indicative timeframes	Milestone
January	Cabinet approval to repurpose the Crown funded tagged operating contingency to fund Crown-funded cost pressures
March	In-principle decisions to adjusted rates by Cabinet and approval to consult
	Targeted consultation with stakeholders
April – May	Further advice to the Minister of Immigration and draft Cabinet paper
	Ministerial consultation
	Budget 2024
June	Cabinet Policy Committee and Cabinet consideration of fee and levy adjustments
July	Parliamentary Counsel Office draft amendments to immigration visa regulations
	Draft Cabinet Legislation paper to the Minister of Immigration
August	Cabinet Legislation Committee and Cabinet considers amendments to immigration visa regulations
September	New fee and levy rates take effect

Next steps

57. We recommend you discuss options for Crown savings and choices for managing cost pressures with the Minister of Finance. We have prepared material to support this discussion (**Annex Five**).
58. Following your direction on your preferred approach to shifting Crown costs, managing cost pressures and setting charges, we will provide further advice (with detailed rates) in February 2024 ahead of targeted consultation. If you wish to repurpose the Crown-funded tagged operating contingency, this will require Cabinet agreement before the contingency expires on 1 February, and we will provide a draft Cabinet paper in mid-January for your review.
59. In January 2024, you will also receive **Confidential advice to Government**

Annexes

Annex One: Cost recovery principles and application to the immigration system

Annex Two: Options for shifting Crown costs to user pays (through fees or levy)

Annex Three: Overview of immigration system cost pressures

Annex Four: Approaches to adjusting fee and levy rates

Annex Five: Summary of Crown savings and cost pressures





Annex One: Cost recovery principles and application to the immigration system

The table below sets out cost recovery principles that we considered as part of the analysis of shifting Crown costs to user pays.










Cost recovery principle	Application to the immigration system	Relevance to cost allocation
Equity and fairness	Costs are fully recovered from fee and levy payers for immigration services provided directly to individuals (private goods), or indirectly to the broad group/club who use the immigration system or create risks (club goods). The cost of activities with public and private benefits should be shared between the Crown and migrants.	Costs are shared in a way that reflects the degree to which different users of the immigration system benefit from the system and/or exacerbate risks. Where public benefits exist, it may be considered inequitable for the Crown to make no contribution to costs.
Efficiency and effectiveness	Fees and levies should reflect the underlying costs of providing an effective immigration service. This relies on having a good understanding of and information about the costs of activities, cost drivers, and operational performance.	Sufficient funding should be provided to ensure services can be provided to the agreed standard. Crown-funded activities should be reviewed for opportunities to reduce cost/improve efficiency.
Justifiability and transparency	Costs recovered through fees or levies reasonably relate to the goods or services being charged for. Where possible, it means minimising cross subsidisation and having accurate understanding of both the direct and indirect cost of the service.	The activities that are being charged for are clearly and transparently explained to payers, including the rationale for charging.

Annex Two: Options for shifting Crown costs to user pays (through fees or levy)




Annex Two: Summary of options for shifting immigration system Crown costs to user payers (through fees or levies)

Crown-funded activities (approx. % funded by Crown)	Average annual Crown funding (2024/25 - 2027/28)	Average annual cost pressure (2024/25 - 2027/28)	Legal authority to charge (and other comments)	Legal professional privilege	Option 1: Maximum reallocation option	Option 2: Lower risk option (shifting 50% of Crown costs)	Option 3: Maximum reallocation, but no change to refugee funding
Border risk management (100%)	\$33.0 million	N/A	Aligns with the scope of the levy (s399(2)(c) (ii) and (iii)) relating to managing risks to the integrity of immigration system and to the safety and security of New Zealand. As a comparison, the Border Processing Levy is currently 100% cost recovery for MPI and Customs activities which recovers costs from all travellers	Legal professional privilege	 100% shifts to levy – \$33.0 million	 100% shifts to levy – \$33.0 million	 100% shifts to levy – \$33.0 million
Compliance and investigation activities (8%)	\$3.7 million	\$2.5 million	Aligns with the scope of the levy (s399(2)(c) (ii) and (iv)) relating to managing risk to the integrity of, and compliance with, the immigration system. Employers are currently not able to be charged the immigration levy.		 100% shifts to levy – \$3.7 million (\$6.2 million incl. cost pressures)	 100% shifts to levy – \$3.7 million (\$6.2 million incl. cost pressures)	 100% shifts to levy – \$3.7 million (\$6.2 million incl. cost pressures)
Visa assessment and processing (5%), primarily risk and verification and wider visa operations	\$16.7 million	\$2.5 million	Aligns with the scope of a fee (s393(1)(a)(i)) as it relates to the processing of visa applications. However, the Act does not provide for explicit “cross-subsidisation” across matters for which fees have been prescribed, eg across different visa products. This Crown funding is essentially a lump sum contribution. There is		 100% shifts to fee – \$16.7 million (\$19.2 million incl. cost pressures)	 100% shifts to fee – \$16.7 million (\$19.2 million incl. cost pressures)	 100% shifts to fee – \$16.7 million (\$19.2 million incl. cost pressures)

