



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

Fiscal sustainability options for the immigration system

Date:	27 November 2023	Priority:	Medium
Security classification:	In Confidence	Tracking number:	2324-0932

Action sought		
	Action sought	Deadline
Hon Erica Stanford Minister of Immigration	Agree to discuss options to recalibrate how immigration costs are allocated between the Crown and users of immigration services and to manage cost pressures	4 December 2023

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

Minister's office to complete:

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments



BRIEFING

Fiscal sustainability options for the immigration system

Date:	27 November 2023	Priority:	Medium
Security classification:	In Confidence	Tracking number:	2324-0932

Purpose

To provide initial advice on immigration expenditure and reprioritisation options to support the Government's fiscal objectives including to improve the efficiency and effectiveness of the public services and spend, and to generate revenue from users of the immigration system.

Executive summary

The paper provides an introduction to immigration finances and initial advice on how to recalibrate immigration funding so it is more efficient, self-funding and sustainable. It includes options to reallocate \$123 million a year on average of Crown revenue, by moving to a more fully user-pays system.

The appropriations for the immigration system currently total just under \$580 million per annum. Around one third (\$169 million) is funded by the Crown (for functions including policy advice, passenger clearance and border risk management, compliance, and refugee services) and two thirds (\$409 million) is funded from fees and the immigration levy (for visa processing services and system infrastructure). Crown funding reduces to around \$149 million per annum from 2024/25.

Currently, costs are estimated to be around \$50 million higher (9 per cent) than the budgeted appropriations in 2023/24 (and around \$78 million higher from 2024/25) due to cost pressures from:

- investment in a larger visa processing workforce and updated ICT systems to support a modern immigration system (which together comprise the largest cost drivers of the system, at almost 70 per cent, and are largely recovered from users of the system), and
- a surge in asylum claims following the removal of COVID-19 border restrictions, and delivering an increased Refugee Quota and related programmes (which are traditionally Crown-funded).

There is work underway on options to manage these cost pressures, including by shifting some of these costs to be met by third party funding. We have incorporated the total amount in this briefing to present a complete view of the current financial position.

The Government has identified that it wishes to shift to a more self-funding immigration system and to reallocate Crown costs of around \$123 million a year to users. Progress towards the reallocation of costs can be made in the short-term (ie. without undertaking a fee and levy review) by:

- removing the Crown subsidy of just under \$20 million per annum provided for some visa types in the 2022 fee and levy review due to uncertainty about how quickly visa volumes would recover, and

- returning the Crown-funded tagged operating contingency from Budget 2023 of just over \$8 million in each of 2024/25 and 2025/26 only to maintain visa assessment and processing capacity.

We consider that there is also scope to allocate to users a greater proportion of the Crown-funded costs (approximately \$100 million) of operating the immigration system, based on the principle that those who benefit from immigration services or create risks should meet the costs. These changes would have an impact on the current fees and levies and would necessitate a fee and levy review.

The funding provisions in the Immigration Act 2009 (the Act) are relatively broad and enabling, and provide considerable flexibility in terms of how costs are allocated. However, shifting costs away from the Crown in areas such as the Refugee Quota Programme would be a significant change from existing cost recovery principles and practices. Any shift would therefore be likely to receive a high level of interest and scrutiny from stakeholders, including international partners.

We recommend that further decisions to recalibrate how costs are allocated between the Crown and users are taken as part of a fee and levy review during 2024. This would allow for consultation with key stakeholders and a robust cost recovery impact analysis.

A fee and levy review would also enable the Government to address the current imbalance in fee and levy rates (the levy hypothecation account¹ is projected to be in a deficit position of around \$67 million by the end of 2023/24, while the fees memorandum account² will be in a surplus position of around \$94 million, exclusive of cost pressures) and to recover the projected costs of ongoing investment in the immigration system.

The Government has stated that it will maintain immigration charges at no more than 90 per cent of Australian charges for comparable visas. Our initial modelling indicates the average levy rate would need to increase by 183 per cent (excluding visitor visas and Pacific-category visas) to reflect the shift of costs from the Crown to users, address the levy deficit and identified cost pressures. While further analysis is required, initial calculations indicate most immigration charges would remain within 90 per cent of Australia's charges. For categories that are more than 90 per cent, an adjustment of costs to other visa categories could be made.

Lessons from COVID-19 have highlighted that the current immigration funding model is vulnerable to economic and global shocks because it has a high reliance on recouping costs from visa applicants. Expanding the levy-payer base to include a wider range of groups who benefit from, and have a high stake in, a well-functioning immigration system would provide a more sustainable funding base. In addition, options for immigration charges to contribute to a wider range of government services (e.g. public health care for migrant parents) could be explored as part of a future review of the Act.

We welcome your feedback and the opportunity to discuss your priorities with you.

Recommended actions

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

- a. **Note** that the total appropriated cost of the immigration system in 2023/24 is \$578.3 million, comprising the following core functions to support the Government's economic, social, security and international objectives:
 - i. Immigration services (\$565.8 million)

¹ The levy hypothecation account records the balance over time between the amount collected and the amount spent.

² The immigration fee memorandum account similarly records the balance over time between the fees collected and the operating costs of determining applications for visas and other services.

