



Dadansoddi
Cyllid Cymru

Wales Fiscal
Analysis

The impact of immigration in Wales and the Immigration Health Surcharge

WALES FISCAL ANALYSIS

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Preface

Declaration of funding

Wales Fiscal Analysis is hosted by the Wales Governance Centre and the School of Law and Politics at Cardiff University, and funded through a partnership between Cardiff University, the Welsh Government, the Welsh Local Government Association, Solace Wales, and the Wales Council for Voluntary Action. The programme continues the work of Wales Public Services 2025 hosted by Cardiff Business School, up to August 2018.

About us

Wales Fiscal Analysis (WFA) is a research body within Cardiff University's Wales Governance Centre that undertakes authoritative and independent research into the public finances, taxation, and public expenditures of Wales.

The WFA programme adds public value by commenting on the implications of fiscal events such as UK and Welsh budgets, monitoring and reporting on government expenditure and tax revenues in Wales and publishing academic research and policy papers that investigate matters of importance to Welsh public finance, including the impact of Brexit on the Welsh budget and local services, options for tax policy, and the economics and future sustainability of health and social care services in Wales.

Working with partners in Scotland, Northern Ireland, the UK, and other European countries, we also contribute to the wider UK and international debate on the fiscal dimension of devolution and decentralisation of government.

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The impact of immigration in Wales and the Immigration Health Surcharge

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Executive Summary

This briefing delves into the implications economic migrants and overseas students¹ participation in the Welsh labour market and economy, exploring visa application trends, the demographics of foreign-born individuals residing in Wales, and the economic impact of immigrants in the region.

A total of 215,429 foreign-born individuals call Wales home. A substantial proportion of this demographic falls within the 20-44 age bracket, indicating a potential source of youthful talent and contribution to the Welsh economy. Additionally, there seems to be a rising trend of births by non-UK born women, underlining the changing demographic dynamics in Wales and further contribution by this group to an ageing nation.

Economic migrants constitute the largest of all immigrant groups to the UK, surpassing refugees and asylum seekers. They have been instrumental in filling labour shortages, spanning both low and high-wage sectors. This influence, in turn, affects wage distribution in those sectors, adding layers of complexity to the economic analysis.

Immigration policy is ultimately the purview of the Home Office, which leads to challenges and obstacles for devolved governments like Wales. While control remains centralised, there remains room for lateral policy adjustments that align with the devolved policy competences and priorities of the Welsh Government.

One particularly contentious issue in immigration policy relates to the Immigration Health Surcharge (IHS). The rationale behind this fee is often grounded in the assumption that immigrants have not previously contributed to the UK's healthcare system, and that they therefore should also be required to pay a contribution to the NHS upon their visa application or renewal. Yet much like their British counterparts, immigrants pay National Insurance contributions upon starting work in the UK, such that the IHS charge effectively double taxes immigrants for using the same system. Moreover, the IHS can pose practical obstacles to recruitment in priority sectors, particularly during health crises like the Covid-19 pandemic, which lead to exemptions from the surcharge for specific groups like care workers.

Finally, this briefing focuses on the contributions of the Immigrant Health Surcharge to the Welsh NHS budget, and discusses its broader consequences for the labour market in Wales. In considering the potential benefits of repurposing the IHS as a means of addressing skills shortages, an ageing population, and fostering economic development, this report suggests that IHS funds returned to immigrants could, in turn, be circulated within the local economy, providing an important local economic multiplier boost.

¹ Throughout this briefing 'immigrant' or 'migrant' will be the standard words to refer to individuals who have moved from one country to another for any reason. Recently, these words have been used with negative connotations, to refer to those who immigrate illegally or those who require assistance, such as asylum seekers. However, all immigrants face similar rules, restrictions, and prejudice.

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The Immigration Health Surcharge

1.1 Visa application overview

There are two overall categories for British visas, namely general applications and the more recent points-based system. Individuals seeking to settle in the UK through employment will usually require a points-based visa, which defines several tiers, each with different fees and rules.² To work or study in the UK, a visa applicant requires an institutional sponsor, namely a university or workplace. The Home Office limits the range of organisations that can sponsor work visas. For example, it currently prohibits government institutions, including local authorities and the Welsh Government, from sponsoring work visas.

A visa application for work in the UK also requires proof of income.³ A family visa requires a minimum combined income of £18,600,⁴ while a skilled worker visa requires the applicant to be paid at least £25,600 a year by the sponsoring organisation.⁵ University students from outside the UK are also required to demonstrate that they have sufficient resources to pay international student fees: undergraduate tuition fees at UK universities can range from £20,000 to £40,000 for overseas students. Immigrants to the UK who are not seeking humanitarian aid must therefore demonstrate that they have a sufficient income and can pay for living costs without resource to governmental assistance.

In the aftermath of the Covid-19 pandemic, the number of institutions that became work sponsors increased by 43%, from 50,253 in 2021 to 56,129 sponsoring institutions by 2022 (**Figure 1.1**). Likewise, while the number of work visas and visa extensions of stay decreased by -2.6% in the first pandemic year of 2020, this number then increased significantly, by 39% in 2021 and 45% in 2022.

The total number of work visas and extensions reached 370,959 in 2022; the comparable number before the pandemic was 124,150. A similar increase is found for study visas and extensions, which increased from 254,535 in 2019 to 527,837 in 2022 (**Figure 1.2**). In contrast, the total number of visas processed for asylum seekers, refugees, resettlement and other humanitarian visas totalled 23,841 in 2022, a decrease of 32% from the previous year.⁶

While the Home Office lists the names of sponsoring institutions and their locations, it does not distinguish, in its data, the location to which the sponsored applicant aims to settle in

² <https://www.gov.uk/government/publications/visa-regulations-revised-table>

³ Both work and student visas usually require proof of English proficiency.

⁴ <https://www.gov.uk/uk-family-visa/>

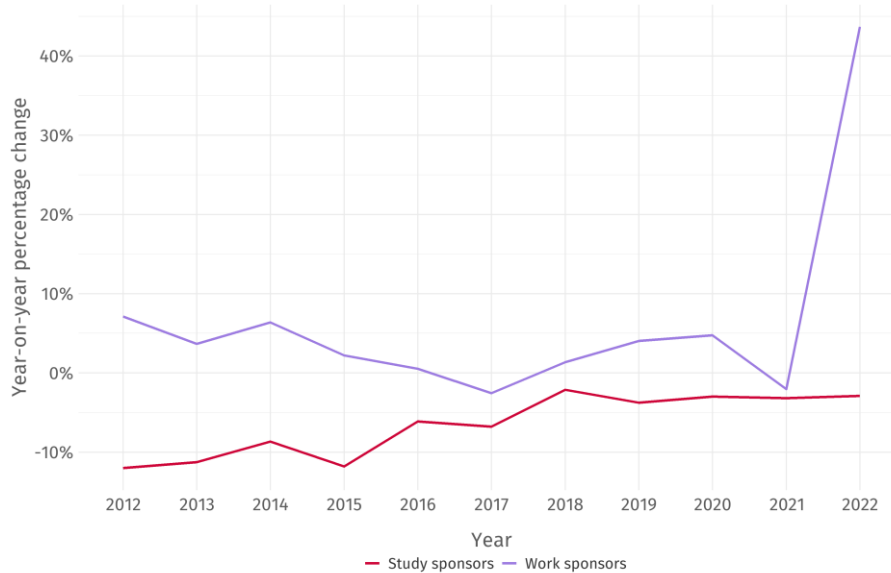
⁵ This income can be 20% lower if the occupation code and listed professions are on the shortage list. All rules here: <https://www.gov.uk/skilled-worker-visa/>

⁶ This number does not include Ukrainian visas.

the UK. Therefore, we do not know how many UK visa applications were associated with addresses in Wales.