Crown-funded activities (approx. % funded by Crown)	Average annual Crown funding (2024/25 - 2027/28)	Average annual cost pressure (2024/25 - 2027/28)	Legal authority to charge (and other comments)	Legal professional privilege	Option 1: Maximum reallocation option	Option 2: Lower risk option (shifting 50% of Crown costs)	Option 3: Maximum reallocation, but no change to refugee funding
			limited information to connect these amounts to specific matters or visa categories.	Legal professional privilege			
Policy advice and related services to Ministers (74%)	\$6.3 million	N/A	<p>Policy advice could align with the general scope of the levy because it supports managing the integrity of the system (s399(2)(c)(ii)) and more generally forms part of the infrastructure and operation of the immigration system (s399(2)(c)), which includes the development of immigration instructions (s3(2)(b)).</p> <p>However, there is a minor risk that policy advice is interpreted as that which creates the system, rather than being the 'infrastructure' or 'operation' of the system.</p> <p>We estimate that \$1.3m (20%) relates to servicing Ministers to meet their obligations to Parliament, which is outside the scope of the levy, eg responding to Ministerial or Official Information Act requests, supporting Select Committee processes.</p>	Legal professional privilege	 80% shifts to levy – \$5.0 million	 80% shifts to levy – \$5.0 million	 80% shifts to Levy – \$5.0 million
Migrant attraction services (14%) Mainly relates to information services to attract, support and connect with prospective skilled migrants and employers	\$1.2 million	N/A	<p>Aligns with the scope of the levy s399(2)(d) relating to migrant attraction.</p> <p>Employers are not currently able to be charged the immigration levy.</p>	Legal professional privilege	 100% shifts to levy – \$1.2 million	 100% shifts to levy – \$1.2 million	 100% shifts to levy – \$1.2 million

Crown-funded activities (approx. % funded by Crown)	Average annual Crown funding (2024/25 - 2027/28)	Average annual cost pressure (2024/25 - 2027/28)	Legal authority to charge (and other comments)	Legal professional privilege	Option 1: Maximum reallocation option	Option 2: Lower risk option (shifting 50% of Crown costs)	Option 3: Maximum reallocation, but no change to refugee funding
Provision of settlement services for new migrants (74%)	\$6.3 million	N/A	Aligns with the scope of the levy (s399(2)(a)), relating to successful migrant settlement. These activities contribute to the delivery of the New Zealand Migrant Settlement and Integration Strategy. Employers are not currently able to be charged the levy.	Legal professional privilege	 100% shifts to levy – \$6.3 million	 100% shifts to levy – \$6.3 million	 100% shifts to levy – \$6.3 million
Processing of asylum claims (100%)	\$5.3 million	\$10.73 million	Aligns with the scope of the levy (s399(2)(c)(i) and (iii)) as these activities are about verifying identity and managing risk to safety and security of New Zealand. The Act prohibits charging asylum applicants for the cost of their claims.		 100% shifts to levy – \$5.3 million (\$16.0 million incl. cost pressures)	 100% shifts to levy – \$5.3 million (\$16.0 million incl. cost pressures)	 100% shifts to levy – \$5.3 million (\$16.0 million incl. cost pressures)
Pacific migration initiatives and regional skills retention programmes (89%) Includes promoting opportunities for employers to access migrant workers, and support for employers (eg improved cultural	\$3.1 million	N/A	Aligns with the scope of the levy (s399(2)(a) and (d)) as these activities are both settlement and migrant attraction related. Employers are not currently able to be charged the immigration levy		 100% shifts to levy – \$3.1 million	 100% shifts to levy – \$3.1 million	 100% shifts to levy – \$3.1 million

