

Regulatory Impact Statement

Immigration Funding Review

Agency Disclosure Statement

This Regulatory Impact Statement has been prepared by the Ministry of Business, Innovation and Employment.

It provides an analysis of options for a more sustainable approach to funding immigration services in the future, including addressing a range of issues within the immigration funding model and aligning the funding model with the new immigration service delivery model.

Three of the four options presented would result in shifting some of the costs of the immigration system from New Zealand taxpayers towards various groups of migrants and visitors to New Zealand. These options would reduce volatility and cross-subsidisation, but increased prices for some visitors and migrants might be seen as inconsistent with Government's wider objectives for economic growth.

The Ministry does not have detailed information on visa price elasticity of demand. As in previous fees reviews, it is assumed that moderate fee increases will not adversely affect demand for work, student or visitor visas, given that visa fees represent a very small proportion of the cost of travelling to and staying in New Zealand, and the associated benefits. The Ministry is aware that the Australian Department of Immigration and Citizenship has carried out an analysis that reaches the same conclusion. It should also be noted that application volumes have increased slightly in 2012/13 after fees increased in July 2012, suggesting that any price impact is minor compared to other factors that influence decisions to travel or migrate to New Zealand.

The three change options all require some legislative changes, which could be included in the Immigration Amendment Bill to be introduced in August 2013. A subsequent fees review will be required to recommend a complete set of fees for the option selected. These fees will need to be set by regulation, and require a Cabinet decision in 2014.

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Status quo and context

Purpose

1. This Regulatory Impact Statement covers a review of immigration funding carried out by the Ministry of Business, Innovation and Employment in 2012/13.
2. In its 2012 Four-Year Budget Plan (FYBP), the Department of Labour noted the significant growth in the immigration memorandum account deficit between 2010 and 2012, as application volumes were adversely affected by the global financial crisis. The FYBP identified several options to reduce costs and increase revenue, while identifying the need to undertake a principles-based review of how immigration activities are funded into the future.
3. In August 2012, the Minister of Immigration agreed that:
 - the purpose of the review was to obtain Cabinet agreement to a sustainable approach to funding the immigration system
 - the scope of the review is all of Vote Immigration, including all of Immigration New Zealand, immigration policy and research, and the Immigration Advisers Authority.
4. This review was distinct from the regular immigration fee reviews, in that it would examine the broad approach to immigration funding, particularly who should be funding which immigration services, while fee reviews make specific recommendations about the levels of immigration fees for those who have to pay them. Regular fee reviews will continue to be required to ensure that fees are calibrated to adequately fund immigration services, as demand and the services themselves change over time.
5. The review was subject to two key timing constraints:
 - The Government proposes to introduce the Immigration Amendment Bill (No 2) in August 2013, to be passed if possible by the end of 2013 – this provides a timely vehicle for implementing options that require legislative change, but also requires decisions to be taken quickly.
 - The implementation of the Immigration Global Management System (IGMS) – some of the changes are required to support the new immigration ICT system, which is currently under development with progressive releases beginning in late 2013.

Immigration funding context

6. Migrants and visitors make a significant contribution to New Zealand's economy and society. Immigration New Zealand (INZ), a group within the Ministry of Business, Innovation and Employment (the Ministry), facilitates access to New Zealand for migrants and visitors, for the purposes of work, study, tourism, family reunification and resettlement, while excluding people who pose unacceptable risks to New Zealand's interests¹. INZ's operations are supported by research and policy functions located elsewhere in the Ministry, and services provided to migrants outside Vote Immigration.

¹ The role of Immigration New Zealand includes: deciding visa applications; attracting migrant skills and labour; matching migrant skills with employer needs; managing border security with regard to the movement of people; supporting migrant settlement and retention; implementing the Government's refugee quota programme; and enforcing compliance with immigration law and policy.

7. The immigration budget for 2012/13 is around \$209 million, split as follows between fees and levies (on system users) and the Crown:

Source	Amount \$m	Functions
Fees	139.5 (67%)	Visa processing, non-refugee compliance, border security, marketing, some settlement services
Crown	65.0 (31%)	Refugee services, some security and foreign relations functions, policy, border security (for non-fee payers), ministerial appeals
Levies	4.5 (2%)	Some settlement services, migration research (also covers some English language and migrant employment services outside Vote Immigration)