Figure 1.1

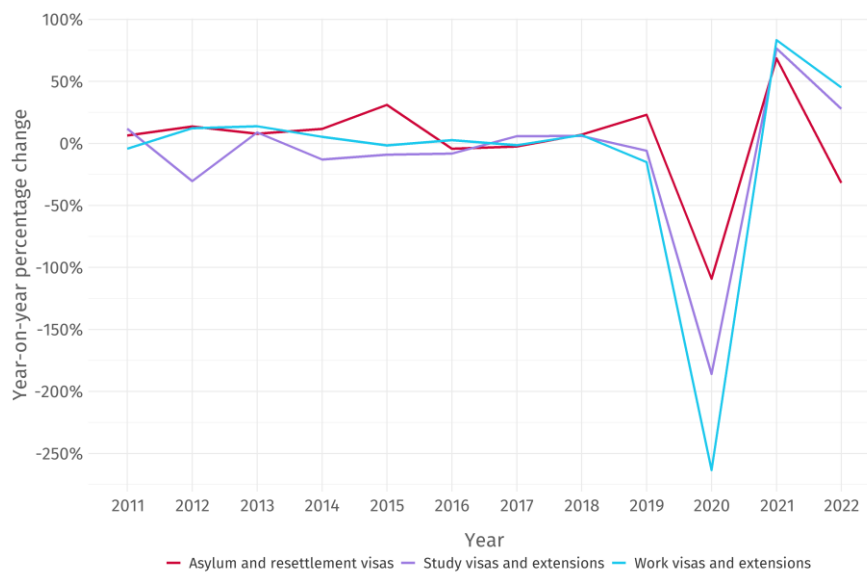
Year-on-year percentage change in number of visa sponsorship institutions in the UK – 2012-2022



Source: Home Office.

Figure 1.2

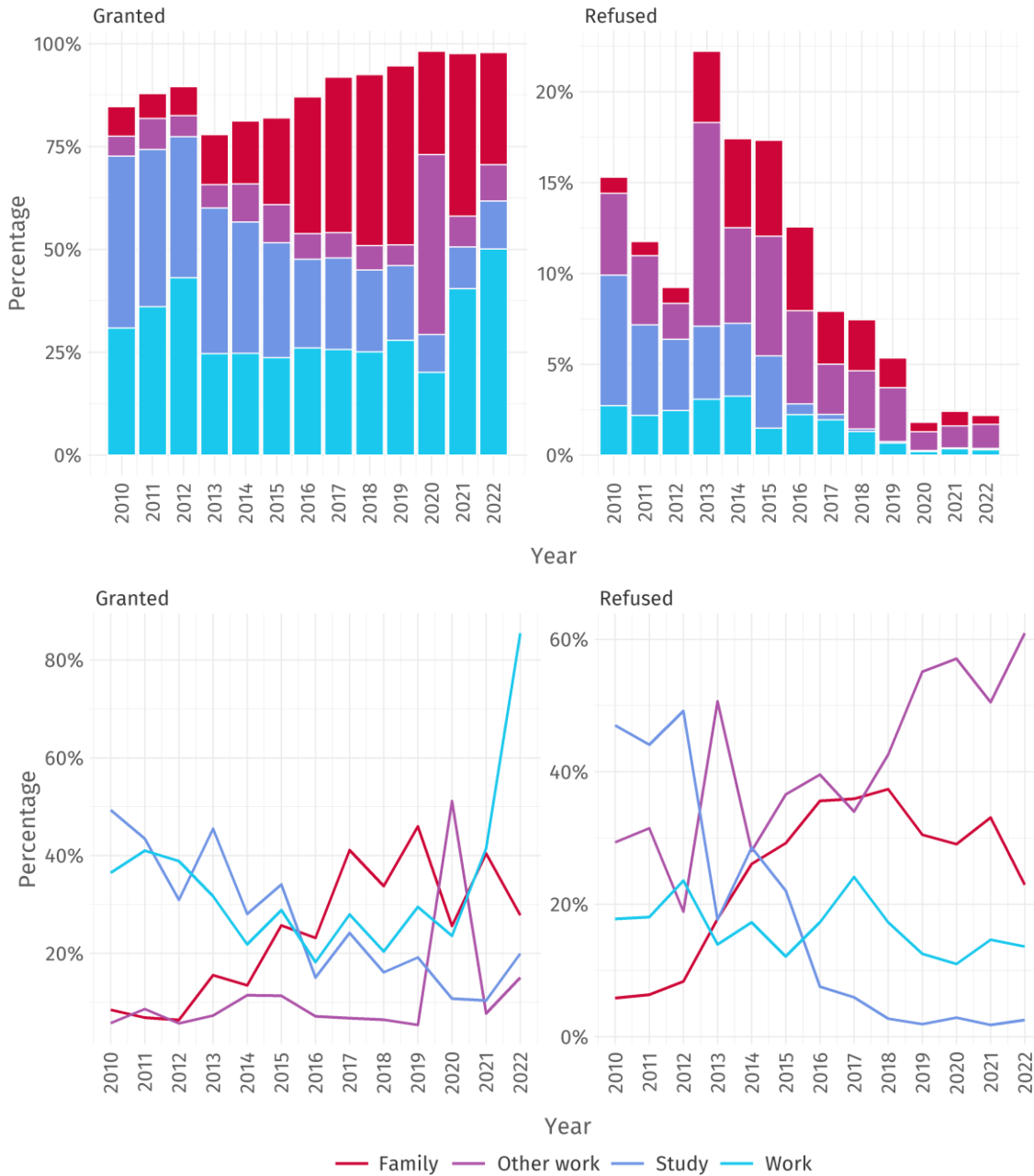
Year-on-year percentage change in number of visa and extensions by type in the UK – 2011-2022



Source: Home Office.

Figure 1.3

Percentage and year-on-year percentages of visa applications by outcome, type, and year in the UK – 2010-2022



Source: Home Office. ● To read the top chart, 'granted' and 'refused' create the total (i.e., 100%) for each year.

The percentage of visa applications by outcome (Figure 1.3 above) and type further indicates a decrease in student and other work beyond the 'skilled worker' category and an increase in skilled worker visas and dependent (family) visas. Not only was there an increase in the number of applications in these latter categories, but there was also an increase in the

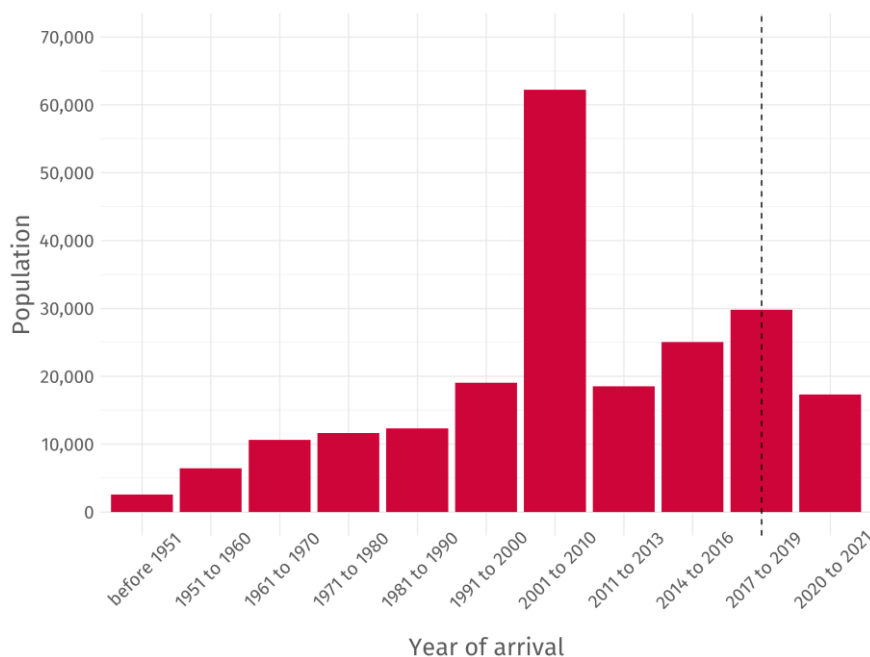
rate at which the Home Office approved these applications. Since 2020, the ‘other work’ category featured the highest rate of granted applications, this included (post-2021) Hong Kong Welcome Programme applications, the (post-2022) Ukraine Family Scheme and Ukraine Sponsorship Scheme, and visitor visas.

1.2 Individuals born overseas living in Wales

Because of variations in how different populations as classified and counted by the Home Office and ONS, the total number of immigrants will differ from the number of UK-domiciled individuals born abroad. As of the 2021 Census, there were 215,429 foreign-born individuals living in Wales (**Figure 1.3**). Once an immigrant is able to apply for indefinite leave to remain, which is usually after five years of residence,⁷ the IHS no longer applies. Presently, there are 53,926 individuals in Wales who have lived in the UK for less than five years, or 25% of the total. Out of the total listed in the 2021 Census, 84,594 have a higher education degree (39%). The majority, 110,571 (53%), are aged between 20 and 44 years old; and 34,274 or 16% are children aged between 0 and 4 years old.