Crown-funded activities (approx. % funded by Crown)	Average annual Crown funding (2024/25 - 2027/28)	Average annual cost pressure (2024/25 - 2027/28)	Legal authority to charge (and other comments)	Legal professional privilege	Option 1: Maximum reallocation option	Option 2: Lower risk option (shifting 50% of Crown costs)	Option 3: Maximum reallocation, but no change to refugee funding
understanding) to improve short-term settlement outcomes (wellbeing) of Pacific migrants.				Legal professional privilege			
Regulation of Immigration Advisers (42%)	\$1.7 million	N/A	S399(2)(e) explicitly provides for the immigration levy to fund the Immigration Advisers Authority (IAA), to the extent that it is not otherwise funded. \$1.4 million per annum of levy funding already funds the Immigration Advisers Authority	Legal professional privilege	✓ 100% shifts to levy – \$1.7 million	✓ 100% shifts to levy – \$1.7 million	✓ 100% shifts to levy – \$1.7 million
Delivery of the Refugee Quota and related programmes – Selection and processing (100%)	\$4.4 million	\$0.5 million	Aligns with the scope of the levy (s399(2)(i)-(iii)), relating to verifying identity, managing risk to integrity of system, managing immigration risk to safety and security of New Zealand. Also aligns with s399(2)(c) – operation of the immigration system (without limitation), and scope of immigration system under s3(2)(d) and (g).	Legal professional privilege	✓ 100% shifts to levy – \$4.4 million (\$4.9 million incl. cost pressures)	🟡 50% shifts to levy – \$2.2 million (\$2.5 million incl. cost pressures)	✗ 0% shifts to levy
Delivery of the Refugee Quota and related programmes – Facilitating travel to New Zealand (100%)	\$8.5 million	\$2.7 million	Unclear. Potentially aligns with scope of the levy (s399 (2)(a)) to assist the successful settlement of migrants or categories of migrants.	Legal professional privilege	✓ 100% shifts to levy – \$8.5 million (\$11.2 million incl. cost pressures)	✗ 0% shifts to levy	✗ 0% shifts to levy
Delivery of the Refugee Quota and related	\$15.1 million	\$2.2 million	Aligns with the scope of the levy (s399 (2)(a)) to assist the successful	Legal professional privilege	✓	🟡	✗

Crown-funded activities (approx. % funded by Crown)	Average annual Crown funding (2024/25 - 2027/28)	Average annual cost pressure (2024/25 - 2027/28)	Legal authority to charge (and other comments)	<div style="text-align: center;"> <p>Legal professional privilege</p> <p>Legal professional privilege</p> </div>	Option 1: Maximum reallocation option	Option 2: Lower risk option (shifting 50% of Crown costs)	Option 3: Maximum reallocation, but no change to refugee funding
programmes – <i>Induction at the Mangere Refugee Resettlement Centre (100%)</i>			settlement of migrants or categories of migrants. Also aligns with s399(2)(c) - operation of the immigration system (without limitation), and scope of immigration system under s3(2)(d) and (g).		100% shifts to Levy – \$15.1 million (\$17.3 million incl. cost pressures)	50% shifts to levy – \$7.6 million (\$8.7 million incl. 50% cost pressures)	0% shifts to levy
Delivery of the Refugee Quota and related programmes – <i>Settlement in the community (95%)</i>	\$23.5 million	\$0.6 million	Aligns with the scope of the levy (s399 (2)(a)) to assist the successful settlement of migrants or categories of migrants. Also aligns with s399(2)(c) - operation of the immigration system (without limitation), and scope of immigration system under s3(2)(d) and (g).		 100% shifts to levy – \$23.5 million (\$24.1 million incl. cost pressures)	 50% shifts to levy – \$11.8 million (\$12.1 million incl. cost pressures)	 0% reallocated - \$0 million
Total reallocated					\$127.5 million (\$149.2 million incl. cost pressures)	\$97.6 million (\$115.0 million incl. cost pressures)	\$76.0 million (\$91.7 million incl. cost pressures)

Annex Three: Overview of immigration system cost pressures

Annex Three: Overview of immigration system cost pressures

This document provides a summary of the immediate cost pressures to be managed, the impact of not managing these, alternative options and the decision-making process.