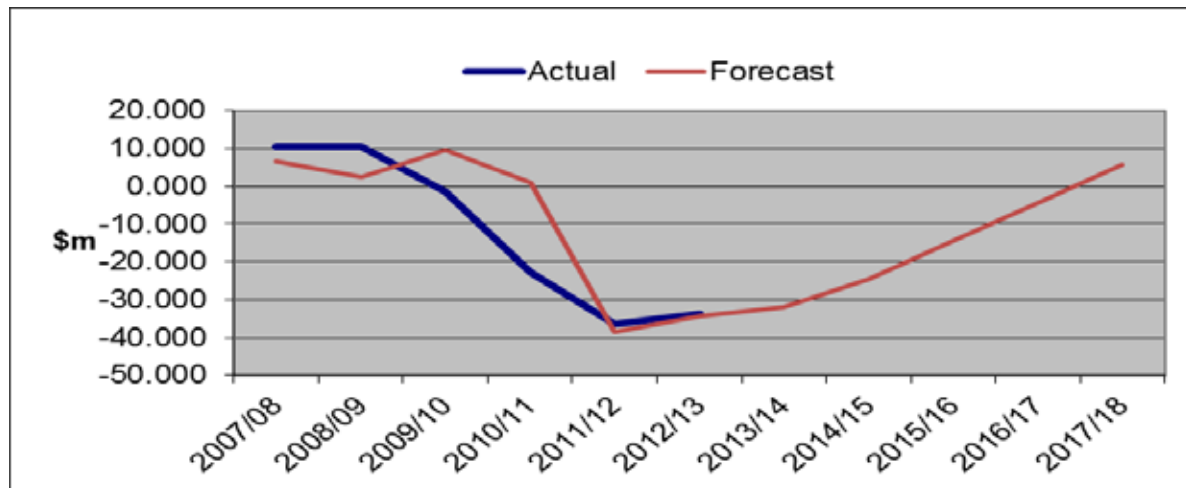
8. This split reflects Cabinet decisions in 2006 about the appropriate level of cost recovery from system users for various immigration functions. In general, the Crown funds functions that have diffuse benefits to system users and tax payers, or have benefits to users who cannot reasonably be expected to pay (e.g. refugee services). Fees and levies fund the direct cost of visa processing and some of the costs of running the immigration system, including border security, marketing and attraction, and non-refugee compliance functions.
9. The Immigration Act 2009 provides for a degree of cross-subsidisation in setting immigration fees. Fees may differ for otherwise similar services provided in different ways or to different categories of person. They may be based on averaging costs for a group. They may also take into account costs that are an indirect or potential cost arising from the delivery of the service in question. There are three main areas of cross-subsidisation in the current fees structure:
- Student and visitor visa prices are kept relatively low. Export education and tourism are important foreign exchange earners for New Zealand, and it is important to keep our visa prices competitive with other destination countries if we are to continue growing these industries.
 - The immigration fee structure has three bands, based on the location of the applicant – New Zealand, Australia and the Pacific, and the rest of the world. In all cases, the Australia/Pacific fees are at least as low as those charged to applicants in New Zealand, and in many cases, they are lower. This reflects the significance of our relationships with Australia and the Pacific.
 - Over time, governments have made decisions to waive fees² or the need for visitor visas for nationals of certain countries³. Such decisions support New Zealand's foreign policy objectives. However, the services that these visitors require, or generate a need for, are subsidised by New Zealand taxpayers and other fee payers. (Fee waivers are reciprocal, so New Zealanders travelling to these countries benefit from these agreements.)
10. Around two thirds of the immigration system is funded from visa fees. Application volumes vary from year to year, and a memorandum account is used to manage fee

² New Zealand has bilateral fee waiver agreements for specified visa application types with Austria, Finland, Greece, Iceland, Israel, Italy, Japan, Mexico, Philippines, Russia, Turkey and the United States.

³ Australian citizens and permanent residents do not usually need a visa to travel to New Zealand. United Kingdom passport holders with a right to reside permanently in the UK can be granted a visitor visa for up to six months on arrival in New Zealand. People from 56 other jurisdictions do not need to apply for a visa before travelling to New Zealand, and can be granted a visitor visa on arrival, for which they do not need to pay.

revenue. The memorandum account can be in surplus or deficit in any given year, but the aim over time is for the memorandum account to be roughly in balance. As recently as mid-2010, the immigration memorandum account was breaking even. However, a reduction in application volumes as a result of the global economic slowdown resulted in a deficit of \$36.487 million by June 2012.

11. In response to the deficit, the then Department of Labour carried out an immigration fees review⁴ in early 2012. As a result, Cabinet approved an average fee increase of 16.7 per cent in April 2012, which is currently projected to bring the memorandum account into balance during 2017/18. The following figure shows recent and forecast movements in the immigration memorandum account.

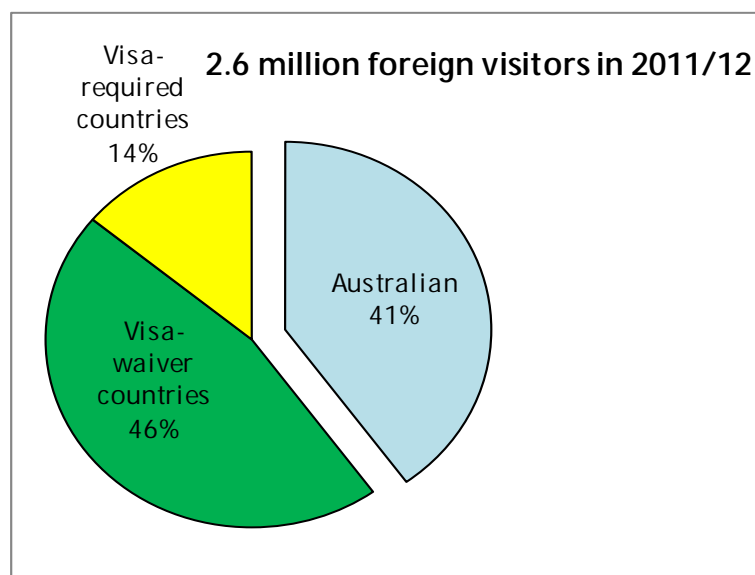


12. Unless exempt, successful residence applicants are charged a Migrant Levy of \$310 per applicant, for up to four family members (reduced to \$155 for certain specified applicants). The purpose of the Migrant Levy is “to fund, or contribute to the funding of:
- the provision of programmes intended to assist the successful settlement of migrants or categories of migrants; and
 - the carrying out of research into settlement issues and the impacts of immigration” (Immigration Act 2009, Section 399 (2)).

