Regulatory Impact Statement: Passport and Travel Document Fee Review

Coversheet

Purpose of Document	
Decision sought:	This document contains an analysis of the options and the fiscal impact of those options for the purpose of informing a submission to the Cabinet Government and Expenditure Review Committee. This submission seeks approval for fee increases and for the provision of repayable capital injections to ensure that the balance of the Passport Memorandum Account does not move into a deficit position.
Advising agencies:	Department of Internal Affairs
Proposing Ministers:	Minister of Internal Affairs
Date finalised:	3 March 2022

Problem Definition

This proposal is designed to address cost pressures in the Passport Memorandum Account which have arisen through reduced demand for passports and travel documents. The Department has forecasted that without intervention the account deficit will reach $365.8m by 2037. The interventions proposed are a combination of fee increases and provision of repayable capital injections.

Executive Summary

Why government intervention is required

One of the responsibilities of the Department of Internal Affairs (DIA) is the issuance of passports and travel documents. The term travel documents refers to refugee travel documents, emergency travel documents and certificates of identity.

Expenses incurred by the Department in the issuance of these documents is met from the fees (revenue) paid by the applicants. These fees are paid into the Passports Memorandum Account (PMA).

DIA has reviewed passport and travel document fees and determined that the revenue based on forecast passport demand will not cover projected costs. The Department forecasts the PMA to fall into a negative balance by June 2022, reaching a negative balance of $365.8m by 30 June 2037. This is because:

- fees were set below cost recovery levels as a result of 2015 government decisions to return the validity of adult passports to ten years and to defer decisions on fee increases until 2018 (CAB-15-MIN-0086). The 2015 changes to the validity period of an adult passport also created an ongoing cycle of reduced demand for passports every five years i.e. instead of receiving two adult passports applications over a ten-year period only one application per ten years would be received;

- the 2018 government decision to approve a 6.10% fee increase and to provide repayable capital injections of between $65-$80m to zero the balance of the PMA did not come fully into effect as the capital injections were planned for the period 2023-26;
- COVID-19 travel restrictions have significantly reduced demand for passports and travel documents since December 2019.

The number of options considered, noting what the options entail, which (if any) is the agency's preferred option, and whether it will be reflected in the Cabinet paper;

Under Ministerial direction the Department focused on two options to sustainably fund the passport service within full cost recovery settings:

- Option 1 – Fee increases of approximately 19.37% in 2022, provision of repayable capital injections of $195m over the 2022-35 period and future fee reviews every three years.
- Option 2 – Fee increases of approximately 3.97% in 2022, 2023, 2024, 2025 and 2026, provision of repayable capital injections of $210.6m over the 2022-35 period and future fee reviews every three years.

Both options assume that 50% of the deferred demand for passports will return over the 2022-25 period provided that border and MIQ settings are unchanged (from the February 2022 decisions). These two options will be referred to Cabinet without a preference being expressed in the recommendations. Option 1 is the Department's preferred option for the following reasons:

- the overall fee increases vary slightly across options, by $4 over 5 years based on a standard NZ issued adult passport, for example the fee for an adult passport increases from $191 to $228 in option 1 and in option 2 the fee increases from $191 to $232.
- the total of the repayable capital injections required is less by $15.6m
- the option is administratively simpler, in terms of the number of system changes required and in terms of the cost of those changes.

It is proposed that the fee increase will take effect in mid-2022 through an amendment to the Passport (Fees) Regulations 2015.

The potential impact of the preferred option, including the costs, benefits, risks, and risk mitigations of the proposal, and the nature of impacts on different population groups

The fee increases will increase the cost of travel documents and services evenly for all population groups. The increases will have an impact on family groups wishing to travel overseas where family members do not have a current passport and will have a disproportionate impact on low-income families as the fees will represent a greater proportion of their expenses. Notwithstanding this, the cost of passports is not a significant factor in the overall costs of overseas travel.

Some individuals who cannot obtain a driver licence may obtain a passport purely for domestic identification purposes. The proposed passport and travel document fees changes would increase the cost of obtaining photographic identification for such individuals. Other groups that rely on passport and travel documents for identification, such as seniors, may also be impacted.

What stakeholders and the general public think – are there any significant divergences in their views that should be brought to Ministers' attention?