Figure 1.3

Population in Wales not born in the UK by year of arrival



Source: Census 2021, ONS. ● The dashed line marks individuals who have not been in the UK long enough to apply for indefinite leave to remain.

Figure 1.4 shows the geographic distribution across Wales of individuals born outside of the UK, shown based on total overseas-born populations and populations arrived since 2017. Perhaps not surprisingly, Cardiff and Swansea are home to the largest concentration of

⁷ This may vary depending on the type of visa; students require 10 years.

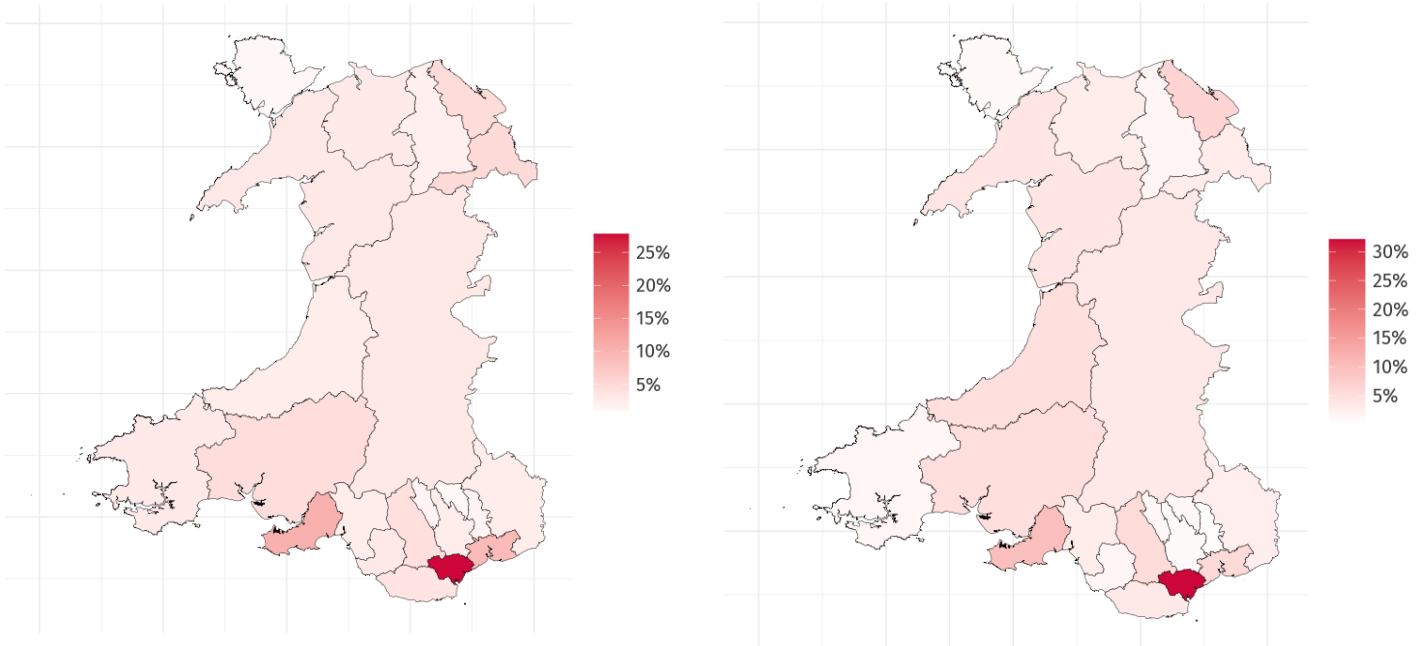
individuals born outside the UK, but the distribution of most recent arrivals shows increasing numbers located in Carmarthenshire, Ceredigion, and Gwynedd – local authorities that have at least one institution of higher education. Flintshire is also now the location of a slightly larger proportion of recent arrivals to Wales.

Figure 1.4

Distribution of population not born in the UK across Wales – All and post-2017

Pre-1951-2021

2017-2021



Source: Census 2021, ONS. ● Notes: Percentages refer to the immigrant population distribution.

Figure 1.5 shows the demographic pyramids for Wales between 2002 and 2021, highlighting the 18-40 age group where rates of immigration have historically been largest. These show the consistent widening of the top of the pyramid, with the number of older age individuals increasing, and a notable decrease among the highlighted group. By 2021, Wales' population pyramid features a much narrower base, particularly for all age groups under 50.

The ageing population of Wales is a long-term trend and has been a focus of Welsh Government interest for some time.⁸ As of the Census 2021, there are 637,937 individuals in Wales aged 65 and old originally from the United Kingdom, and 24,094 from other countries. The Older People's Commissioner for Wales expects a 30% increase in the older population by 2026, and one which will surpass one million by 2031.⁹

While birth rates in Wales are declining overall, there has been an increase in births by non-UK born women, from 8.4% in 2008 to 10% in 2021. The fertility rate of non-UK born women

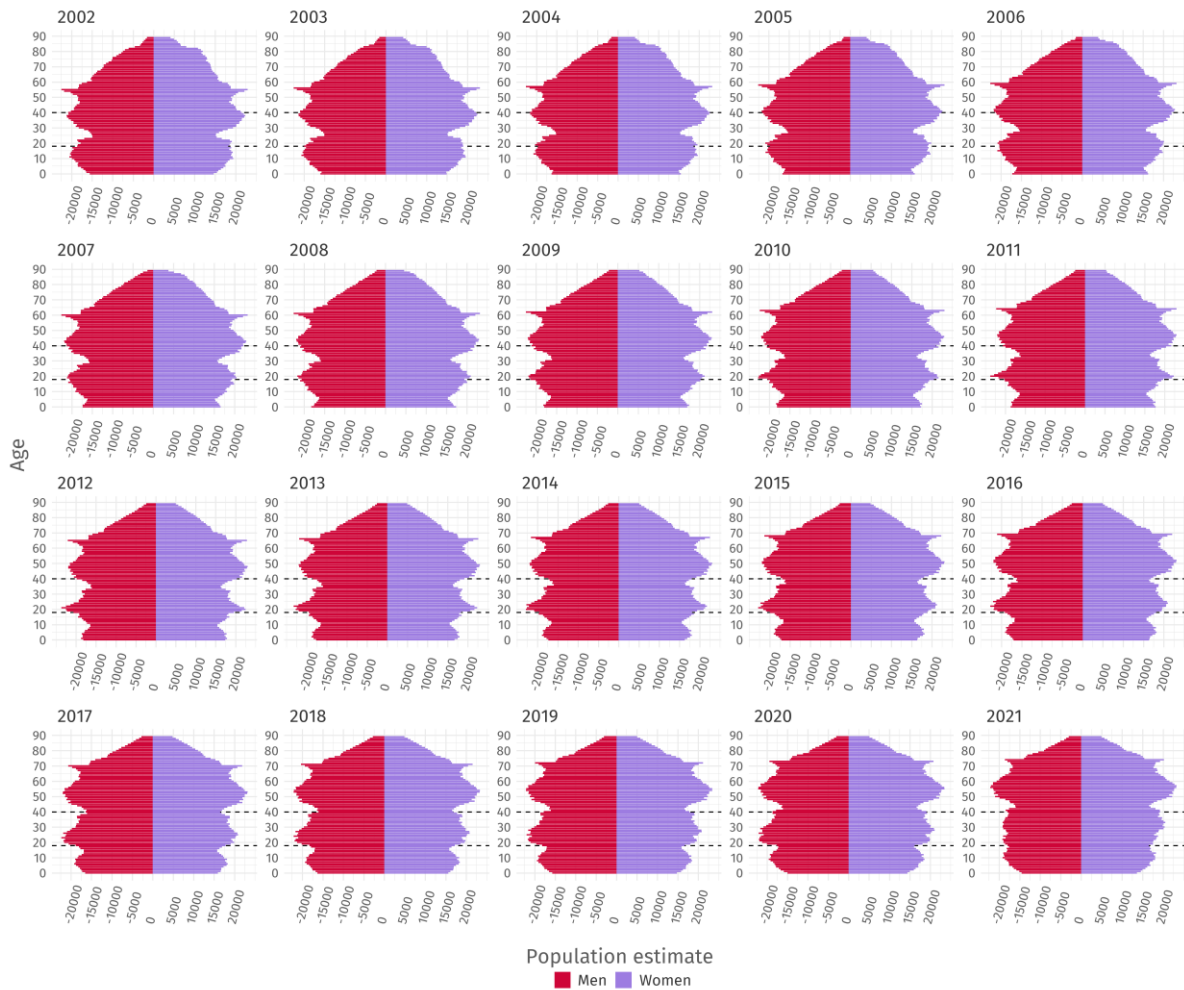
⁸ <https://www.gov.wales/age-friendly-wales-our-strategy-ageing-society-html>

⁹ Older People's Commissioner for Wales. 2022. *Understanding Wales' Ageing Population: Key Statistics*. <https://olderpeople.wales/wp-content/uploads/2023/01/221222-Understanding-Wales-ageing-population-24-November.pdf>.

for Wales is not available, but for the whole of the United Kingdom, fertility rates between UK-born and non-UK born women were 1.5 for UK-born women and 2.0 for non-UK born women in 2021.¹⁰

Figure 1.5

Demographic pyramid for Wales – 2002-2021



Source: StatWales.