Problem definition

13. The main issue affecting the long-term sustainability of immigration funding is the size and nature of the funding base. A majority of funding comes from the roughly 600,000 visa applications received each year. These application volumes are volatile, and a downturn can result in a significant memorandum account deficit (as it did between 2010 and 2012). A downturn in volumes will delay the memorandum account returning to surplus.
14. A significant number of people who use the immigration system in some way make no direct financial contribution to its cost. This means that the costs fall on the minority of system users who require visas, and New Zealand taxpayers. Any further reduction in visa requirements would erode the funding base of the immigration system.

⁴ Fees reviews make specific recommendations about all the rates for visa fees and levies. These reviews are carried out regularly, to ensure that the immigration system is adequately funded, while continuing to meet the Government’s objective. Prior to 2012, fees were last reviewed in the second half of 2010.



15. Some specific funding issues have emerged since the most recent immigration fees review, in early 2012.

- There have been recent situations where third parties (e.g. foreign chartered fishing vessels, private training establishments) have reportedly failed to uphold their immigration and/or employment relations obligations. These situations potentially require INZ to put increased resourcing into compliance activities. However, INZ's ability to conduct additional compliance activity is constrained by:
 - a Cabinet decision in 2006 that 60 per cent of compliance funding is Crown, which effectively ties fee-funded compliance activity to Crown (which has not been increasing)
 - the lack of legislative authority to make third parties pay for audits of their activities.
- The Immigration Advisers Licensing Act 2007 provided for the compulsory licensing of immigration advisers, and created the Immigration Advisers Authority (IAA) and the Immigration Advisers Complaints and Disciplinary Tribunal. The IAA administers a register of licensed advisers, develops and maintains competency standards and a code of conduct for advisers, facilitates the education and professional development of advisers, and investigates and takes enforcement action in relation to offences. While the IAA has been successful at improving the quality of immigration advisers, there are significantly fewer advisers to fund its operations than originally forecast, resulting in an annual revenue shortfall of around \$700,000 and an accumulated deficit of around \$4 million. The IAA has reviewed its services in light of its reduced revenue, and any further service reductions would start to impact adversely on its ability to carry out its statutory functions and be an effective regulator. The Ministry is working to identify and realise scale efficiencies and synergies between the different occupational regulation regimes, as part of service development within the new Occupational Regulation Branch (that now houses the IAA along with two other occupational regulation regimes), which may permit some further cost savings. The IAA is forecasting an increase in adviser numbers due to the introduction of an entrance qualification. However, these changes are unlikely to entirely clear the IAA's deficit.

- The Migrant Levy contributes to some of the costs of running the immigration system (e.g. research, some settlement services), but does not cover other costs that generate a benefit to migrants as a class (as opposed to specific migrants). The Migrant Levy is only levied on some successful residence applicants, whereas there are other system users (temporary migrants, employers) who benefit from the improved settlement outcomes facilitated by well-funded research and settlement services.
- Immigration New Zealand is introducing Visa Acceptance Centres (VACs) to receive visa applications. This development has occurred rapidly over the past year, in response to the Ministry of Foreign Affairs and Trade changing its offshore footprint and no longer being available to process visas in some locations. The current service fees charged by VACs are not included in the immigration fee schedule, and the Immigration Act and associated regulations need to adequately provide for the future funding and operation of VACs.

Objectives

16. The key objective of the immigration funding review is to put in place a sustainable funding approach for the immigration system, so that we avoid large deficits in the immigration memorandum account in future. The Ministry identified the following assessment criteria as representing important elements of a “sustainable” funding approach:

- User pays/cross-subsidisation – to what extent are the users who benefit from a service or generate the need for it paying a fair share of the cost?
- Sustainability, volatility – to what extent are we reliant on volatile revenue sources, with an associated risk of further large memorandum account deficits in future?
- Efficiency – to what extent are we supporting the efficient delivery of services, and incentivising system users to use efficient delivery channels (e.g. online applications)?
- Impact on demand for services – to what extent are we encouraging or discouraging visa applicants, and incentivising behaviour that reduces the need for compliance activity?
- Impact on government objectives – to what extent are we supporting government objectives (e.g. tourism, export education, foreign affairs), and meeting our international and bilateral commitments⁵?
- Simplicity, transparency – to what extent can the approach be easily explained, and would it be readily understood and accepted by system users?
- Ease of implementation – how difficult would it be to implement, including the need for legislation?