- ii. Policy advice (\$8.5 million)
- iii. Regulation of Immigration Advisers (\$4.0 million)

Noted

- b. **Note** that the Crown funds around one third (\$168.9 million) of these costs and the rest is funded by charging users of the immigration system (employers, visa applicants, and immigration advisers)

Noted

- c. **Note** that MBIE is seeking to manage cost pressures of between \$50.2 million and \$77.6 million per annum, driven by an expanded workforce, ICT system investment, increased asylum claims and higher operating costs of delivering the Refugee Quota and related programmes

Noted

- d. **Note** officials will provide further advice on the drivers of, and options to manage, cost pressures before Christmas, subject to your priorities

Noted

- e. Confidential advice to Government

[Redacted]

Noted

- f. **Note** that MBIE has identified options to allocate a greater portion of the Crown-funded costs of the immigration system to users, totalling approximately \$123 million per annum:

- i. **Short-term options**

- Remove the Crown subsidy of just under \$20 million per annum for certain visa types provided for in the 2022 fee and levy review
- Return the Crown-funded tagged operating contingency of \$16.9 million provided for in Budget 2023 to maintain visa assessment and processing capacity

- ii. **Medium-term options (decisions in mid-2024)**

- Allocate some Crown costs to levy payers (approximately \$100 million) through a fee and levy review, which would also address the accumulated deficit in the levy hypothecation account and recoup any agreed cost pressures

- iii. **Long-term options (decisions by mid-2026)**

- Make changes to the Immigration Act 2009 to improve the resilience of the funding model Constitutional conventions, Confidential advice to Government

Noted

- g. **Discuss** the contents of this briefing with officials at your initial meeting with MBIE

Yes/No

- h. **Agree** to attend a meeting for MBIE portfolio ministers to discuss reprioritisation options presented in this paper and additional options identified in the MBIE ownership fiscal briefing (2324-0917) that would be apportioned to the immigration portfolio.

Agree / Disagree / Discuss

Alison McDonald
Deputy Secretary
Immigration New Zealand, MBIE
...27... / 11/ 2023..

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

Nic Blakeley
Deputy Secretary
Labour, Science and Enterprise, MBIE
...27... / 11/ 2023..

Strategic choices for fiscal savings from the immigration system

1. The immigration system supports a range of the Government's objectives including to grow economic prosperity and boost social cohesiveness by facilitating genuine travellers and managing risk. Achieving these objectives requires a balance and trade-offs between strategic choices and operational considerations (such as cost, speed and risk management).
2. The operational and fiscal challenges in the immigration system before and during COVID and after reopening the border have been distinctly different:
 - a. **Pre-COVID:** there was a sustained period of growth in visa volumes (and revenue), driven largely by visitors, temporary workers and international students. As well as managing demands for visa processing timeliness, the system was geared to focus increasingly on addressing migrant exploitation and non-compliance. To respond to this growth, expenditure increased (cost recovered by third-party funding).
 - b. **During COVID:** visa volumes (and therefore revenue) dropped significantly, resulting in an increased deficit in the immigration visa fees memorandum account. While cost-saving measures were implemented, expenditure did not decrease in line with the reduction in fee revenue because the majority of operating costs are fixed (e.g. ICT, buildings and workforce). There was also new and increased work, such as administering border exceptions, processing the 2021 Resident Visa and preparing for the border reopening.
 - c. **Border reopening:** Visa volumes rebounded more strongly than anticipated and new visa categories were implemented, including the Accredited Employer Work Visa (AEWV). External events also required an immigration system response (e.g. the Afghan National Resettlement response, the humanitarian crisis resulting from the war in Ukraine, and extreme weather events in early 2023).
3. You have said that you want an efficient, self-funding immigration system, which would free up Crown funding for other Government priorities. While two thirds of immigration system costs are recovered from users, the pace of change, increased service demands, and the vulnerability of the funding model to external shocks requires a resilient and sustainable funding base.
4. MBIE has identified options to achieve approximately \$123 million per annum of Crown savings from the immigration system. For completeness, we have included immigration system cost pressures (between \$50.2 million and \$77.6 million per annum) that MBIE is seeking to manage, primarily driven by:
 - a. investment in a larger visa processing workforce and updated ICT systems to support a modern immigration system (these costs are largely recovered from users of the system), and
 - b. an increase in asylum claims following the removal of COVID-19 border restrictions, and delivering increased refugee programmes (these activities are currently Crown-funded).
5. Depending on your priorities and preferred timing, immediate Crown savings could be achieved by:
 - a. removing Crown subsidies for certain visas (approximately \$20 million per annum), and

- b. returning the Crown-funded tagged operating contingency to maintain visa processing and assessment capacity (a total of \$16.9 million).
6. There is also scope to reallocate approximately \$100 million of Crown costs (immigration policy advice, border risk management and passenger clearance, compliance and investigation activities, settlement support for new migrants, and the Refugee Quota) to be paid by users of the immigration system. This could be achieved through a fee and levy review with new rates taking effect in September 2024. This timing would provide for a cost recovery impact analysis, stakeholder consultation and amendments to be made to immigration visa regulations.
7. Longer term, changes to the funding provisions of the Immigration Act 2009 (the Act) could be explored in order to improve the resilience of the immigration funding system.
8. Following discussion with you, we could provide further advice on options to achieve Crown savings and, if you agree, options to manage cost pressures. There are choices for managing cost pressures which could include scaling back programmes, extending service timeframes or funding pressures through higher immigration charges.
9. We recommend you discuss relative priorities for progressing Government goals across MBIE portfolios with other Ministers. To that end, we have recommended that the MBIE ownership Minister (Minister for Economic Development) call a meeting of all MBIE portfolio ministers.