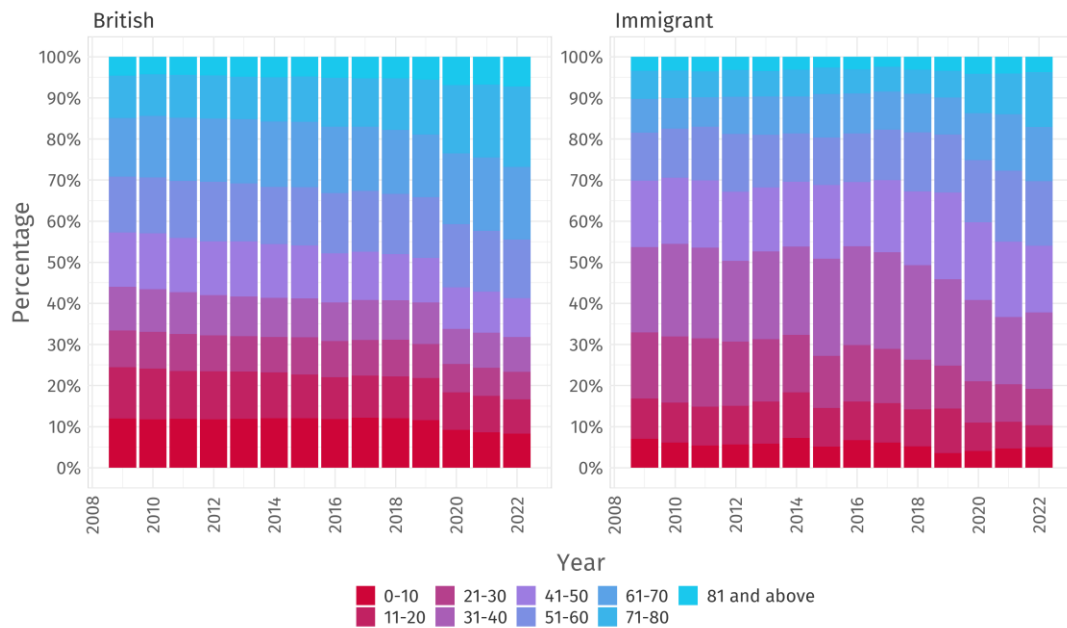
The ONS' Annual Population Survey (APS) is a continuous household survey of the UK and provides an alternative source of population data from the decennial census. The reported age for APS respondents in Wales, by year and immigration status, shows that immigrant

¹⁰<https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/livebirths/bulletins/birthsummarytablesenglandandwales/2021>

groups constitute a larger percentage of the Welsh population between 21 and 50, although there are fewer children included in the sample (Figure 1.6).

Figure 1.6

Reported age for APS survey respondents, per year and immigration status – 2008-2022



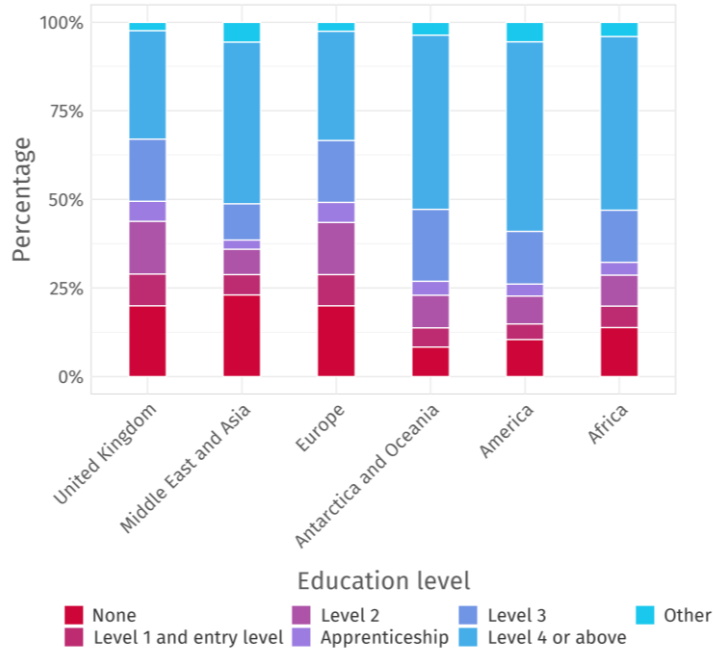
Source: Annual Population Survey.

Figures from the 2021 Census and the Higher Education Statistics Agency (Figures 1.7 and 1.8) show that the number of immigrants to Wales by their highest level or educational attainment, and numbers who are currently in education. Those from Europe show varied rates of qualifications, but a majority of those from other regions of the world have reached Level 4 or above (tertiary and postgraduate education).

The majority of undergraduate and postgraduate students in Wales are Welsh, although there has been an increase in the presence of overseas students in postgraduate degrees in Welsh universities. In fact, in academic year of 2021/22, the postgraduate number of students from countries outside the UK slightly surpassed the number of Welsh postgraduate students.

Figure 1.7

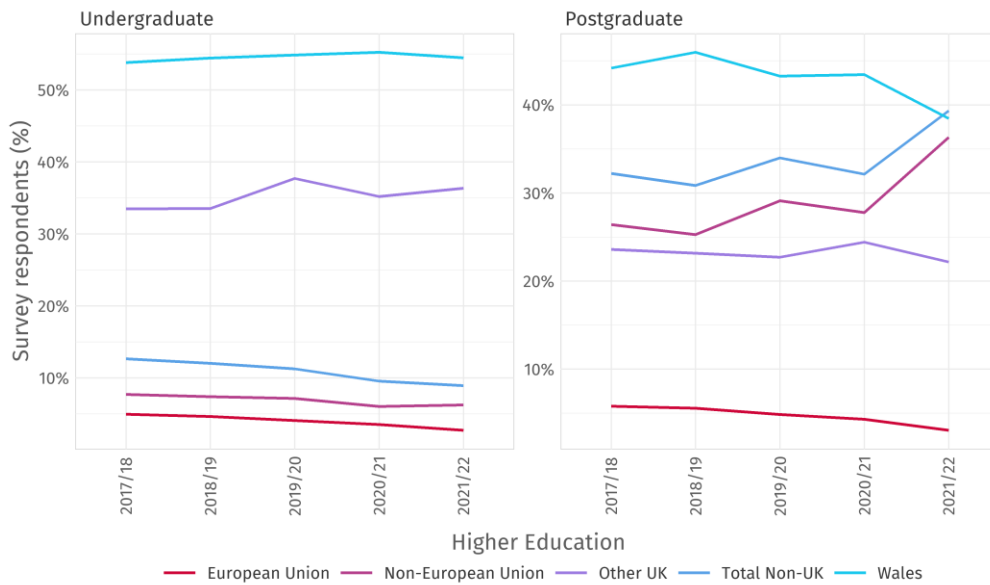
Population in Wales by region of origin and qualifications



Source: Census 2021.