17. These assessment criteria are derived from well-established guidelines for setting fees, including those of the Treasury⁶ and the Office of the Auditor-General⁷:

18. While current settings are constrained by the Immigration Act 2009, previous Cabinet decisions and well-established fee-setting principles, officials considered options that

⁵ For example, we have committed in our free trade agreement with China that “any fees imposed in respect of the processing of an immigration formality shall be limited to the approximate cost of the services rendered”.

⁶ The Treasury (2002). *Guidelines for Setting Charges in the Public Sector*.

⁷ Controller and Auditor-General (2008). *Charging fees for public sector goods and services*.

would require legislative and policy change, and would not necessarily be consistent with current fee-setting principles.

Regulatory impact analysis

19. The Ministry considered four different funding approaches:

- Option 1 – status quo
- Option 2 – status quo with minimal changes to address immediate funding issues
- Option 3 – making greater use of levies (including a border levy) to cover some of the running costs of the immigration system that are currently covered by fees and Crown funding
- Option 4 – a levy-based system similar to Australia, where visa prices are set to return surplus revenue to the Crown, and reflect the willingness to pay of different classes of migrant, rather than just the cost of providing the service.

20. These four options capture the considerable diversity that is possible in funding immigration services. Option 1 is the status quo, and Option 2 retains the same broad approach as the status quo, while introducing some new elements of cost recovery from people who generate costs to the immigration system. Option 3 pushes this further, proposing that a portion of the cost of running the immigration system be covered by levies on system users who are not currently contributing to the cost. Option 4 bases fees not on the cost of providing services, but on willingness to pay, and accordingly, would be a radical departure from established fee-setting principles.

Non regulatory option

Option 1: Status quo

21. Option 1 is the status quo. The immigration system would remain roughly two thirds funded from fees, and there will continue to be a significant degree of cross-subsidisation. If the projected increases in applications occur, the memorandum account is expected to balance by 2016/17, but this option provides no protection against future decreases in application volumes, and any reduction in volumes would worsen the financial position.

22. As IGMS is rolled out, the Ministry will use the regular fees reviews to make recommendations on whether any supporting fee changes are required e.g. to reflect the changing cost of certain services, and the changing use of different service channels (in particular, increasing use of online services).

Option 1: Analysis

- User pays/cross-subsidisation. The status quo contains a significant degree of cross-subsidisation. Visa and fee waivers mean that many people who create costs do not contribute towards them, while the burden falls on those who require visas, and New Zealand taxpayers. The status quo does not provide any mechanism to deal with the funding implications of requests from countries or other stakeholders to loosen entry requirements for certain groups of visitors or migrants.

- Sustainability/volatility. The status quo does not address the problems identified above. For example, it is not sustainable to allow the Immigration Advisers Authority to continue to operate at a deficit. The status quo also leaves us in a position where visa price increases are the only effective response to an unexpected downturn in visa applications.
- Efficiency. We have some online fees, but by and large, the status quo does not particularly drive efficiency. However, subsequent fees reviews will make recommendations about fee changes to support the roll out of IGMS, including fees to encourage people to use more efficient delivery channels. It is expected that at least 80 per cent of activity will be online once IGMS is fully implemented.
- Impact on demand for services. Fees are relatively low, and are competitive with other countries. We do not have detailed information on visa price elasticity, but as visa prices are a small proportion of the cost of travel to New Zealand, the Ministry does not consider that current prices significantly affect demand. Fees increased by an average of 16.7 per cent in July 2012, and application volumes are on track to increase slightly in 2012/13, which suggests that demand may be more strongly driven by other factors than visa prices.
- Impact on government objectives. The status quo would not do anything to address the alignment of group and independent visa fees for Chinese travellers. To the extent that it contains relatively low fees for students, visitors, and the Pacific region, the status quo helps to support the Government's broader objectives around export education, tourism and foreign relations.
- Simplicity, transparency. The status quo contains a relatively large number of fees and fee bands, so it is not particularly simple. It is also not transparent about the fact that fees cover both the direct cost of visas and some of the costs of running the immigration system.
- Ease of implementation. The status quo would be the easiest option to implement.

Regulatory options

Option 2: Status quo with changes to address immediate issues

23. Option 2 comprises several relatively minor changes designed to address the immediate funding issues described above, without fundamentally changing the basis of immigration funding.
- Providing greater flexibility to fund compliance activity by rescinding the 2006 Cabinet decision which put in place a split of 60 per cent Crown funding and 40 per cent fee-funding for compliance, and instead making refugee compliance fully Crown-funded and other compliance fully fee-funded.
 - Amending the Immigration Act 2009 and associated regulations to:
 - Allow Immigration New Zealand to require audits of third parties (e.g. employers, training providers) who are suspected of breaching their immigration and/or employment relations obligations, paid for by the third parties (rather than through an increased fee for the whole class of applicants).
 - Rename the Migrant Levy as an Immigration Levy, chargeable to some applicants for both permanent and temporary visas, which can cover some of the general costs of

running the immigration system, in addition to the current research and settlements services that it funds.

- Allow the Immigration Levy to also fund the accumulated deficit of the IAA.
- Include the Visa Acceptance Centre service fee in the immigration fee schedule.