Fiscal background for the immigration portfolio

10. Immigration system spending is primarily authorised through three appropriations.

Table 1: Overview of immigration appropriations as at 3 November 2023

Immigration appropriations and scope	Funding source	2023/24 \$m
Immigration Services Multi-Category Appropriation (MCA) Provide efficient immigration services that generate positive economic and social outcomes for New Zealand and meet New Zealand's obligations to refugee and protected persons.	Third party funding and Crown	\$565.8
Policy Advice and Related Services to Ministers – Immigration³ Advice and services to support decision-making by Ministers on government policy matters relating to immigration policy and international immigration commitments.	Third party funding and Crown	\$8.5
Regulation of Immigration Advisers Regulation of persons who provide immigration advice, facilitating the education and professional development of Immigration Advisers, and increasing public awareness of the Immigration Advisers Authority	Crown funding and licensing fees	\$4.0
Total		\$578.3

11. The high-level cost structure for Immigration Services is:
 - a. **Workforce (44 per cent):** Includes personnel costs (37 per cent) for visa processing (as at October 2023, there are 905 front line Immigration Officers), border officers, compliance and investigations functions, refugee and migrant services, and ICT hardware and licenses for staff (7 per cent).

³ This is a category within the Policy Advice and Related Services to Ministers MCA.

- b. **ICT (23 per cent):** Includes ICT and intelligence workforce (5 per cent), and development, maintenance and operations for major immigration ICT systems (ADEPT, AMS and Immigration ONLINE) (18 per cent).
 - c. **Operating costs (18 per cent):** includes depreciation and capital charge (2 per cent), professional services (4 per cent), property (4 per cent), travel (primarily for the refugee intake and deportations) (3 per cent), equipment (such as passport scanners) (2 per cent) and other operating costs (3 per cent).
 - d. **Enablement and stewardship (15 per cent):** Includes the Contact Centre (5 per cent) and corporate functions (communications, human resources and finance) (10 per cent).
12. An overview of the functions and cost breakdown for the Immigration Services MCA (based on projected spend for this financial year) is set out below.

Table 2: Immigration Services functions and cost structure

Key functions	Workforce \$m	ICT \$m	Enablement and stewardship \$m	Operating costs \$m	Total* 2023/24 projected spend \$m
Total %	44%	23%	18%	15%	100%
Assessment and processing services: for visa applications and NZeTA requests.	191.4	111.6	67.7	41.3	411.9
Integrity and security of the immigration system: Includes border risk management, compliance, investigation and prosecution activities, education, and prevention of irregular migration.	69.0	18.6	8.1	7.8	103.4
Services for the attraction of migrants: Includes provision of accessible visa information and engagement with sectors and industry employers to attract migrants with the skills New Zealand needs.	5.2	1.0	1.7	2.2	10.1
Settlement and Integration of Refugees and other migrants: Includes settlement support services (e.g. Welcoming Communities programme) to achieve better social and economic outcomes, delivering the Refugee Quota and related programmes, processing claims for refugee and protected persons status, and Pacific migration initiatives.	20.9	4.9	11.4	48.1	85.4
Total MCA*	286.6	136.2	88.8	99.4	610.9

* Figures may not sum to total due to rounding each figure to nearest \$0.1m

13. The visa processing workforce has been expanded (cost recovered from immigration charges) to manage the 2021 Resident Visa programme and higher than expected visa volumes following the border reopening, and to accommodate changes to the operating model (shifting the workforce onshore) and to the risk environment.

14. The focus in recent years has been investment in ICT to reduce the number of systems involved in visa processing. This will result in several benefits, including:
 - a. productivity gains (and a reduced workforce) due to one system and fewer paper applications requiring lodgement
 - b. reduction in ICT system costs through the consolidation of systems
 - c. improved ability and increased timeliness to implement changes made in legislation and policy.
15. Progress has been complicated by the pace and number of substantive changes to immigration settings in recent years. As a result, we are managing multiple systems, which requires a higher number of supporting FTEs. Our 'cost to serve' in this area therefore remains high, as total cost is tightly linked to the volume of visa applications.

The immigration system is funded by the Crown and third-party charges

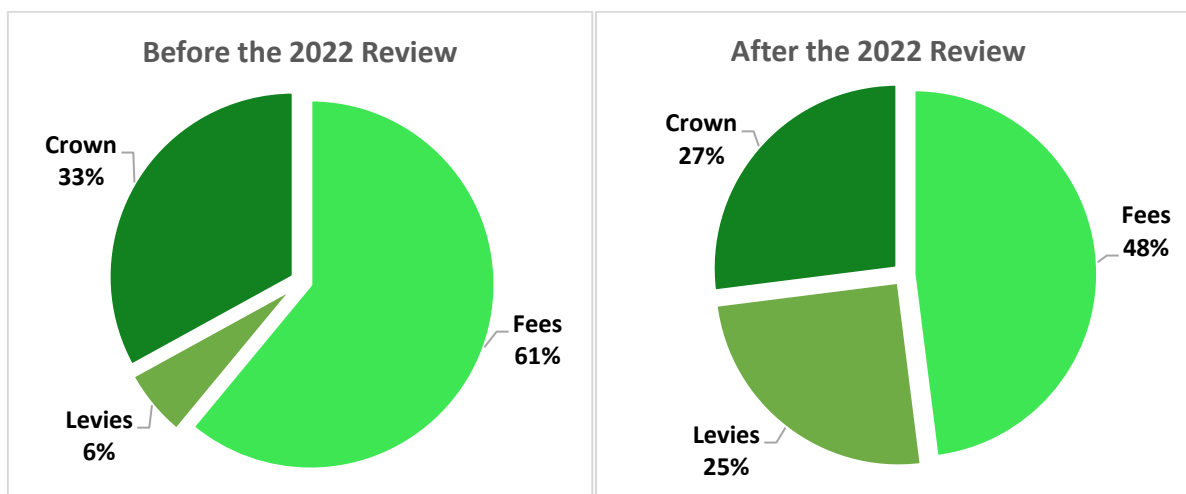
16. The Act has fairly broad provisions about how third-party charges can be prescribed, providing flexibility about how costs are allocated. The Crown currently funds approximately one third of the Immigration Services MCA (primarily for refugee settlement, border risk management, and compliance), with the remainder funded by third-party charges:
 - a. **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.
 - b. **levy funding** is for specified activities such as maintenance costs of the immigration system, including system infrastructure, managing immigration risks, supporting migrant settlement, the attraction of migrants.⁴ Only visa applicants can be charged a levy.