Table 1: Immediate cost pressures (2023/24) to be managed and the decision-making process						
Funding source	Decision-making	Cost pressure and description	2023/24 (\$m)	2024/25 (\$m)	2025/26 and ongoing (\$m)	Comment
Crown	Cabinet	<p>Determination of refugee and protection status (asylum) claims</p> <p><u>Due to:</u> claims projected to more than quadruple the pre-pandemic level to 2,000+ in 2023/24. This is consistent with trends internationally – 2022 saw the highest number of new asylum applications ever recorded (UN Refugee Agency). Significant steps have been taken to increase claim processing efficiency, including cohort processing for similar or linked groups of claims, but wait times for cases to be allocated to a Refugee and Protection Officer (RPO) are projected to grow from 7/8 months currently to up to 2 years based on the current claim volumes, and will continue to increase as more claims join the queue. (Note that once a claim has been allocated, it takes around 6 months to be determined and appeals can add up to 6 months).</p> <p>There are also costs associated with administering the decision-making panel on restriction of freedom of movement of asylum claimants established following the Casey Review.</p> <p><u>Not addressing the cost pressure would:</u> lead to longer processing times and significant flow-on costs to the Crown, as asylum seekers awaiting a decision on their claim are able to access a range of services (eg benefits, health, education etc). Long delays also incentivise non-genuine claims as a means to remain onshore and present security risks.</p> <ul style="list-style-type: none"> For 2023/24 – 14 additional FTEs have been recruited to increase asylum claims processing capacity to 51 FTEs once fully trained. However, the backlog is expected to continue to grow as inflow outstrips the increased processing capacity. For 2024/25 – we propose to increase processing capacity by an additional 52 FTE, which will enable processing of up to 1,500 claims per annum. This would maintain the current 7/8 month waiting time for allocation to an RPO for processing in the short to medium term. If claim numbers drop sufficiently, it will enable the backlog to be reduced. It would reduce support service flow-on costs, and manage risks to New Zealand's international humanitarian reputation. Further investment may be required in the future to maintain service standards if the spike in asylum in claims proves to be permanent. <p><u>The alternative is to:</u> allow average allocation and processing times to significantly increase. This would impact the integrity of the immigration system, increase reputational risk or loss of public confidence, and increase downstream costs.</p>	1.30	10.23 0.50 (panel)	10.23 0.50 (panel)	<p>Note that as part of the Crown savings analysis, it is proposed to shift these costs to fees or the levy. This reallocation is low risk.</p> <p>Ongoing cost pressures from 2024/25 to be addressed as part of the 2024 Fee and Levy Review.</p> <p>We considered using fees funding to address the immediate cost pressure which is not recommended based on current funding provisions and cost recovery principles.</p>
Crown	Cabinet	<p>Refugee Quota Programmes – Community Organisation Refugee Sponsorship Pilot (CORS)</p> <p><u>Due to:</u> an incorrect appropriation in Budget 2020 (which Treasury advised Immigration New Zealand of in November 2023) and delays in arrivals. As a result, there is no funding for the 2024/25 and 2025/26 outyears costs of the pilot (needed to cover the travel costs of the last 20 CORS refugees of the cohort, the contracted two years of settlement support to sponsors of 2023/24 and 2024/25 arrivals, and an outcomes evaluation).</p> <p><u>Not addressing the cost pressure would:</u> mean that the 130 CORS refugees arriving in 2023/24 would not receive the agreed two years of settlement support and the 20 CORS refugees scheduled to arrive after June 2024 would no longer be able to come to New Zealand. This would risk the wellbeing and settlement outcomes of participating refugees, and would result in a breach of our contracts with sponsors contracted to provide settlement support.</p> <p><u>The alternative is to:</u> stop the programme in June 2024 which would also limit the outcomes evaluation, leading to risk of not having a credible evidence base to inform decisions on the future of the pathway.</p>		0.69	0.55 for 2025/26 only	<p>0.069 in 2024/25 costs can be addressed through an MBU expense transfer, pending joint Ministers agreement.</p> <p>There is a choice to use the Crown funded tagged operating contingency (also proposed as Crown savings) to fund the remaining cost pressures for 2024/25 and 2025/26 (\$1.15 million) or seek funding through Budget 2024.</p> <p>If all or some of the Crown costs are shifted to the levy, this would reduce costs for the Crown.</p> <p>A policy decision would be required to continue (and fund) the programme past June 2026.</p>