24. The first two changes would give INZ greater flexibility to change the level and targeting of compliance activity as required. Rescinding the current Crown/fees split would allow fee funded compliance activity to naturally increase with increasing application volumes. Overall, it is not expected that these changes would significantly affect the proportions of Crown, fee and levy funding in Vote Immigration.

25. The Fisheries Act contains provisions that allow the Ministry of Primary Industries to require third parties to pay for audits of their activities. Introduction of a similar provision to the Immigration Act would avoid the current situation where any additional audit capacity would have to be funded by significantly increasing the relevant application fee (e.g. in 2012, the Approval in Principle (AIP) fee for foreign chartered fishing vessels increased from \$210 to \$4,900, following an inquiry into the industry that identified significant issues around worker exploitation). The next fees review would make recommendations on if and when it might be possible to revert to a lower AIP fee for foreign chartered fishing vessels. This would result in Vote Immigration reducing by \$100,000 per annum (the amount generated by the higher AIP fee), with these costs borne directly by third parties.

26. In addition to successful residence applicants, the Migrant Levy would be renamed and charged to some applicants for temporary visas. The new levy would collect a similar amount and cover the same research and settlement services that it does now, but the cost would be spread across both temporary and permanent migrants (but not visitors). The rationale for this is:

- The current process charges people after they may have used services, rather than as they use them. Increasing numbers of permanent residents have previously been temporary migrants, so there is a case for charging them when they are temporary migrants, and would have the greatest benefit from settlement services.
- An ongoing review of settlement services may recommend that temporary migrants get access to some services that are currently reserved for residents. In this case, it would be appropriate that temporary migrants contribute to the cost of these services.
- Migrant Levy revenue would be less susceptible to unexpected drops in residence applications.
- It is important that we fund research about the settlement and impacts of the growing numbers of temporary migrants, and it is appropriate that these migrants contribute to the cost of this research.

27. There are around ten times as many temporary work and student visa applicants as new residents who pay the current Migrant Levy (in 2011/12, there were around 26,000 residence applications, compared to around 270,000 temporary workers and students), so a relatively large decrease for residents could be balanced by a relatively small increase for temporary visa holders.

28. A further fees review would determine how any costs might be shifted if the new immigration levy is introduced; the following table sets out one potential scenario:

Approach	Levy on successful resident applications	Levy on temporary migrants	Amount collected
Status quo	\$310 standard \$155 Pacific Access	Nil	Approximately \$10m
New levy	\$210 standard \$55 Pacific Access	\$10	Approximately \$10m

29. The future fees review would need to give consideration to:

- Groups to be excluded or charged lower rates. There may be a good argument for exclusions, or for lower rates for groups where this supports Government objectives (e.g. international students).
- How to deal with people who transition from temporary to permanent status, so that they are not effectively contributing twice to the cost of the same services.

30. Under Option 2, the only additional area of service covered by the expanded Migrant Levy would be the accumulated and ongoing revenue shortfall of the IAA. The Ministry has considered three possible funding options for addressing this shortfall:

- **Increased adviser charges.** The IAA is managing to increase adviser numbers, through the introduction of an entrance qualification. The fees themselves are already high compared to other regulated professions, and a proportion of advisers cite the rates as a reason for not renewing their licences. The Ministry does not consider that increasing fees for immigration advisers will increase IAA revenue.
- **Increased Crown funding.** When the IAA was established, the Government confirmed that the Crown could supplement licensing costs if the forecast number of license holders was not achieved. Crown funding recognises that taxpayers generally benefit from a well-regulated immigration system that attracts migrants who add economic value to New Zealand. So far, the Crown has not agreed to supplement licensing costs. Given current fiscal constraints, the Ministry does not consider increased Crown funding to be the preferred option.
- **Increased contribution by system users.** This could be done through increased fees or levies. In either case, the rationale is that system users more generally benefit from a well-regulated immigration system. The Ministry considers it more appropriate to cover such a cost through a levy than fees, and the Migrant Levy is the only current levy vehicle available.

31. Further work is required to establish the size of the IAA shortfall once efforts to increase adviser numbers and identify internal Ministry synergies are completed. This work would be combined with the work on redistributing the Migrant Levy across temporary migrants to arrive at recommended Migrant Levy rates for different groups. While rates are likely to be lower for permanent residents, this reduction may be slightly offset by a contribution to the cost of the IAA.

32. The next fees review will make recommendations about including the current VAC service fee in the immigration fee schedule, incorporating work that INZ is doing on how best to establish onshore VACs. In particular, the Ministry will provide advice on whether the VAC fee remains as a separate fee, or is combined with the visa fee (and VAC providers paid separately from this revenue). No changes are required to legislation at this stage to enable charging of the VAC fee.