Generally, immigration charges are reviewed every three years, but can be reviewed more regularly

17. The last fee and levy review commenced in 2021. The focus of the review was to recalibrate the cost allocation model and reduce the shortfall in immigration funding that had arisen prior to COVID-19 and was exacerbated by the border closures. The review resulted in decisions to:
 - a. **subsidise particular visa products** (visitor visas, Skilled Migrant Category (SMC) and Pacific-focused visas) to limit price increases to either maintain competitiveness with comparable jurisdictions or to recognise our close relationship with the Pacific (just under \$20 million per annum)
 - b. **reallocate costs** from Crown and fees to levies, to better align with cost recovery principles (costs should be borne by the club of users who benefit from them); Figure 1 shows the changes in cost allocation by funding source
 - c. **write off any remaining deficits** (both pre-COVID and COVID-related) in the visa and NZeTA fees memorandum accounts, bringing total write-offs to \$439 million.
18. New rates took effect from 1 August 2022 as set out in Annex One.

⁴ Section 399 of the Immigration Act 2009.

Figure 1: Changes in immigration cost allocation model for the Immigration Services MCA



Following the 2022 fee and levy review, Immigration’s financial position improved but there is an imbalance between fee and levy rates

19. The fee and levy changes have addressed the funding shortfall in fee-funded activities. Account balances are now projected to be \$162.2 million higher by 30 June 2024 than predicted in the 2022 review due to visa volumes returning to pre-COVID levels more quickly than expected. This is exclusive of cost pressures, which we outline in the next section. Overall, the accounts are in surplus, although there is a slight imbalance:
 - a. The visa fees memorandum account is projected to reach a surplus of \$93.6 million by the end of 2023/24, suggesting fees are over-recovering costs.
 - b. The levy hypothecation account is projected to reach a deficit of \$66.7 million by the end of 2023/24 due to higher-than-expected ICT costs.
20. A future fee and levy review would enable MBIE to adjust fee and levy rates so they more accurately reflect the projected costs of the immigration system.

MBIE is seeking to manage a range of cost pressures related to workforce, ICT and increased demand for services

21. The Immigration Services MCA for 2023/24 is \$565.8 million and costs are projected to be \$50.2 million, or 9%, greater than the appropriation due to the following cost pressures:
 - a. **An expanded workforce to –**
 - i. manage an increase in visa volumes and more complex risk profiles following the border reopening
 - ii. process new visa products (with high volumes) such as the 2021 Resident Visa programme (over 200,000 people were approved residence) and shortly Permanent Residence Visa applications from this cohort
 - iii. provide support for legacy systems (until they are decommissioned).
 - b. **Investment in ICT systems to –**
 - i. modernise the immigration system (Confidential advice to Government

- ii. Confidential advice to Government
- iii. implement policy changes Confidential advice to Government and Accredited Employer Work Visa (AEWV)).

22. At this stage, costs associated with implementing new visa categories or making changes to existing categories as part of Coalition Agreements have not been factored in. Once we have direction on your priorities, adjustments to immigration’s forecast spend can be made.
23. MBIE is exploring options to manage these cost pressures. This includes making a range of reductions against planned spend (through attrition, and reduced travel, contractor and consultant spend), which is forecast to reduce cost pressures by approximately \$2.0 million per annum. Savings from MBIE’s central functions would also reduce the overall cost pressure. However, while some of these cost pressures have traditionally been crown funded, we consider that there is scope to fund these pressures from third party funds (fees and levies). This is discussed further below.

Table 3: Immigration system cost pressures

Funding source	Cost pressure and description	2023/24 (\$m)	2024/25 and ongoing (\$m)
Fee and levy	Visa processing, verification and compliance workforce, attraction and settlement services: Expanded workforce to manage increased visa volumes and non-compliance and to support the Active Investor Programme.	30.7	45.2*
	ICT systems investment to modernise the immigration system: Improve visa assessment and processing, Confidential advice to Government	13.3	15.9^
Crown	Refugee and asylum claims: Claims have increased significantly. Monthly claims are consistent with 2000 per annum. There were approximately 500 claims in 2018/19.	1.3	7.8
	Refugee Quota and related programmes: Increased costs to deliver refugee programmes (Refugee Quota, Refugee Family Support Category and Community Organisation Support – a total of 2,250 people) primarily due to international travel, offshore medicals, and the operation of Te Āhuru Mōwai o Aotearoa (Mangere Refugee Resettlement Centre).	4.9	8.7
		50.2	77.6*