Table 1: Immediate cost pressures (2023/24) to be managed and the decision-making process						
Funding source	Decision-making	Cost pressure and description	2023/24 (\$m)	2024/25 (\$m)	2025/26 and ongoing (\$m)	Comment
Crown	Cabinet	<p>Refugee Quota (1,500 places), Refugee Family Support Category (RFSC) (600 places) – increased delivery costs</p> <p><u>Due to:</u></p> <ul style="list-style-type: none"> The Pakistan Government’s introduction of exit fees for the approximately 250 Afghans either approved or being processed. International flights to bring refugees to New Zealand Offshore medical assessments Reception programme (including interpreting and other contracts, security improvements) Settlement support in the community (including furniture and settlement support contracts) Depreciation and capital charge (not included in previous capital increase) Increased costs related to the RFSC are mainly related to increased travel costs and offshore medical assessments A decrease in funding by \$ 1.5 million from 2024/25. <p><u>Not addressing the cost pressure would:</u> risk not delivering agreed places for the Refugee Quota and related programmes, which would also carry reputational risk.</p> <p><u>The alternative is to:</u> reduce the number of places available. The current funding envelope would be sufficient to meet 1,000 places for the Refugee Quota and 400 for the RFSC.</p>	3.00 (including one-off Pakistan exit-fees which are 0.28)	5.71 (of which 0.53 is RFSC)	5.50 (of which 0.53 is RFSC)	There is a choice to use the Crown funded tagged operating contingency (also proposed as Crown savings) to fund cost pressures for 2023/24 and 2024/25 (approximately \$10 million). If all or some of the Crown costs are shifted to the levy, this would reduce ongoing costs for the Crown from 2024/25.
Total Crown			4.30	17.11	16.78	
Fees	Joint Ministers as part of the March Baseline Update (MBU) process	<p>Visa processing workforce</p> <p><u>Due to:</u> direct workforce costs and overheads associated with increased visa volumes and greater processing complexity.</p> <p><u>Not addressing the cost pressure would:</u> significantly impact on MBIE’s operational capacity to meet demand, increase risk and have a flow on effect to the economy (businesses seeking migrant labour or tourism operators).</p> <p><u>The alternative is to:</u> increase the time it takes to process visas by not onboarding the additional FTE that are proposed to be brought on in the first half of 2024.</p>	18.70	32.80	32.80	The fees memorandum account is currently in surplus, projected to be \$94.00 million at the end of 2023/24 and projected visa volumes can fund the increased expenditure. A fiscally neutral adjustment (FNA) of \$36.70 million would reduce the projected fees memorandum surplus to \$54.80 million. If agreed, the ongoing cost pressures from 2024/25 could be addressed as part of the 2024 fee and levy review.
		<p>ICT for visa processing workforce personnel and operating costs</p> <p><u>Due to:</u> expanded workforce to manage increased visa volumes. This includes ICT licensing costs (including biometric), volume-related support functions, and application management.</p> <p><u>Not addressing the cost pressure would:</u> moderately impact on MBIE’s operational capacity to meet demand, leading to delays with processing high-volume visa categories (student, work and visitor) and NZeTA requests.</p> <p>These costs are associated with an expanded visa processing workforce, so any reduction in costs depends on decisions on the visa processing workforce.</p>	12.00	8.00	8.00	
		<p>Increased risk and verification, and identity workforce:</p> <p><u>Due to:</u> the need to rebuild the risk and verification workforce post COVID-19 so there is the capability and capacity to effectively manage increased risk. This also includes additional identity management FTEs.</p> <p><u>Not addressing the cost pressure would:</u> significantly impact MBIE’s ability to identify and manage risk early, keep it offshore and avoid downstream costs.</p> <p><u>The alternative is to:</u> make changes to service standards and reducing the level of verification.</p>	6.00	6.00	6.00	
Total fees			36.70	46.80	46.80	

Table 1: Immediate cost pressures (2023/24) to be managed and the decision-making process						
Funding source	Decision-making	Cost pressure and description	2023/24 (\$m)	2024/25 (\$m)	2025/26 and ongoing (\$m)	Comment
Levy (90%) and Crown	Cabinet	<p>Compliance and investigation workforce (for significant instances of immigration non-compliance, including migrant exploitation and trafficking)</p> <p><u>Due to:</u> is underfunded and operating at half the intended level. As a result funding is sought to fully resource this function.</p> <p><u>Not addressing this cost pressure would:</u> have a moderate impact on New Zealand's ability to address instances of immigration non-compliance which has downstream impacts.</p> <p><u>The alternative is to</u> operate at reduced capacity.</p>	5.00	5.00	5.00	<p>The levy hypothecation account is projected to be in a deficit position (-\$67 million) at the end of 2023/24. Funding cost pressures will further increase the deficit.</p> <p>Ongoing cost pressures from 2024/25 to be addressed as part of the 2024 fee and levy review.</p> <p>We considered using fees funding to address the immediate cost pressure which is not recommended based on funding provisions and cost recovery principles.</p>
Levy		Confidential advice to Government				
Total Levy			5.00	5.00	5.00	
Overall total			46.0	68.91	68.58	

Table 2: Ongoing cost pressures, timebound funding and new initiatives to be incorporated into the fee and levy review					
Funding source	Decision-making	Cost pressure and description	2024/25 (\$m)	2025/26 and ongoing (\$m)	Comment
Crown (Propose to shift to levy)	Fee and levy review	<p>Employment Relations Services (ERS) appropriation</p> <p>This appropriation's primary purpose is funding MBIE's employment relations services provided under various employment statutes.</p> <p>This appropriation funds the Labour Inspectorate \$0.58m per year to undertake compliance activities relating to the RSE scheme. RSE funding has not increased since establishment despite the cap increasing four-fold, actual costs mean there is a shortfall of \$1.02 million per year.</p> <p>This appropriation also funds employment functions under the joint employment-immigration migrant exploitation programme. The immigration and employment systems are currently receiving and responding to historically high levels of reports of migrant exploitation, 500% of the levels funded through Budget 2020, (\$6.36 million in 2023/24 for this appropriation). There is a \$1.01 million shortfall in this appropriation for triage and Labour Inspectorate resourcing relating to migrant exploitation.</p>	2.03	2.03	Propose to shift these costs to the Immigration Services MCA and from Crown to levy funding.