Figure 1.8

Students in Wales by region of origin and type of study – 2017/18-2021/22

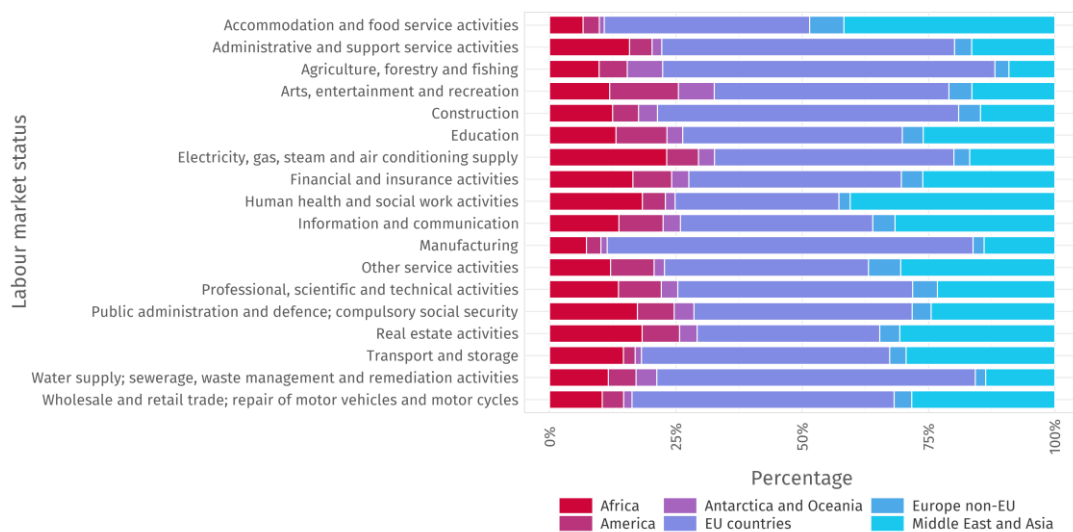


Source: Higher Education Statistics Agency. • To read this chart, see undergraduate and postgraduate separately. HESA data is administrative data, comprised of all students in the UK.

Figure 1.9 shows the population of Wales by field of work and region of origin, excluding individuals originally from the UK. This figure does not differentiate between current immigration status, i.e., who has indefinite leave to remain, EU-settled status, or citizenship from those who are NRPF (are subject to No Recourse to Public Funds). Note the generally higher rate of individuals from EU-countries with post-Brexit settled status post-Brexit working in generally lower-wage fields such as agriculture, water supply, and manufacturing.

Figure 1.9

Population in Wales by field of work and region of origin



Source: Census 2021.

Figure 1.10 shows the same population groups by labour market status including those who are self-employed. Here, the percentage of economically active people ranges between 53% (Middle East and Asia and the United Kingdom) and 67% (EU countries and Oceania).

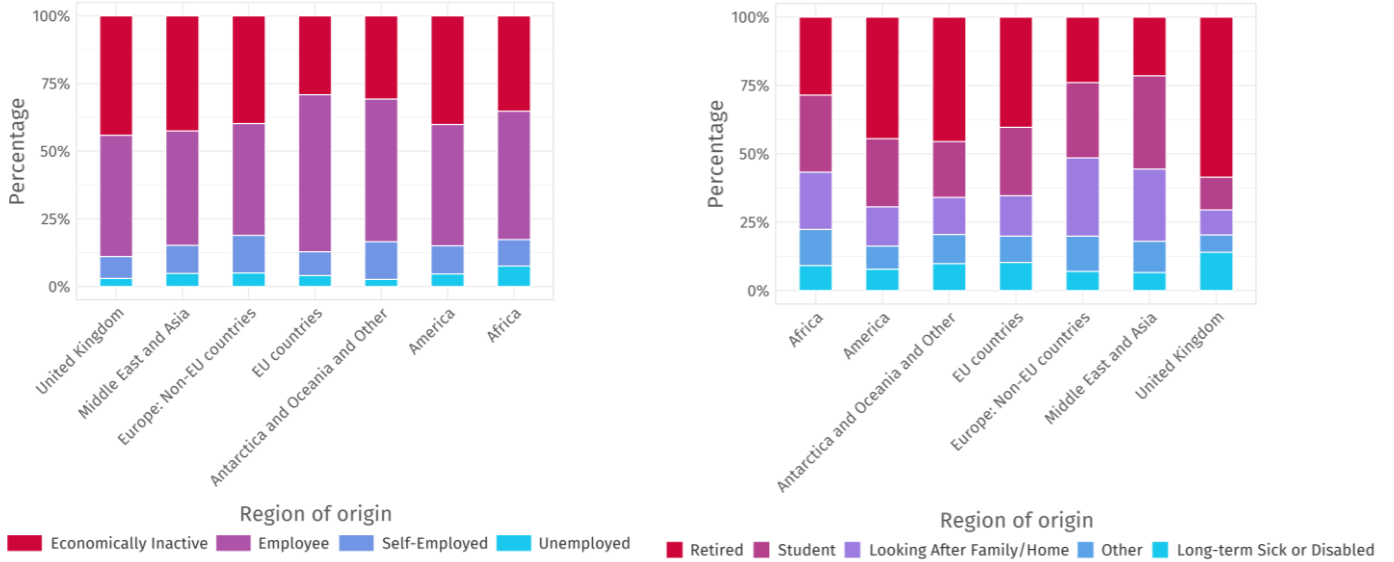
The majority of those in paid employment are from the American continent, followed by Oceania and non-EU European countries. Larger numbers of individuals of African origin are working in caring responsibilities or are retired.

For 55% of the inactive British population in Wales, the reason for inactivity reported in Census 2021 is retirement. Being a student and having caring responsibilities are the top reasons for labour market inactivity for those from non-EU European countries and the Middle East and Asia.

Despite large differences in their British and immigrant samples, the Annual Population Survey enables us to see the time series of each group's labour status and their reported income. **Figure 1.11** shows the increased presence of immigrants as employees and self-employed, with a decrease in caring responsibilities, inactivity and unemployment, and being a student. British-origin respondents in Wales have increased their numbers as retirees and unpaid family workers.

Figure 1.11

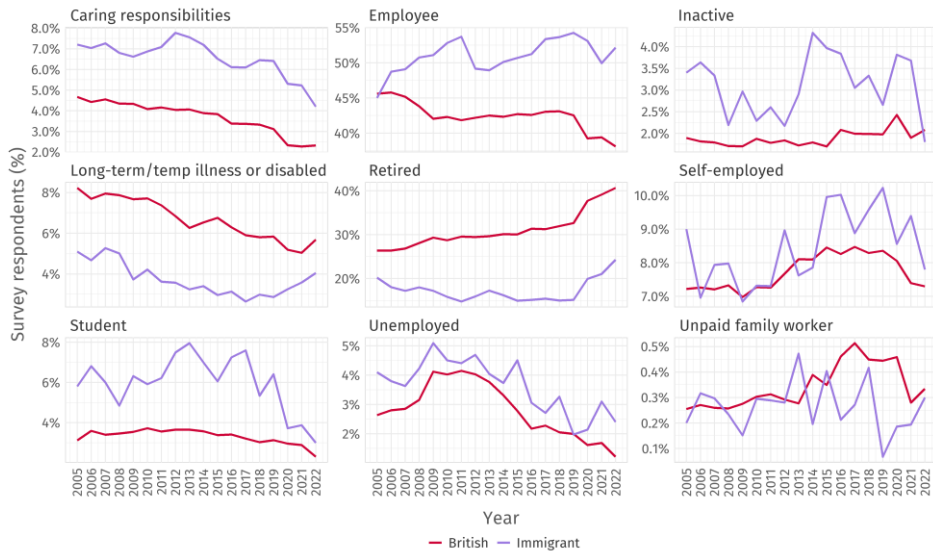
Population in Wales by labour market status, reasons for inactivity and region of origin



Source: Census 2021.