The public was not consulted regarding the fees increase as the passport service is based on a cost recovery model (including repayable capital injections) and changes to that model are outside of the scope of these proposals. Additionally, DIA is not proposing any change to passport services. The Department is also concerned that any indication that fees would increase would result in a significant increase in the volume of applications prior to the increase taking effect, as has occurred in the past.

Limitations and Constraints on Analysis

Were there any constraints or limitations imposed by Ministers' commissioning, e.g, narrowing the scope of options to be considered or the timeframes this proposal had to be developed under?

The fee review was not directly commissioned by Ministers. The Department's policy, which is in accordance with the Treasury guidelines for cost recovery, is to review fees every three years.

Three options were initially developed by the Department and were referred to the Minister of Internal Affairs on or about 3 September 2021 for discussion with officials. Subsequent to this the Minister requested the Department prepare two options providing for full cost recovery for referral to GOV, one option to provide a fee increase in 2022 and the other with annual increases over the next 5 years.

Were the problem definition or the options considered somehow limited by other factors, e.g., by prior legislative or policy decisions?

In 2005 the Government agreed to reduce the period of validity of an adult passport from ten years to five years in order to meet the need for tighter border control and security following the 2001 terrorist attacks on the World Trade Centre and the Pentagon. In 2012, a further decision was made by Government to reduce passport fees by 19% in order to absorb a surplus balance in the PMA of $27.7m.

In 2015[1] Government agreed to return the period of validity of an adult passport to ten years. At this time, it was estimated by the Department that a fee increase of 30% would be required to prevent the PMA from moving into deficit. Cabinet noted that the increase in the period of adult passport validity would create a 5 yearly cyclical pattern of reduced demand and directed the Department to report back within three years. The decision not to increase fees to maintain cost recovery effectively delinked fees from the cost of production.

For the 2018 Fee Review[2] the Department reported to Government that as a result of the 2015 decisions a deficit of $111m would arise in the PMA by June 2029. Government approved a 6.10% fee increase and agreed to provide repayable capital injections of $65-$80m over the 2023-26 period to address the forecasted deficit and to return to full cost recovery. A further 6.10% fee increase would have been required in 2021/22, dependent on

[1] CAB-MIN-(15) 17/9

[2] GOV-18-MIN-0084

current forecasts and Government approval. The capital injections have not been drawn down.

The 2018 government decision to provide the Department with repayable capital injections was specifically made with the intent of balancing the PMA at zero over the ten-year period from 2019-2029. Zeroing the balance of the PMA (with the accompanying fee increases) would have returned passport issuance to full cost recovery, if demand had not been reduced as a result of COVID-19.

What are the assumptions underpinning the impact analysis?

The assumptions are:

- the changes to border and MIQ settings announced on 3 February 2022 and 28 February 2022 are not changed;
- 50% of the deferred demand for passports, which is estimated to be 516,033 applications, will return over the 2022-25 period;
- the forecasted expenses in passport production will not significantly change over the forecasted period;
- the forecast and the level of fees payable will continue to be reviewed every three years and that the projected requirement for re-payable capital injections and fee increases will be adjusted as required; and
- the existing subsidy of the cost of a child's five-year passport from the fees paid by adults will continue.

What is the quality of the data and evidence used in developing this proposal?

There is a high degree of confidence in our projection of the number of people who will be eligible to apply for their first passport and the number of passports that will expire over the forecasting period. It is not possible to forecast New Zealanders future travel intentions with absolute confidence. Future travel in a COVID environment is expected to be impacted by:

- increases in the cost of airline travel and accommodation;
- traveller's vaccination status;
- quarantine requirements on arrival overseas; and
- quarantine requirements on return to New Zealand.

It is not possible to forecast with any degree of certainty how much of the deferred demand for passports will return and over what period this demand will return. The Department has estimated that 50% of the deferred demand for passports will return over the period 2022-25. The 50% forecast figure has been used because it is considered unlikely that 100% of the demand will return over the short term but likely that up to 50% of demand will return over three years. As noted in this paper the Department's policy is to review fees every three years, the forecast of returning demand will be reviewed in 2025 and adjusted as required.

Were there any limitations on consultation, testing, and stakeholder engagement?