Table 2: Ongoing cost pressures, timebound funding and new initiatives to be incorporated into the fee and levy review					
Funding source	Decision-making	Cost pressure and description	2024/25 (\$m)	2025/26 and ongoing (\$m)	Comment
Crown (Propose to shift to levy)	Fee and levy review	<p>Welfare support for asylum claimants (new initiative with time-bound funding)</p> <p>In July 2023, Cabinet agreement to reprioritise \$1 million of anticipated underspends for 2022/23 toward the next two years (\$0.5 million per year) to meet core and operational costs to provide welfare support for asylum seekers while further cross-government work is progressed [DEV-23-MIN-0147].</p> <p>There is a choice to continue providing welfare support or not.</p>	0.50	0.50	A policy decision to continue funding this support is required. If agreed, the cost could be factored into fee and levy rates.
Levy	Fee and levy review	<p>Migrant Settlement and Integration Strategy: Welcoming Communities (council contracted)</p> <p>Welcoming Communities is a key part of New Zealand's migrant and settlement strategy. It is led by MBIE in partnership with the Ministry of Ethnic Communities and the Human Rights Commission. It brings together local government councils and communities to support settlement outcomes.</p> <p>MBIE provides seed funding of \$50k per year for three years to councils to resource the programmes. Cabinet agreed to provide levy funding of \$6.67 million over four years – 2019/20-2022/23 for up to an additional 30 sites, plus \$0.50 million in outyears [SWC-19-MIN-0099]. COVID-19 created delays in expanding the programme, which has created a lag in making contractual payments. Payments now end in 2024/25.</p>	1.05	1.05	The aim is that after 2024/25, councils will have Welcoming Plans in place. Ongoing government oversight to sustain the programme will be required. A policy decision is required to fund this initiative from 2025/26 (in addition to the \$0.50 million levy funding already in place).
Fee	Fee and levy review	<p>Active Investor Plus visa delivery</p> <p>New Zealand Trade and Enterprise (NZTE) have a delivery role for Government's investor migration programme, which includes two types of services: attraction and aftercare services, and stewardship of the programme to determine acceptable investments.</p> <p>To adequately deliver these functions, additional funding was provided as part of the October Baseline Update for 2023/24 and 2024/25. There is a shortfall in outyears.</p> <p>The alternative is to reduce the scope of NZTE's functions which could impact achieving the overall outcomes of the Active Investor Plus policy.</p>	-	1.29	
Levy / Fee	Fee and levy review	Confidential advice to Government			
Levy	Fee and levy review	<p>Recognised Seasonal Employer (RSE) scheme</p> <p>Increasing resourcing for the scheme including the compliance workforce and related activities to correspond with a higher cap. The RSE scheme has grown significantly since its inception in 2007 from 5,000 RSE workers to 19,500 in 2023/24.</p> <p>Funding to support the scheme has not increased since its establishment, which has placed particular pressure on operational and compliance capability activities. A review of the RSE scheme was undertaken in 2022/23. Depending on how you wish to address the recommendations of the RSE review, there will be choices around the funding of the scheme and the resources allocated for compliance.</p>	-	TBC	You will receive advice on the findings on RSE review before Christmas (2324-1157 refers).
N/A	Fee and levy review	<p>Collective Bargaining</p> <p>MBIE's current collective agreement expires 1 July 2024 which follows the recent Public Sector Pay Adjustment. The new settlement will be paid from the start of the 2024/25 financial year and is expected to result in stepped increases over three years in the range of Negotiations</p> <p>Immigration makes up approximately 45% of MBIE's total workforce, we have provisioned Negotiations in our modelling of adjusted rates.</p>	TBC	TBC	

Table 2: Ongoing cost pressures, timebound funding and new initiatives to be incorporated into the fee and levy review					
Funding source	Decision-making	Cost pressure and description	2024/25 (\$m)	2025/26 and ongoing (\$m)	Comment
Levy (Propose to shift to fees)	Fee and levy review	Confidential advice to Government			
Overall total			4.65	5.17	

Annex Four: Approaches to adjusting fee and levy rates

We have modelled four scenarios (for illustrative purposes and at an aggregate level) to show the range of increases required to offset Crown costs and provision for uncertainty (depending on your preferred approach).