Figure 1.12

Reported labour market status for Welsh APS survey respondents, per year and immigration status – 2004-2022

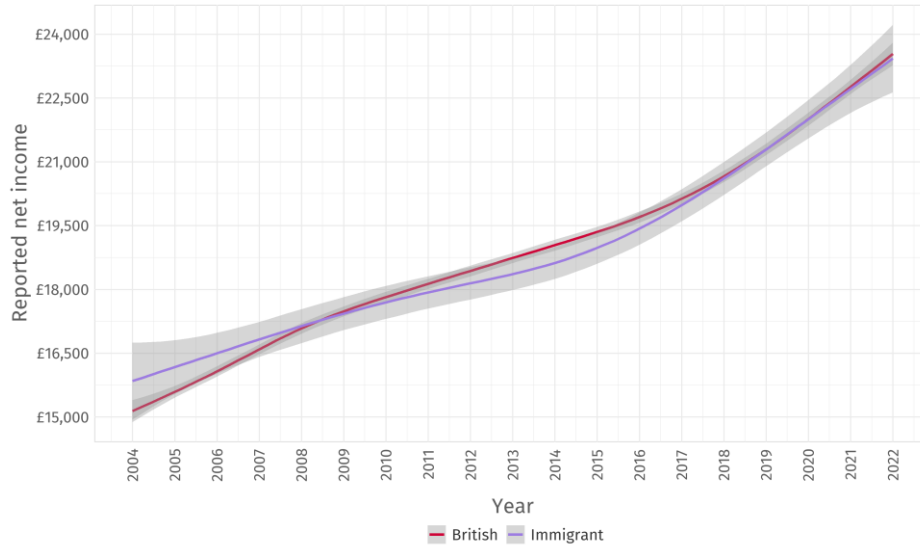


Source: Annual Population Survey. ● To read this chart, see the percentages in each plot as complementary of each other per group.

The reported income of APS respondents by immigration status has converged over time, with immigrants residing in Wales now reporting a similar income to those of British origin (Figure 1.13). However, the highest wage category for the APS is ‘above £37,824 per year’, which means this convergence may not be present at the highest levels of pay.

Figure 1.13

Reported net income for APS survey respondents, per year and immigration status – 2004-2022



Source: Annual Population Survey. • Lines smoothed with a generalised additive model (GAM). Shaded area indicates confidence interval.

1.3 The evidence regarding economic migrants

The debate surrounding immigration is often focussed on the country’s ability to support asylum seekers and refugees. However, as the data in this report has demonstrated, the majority of immigrants to the UK are economic migrants, that is, individuals who are in work and paying taxes. Given broader debates about the Welsh tax base and economy, and the consequences of an ageing population on our long-term ability to sustain public services at appropriate levels, the role that immigration plays in Welsh economic life is central to the discussion.¹¹

¹¹ Dustmann, Christian, Tommaso Frattini, and Albrecht Glitz. 2006. *The Impact of Migration: A Review of the Economic Evidence*. The National Assembly for Wales, Centre for Research and Analysis of Migration (CRAM), Department of Economics, University College London, and EPolicy LTD. <https://www.gov.wales/sites/default/files/statistics-and-research/2018-12/080506migrationeconomicvidenceen.pdf>.

Vargas-Silva, Carlos. 2015. *Chapter 16 - The Fiscal Impact of Immigrants: Taxes and Benefits*. In *Handbook of the Economics of International Migration*, edited by Barry R. Chiswick and Paul W. Miller, 1:845–75. *Handbook of the Economics of International Migration*. North-Holland. <https://doi.org/10.1016/B978-0-444-53768-3.00016-3>.

How the relative costs and benefits of immigration can be best measured is an ongoing debate in the academic community. But in every case, this calculation is far more complex than a simple formula of ‘taxes minus benefits’. One such complexity is that the contribution of children of immigrants is categorised as ‘natives’, leading to the assumption that those benefits would have been there without immigration.¹² The following section details some of the evidence relating to the relative contribution of immigration to an economy.

Immigrants are often grouped as a single entity, rather than as different cohorts with varying impact on public expenditure programmes. In the UK, before being granted residency status, immigrants are categorised as ‘no recourse to public funds’.¹³ This means that economic migrants and overseas students in the UK cannot claim benefits such as social security and public housing.

If a skilled worker in a sponsored visa loses their employment, they have two months to find a new sponsor, without unemployment benefits; if a new sponsor is not found, they lose the skilled worker visa.¹⁴ Changes in a contract (such as a temporary contract being renewed) often lead to a new visa application and payment of fees. This is applicable to those sponsored by an employer, and after acquiring ‘indefinite leave to remain’, immigrants then have recourse to benefits if needed. The most recent evaluation of how many benefit claimants were not born in the UK was in 2016. This study found that in 2014, 7.4% of all Department of Work and Pensions claimants and 15.6% of Child Tax Credit and/or Working Tax Credit were born overseas.¹⁵

Current evidence on the use of healthcare services shows that immigrants to the UK use the NHS less than – or no more than – the UK-born population.¹⁶ Static analyses that look at single years rather than life cycles, do not take into account changes in the behaviour of native and migrant populations, such as temporary or permanent returns to native countries of origin.

¹² Dustmann, Christian, and Tommaso Frattini. 2014. *The Fiscal Effects of Immigration to the UK*. The Economic Journal 124 (580): F593–643. <https://doi.org/10.1111/eoj.12181>.

Preston, Ian. 2014. *The Effect of Immigration on Public Finances*. The Economic Journal 124 (580): F569–92. <https://doi.org/10.1111/eoj.12180>.

Mulheirn, Ian. 2018. *The Fiscal Impact of Immigration on the UK: A Report for the Migration Advisory Committee*. Oxford Economics.

¹³ Refugees do have access to benefits but that can NRPF can be imposed on them. For more detail: McKinney et al. 2023. *No recourse to public funds*. CBP-9790. House of Commons Library.

¹⁴ <https://www.gov.uk/employee-lose-sponsor-licence>

¹⁵ McKinney, C. J., Georgina Sturge, Joe Tyler-Todd, Melanie Gower, and Steven Kennedy. 2023. *No Recourse to Public Funds*. CBP-9790. <https://commonslibrary.parliament.uk/research-briefings/cbp-9790/>.

¹⁶ Saunders, Catherine L, Adam Steventon, Barbara Janta, Mai Stafford, Carol Sinnott, Lucinda Allen, and Sarah R Deeny. 2021. *Healthcare Utilization among Migrants to the UK: Cross-Sectional Analysis of Two National Surveys*. Journal of Health Services Research & Policy 26 (1): 54–61. <https://doi.org/10.1177/1355819620911392>.

Steventon, Adam, and Martin Bardsley. 2011. *Use of Secondary Care in England by International Immigrants*. Journal of Health Services Research & Policy 16 (2): 90–94. <https://doi.org/10.1258/jhsrp.2010.010097>.

Wadsworth, Jonathan. 2013. *Mustn't Grumble: Immigration, Health and Health Service Use in the UK and Germany?* Fiscal Studies 34 (1): 55–82. <https://doi.org/10.1111/j.1475-5890.2013.00177.x>.

The shortage of labour, in both low and high-wage sectors, has affected the UK as a whole and Wales in particular. The shortage occupation list¹⁷ (SOL) is regularly updated, indicating which areas of work fall under less strict wage requirements and are therefore subject to lower visa fees as an inducement for application. The SOL is unified for England, Wales, and Northern Ireland, but Scotland has developed its own shortage list. As of time of publication, there are 37 occupation codes on the list, which may include all jobs associated with that occupation code. In 2022, Wales had the highest rate of vacancies in any of the four UK nations, with 25% unfilled vacancies.¹⁸ The majority of these, roughly 15%, were in healthcare¹⁹.

The current evidence indicates that economic migrants have varying effects on the labour market. While temporary interventions to reinforce essential occupations via the shortage occupation list do have a short-term impact on service provision, it is the temporary aspect that creates instability in that service, which in turn negatively affects the lives of those who depend on these essential services. In a 2019 evaluation of social care and immigration in Scotland, it was found that family members, particularly women, face the majority of consequences from social care worker shortages, and businesses that rely in seasonal labour have had to downsize in response to difficulties in recruiting sufficient numbers of workers.²⁰

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Business that require specialised skills have benefitted from the multicultural experience and outside knowledge brought in by overseas workers, even if this may be influenced by higher levels of churn in that staff. Hiring economic migrants has been found to increase the talent pool and productivity.²² Yet because of high levels of bureaucracy and the costs involved in visa sponsorship, these benefits tend to accrue to large, international companies rather than small businesses.²³

Wage distribution has been found to, on average, increase where immigrant workers are employed, although that depends on the relative number of immigrant-to-native workers in the sector. Often, due to under-hiring or downgrading of immigrant workers' skills and

¹⁷ <https://www.gov.uk/government/publications/skilled-worker-visa-shortage-occupations/skilled-worker-visa-shortage-occupations>

¹⁸ Labour Demand Volumes by Profession and Local Authority, UK: January 2017 – October 2022, experimental statistics. ONS.