* \$1.1m lower from 2025/26

^ Plus \$1.0m capex in 24/25 only

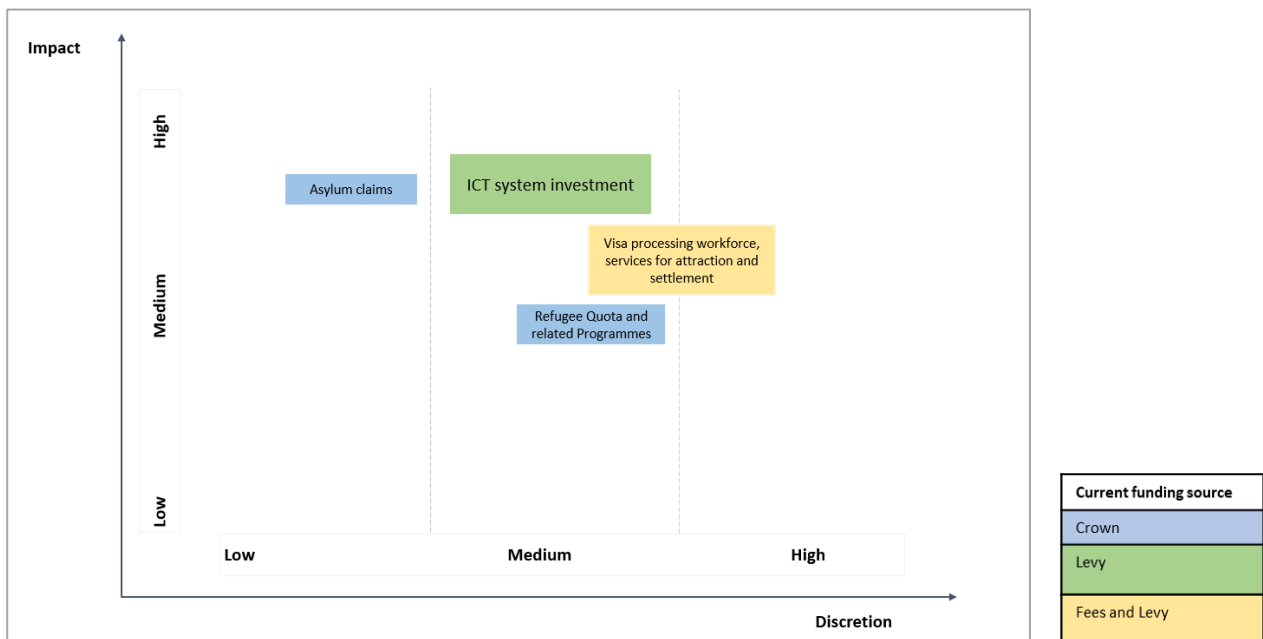
Excludes inflation and wage pressures in outyears which are assumed to be absorbed

MBIE has developed a framework to prioritise cost pressures and inform options

24. MBIE has developed a framework (refer to Annex Two) for assessing the scale of impacts from not managing the cost pressures for: the immigration system, migrants and businesses, and externally (such as effects for other government priorities, or ability to meet international commitments). A second part of the framework identifies factors to indicate MBIE’s level of discretion to control the cost pressures. The framework:
- a. informs choices and trade-offs and supports prioritisation of cost pressures or investment
 - b. ensures effective and efficient use of resources and sustainable costs
 - c. provides assurance that MBIE is managing fiscal risk to the Crown, and

- d. avoids large spikes in immigration charges and increases stakeholders' confidence that immigration charges are reasonable in a context of inflationary pressure.

Figure 2: Assessment of immigration cost pressures



Further advice on cost pressures will be provided

- Subject to your feedback, we propose to provide further advice about the drivers of these cost pressures and options to manage them (such as rescoping, rephrasing, or further investment). Our initial view is that fee and levy-based cost pressures can be addressed through a fee and levy review to recoup costs from users.
- Confidential advice to Government
 [Redacted]
- Addressing the Crown-funded cost pressures (processing asylum claims and delivering New Zealand's Refugee Quota and related programmes) would be informed by the Government's priorities. The key choices include:
 - How fast asylum claims are processed. The current service standard is that claims are processed within 240 calendar days. Given increasing volumes, assessment timeframes are likely to increase unless additional funding is appropriated. Longer wait times can create further incentives for people to make non-genuine claims, knowing that they are eligible for work visas while claims are processed – this in turn negatively affects genuine claimants.
 - How the Refugee Quota and related programmes are delivered: reducing the number of places provided for annually across:
 - refugee programmes (currently 1500 places for the Refugee Quota; 600 places for the Refugee Family Support Category (600 places) and 150 places for Community Organisation Refugee Sponsorship programme)

- ii. reducing settlement services and subsidising flights
 - iii. finding more efficient ways to deliver the programmes.
28. Any reduction in refugee numbers or services could impact on New Zealand's international reputation.
29. As discussed below, there is also scope to shift Crown-funded costs to levy payers, which would mean future cost pressures could be met by users. We expect that this can be done through the fee and levy review proposed below for 2024/25 and outyears. However, that review would not address the cost pressures for the 2023/24 financial year. Given the surplus in fees memorandum account, we would propose the cost pressures for this financial year could be met from third party funding (effectively by increasing the appropriation to accommodate the cost pressures, which would be offset by the increased third party revenue).
30. Should you wish to address these cost pressures, Cabinet agreement would be required and could be done ahead of the March Baseline Update.

Immediate options for Crown savings from the immigration system

31. Two options could be progressed immediately to contribute to the Government's goal of generating up to \$123 million on average a year of Crown savings from the immigration system. Cabinet decisions would be required to proceed with these proposals, but these could be done without undertaking a fee and levy review. We welcome the opportunity to discuss these proposals with you.