Following your direction, detailed modelling at a visa product level will be undertaken along with further analysis of Australia's charging approach and service timeframes to inform options to spread costs and take account of the differences with New Zealand.

Notes

- All prices assume application is made outside of New Zealand, where possible, and exclude the International Visitor Conservation and Tourism Levy (IVL).
- Australian visa prices were converted to NZ\$ values at the 31 Oct 2023 exchange rate, rounded to the nearest \$5.
- * Levy and fee increases exclude visitor and Pacific-focused visas.
- ^ New Zealand immigration charges are per application while Australia charges per applicant, with partial charges for secondary applicants (50% for partners and 25% for dependent children).
- ^^ Australia's Parent – Resident visa offers a shorter total processing time for a fee. The standard queue time is expected to be 29 years. This can be reduced to around 12 years if applicants make financial contributions of around \$NZD 52,000.

Approach 1 (a): Fee and levy rates are adjusted to offset the maximum reallocation of Crown costs.

This would mean a levy rate increase of 235% and a fee decrease of 8%.

Key visa products	NZ Current levy amount [excl IVL]	NZ Current fee [^] amount	NZ (fee [^] + Levy) [excl IVL]	NZ (fee [^] + Levy) [excl IVL] with 235% levy increase, 8% fee decrease*	Australia (\$NZD)	Revised NZ price as % of Australian price
eTA (visitor)	0	23	23	20	0	N/A
Visitor	21	190	211	211	205	103%
Working Holiday	210	210	420	895	690	130%
Student	95	300	395	595	775	77%
Post-study work	210	490	700	1,155	2,065	56%
Accredited Employer Work Visa (AEWV) - migrant check	210	540	750	1,200	1,585	76%
Entrepreneur (work)	210	3710	3,920	4,110	6,970	59%
Skilled Migrant Category (Resident) ^	2,410	2480	4,890	10,350	5,055	205%
Active Investor Plus (Resident)	3,150	4630	7,780	14,800	18,710	79%
Recognised Seasonal Employer (RSE)	15	310	325	325	365	89%
Partnership (Resident)	1,550	2060	3,610	7,080	9,645	73%
Parent (Resident) ^^	1,550	2490	4,040	7,475	5,435	138%

Approach 1 (b): Approach 1 (a) plus provisioning for uncertainty of visa volumes.

This would mean a levy rate increase of 279% and a fee increase of 11%.

Key visa products	NZ Current levy amount [excl IVL]	NZ Current fee [^] amount	NZ (fee [^] + Levy) [excl IVL]	NZ (fee [^] + Levy) [excl IVL] with 279% levy increase, 11% fee increase*	Australia (\$NZD)	Revised NZ price as % of Australian price
eTA (visitor)	0	23	23	25	0	N/A
Visitor	21	190	211	211	205	103%
Working Holiday	210	210	420	1,030	690	149%
Student	95	300	395	695	775	90%
Post-study work	210	490	700	1,340	2,065	65%
Accredited Employer Work Visa (AEWV) - migrant check	210	540	750	1,395	1,585	88%
Entrepreneur (work)	210	3710	3,920	4,930	6,970	71%
Skilled Migrant Category (Resident) ^	2,410	2480	4,890	11,890	5,055	235%
Active Investor Plus (Resident)	3,150	4630	7,780	17,085	18,710	91%
Recognised Seasonal Employer (RSE)	15	310	325	325	365	89%
Partnership (Resident)	1,550	2060	3,610	8,165	9,645	85%
Parent (Resident) ^^	1,550	2490	4,040	8,645	5,435	159%

Approach 2 (a): Fee and levy rates are adjusted to offset the lower risk shift of Crown costs.

This would mean a levy rate increase of 195% and a fee decrease of 8%.

Key visa products	NZ Current levy amount [excl IVL]	NZ Current fee [^] amount	NZ (fee [^] + Levy) [excl IVL]	NZ (fee [^] + Levy) [excl IVL] with 195% levy increase, 8% fee decrease*	Australia (\$NZD)	Revised NZ price as % of Australian price
eTA (visitor)	0	23	23	20	0	N/A
Visitor	21	190	211	211	205	103%
Working Holiday	210	210	420	815	690	118%
Student	95	300	395	555	775	72%
Post-study work	210	490	700	1,070	2,065	52%
Accredited Employer Work Visa (AEWV) - migrant check	210	540	750	1,115	1,585	70%
Entrepreneur (work)	210	3710	3,920	4,030	6,970	58%
Skilled Migrant Category (Resident) ^	2,410	2480	4,890	9,395	5,055	186%
Active Investor Plus (Resident)	3,150	4630	7,780	13,555	18,710	72%
Recognised Seasonal Employer (RSE)	15	310	325	325	365	89%
Partnership (Resident)	1,550	2060	3,610	6,470	9,645	67%
Parent (Resident) ^^	1,550	2490	4,040	6,865	5,435	126%

Approach 2 (b): Approach 2(a) plus provisioning for uncertainty of visa volumes.