¹⁹ Peixoto Gomes, L. and Poole, E.G. (2023) *Labour Market Update for Wales*. Wales Governance Centre: Cardiff

²⁰ Boswell, Christina, David Bell, Andrew Copus, Rebecca Kay, and Hill Kulu. 2019. *UK Immigration Policy After Leaving the EU: Impacts on Scotland's Economy, Population and Society*. Expert Advisory Group on Migration and Population.

²¹ CIPD. 2023. *Migrant Workers and Skills Shortages in the UK: Role of Immigration in Tackling Post-Brexit Skills Challenges*. The Chartered Institute of Personnel and Development.

²² Department for Business, Innovation and Skills. 2015. *The Impacts of Migrant Workers on UK Business*. Research Paper No 217. Department for Business, Innovation and Skills.

Ottaviano, Gianmarco I. P., Giovanni Peri, and Greg C. Wright. 2018. *Immigration, Trade and Productivity in Services: Evidence from U.K. Firms*. *Journal of International Economics* 112 (May): 88–108.

<https://doi.org/10.1016/j.jinteco.2018.02.007>.

²³ CIPD. 2023. *Migrant Workers and Skills Shortages in the UK: Role of Immigration in Tackling Post-Brexit Skills Challenges*. The Chartered Institute of Personnel and Development.

wages, there is an overall positive net benefit for native workers.²⁴ Alternatively, and taking into consideration that the SOL means immigrants will ultimately be paid less than the normal rate, immigration is more likely to negatively impact the wages of those workers rather than native workers.²⁵

In 2020, the Welsh Government positioned itself in favour of scrapping the immigrant income threshold or lowering it to £20,000 a year, in order to facilitate recruitment.²⁶ The policy position also suggests a pro-rata scheme, allowing individuals to work part-time, which is not currently allowed for any immigrant workers. The policy statement emphasised that such a provision would be a specific benefit for hiring women.

In addition to positively affecting the skills shortage in the labour market and the Welsh economy, immigration can help compensate the imbalance of declining birth rates and an ageing population, increasing the number individuals of working age that not only boost the country's actively working population but also its fertility rates.²⁷ Indeed, 57% of the population growth in England and Wales between 2011 and 2021 originated from net migration²⁸ and it is projected that without immigration, population growth in Wales could significantly decline over the next two decades.²⁹

The evidence on the cultural impact of immigration is naturally more difficult to summarise as its impact is more subjective and therefore beyond the scope of this briefing.³⁰ Despite recognised issues with integration³¹ and racist violence³², the inclusion of cultures and traditions from outside the UK has a clear impact. One key example is the Windrush generation, originally invited to the UK to assist with postwar rebuilding, and one which is

²⁴ Dustmann, Christian, Tommaso Frattini, and Ian Preston. 2013. *The Effect of Immigration along the Distribution of Wages*. *The Review of Economic Studies* 80 (1): 145–73. <https://doi.org/10.1093/restud/rds019>.

²⁵ Manacorda, Marco, Alan Manning, and Jonathan Wadsworth. 2012. *The Impact of Immigration on the Structure of Wages: Theory and Evidence from Britain*. *Journal of the European Economic Association* 10 (1): 120–51. <https://doi.org/10.1111/j.1542-4774.2011.01049.x>.

Wadsworth, Jonathan. 2017. *Immigration and the UK Economy*. Centre for Economic Performance.

²⁶ Welsh Government. *Wales Position Paper on Migration*. 2020. <https://www.gov.wales/wales-position-paper-migration>.

²⁷ Office for Budget Responsibility. 2023. *Economic and Fiscal Outlook - March 2023*.

²⁸ CIPD. 2023. 'Migrant Workers and Skills Shortages in the UK: Role of Immigration in Tackling Post-Brexit Skills Challenges'. The Chartered Institute of Personnel and Development.

²⁹ Cangiano, Alessio. 2023. *The Impact of Migration on UK Population Growth*. Migration Observatory. <https://migrationobservatory.ox.ac.uk/resources/briefings/the-impact-of-migration-on-uk-population-growth/>.

³⁰ Howley, Peter M., Muhammad Waqas, Mirko Moro, Liam Delaney, and Tony Heron. 2020. *It's Not All about the Economy Stupid! Immigration and Subjective Well-Being in England*. *Work, Employment & Society* 34 (5): 919–36. <https://doi.org/10.1177/0950017019866643>.

³¹ Boeri, Tito, Marta De Philippis, Eleonora Patacchini, and Michele Pellizzari. 2015. *Immigration, Housing Discrimination and Employment*. *The Economic Journal* 125 (586): F82–114. <https://doi.org/10.1111/eoj.12232>.

³² <https://www.theguardian.com/uk-news/2022/oct/06/racist-hate-crimes-pass-100000-in-england-and-wales-for-first-time>

today recognised for its hugely positive and transformative influences on British music, visual arts, gastronomy and many other areas of life in the UK.³³

In terms of the economic advantages of immigration, although some consideration has been given to immigrants' direct tax contributions via income tax and National Insurance, much less consideration has historically been given to the indirect tax receipts that originate from spending on goods and services, and on their higher overall employment rates. Although recent evidence on the indirect contribution to the economy by economic migrants was not found, overseas students are estimated to add £41.9 billion to the UK economy beyond tuition fee contributions.³⁴

In 2019, Wales declared itself a 'Nation of Sanctuary' for refugees and asylum seekers,³⁵ reinforcing an official stance in favour of the overall benefit immigration to the country and its openness to it. This has included public debates with the UK Government regarding changes to benefits provided to refugees in Wales,³⁶ and features as part of broader long-term efforts by the Welsh devolved institutions to oppose racism and anti-immigration messaging.³⁷

1.4 The Immigration Health Surcharge in Wales

As noted throughout this report, the **Immigration Health Surcharge** is a fee paid by individuals as part of their visa application to work or study in the United Kingdom. The IHS began in 2015 as a £200 annual charge to access NHS services levied on immigrants from outside the European Union.³⁸ The fee was doubled to £400 for general applicants in December 2018,³⁹ before being increased again in October 2020 to £470 per year for students and children and £624 per year for adults.⁴⁰ Those who did not apply for the EU Settlement Scheme prior to 30 June 2021 are also liable to pay the health surcharge; however, starting January 2022, EU and Swiss full-time students can have these fees refunded.⁴¹ In July 2023, it was announced by Prime Minister Rishi Sunak that visa charges and the IHS would be increased to fund public sector pay rises, and that the IHS would be increased to £1,035 for most applicants and to £776 for child/student applicants.⁴² The rapid increases in the scope

³³ <https://www.gcfoundation.co.uk/windrush-contribution-to-economy>

<https://www.bbc.co.uk/bitesize/articles/z6grnd>

³⁴ Hillman, Nick. 2023. *International Students Boost UK Economy by £41.9 Billion*. Higher Education Policy Institute. <https://www.hepi.ac.uk/2023/05/16/international-students-boost-uk-economy-by-41-9-billion/>

³⁵ Welsh Government. 2019. *Nation of Sanctuary – Refugee and Asylum Seeker Plan*.

³⁶ <https://www.bbc.co.uk/news/uk-wales-politics-65323243>

³⁷ Williams, Charlotte. 2015. *Claiming the National: Nation, National Identity and Ethnic Minorities* and Chaney, Paul. 2015. *Getting Involved: Public Policy Making and Political Life in Wales*. In *A Tolerant Nation?: Exploring Ethnic Diversity in Wales*. Cardiff: University of Wales Press.

³⁸ Some categories paying £150. Gower, Melanie. 2020. *The Immigration Health Surcharge*. CBP 7274. House of Commons Library.

³⁹ Some categories paying £300. Ibidem.

⁴⁰ There are a few exemptions, including being an asylum seekers or a healthcare worker. The full list can be found here: <https://www.gov.uk/healthcare-immigration-application/who-needs-pay>

⁴¹ <https://www.gov.uk/guidance/immigration-health-surcharge-for-eu-students-in-the-uk>

⁴² <https://www.praxis.org.uk/news/rishi-sunaks-new-migrant-tax>

and level of these fees since 2015 merit much more significant attention than has been paid to date.