Removing the Crown subsidy for some visa categories

32. We have identified that Crown funding provided in the 2022 fee and levy review to subsidise the cost of some visas could be removed. This would generate a total of just over \$19.5 million per annum or \$97.7 million of Crown revenue over the next four years.
33. The Crown subsidy was based on the assumption that visa volumes would take time to return to pre-COVID levels and was intended to mitigate a continued shortfall. Further objectives for the subsidy were to enable New Zealand visas to remain competitively priced with comparable countries (Australia), to support economic recovery from COVID-19, and to recognise the Government's commitment to support Pacific resilience and economic development.
34. As discussed above, visa volumes have recovered more quickly than forecast and the fees memorandum account is projected to remain in surplus. On this basis, we assess the Crown subsidy is no longer required.
35. Removing the Crown subsidy would not reduce the size of the Immigration Services MCA. It would, however, increase the share of costs to be funded by fees and levies. While there is sufficient fee revenue to absorb the increased costs, there would be a further small deterioration in the levy hypothecation account. This would need to be factored into the proposed fee and levy review.

Returning the tagged operating contingency from Budget 2023

36. Given uncertainty about visa volumes following the border reopening, Budget 2023 included a tagged operating contingency (\$16.9 million across 2024/25 and 2025/26) to maintain visa

processing services in the event fees revenue is insufficient to cover costs. The tagged contingency expires on 1 February 2024.

37. The recovery in visa volumes and associated fee revenue means that we do not expect the Crown contingency will be required. One option is to return this tagged contingency to the Crown. Alternatively, the funding could be repurposed, subject to Cabinet's approval, to manage any Crown-funded portion of immigration system cost pressures. Either option would not reduce the size of the Immigration Services MCA.

Further Crown savings from the immigration system could be achieved by allocating Crown costs to user pays

38. The Crown provides \$168.9 million per annum to fund (approximately one third of) the immigration system. This reduces to around \$149 million per annum from 2024/25, of which just under \$3 million is beyond MBIE's scope to reallocate as it relates to services MBIE provides on behalf of other agencies⁵.
39. Our initial view is that there is scope to move to a more fully user-pays funding model, which would see the levy increasing to fund a greater portion of services currently funded by the Crown. This would accord with the principle that those who benefit from immigration services or create risks should meet the costs.
40. In addition to the identified savings above, we estimate approximately \$100 million per annum from the following Crown-funded costs could be reallocated to users:
- a. **processing of asylum claims and other refugees** who receive the benefit of a visa (approximately \$5 million per annum)
 - b. **policy advice** that directly supports the operation of the immigration system and supporting settlement of migrants (approximately \$6 million per annum)
 - c. **provision of settlement services for new migrants** who receive the benefit (approximately \$9 million per annum)
 - d. **risk, verification and health services** that support visa assessment and processing (approximately \$17 million per annum)
 - e. **border risk management, compliance and investigation activities** to manage risks generated by the wider club of those who come to New Zealand and who fail to meet their immigration obligations (approximately \$37 million per annum)
 - f. **delivery of Refugee Quota and related programmes** resettling 2,250 refugees and their families per annum (the Crown-funded portion of costs is currently 94% or approximately \$48 million per annum).
41. In respect of refugee programmes, while there is potential to reallocate a greater portion of costs to the levy, there is likely to be a high level of interest and scrutiny from stakeholders because this is a significant shift from the current cost allocation model. Additionally, cost recovery principles require that cross subsidisation is generally avoided although there may be situations where it is justified.

⁵ The funding source of these activities is "revenue-department" and ultimately depends on the funding structure of the department providing the funding.

42. Allocating more refugee programme costs to the levy could see some migrants cross subsidising programmes to meet New Zealand’s humanitarian and international commitments. This is because the Act states refugee and protection claimants cannot be charged a fee (or levy). We recommend these changes be considered as part of a fee and levy review to enable a comprehensive cost recovery impact analysis and stakeholder consultation to be undertaken.

An immigration fee and levy review is the mechanism to reallocate costs from the Crown to the levy

43. A fee and levy review would be required to reallocate Crown costs to the immigration levy (with subsequent changes to the fees and levy schedules set out in the Immigration (Visa, Entry Permission, and Related Matters) Regulations 2010). We recommend the scope of the review be limited to:
- a. Resetting fee and levy rates to balance the accounts and address any fee- and levy-funded cost pressures
 - b. Reallocating Crown costs to the levy; and
 - c. Delivering on specific Government priorities, including *Pay to Play*.
44. We would like to discuss your priority proposals to include in a forthcoming fee and levy review and seek your feedback on preferred timing.

We propose to provide further advice on how Pay to Play could be implemented

45. The Government has proposed to implement a priority processing service to allow migrants and businesses to fast-track visa applications within the immigration queue for a higher fee.

Confidential advice to Government

Expectations around overall processing timeframes would need to be carefully managed.

46. Confidential advice to Government

Competitive and sustainable immigration charges

47. Immigration charges are one component that migrants and businesses face when travelling to New Zealand. Due to the proposed reallocation of Crown costs to users, we anticipate stakeholder expectations for transparency about how charges are set to increase.
48. For the 2022 fee and levy review, our analysis was limited due to uncertainty about the future cost of providing immigration services (including ICT investment). Work has since been completed to develop a model that reports on the average cost associated with processing each visa product – i.e the ‘cost to serve’.
49. Currently, the model provides historic cost information on visa products. Further work is required to inform future fee and levy rates. This includes providing information on projected costs for both fee-funded and levy-funded activities based on future demand for visas and expected ICT system investment.
50. We recommend a programme of work (with regular reporting) be established to advance cost modelling (for fee- and levy-funded activities), continue refining visa volumes and revenue

forecasting, and finalise ICT and workforce investment plans. This work is crucial to inform adjustments to fee and levy rates that are reasonable, defensible and sustainable.