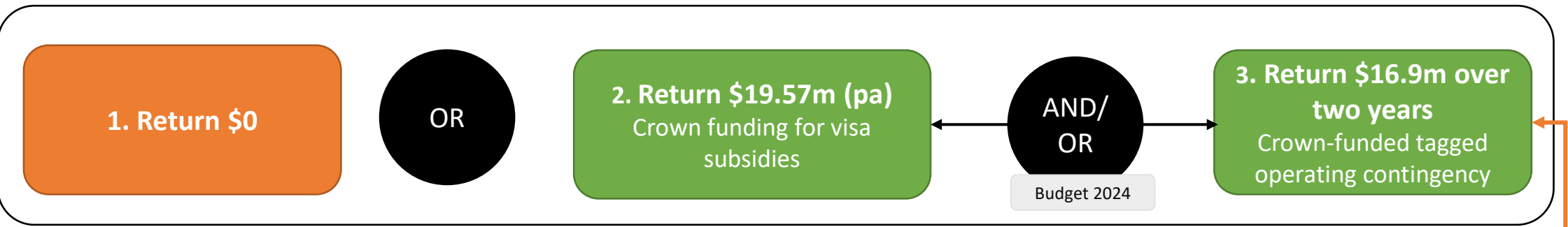
This would mean a levy rate increase of 235% and a fee increase of 11%.

Key visa products	NZ Current levy amount [excl IVL]	NZ Current fee [^] amount	NZ (fee [^] + Levy) [excl IVL]	NZ (fee [^] + Levy) [excl IVL] with 235% levy increase, 11% fee increase*	Australia (\$NZD)	Revised NZ price as % of Australian price
eTA (visitor)	0	23	23	25	0	N/A
Visitor	21	190	211	211	205	103%
Working Holiday	210	210	420	935	690	136%
Student	95	300	395	650	775	84%
Post-study work	210	490	700	1,250	2,065	61%
Accredited Employer Work Visa (AEWV) - migrant check	210	540	750	1,305	1,585	82%
Entrepreneur (work)	210	3710	3,920	4,840	6,970	69%
Skilled Migrant Category (Resident) ^	2,410	2480	4,890	10,830	5,055	214%
Active Investor Plus (Resident)	3,150	4630	7,780	15,705	18,710	84%
Recognised Seasonal Employer (RSE)	15	310	325	325	365	89%
Partnership (Resident)	1,550	2060	3,610	7,485	9,645	78%
Parent (Resident) ^^	1,550	2490	4,040	7,965	5,435	147%

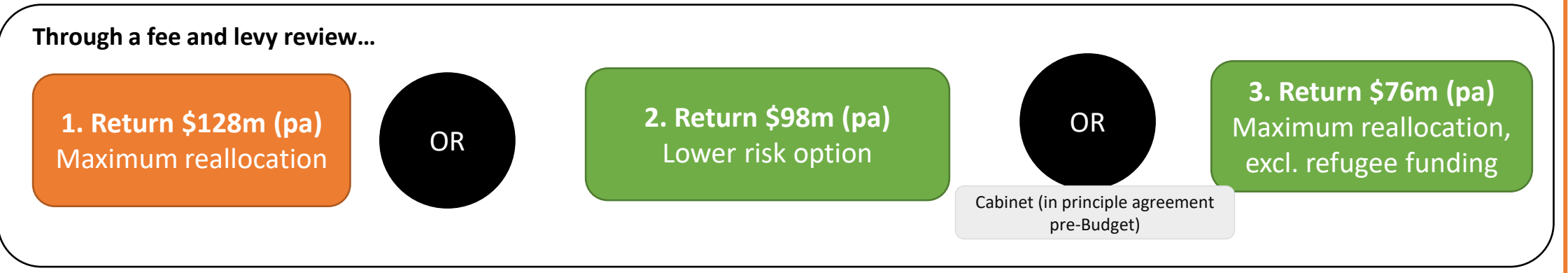
Annex Five: Summary of Crown savings and cost pressures

There are three choices about immigration system funding that determine the total possible Crown savings

1. Immediate Crown savings options



2. Reallocation of Crown funding options



3. Cost pressure options