Option 2: Analysis

- User pays/cross-subsidisation. While there would still be a significant degree of cross-subsidisation in the fees structure (three bands, a large proportion of visa free visitors), Option 2 does result in some improvement. There will be a shift from the Crown to fee and levy payers with respect to compliance and the regulation of immigration advisers, and from permanent to temporary migrants for research and settlement services.
- Sustainability/volatility. As Option 2 does not significantly alter the funding approach, it still leaves INZ somewhat exposed to drops in application volumes. Extending the Migrant Levy to temporary migrants makes this revenue source less susceptible to unexpected drops in residence applications.
- Efficiency. Option 2 does not greatly enhance system efficiency. The proposed Migrant Levy is potentially less efficient for people who transition from temporary to permanent status (and may pay the Migrant Levy in two parts).
- Impact on demand for services. Any fee and levy increases are likely to be small, and therefore not adversely impact on demand. A provision that allows the Ministry to compel audits may incentivise some third parties to comply with their immigration and/or employment relations obligations.
- Impact on government objectives. Option 2 would not affect visitors, so it would not impact on the Government's tourism objectives. If the Immigration Levy was charged to some students, this may work against the Government's export education objective – while there is no clear evidence that a small increase in costs to students will reduce demand to study in New Zealand, any increase would likely be perceived negatively by stakeholders. [

Withheld under section 6 (a) of the
Official Information Act 1982

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- Simplicity, transparency. A provision allowing the Ministry to compel audits of third parties would be much simpler and less time consuming than having to change the fee schedule and impose a new higher fee across the board. Option 2 would be as transparent as the status quo – the proposed change to the operation of the Migrant Levy would need to be clearly signalled in the Immigration Act 2009 and communicated to those liable for it.
- Ease of implementation. Some changes to the Immigration Act and associated regulations would be required, and the changes would need to be communicated. As the changes are relatively minor, Option 2 is considered relatively easy to implement.

Option 3: Greater use of levies

33. Under the status quo, fees fund the direct costs of visa processing, and some of the cost of running the immigration system, which fee payers do not necessarily directly benefit from, and other potential beneficiaries do not contribute to. Option 3 proposes that fees cover the direct cost of visa processing, while levies cover the broader costs of running the immigration system, including border management.
34. Using Cabinet's 2006 decisions on the appropriate degree of cost recovery of immigration services as a starting point, the Ministry proposes that levies in Option 3 cover onshore compliance and border security, marketing and attraction, the IAA deficit

and settlement services (and that immigration research shifts from levy funding to Crown funding). This would result in the following shift of funding sources:

Approach	Crown	Fees	Levies (incorporating existing Migrant Levy)
Status quo	65.0m (31%)	139.5m (67%)	4.5m (2%) plus about 5.5m outside Vote Immigration
Option 3	52.0m (25%)	129.0m (62%)	28.0m (13%) plus about 5.5m outside Vote Immigration

35. Some of these system costs relate to travel to and presence in New Zealand, while others relate to using the immigration system. This suggests two levies might be appropriate, levied on different groups:

- an immigration levy for system costs (e.g. marketing and attraction, settlement services, regulating immigration advisers), levied on existing applicants – around \$16.5m of system costs, incorporating the existing Migrant Levy
- a border levy for border security and compliance activity, levied on people who cross the border – around \$17m of border security and onshore compliance.

36. A border levy could be spread across all passenger arrivals (around 4.8m people), all non-New Zealanders (around 2.6m people), or all non-ANZACs (around 1.5m people), which would affect the rate that would be required.

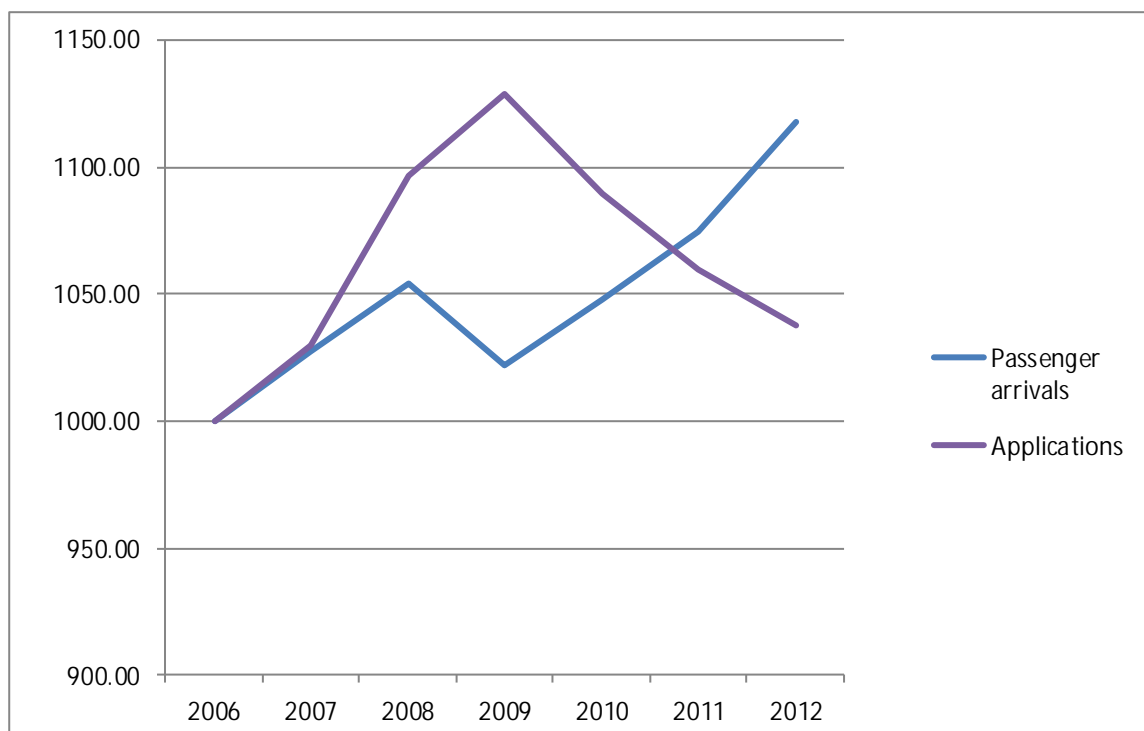
37. Specific fee and levy rates would need to be recommended through a fees review, but the combination of fees and levies would likely be slightly higher than the current fees alone for most applicants, as they will be paying for some functions that are currently Crown funded. For example, a visitor visa currently costs \$165, but a similar visitor under Option 3 could be paying \$166.80 (comprising a fee of \$152.40, an immigration levy component of \$10.70 and a border levy component of \$3.70).