Initial modelling of fee and levy rate adjustments

51. Our initial calculations are that levy rates would need to increase by approximately 183% to offset the \$123 million reduction in Crown revenue, meet cost pressures⁶ and address the projected deficit in the levy hypothecation account. This would be partially offset by an average decrease of 22% in current fee rates.
52. Combined charges for most key visa products would remain within 90% of Australian visa prices, except for Visitor, Skilled Migrant Residence, Parent (resident) and Working Holiday Visas. The net change in visa prices would be equivalent to a \$265 increase for AEWV and a \$110 increase for a student visa. Annex Three provides a detailed breakdown by key visa categories.
53. To keep all charges within 90% of Australian visa prices, the allocation of levy rates between visa products can be adjusted (rather than an across-the-board adjustment). Further analysis of different charging approaches (per application versus per applicant) and service timeframes between countries would also be factored into recommended charges.
54. We note that the literature points towards relatively low price elasticity of demand for visas.⁷ This means that moderate increases in visa prices are not expected to have significant impacts on visa volumes because visa fees and levies are a very small proportion of the total costs of travelling or moving to New Zealand compared to the benefit received (e.g. the salary a migrant worker receives).

Risks to manage

55. Although reallocating further Crown costs to users would directly free up Crown revenue, this would be offset by an increase in fiscal risk to the Crown, particularly if there are significant drops in revenue from visa applications and corresponding decreases in expenditure cannot be made. Examples include an economic downturn, global insecurity or a pandemic (as was the case with COVID-19). Our longer-term options set out below would help to manage this risk to an extent.

Longer-term options to support a resilient and sustainable immigration funding system

56. Opportunities exist to improve the flexibility, resilience and sustainability of the immigration funding system, particularly when there is uncertainty of visa volumes and revenue.

Reviewing funding provisions in the Immigration Act 2009

57. While the current funding provisions in the Act are reasonably broad, there are limits:
 - a. Only visa applicants can be charged an immigration levy (across a wide range of rates, set for different visa types).⁸

⁶ Not including those that are currently Crown funded.

⁷ Home Office (UK), *A review of the evidence relating to the elasticity of demand for visas in the UK* (March 2020). Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/872608/review-evidence-relating-to-elasticity-horr114.pdf

⁸ From 31 July 2022, the range of levy rates includes \$21 for visitor visas, \$95 for student visas, \$210 for temporary work visas, \$2,410 for Skilled Migrant Category visas, and \$3,150 for Residence from Work visas.

- b. Levy funding is for a specific set of activities including system infrastructure, activities supporting migrant and refugee settlement, the attraction of migrants, and the Immigration Advisers Authority.

Confidential advice to Government

- [Redacted]

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Confidential advice to Government

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Confidential advice to Government

Next Steps

68. We welcome the opportunity to discuss the proposals in this paper with you. We will provide you with further advice on proposals you wish to progress. This advice will include how fast savings can be realised, any costs associated, and further information on the likely impacts of those changes.
69. While we have set out a broad timeline of next steps and deliverables, their actual timing will depend on your priorities.

Table 4: Milestones and indicative timeframes

Phase	Milestone	Indicative timeframes
Short-term (December 2023 – March 2024)	Further advice on a fee and levy review, including reallocating Crown costs to users, and addressing cost pressures	21 December 2023
	Draft Cabinet paper – Immediate Crown savings	Early 2024
	Cabinet decisions – Immediate Crown savings	March 2024
	Reporting commences on cost modelling, service standards, and ICT and workforce plans	
Medium-term (March – September 2024)	Targeted consultation on fee and levy rate adjustments	March 2024
	Cabinet policy decisions – Adjustments to fee and levy rates	June 2024
	Cabinet legislative decisions – New fee and levy rates	August 2024
	New fee and levy rates take effect	September 2024
Longer-term (Before end of parliamentary term)	Agreement to amend the funding provisions in the Immigration Act 2009	TBC
	Bill introduced into the House	