DIA has not undertaken public or stakeholder consultation as part of this process as the passport service is based on a cost recovery model (including repayable capital injections) and changes to that model are outside of the scope of these proposals. Additionally, DIA is not proposing any change to passport services. Therefore, the value of public or stakeholder consultation would be limited. The Department is also concerned that public consultation on the level of fees would create a surge of passport applications from persons without an intent to travel in the immediate future to avoid any possible fee increase. The consequences of this surge would be delays in the processing of applications.

What additional analysis of distributional impacts on certain population groups would you have liked to include given sufficient time/resources?

The Department does not collect statistical data to enable the impact of fee increases on certain population groups to be assessed. The assumption is that low income applicants will be more effected by the increases as the fee will be a greater proportion of their disposable income than middle- or high-income applicants. Mitigating this impact is that passports only need to be renewed every 5 years for children and every 10 years for adults.

What is the overall impact of these limitations and constraints on how confident Ministers can be when using this analysis to inform their decisions?

The forecast of the extent to which deferred demand for passports returns and the period over which that demand returns is a mix of accurate and estimated factors, and as such result in a moderate level of confidence.

It is considered unlikely that 100% of the deferred demand would return over a five-year period but considered likely that some New Zealanders will want to travel overseas once border and MIQ settings are eased. The forecasts assume for both options that 50% of the deferred demand will return over the 2022-25 period, or an average of 16% a year, this is not considered to be an unreasonable assumption.

The limitations of the deferred demand forecast are mitigated by the 3 yearly fee reviews the Department will undertake. These reviews will determine the accuracy of the forecasting and will result in a re-evaluation of the capital injections and future fee increases required.

Responsible Manager

Justin Rowlands

General Manager, Partners and Products

Service Delivery and Operations Branch

Department of Internal Affairs

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[Signature]
03/03/2022

Quality Assurance

Reviewing Agency:	Department of Internal Affairs (RIA panel)
Panel Assessment & Comment:	The panel considers that the information and analysis summarised in the RIS *partially meets* the quality assurance criteria. The RIS clearly explains a complex cost recovery issue using plain English and describes the problem to be addressed, the issues impacting on the current situation and sets out the options indicated by Ministerial direction. Assumptions, constraints and uncertainties are clearly identified. The RIS identifies potential impacts from options. The RIS reflects an unclear status quo

	resulting from interim approaches to cost recovery in 2015 and 2018, and the subsequent impact of Covid-19 on service demand. The RIS acknowledges and justifies that no public consultation has occurred, owing to the absence of policy options and the demand surge risks of publicly foreshadowing an increase in fees.

Passport and travel document fees

Regulatory Impact Statement

Context

One of the responsibilities of the Department of Internal Affairs is the issuance of passports and travel documents. The term travel documents refers to refugee travel documents, emergency travel documents and certificates of identity.

Expenses incurred by the Department in the issuance of these documents are met from the fees (revenue) paid by the applicants. These fees are paid into the Passports Memorandum Account (PMA).

Memorandum accounts were first established in 1995 as a way to improve transparency around goods and services that are fully cost recovered from third parties through fees, levies or charges and to provide a genuine commitment from departments to not benefit from over-recovery. The balance of memorandum accounts is expected by Treasury, to trend to zero over a reasonable period of time, with interim deficits being met from departmental balance sheets or by a capital injection from the Crown. [3]

The Department's policy is to review fees every three years to ensure that:

- revenue meets the forecasted expenses over a reasonable period;
- the balance of the PMA does not move into deficit or an excessive surplus; and
- costs are not over-recovered.

Background to recent fee changes

In 2005 the Government reduced the validity period of an adult passport from ten years to five years, following the 2001 terrorist attack on the World Trade Centre. The international experience at that time was that the ten-year validity period was too long because counterfeiting techniques were becoming more sophisticated. In August 2013 the Government agreed to extend the maximum validity period to five years and nine months. This was to address a concern that some New Zealanders were unable to use the full five-year validity period of their passport given the entry requirements of some countries that require a passport to be valid for up to six months beyond the date of entry.

In September 2012 the fee for adult passports was reduced by up to nineteen percent (below the cost of production) to absorb a PMA surplus of $27.7m. As a result of this reduction the balance of the PMA had a deficit of $2m by December 2014. The forecast at that time was that the deficit would increase to $30m by July 2016.