38. The further work on the IAA funding shortfall described in Option 2 would also be carried out under Option 3.

Option 3: Analysis

- User pays/cross-subsidisation. The proposed levies (particularly the border levy) would spread the costs of running the immigration system more fairly across those who benefit from it, or create a need for it. The Australian and New Zealand Productivity Commissions' report *Strengthening Trans-Tasman Economic Relations* (November 2012) recommended that New Zealand "review its border passenger charges to achieve full and transparent cost recovery, in line with existing arrangements for cargo" (Australia has a Passenger Movement Charge).
- Sustainability/volatility. Introducing a border levy would broaden the fee base for the immigration system, leaving it less exposed to changes in visa application numbers. The following figure shows that passenger and visa volumes have moved differently in recent years. If an immigration border levy had been in place during that period, the strong growth in passenger numbers would have helped to counteract the drop in visa volumes to an extent.

Comparison of visa application and passenger volumes (Base 2006=1000)



- **Efficiency.** Option 3 does not do anything to drive greater efficiency in service delivery. The border levy would be collected through ticket prices, which would create additional burden for travel agents and airlines.
- **Impact on demand for services.** The size of any levy increase for solely immigration purposes is likely to be relatively small, so it is not expected to adversely impact demand for services. However, the introduction of a border levy for immigration purposes could set a precedent for including other border services, such as customs and biosecurity, which would result in a higher levy that might start to adversely affect demand.
- **Impact on government objectives.** The current and previous Governments have considered and rejected cost recovery from passengers. Option 3 would affect students and visa-free visitors – while the likely price impact on demand is expected to be negligible, increasing costs for these groups could be seen as being inconsistent with the Government’s objectives for export education and tourism. Increasing costs for some visitors might also be seen as inconsistent with our diplomatic efforts to encourage other countries to reduce cost barriers to international travel. This is discussed more fully in the following section on an Electronic Travel Authority.
- **Simplicity, transparency.** To avoid complexity, it would be preferable to charge a single fee rather than separate fees for the components, although it may be desirable from a transparency perspective to make it clear to levy payers what the components are.
- **Ease of implementation.** Levies need to be specifically provided for in legislation, so the proposed levies would require amending the Immigration Act 2009 and the immigration fee schedule. As a reasonably major change, Option 3 would also require communication to those affected by the changes. A border levy would most likely to be collected through airline tickets, which would be relatively easy to implement as it could be done through established systems.

Option 4: Australian approach

39. The Department of Immigration and Citizenship (DIAC) is Crown funded, and returns revenue from visa applications to the Crown. Application charges are not linked to the cost of providing services, and are currently set well below the level of fully funding the immigration system. Australia recently increased visa prices significantly, to reduce the overall Budget deficit (expected to generate \$A500m over four years).
40. Visa prices are set on the basis of willingness to pay, and the likely effect on behaviour. Rates are set lower for groups that Australia wants to encourage in (e.g. tourists, students), although they are set at higher levels than New Zealand. This approach is underpinned by upfront investment in understanding price elasticity of visa categories, and ongoing benchmarking of visa prices against competitor countries.
41. In principle, this sort of approach could be calibrated to bring in any specified level of revenue. For example, it could be set to bring in the same revenue as Option 3, but the key difference is **who** is charged **what**.