Figure 1.14 shows total receipts from the IHS collected by the Home Office and subsequently distributed to the Welsh Government. Welsh Government budget reports identify that surcharge income has been directly allocated to the NHS, rather than used for other purposes.⁴³ In line with the rapid growth in the annual surcharge, there has been a significant increase both in how much the UK Government has collected from the IHS and how much has been transferred to Wales. However, despite contributions as a percentage rising significantly since its introduction in 2015-16, the IHS remains a small portion of the NHS, totalling just 0.4% of the Welsh NHS budget in 2022-23.

Figure 1.14

Immigration Health Surcharge values over time and compared to NHS budget

Financial year	Total received from IHS (UK)	NHS Budget for Wales	Total received from IHS (Wales)	Percentage of IHS in Welsh NHS budget
2015-16	£169,112,000	£6,117,681,000	£804,000	0.01%
2016-17	£210,250,000	£6,381,462,000	£5,746,000	0.09%
2017-18	£240,483,000	£6,534,940,000	£7,200,000	0.11%
2018-19	£297,927,000	£6,802,831,000	£5,422,000	0.08%
2019-20	£597,677,000	£7,276,543,000	£10,369,000	0.14%
2020-21	£480,822,000	£8,340,781,000	£20,900,000	0.25%
2021-22	£1,423,284,000	£9,768,591,000	£28,169,000	0.29%
2022-23	£1,540,704,000	£9,899,591,000	£39,264,000	0.40%
Total	£3,419,555,000	£61,122,420,000	£117,874,000	

Source: Home Office account reports and Welsh Government budget documents.

Conclusion

Immigration policy remains reserved to the Home Office and so the Welsh Government's ability to innovate in this area is limited. Yet in contrast to UK Government policy, not only has the Welsh Government has declared itself a nation of sanctuary but Wales's vacancy rate

⁴³ National Assembly for Wales Finance Committee. 2018. *Scrutiny of Welsh Government First Supplementary Budget 2018-2019*. National Assembly for Wales Finance Committee.

National Assembly for Wales Health, Social Care and Sport Committee. 2017. *Welsh Government Draft Budget 2018-19*.

Welsh Government. 2016. *Supplementary Budget 2016-2017 Explanatory Note*.

———. 2020a. *Supplementary Budget 2019-2020 Explanatory Note*.

———. 2020b. *Draft Budget 2021-22 Ministers' Written Evidence to Senedd Scrutiny Committees on Allocations within Each MEG*.

———. 2021. *Supplementary Budget 2021-2022 Explanatory Note*.

———. 2022. *Supplementary Budget 2022-2023 Explanatory Note*.

in key sectors is the highest of any nation in the UK. As a result, policies that might respond to Wales's skills shortages and its ageing population should be seriously considered.

Arguments in favour of imposing the Immigration Health Surcharge on visa applicants are based on immigrants not having made prior contribution to the system.⁴⁴ This, however, does not take into account that immigrants to the UK are working-age adults, and that the UK economy is today benefitting from those workers' prior use of (and benefit from) other countries' healthcare and education systems prior to migrating. On starting work in the UK overseas-born workers also pay National Insurance, as do all British workers. This means that, in practice, economic migrants are effectively double taxed to use the same system that all British domiciled individuals access.

At the height of the Covid-19 pandemic, care workers and their dependents were exempted from the Immigration Health Surcharge and remain so currently.^{45 46} Yet this measure – taken by the UK Government during a health crisis – shed light on the real obstacle that the IHS can pose for migrants to the UK, and that surcharge waivers might benefit of the UK in its attempt to ensure minimum levels of care given the global shortage of healthcare workers and the associated high levels of demand for their skills. In truth, the UK's need for healthcare workers had been observed long before the pandemic, in part due to the large number of GPs approaching retirement and the end of EU freedom of movement negatively impacting the recruitment of EU healthcare workers.^{47 48} The measure was welcomed, but also criticised as a pay rise is the essential action needed.⁴⁹

The UK's Migration Advisory Committee has recommended the abolition of the Immigration Skills Charge⁵⁰, which is paid by employers to give them the ability to assign a Certificate of Sponsorship to skilled workers. At first the abolition of this charge would relate specifically for healthcare and social workers, but the committee recommended that full removal be considered.⁵¹ A waiver of the Immigration Skills Charge is intended to facilitate the

⁴⁴ <https://www.gov.uk/government/news/uk-introduces-health-surcharge--2>
<https://www.gov.uk/government/speeches/budget-speech-2020>
<https://www.bbc.co.uk/news/health-23156403>
<https://www.express.co.uk/news/politics/1801904/starmer-osborne-labour-split-migrant-fees>

⁴⁵ Migration Advisory Committee. 2022. *Adult Social Care and Immigration: A Report from the Migration Advisory Committee*. CP 665. Secretary of State for the Home Department.

⁴⁶ <https://www.gov.uk/government/publications/immigration-health-surcharge-applying-for-a-refund/immigration-health-surcharge-guidance-for-reimbursement-2020>

⁴⁷ Esmail, Aneez, Maria Panagioti, and Evangelos Kontopantelis. 2017. 'The Potential Impact of Brexit and Immigration Policies on the GP Workforce in England: A Cross-Sectional Observational Study of GP Qualification Region and the Characteristics of the Areas and Population They Served in September 2016.' *BMC Medicine*. 15 (1): 191–191. <https://doi.org/10.1186/s12916-017-0953-y>.

⁴⁸ Portes, Jonathan. 2021. 'Immigration and the UK Economy after Brexit'. *Social Science Research Network*, June. <https://doi.org/10.2139/ssrn.3865450>.

⁴⁹ <https://blogs.lse.ac.uk/politicsandpolicy/nhs-immigration-surcharge/>

⁵⁰ <https://www.gov.uk/uk-visa-sponsorship-employers/immigration-skills-charge>

⁵¹ Migration Advisory Committee. 2022. *Adult Social Care and Immigration: A Report from the Migration Advisory Committee*. CP 665. Secretary of State for the Home Department.

recruitment of overseas workers by businesses – but even if implemented, abolition would give possible economic migrants no additional incentive to take up job vacancies in the UK.

One possibility, and one which would be in the purview of devolved budget policy, would be that the Welsh Government might offer to refund IHS fees to economic migrants who settle in Wales. The matter is delicate, as the topic of immigration is a lightning rod in the UK, but it deserves further research and consideration. Wales's ageing population and critical shortages afflicting key public services will only be mitigated by an increase in the skilled working age population. And given declining birth rates in the UK-born population, this necessary growth will only be facilitated by increasing the number of individuals willing to make Wales a home for themselves and their families.

This briefing has shown that the immigrant population in Wales tends to be specialised in key sectors, provides services essential to running Wales's public services and its economy, and gives us a downpayment in our nation's future in their willingness to settle and start families here. Given the income threshold required for visa sponsorship, economic migrants earn incomes at more than sufficient levels to make important contributions to the tax base, and overseas students pay higher tuition fees than domestic students and boost the local economy via their spending. Immigrants contribute to the demographic health of Wales, which otherwise is faced with a rapidly ageing population.

If the Welsh Government were to consider IHS surcharge waivers to encourage immigration, evidence shows that cash-transfer programmes such as this can have a beneficial impact on the economy overall, as the funds in the hands of individuals would then be spent in the local economy.⁵² Knowing the benefits that the UK Government's decision to suspend the surcharge during the pandemic delivered in helping to recruit healthcare workers, and the benefits that economic migration and overseas students bring to a labour market, economy and culture, such a policy deserves serious consideration as a means to incentivise immigrants to settle in Wales.

⁵² Inocente da Silva, Daiana, and Joaquim Bento de Souza Ferreira Filho. 2018. *Impactos Dos Programas de Transferência de Renda, Benefício de Prestação Continuada e Bolsa Família Sobre a Economia Brasileira: Uma Análise de Equilíbrio Geral*. Instituto de Pesquisa Econômica Aplicada, Pesquisa e Planejamento Econômico 48 (1). https://repositorio.ipea.gov.br/bitstream/11058/8352/1/PPE_v48_n01_Impactos.pdf.

Ferreira de Souza, Pedro, Rafael Guerreiro Osorio, Luis Henrique Paiva, and Sergei Soares. 2019. *Os Efeitos Do Bolsa Família Sobre a Pobreza e a Desigualdade: Um Balanço Dos Primeiros Quinze Anos*. 2499. Rio de Janeiro: Ipea. https://repositorio.ipea.gov.br/bitstream/11058/9356/1/td_2499.pdf.

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