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[3] Treasury Circular 2011/10, Guidance for the Operation of Departmental Memorandum Accounts, 16//9/2011

On 25 May 2015[4], in acknowledgement of improved security through the introduction of the biometric chip, the Government agreed to return the validity period of an adult passport to ten years. This change created a cycle of reduced demand for adult passports over five years every ten years. In 2015 it was estimated by the Department that a 30% fee increase would be required to ensure that the cost of issuance would continue to be met from fees without Crown funding.

On 12 November 2018[5] Government agreed to increase fees by 6.10% and to make available repayable capital injections of $65-$80m over 2023-26. The Cabinet Government and Expenditure Review Committee, agreed the following recommendations in respect of cost recovery:

2. *note that in 2015, passport and travel document fees were set lower than cost recovery levels, only covering the first five years of the passport lifecycle;*

4. *agree to passport and travel document fees increases to balance the Passport Memorandum Account at zero over the ten-year period from 2019 to 2029;'*

The agreed capital injections have not been drawn down, as they were not scheduled to be drawn down until 2023, as if demand for passports had continued at previous levels the passport issuance would have moved closer to full cost recovery. The forecasting for this fee review also indicated that a further increase of 6.10% would be required in 2021/22, this would however have been subject to the results of the reforecasting and Government approval.

COVID-19 travel restrictions have significantly reduced demand for passports and travel documents. Over the March 2020-December 2021 period 516,033 fewer passports than forecasted were issued. Included in this figure are an estimated 140,000 first time passports. This and the cycle of reduced demand created in 2015 have resulted in the deficit forecast.

In Budget 21 Government provided the Department with a repayable capital injection of $31m to prevent the PMA moving into a deficit position in 2021/22. As a result of the continuance of reduced demand the PMA is now forecasted to move into a deficit position in 2022/23. Without a combination of fee increases and capital injections the deficit in the PMA is forecasted to reach $365.8m by 30 June 2037. Without fee increases and repayable capital injections the Department will be unable to continue to issue passports.

Status quo

The desired policy outcomes from this proposal are to give effect to the Department's and the Minister's objective of returning passport and travel document issuance to full cost recovery and returning to a neutral balance in the PMA by 2037.

Passport and travel documents are required to enable New Zealand citizens to travel overseas but they are also used as a means of identification within New Zealand to enable New Zealanders to access government and other services. The provision of travel documents is a core government function.

The passport service is funded on a cost-recovery basis (which currently includes repayable capital injections) by charging applicants passport and travel document fees. The authority to

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[4] 21 September 2015, CAB-15-MIN-0086

[5] 12 November 2018, CAB-18-MIN-0560

set passport and travel document fees is established under the Passports Act 1992 and is regulated for in the Passport (Fees) Regulations 2015.

Only expenses incurred in the production of passports and travel documents can be deducted from the Passports Memorandum Account. These expenses include, but are not limited to, the costs of personnel, accommodation, corporate support, passport books, information technology costs incurred in the maintenance and support of passports systems and costs incurred in system development and its eventual replacement.

Treasury Guidelines for Setting Charges in the Public Sector provide that cost recovery regimes should be reviewed every 3-5 years. The Department's policy is to review travel document fees every 3 years. The fees were last reviewed in 2018. As a result of this review Government agreed to increase all passport and travel document fees by 6.10%.

Passports and Travel Documents can be issued from the Department's offices in Auckland, Wellington, Christchurch, London and Sydney. Applications may be lodged in hard copy form or through an on-line application process. The majority of applications are now lodged on-line. Prior to 2015 the passport service operated on a full cost recovery basis without provision of repayable capital injections.

The current fees for travel documents are set out in Table 1.

Table 1 Fees for travel documents (GST Exclusive)

Document	Issued from NZ Passport Office	Issued from London and Sydney
Standard Adult Passport	$166.09	$243.00
Standard Child Passport	$96.52	$142.00
Urgent Adult Passport	$332.18	$486.00
Urgent Child Passport	$262.61	$385.00
Certificate of Identity	$96.52	
Refugee Travel Document	$96.52	
After-hours call out fee for issue of a passport	$507.83	$690.00

The changes to the adult passport validity period and the delinking of production costs from fees have created a situation where forecasted revenue is not sufficient to meet the forecasted costs. The impact of the reduced demand for travel documents has been significantly exacerbated by the COVID-19 travel restrictions. These factors have resulted in the forecasted PMA deficit of $365.8m (by June 2037). Capital injections and fee increases are now required to prevent the PMA from moving into this forecasted deficit position.