Option 4: Analysis

- User pays/cross-subsidisation. While Australia describes its immigration funding approach as user pays, levies are not directly related to the cost of immigration services. Accordingly, such an approach is not consistent with the well-established principle that fees relate to the cost of delivering services.
- Sustainability/volatility. Option 4 performs well in terms of sustainability. Levies could be calibrated to bring in any specified levy of revenue. The Ministry estimates that an average increase of 51 per cent in New Zealand's visa prices would fully fund the immigration system (without Crown funding), and still leave our visa prices below Australia's. If we based our visa prices on Australia's (which are set to reflect willingness to pay), revenue would nearly double (to around \$270 million a year). We would immediately be more than fully covering the cost of the immigration system (by around \$70m a year). The memorandum account would return to surplus within the first year of resetting visa prices, and would record a surplus of \$500 million by 2015/16.
- Efficiency. To the extent that the levies under Option 4 bear no relationship to the cost of services, they do not drive greater efficiency in the provision of immigration services. Levies could be set at a level that covers the costs of services delivered in an inefficient way, which would provide no great incentive towards efficient service delivery.
- Impact on demand for services. Levies in Australia are set in such a way that impact on demand is minimised. DIAC found that visa prices represent a very small proportion of the monetary value of the migration transaction to the applicant, and that most visa prices could be increased significantly without adversely impacting on demand.
- Impact on government objectives. Moving to such an approach would likely mean large fee increases for some system users. While this is done where it is considered unlikely to impact on demand, large fee increases are likely to be perceived negatively by intending migrants, immigration advisers and countries whose nationals are mostly affected.
- Simplicity, transparency. Levies would be relatively simple, but they would not be particularly transparent, in that system users would not have a clear idea of why they are paying a particular rate.

- Ease of implementation. Moving to such an approach would require legislative change and a significant amount of communication to system users. Some fees would increase significantly, which is likely to cause adverse reaction from stakeholders.

Summary

42. The following table below provides a summary of the Ministry's assessment of each option. The total scores assume that each criterion is weighted equally – if some criteria are weighted more highly than others, the preferred option would change.

Criterion	Option 1	Option 2	Option 3	Option 4
User pays/cross-subsidisation	üü	üüü	üüüü	ü
Sustainability, volatility	üü	üü	üüü	üüüü
Efficiency	üü	üü	ü	ü
Impact on demand for services	üü	üüü	üü	üüü
Impact on government objectives	üü	üü	ü	ü
Simplicity, transparency	üüü	üüü	üü	ü
Ease of implementation	üüüü	üüü	üü	ü
TOTAL	17	18	15	12

43. Overall, Option 2 is rated slightly more favourably than the status quo (Option 1). Option 2 is better at reducing cross-subsidisation and disincentivising negative behaviour by third parties, but it will require some legislative change, so scores slightly worse on ease of implementation. The two levy options (Options 3 and 4) score more highly on reducing exposure to volatility of application volumes, but are less simple and transparent, and more complicated to implement. Option 3 is better at reducing cross-subsidisation, while Option 4 is designed to ensure that visa prices do not adversely affect demand for visas.
44. Option 3 achieves the highest rating on user pays/cross-subsidisation, as it includes a border levy. A border levy ensures that a larger proportion of people who enter New Zealand contribute to the costs they generate in the immigration system, and a border levy would not need to be set at a very high rate to cover these costs. However, a border levy might be seen as inconsistent with the position New Zealand has taken internationally on reducing cost barriers to air travel, and the Government has previously decided against recovering the cost of border services from passengers. Accordingly, Option 3 rates poorly on impact on government objectives.

Consultation

45. This Regulatory Impact Statement reflects the views of the Ministry of Business, Innovation and Employment (including Immigration New Zealand and Tourism Policy), and of the following Government agencies: the Treasury, the Ministry of Foreign Affairs and Trade, the Ministry for Primary Industries, the New Zealand Customs Services, the Ministry of Education and Education New Zealand. There were differing views, in particular on the merits of measures that potentially increase costs for students or

tourists, reflecting the trade-off between reducing cross-subsidisation and keeping fees relatively low for some groups.

46. Public consultation will occur on any legislative proposals as part of the select committee process for the Immigration Amendment Bill (No 2).

Conclusions and recommendations

47. The Ministry considers that the best balance between the assessment criteria would be achieved by Options 2 or 3. Option 1 does not address the specific funding issues that have emerged since the last funding review. Option 4 is inconsistent with well-established fee-setting principles, and would be difficult to implement and communicate.
48. The Ministry considers Option 3 to be the best option in terms of equitably spreading the costs of the immigration system, but it may run counter to the Government's export education, tourism and foreign policy objectives (and successive governments have decided not to implement cost recovery from passengers).
49. Option 2 would address the immediate issues with immigration funding, while providing a mechanism to more fairly spread some of the costs of the immigration system through an expanded Migrant Levy. It is more consistent with Government objectives than Option 3.

Implementation

50. All options except the status quo will require some amendments to the Immigration Act 2009 and associated Regulations. The Government proposes to introduce and pass an Immigration Amendment Bill during 2013, which provides a legislative vehicle for implementing the necessary changes. The Select Committee process for this Bill also provides an opportunity for public consultation of the proposed changes.
51. Recommendations about specific immigration fees will be made in the next immigration fees review, scheduled for completion in early 2014. These fee changes would come into effect in July 2014. Subsequent fees reviews will monitor implementation of the fees, including application volumes, and make recommendations about further recalibration of fees and levies. The Immigration Act requires regular reporting on the use of funding from the Migrant Levy, which will continue.

Monitoring, evaluation and review

52. Immigration fees are regularly reviewed, to ensure that they are adequately covering the costs of running the immigration system, while supporting the Government's broader objectives (e.g. facilitating access of students, tourists).
53. The Ministry will consider the need for scheduling policy reviews of specific immigration services, in the context of its regular discussions with the Minister of Immigration about the immigration policy work programme.