Annexes

Annex One: Current immigration fee and levy rates

Annex Two: Cost pressure assessment framework

Annex Three: Comparison with Australia’s immigration charges

Annex One: Current immigration fee and levy rates

Type of application	Fee Band (NZ\$)			Immigration Levy	International Visitors Levy (NZ\$)
	Band A New Zealand (GST incl)	Band B Pacific	Band C Rest of World		
Residence class visas					
Skilled Migrant Residence	1,880	1,610	2,480	2,410	-
Entrepreneur Residence Category	3,710	3,710	3,710	3,150	-
Active Investor Plus Category	4,750	4,630	4,630	3,150	-
Residence from Work Category	1,090	-	-	3,150	-
Family Category	1,200	1,200	2,060	1,550	-
Parent Retirement Category	3,710	3,710	3,710	1,550	-
Samoan Quota Scheme	820	800	-	-	-
Pacific Access Category	890	870	-	410	-
Employees of Relocating Business Category	1,200	1,200	2,060	3,150	-
Pitcairn Islanders	1,200	1,200	2,060	410	-
Any other residence category	1,200	1,200	2,060	*	-
Temporary visas					
Visitor Visa	190	150	190	21	35
Fee-paying student Visa	280	220	300	95	*
Post-study work Visa	490	410	490	210	
Partnership/Work to Residence	650	650	650	210	-
Entrepreneur Work Visa	3,710	3,140	3,710	210	-
Working Holiday Scheme	210	-	210	210	35
Accredited Employer Work Visa	540	540	540	210	-
Work Visa – other	490	410	490	210	*
Recognised Seasonal Employer	310	270	310	15	*
New Zealand Electronic Travel Authority (NZeTA)					
Request for traveller NZeTA made via Immigration New Zealand (INZ) website	23	23	23	-	35
Request for traveller NZeTA made via mobile app	17	17	17	-	35
Request for transit NZeTA made via INZ website	23	23	23	-	-
Request for transit NZeTA made via mobile app	17	17	17	-	-
Request for transit NZeTA made via mobile app	17	17	17	-	-
Other⁹					
Employer accreditation (standard)	740	-	-	-	-
Employer accreditation (high volume)	1,220	-	-	-	-
Job check	610	-	-	-	-

* A range of possible rates apply

⁹ There are also fees for other types of employer accreditation and services, including reconsideration of decisions to decline visa applications and endorsement of New Zealand citizenship in foreign passports.

Annex Two: Cost pressure assessment framework

Impact assessment

	Impact		
	Immigration system impact (Operational performance, risk management, achieving strategic outcomes)	Migrant or business impact	External impact (Government objectives or strategies international commitments or business/sectors)
High	<ul style="list-style-type: none"> Significant impact on MBIE's operational capability/capacity to deliver Significant impact on MBIE's ability to achieve strategic objectives A cascade impact to other immigration programmes Increased risk to the immigration system or New Zealand's borders 	A significant proportion of migrants are impacted (eg all fee and levy payers) due to either the ICT system or processing timeframes	Significant impacts to: <ul style="list-style-type: none"> other government objectives/strategies government agencies who have a role in the immigration system stakeholders (business, sectors) MBIE's ability to meet its international commitments Increased reputational risk or loss of public confidence
Medium	<ul style="list-style-type: none"> Moderate impact on MBIE's operational capability/capacity to deliver Moderate impact on MBIE's ability to achieve strategic objectives Some impact to other immigration programmes Some risk to the immigration system or New Zealand's borders 	Some migrants are impacted (eg specific visa categories that are relatively high-volume); or vulnerable migrants are at greater risk (eg exploitation, refugees, asylum claimants)	Moderate but manageable impacts to <ul style="list-style-type: none"> other government objectives/strategies government agencies who have a role in the immigration system stakeholders (business, sectors) MBIE's ability to meet its international commitments Some reputational risk or risk to public confidence
Low	<ul style="list-style-type: none"> Minimal impact on MBIE's operational capability/capacity Minimal impact on MBIE's ability to achieve strategic objectives No broader impact to MBIE programmes No increase in risk to the immigration system or New Zealand's borders 	A smaller cohort of migrants are impacted (eg low volume visa categories)	Minimal impact to: <ul style="list-style-type: none"> government objectives/ strategies government agencies who have a role in the immigration system stakeholders (business, sectors) MBIE's ability to meet its international commitments Minimal reputational risk

Ability to manage or control the cost pressures

<p>MBIE has a high level of discretion to manage the cost pressures by:</p> <ul style="list-style-type: none"> Stopping work/the project Reducing project scope or extending delivery timeframes Adjusting service level, quality or risk thresholds Reprioritising within existing resources or the work programme
<p>MBIE has some level of discretion to manage cost pressures over the short to medium period by:</p> <ul style="list-style-type: none"> Adjusting service level, quality or risk thresholds Negotiating scope or timeframes with vendors Ability to reprioritise existing resources or within the work programme
<p>MBIE has a low level of discretion to manage cost pressures due to:</p> <ul style="list-style-type: none"> Limited ability to adjust service level, quality or risk thresholds Cost pressures being driven by external factors (eg flights/delivery by international organisations; Government priority). Resources cannot be easily reprioritised due to a specific skill set/training or training required

Annex Three: Comparison with Australia’s immigration charges

Table 5 below compares the revised price of key New Zealand visa products with Australian visa prices. The revised New Zealand visa prices account for estimated potential changes to levies and fees from offsetting the \$123 million reduction in Crown revenue, meeting cost pressures and addressing the projected deficit in the levy hypothecation account.

More detailed modelling will explore options to spread costs and take account of the differences in charging approaches and service processing. We would expect visa categories projected to be above 90% of Australia’s prices (Skilled Migrant Residence, Visitor, Working Holiday and Parent – Resident) to be closer to 90%.

Table 5: Comparison of immigration charges

Key visa products	NZ price (fee + levy)	Revised NZ price with •187% levy increase* •19% fee decrease*	Comparable Australian visa price (NZ\$)	Revised NZ price as % of comparable Australian visa price
eTA (visitor)	23	20	-	N/A
Visitor ^	211	211	205	103%
Working Holiday	420	760	690	110%
Student	395	505	775	65%
Post-study work	700	975	2,065	47%
Accredited Employer Work Visa (AEWV) - migrant check	750	1,015	1,585	64%
Skilled Migrant Residence ^	4,890	8,755	5,055	173%
Active Investor Plus – Resident	7,780	12,535	18,710	67%
Recognised Seasonal Employer (RSE)	325	325	365	89%
Partnership – Resident	3,610	5,995	9,645	62%
Parent - Resident ^^	4,040	6,330	5,435	116%

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 \$NZD52,000.