Rationale for Government intervention

Treasury guidelines require a neutral memorandum account balance by the end of the product's life. In this case the end of product life is ten years for adult passports and five years for child passports. Treasury guidelines also require that cost recovery fees are reviewed at three yearly intervals.

The Department will be unable to fund travel document issuance if the revenue received is insufficient or if the balance of the Passport Memorandum Account is unable to meet costs. The current forecast is that the PMA will move into a deficit position in 2021/22. For issuance to continue a combination of fee increases and repayable capital injections is required to prevent the Passports Memorandum Account moving into a deficit position.

Reviews of cost recovery charges

The Guidelines for Setting Charges in the Public Sector[6] (April 2017) note that cost recovery regimes should be living regimes that are reviewed regularly to ensure that they are operating efficiently, and that over-recovery is minimised. Treasury recommend that they be reviewed every 3-5 years.   The Department's longstanding policy is to review fees every three years.

Revenue from travel document issuance is paid into the Passport Memorandum Account. Expenses incurred in the production of passports and travel documents are then deducted from this Account. These expenses include, but are not limited to, personnel costs, accommodation costs, corporate support costs (such as human resources, finance Departmental ICT infrastructure) the cost of the passport books, information technology costs incurred in the maintenance and support of passports systems and costs incurred in system development and its eventual replacement. The last Fee Review was in 2018.

The Department's fee review shows that fees increases are needed

The scheduled 2021 fee review has focused on the identification of measures to address the forecasted deficit in the Passport Memorandum Account of $365.8m through an increase in the fees payable for travel documents and/or provision of repayable capital injections. As noted in the Executive Summary the forecasted deficit is a result of changes to the period of passport validity (which have caused a reoccurring 5-year pattern of reduced demand every 10 years) and reduced demand for travel documents arising from COVID-19 travel restrictions. Without intervention the Passport Memorandum Account is forecasted to have a deficit of $365.8m by June 2037.

In 2015 the Department estimated, and informed Government, that a 30% fee increase would be required to prevent the Memorandum Account from moving into a deficit position. Cabinet decided against this fee increase but agreed to consider fees again in the context of the 2018 Fees Review. Up until this time the policy was to recover all production costs from the fees paid by applicants without Crown funding being required. As noted earlier in 2018 Government agreed to increase all fees by 6.10% and to approve repayable capital injections of $65-$80m over the 2023-26 period, in order to meet the projected deficit. The Department also forecasted that a further 6.10% increase would be required in 2021/22 (subject to revised forecasts and Government approval).

PMA forecasts are subject to change as there are periodic updates to projected costs and revenue. COVID-19 and international border restrictions have added a complicating factor to forecasting demand for travel documents. Over the period 1 March 2020 to 31 December 2021 516,033 fewer passports than previously forecasted were issued.

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6 Page 35, paragraph 6.7 Guidelines for Setting Charges in the Public Sector, published April 2017 by The Treasury. https://www.treasury.govt.nz/sites/default/files/2017-04/settingcharges-apr17.pdf

Carrying on under the status quo

Without fee increases and the provision of repayable capital injections the Department would be unable to fund passport issuance and maintain the infrastructure necessary to increase output when demand returns.

Fee review options

Three options were initially developed by the Department and were referred to the Minister of Internal Affairs on or about 3 September 2021 for discussion with officials.

- Option 1: This assumed that there would be no price increases and no repayable capital injections. It was estimated that, in these circumstances, the PMA deficit would reach $365.8m by 2037.
- Option 2: This assumed that international travel for vaccinated New Zealanders would resume in July 2022, that 80% of the deferred demand for passports would return over the 2021-25 period; and that fee increases of 8.02% would be approved in 2022 and 2025. This option required repayable capital injections from Government totalling $164.173m over the period 2022-35.
- Option 3: This assumed that international travel for vaccinated New Zealanders resumes in July 2023, that 50% of the deferred demand for passports would return over the 2021-25 period; and that fee increases of 9.46% would be approved in 2022 and 2025. This option required repayable capital injections from Government totalling $187.700m over the period 2022-35.

Government changes to border reopening and mandatory quarantine required that the initial options be re-forecasted to address these changes. At Ministerial direction DIA developed two new options for fee increases and repayable capital injections to balance the PMA over the 2022-2037 period:

- Option 1 – Fee increase of approximately 19.37% in 2022, provision of repayable capital injections of $195m over the 2022-35 period and future fee reviews every three years; and
- Option 2 – Fee increases of approximately 3.97% in 2022, 2023, 2024, 2025 and 2026, provision of repayable capital injections of $210.6m over the 2022-35 period and future fee reviews every three years.

The desired policy outcome is to return travel document issuance to full cost recovery and to zero the balance of the PMA by June 2037. Both of the options above address this outcome but option 1 is preferred as a single fee increase in 2022 would result in slightly lower fees, after five years than option 2 which requires annual increases over a five-year period. Option 1 also requires fewer capital injections over the 2022-35 period than option 2.

Desired policy outcome

In November 2021 the Minister discussed the future of the Passport Memorandum Account at a meeting of GOV. The Committee noted a preference to return to full cost recovery and agreed that the Minister would provide further advice. The desired outcomes from this proposal are to give effect to the Department's and the Minister's objective of returning passport and travel document issuance to full cost recovery and zeroing the balance of the PMA by 2037.

This outcome will be achieved through a combination of fee increases and repayable capital injections. These capital injections will be required over the 2022-2035 period but will be fully repaid by June 2037. The PMA could also be brought back into balance through provision of non-repayable capital injections. This is not a preferred option as the taxpayer should not be subsidising passport issuance as it is largely a private good as opposed to a public good. Further discussion about public versus private good can be found below under the heading Reasons for Policy Objectives.

Cost Recovery Principles and Objectives

Accuracy of forecasting

The accuracy of the forecasting of the demand for travel documents depends upon the accuracy of the assumptions underpinning the forecast and related demographic information. While it is possible to forecast with some accuracy the demographic changes relating to the number of citizens eligible to apply for their first passport and the number of citizens who will renew their passport, it is not possible to forecast in a COVID environment the number of citizens who will travel overseas and when they might travel. This is because the opening and closing of international borders and associated quarantine requirements is beyond the control of the Department and the New Zealand Government. Similarly, quarantine or isolation requirements for returning New Zealanders can be a disincentive for citizens considering overseas travel.

Assumptions

To develop the forecasting scenarios, it has been necessary to take into account the following Government decisions relating to the opening of New Zealand's borders and the impact this has on demand for passports:

- On 25 November 2021 the COVID-19 Response Minister, Hon Chris Hipkins, announced that from 16 January 2022 fully vaccinated New Zealanders and other eligible travellers, with a negative predeparture test, would be able to travel to New Zealand from Australia without mandatory quarantine on their return and that from 13 February 2022 fully vaccinated New Zealanders with a negative pre-departure test, could travel to New Zealand from all other countries.

- On 21 December 2021 COVID-19 Response Minister, Hon Chris Hipkins, announced that the date for ending of mandatory quarantine would be pushed back to the end of February 2022 and that pre-departure test requirements to enter New Zealand had been reduced from 72 hours to 48 hours before travel.

- On 3 February 2022 the Prime Minister, Rt Hon Jacinda Ardern, announced Cabinet's decision to allow, from 27 February, fully vaccinated New Zealanders and other eligible travellers from Australia to travel to New Zealand and to self-isolate without going through MIQ. The Prime Minister also announced that, two weeks after 27 February, fully vaccinated New Zealanders and other eligible travellers from the rest of the world would be able to travel to New Zealand without going through MIQ.

- On 28 February 2022 Hon Chris Hipkins, Minister for COVID-19 Response, announced that the self-isolation requirements for vaccinated travellers to New Zealand, who have a negative pre-departure test, would be removed starting from 2 March 2022.

Assumptions on demand for travel documents and passports also include an assessment of when the deferred demand for travel documents will return and how much of that demand returns.

Dependencies

The forecast of future demand is caveated by the:

- timing of the reopening of international borders**;**
- requirements other countries place on foreign national arrivals, such as mandatory quarantine, vaccination status, and pre-departure testing;
- the cost of travel; and
- quarantine or isolation requirements on return to New Zealand.

Uncertainty around the possibility of changes to quarantine requirements after departure and the availability of places in MIQ is also a factor that impacts on citizens considering overseas travel.

Cost recovery principles

Table 2 below sets out the underpinning principles for cost recovery. Passport issuance and the history of issuance is complex and sometimes contradictory in terms of the application of cost recovery principles, the principles set out below are equally balanced in terms of the weight these are given.

Table 2 Cost recovery principles and objectives

#	Principle	Applicability to passport and travel document fees framework	Applicability to passport and travel document fees proposals
1	Authority	The Passports Act 1992 and the Passport (Fees) Regulations 2015 provide the authority to set fee levels and require payment of those fees.	The fees proposals would result in an amendment to the Passport (Fees) Regulations 2015, which would need to be approved by the Government.
2	Effectiveness	The passport service has sufficient funding for a high-quality passport service providing New Zealanders with passports that are internationally recognised as trusted and secure identity documents. This makes it easy for New Zealanders to travel internationally.	The fees proposals would ensure that DIA has sufficient funding to continue to provide a high-quality passport service.
3	Efficiency	Passport and travel document fees are not set higher than necessary. As part of this, the Department makes cost savings where possible while still providing a high-quality passport service.	The Department has already achieved cost savings of $3.5M through the introduction of on-line application processes and system enhancements which have reduced production costs.

#	Principle	Applicability to passport and travel document fees framework	Applicability to passport and travel document fees proposals
4	Equity	The passport services' costs are fully recovered from fees for the provision of passport and travel document services. This reflects the private benefits to passport holders.	The fee proposals would over the long term restore the linkage between costs and fees and avoid the need for taxpayers to subsidise the passport service through Crown funding.
5	Transparency	DIA makes information readily available to the public showing how revenue from passport and travel document fees is used to provide the passport service.	DIA would clearly communicate to the public the rationale for the proposed fees changes. We anticipate this would focus on the need for sustainable funding to ensure New Zealand continues to have a high-quality passport service. Additionally, we anticipate proactively releasing the Cabinet decisions on proposed changes to passport fees following enactment of the fee changes.
6	Simplicity	DIA provides the public with readily available and easy to understand information about passport and travel document fees.	The level of passport and travel document fees will be set out in regulations. Additionally, fee changes will be publicly communicated and made available through the passport application process and DIA's website
7	Accountability	The PMA records the accumulated balance of surpluses and deficits that result from providing passport and travel document services.	The proposal's purpose is to trend towards a neutral PMA balance by June 2037.

Reasons for policy objectives

As noted earlier the policy objective is to return passport issuance to full cost recovery through a combination of fee increases and repayable capital injections and to zero the balance of the PMA. Issuance needs to return to full cost recovery for the following reasons:

- The passport system is not Crown funded as passports and travel documents are essentially a private good rather than a public good. Public goods are generally open for all to use and consumption of the goods by one party does not deter another party's ability to use those goods. Private goods on the other hand are goods that are purchased and used by the individual purchasing it;

- passports issued to individuals are used solely by the individual who has purchased the passport through the payment of a fee for its issuance. The public receives no benefit from an individual purchasing a passport; and
- it would be inequitable for passport issuance to be Crown funded from general taxation as the public would receive no benefit for that expenditure.

Policy Rationale for reviewing fees

Appropriateness of cost recovery

Up until the government decisions of 25 May 2015 passport service funding was based on the principle that passport and travel document applicants should pay the costs of the passport service. The funding arrangement reflected that passport and travel documents are largely private goods as they are specific to the person these are generated for and are for the person's use. There is a case for consideration of passports being partly a public good as their availability is a key part of a secure identity framework which enables citizens without another means of proving their identity to verify their identity and entitlement to receive government services.

In 2014 GOV recommended to Government, in response to a public submission, that the validity period of an adult passport be increased from five to ten years. The Department's advice to GOV was that a decision to increase the validity period of an adult passport would result in a deficit in the PMA of $42m over the following five years, through the creation of a five-year pattern of reduced demand for adult passports. The Department also advised that if the validity period was increased to ten years a 30% fee increase would be required to balance the PMA at zero by June 2020.

The 2015 decisions were to increase the period of validity of an adult passport from 5 to 10 years and to decline the Departments request for 30% fee increase. The effect of these decisions was to de-link fees from the cost of production; the creation of a cyclical pattern of reduced demand every five years, and the balance of the PMA moving into a deficit position. This was rectified by the 2018 Government decision to approve fee increases, to provide repayable capital injections and to balance the Passport Memorandum Account at Zero over the ten-year period from 2019 to 2029. (GOV-18-SUB-0084 refers)

Fees vary for different types of applications

The fees vary for different types of applications. Applicants pay additional fees for priority applications and call out applications. The additional fees reflect the cost of issuing a passport within three days in the case of priority applications, and immediately in the case of call out applications. The higher fees for priority and call out applications are also used to encourage applicants to plan when they apply for passport and travel documents. This is important to ensure that the passport service can manage application volumes and issue passport and travel documents within required timeframes.

The cost of a child passport ($111) is subsidised from the fees paid by adult passport applicants ($191). The reasons for the subsidy are that:

- it recognises that child passports have a five-year validity period and that over a ten-year period (the period of adult passport validity) the passport would need to be renewed. Over a ten-year period, the total cost of a child passport would therefore be $222 compared with $191 for an adult passport; and
- it helps to ensure that the cost of passports remains affordable for family groups.

In Budget 21, Government noted the forecasted deficit and agreed to provide the Department with repayable capital injections totalling $31m in the 2021/22 financial year to prevent the balance of the PMA moving into a deficit position.

The level of the proposed fee and its cost components

Design of cost recovery charges.

The policy objectives are to return to the funding of travel document issuance to a full cost recovery basis by June 2037 and to zero the balance of the PMA by this date. As noted earlier this will be achieved through a combination of fee increases and repayable capital injections. The provision of re-payable capital injections enables the level of the fee increases required to fund issuance to be evened out over periods of higher and lower demand. Without capital injections the cost of passports would increase beyond the reach of many New Zealanders.

The Department has identified two options for Government consideration. The underpinning assumptions behind the forecasting of demand for both options are that:

- the Australia/New Zealand travel bubble reopens for fully vaccinated travellers from 27 February 2022 and remains open;
- the travel bubble with the Cook Islands remains open;
- Fully vaccinated New Zealanders, and other eligible travellers from the rest of the world, will be able to travel to New Zealand without going through MIQ from 13 March 2022;
- 50% of the deferred demand for passports returns over the 202-25 period; and
- the 42% subsidy of the cost of child passports from the fees paid by adults will continue.

Table 3 and 4 summarise the differences between the two options.

Table 3 Option 1

Percentage increase	Passport Fees (incl. GST)	Repayable capital injections
Approx. 19.37% in 2021/22	**2021/22:** The fee for an adult passport increases from $191 to $228. The fee for a child's passport increases from $111 to $132	$195m over 2022-35 to be repaid by June 2037

Table 4 Option 2

Percentage increase	Passport Fees (incl. GST)	Repayable capital injections
Approx. 3.97% in 2021/22	**2021/22:** The fee for an adult passport increases from $191 to $199 and the fee for a child's passport increases from $111 to $115.	Total of $210.60m over 2022-35 to be repaid by June 2037

Percentage increase	Passport Fees (incl. GST)	Repayable capital injections
Approx. 3.97% in 2022/23	Adult passport $206 Child passport $120	
Approx. 3.97% in 2023/24	Adult passport $215 Child passport $125	
Approx. 3.97% in 2024/25	Adult passport $223 Child passport $130	
Approx. 3.97% in 2025/26	Adult passport $232 Child passport $135	

The fee increases being sought are a direct consequence of: prior decisions to change the period of validity of adult passports; the delinking of fees from production costs; and COVID-19 travel restrictions which have reduced demand for passports and travel documents.

Fee increases apply to all issuance costs

The percentage increases of passport and travel document fees will be applied consistently across the different application types. DIA uses similar processes and resources to produce the range of passports and travel documents. Increasing all fees will ensure that the passport service as a whole has sufficient funding to operate on a full cost-recovery basis. Increasing costs consistently will also ensure that fees continue to reflect the different costs and the processing time incentives associated with the different passport and travel document services.

Forecast demand by financial year 2021 - 2037

Figure 1 below sets out the forecast of issuance for the 2021-37 period prepared prior to December 2019, the onset of COVID-19, and the revised forecast taking into account the underpinning assumptions (around resumption of travel and the return of deferred demand) set out above. Both forecasts take into account the five-year cyclical pattern of reduced demand arising from the change in the period of validity of an adult passport

The reason why the Figure 1 graph shows that the Department's revised forecasts shows volumes exceeding the Pre-COVID forecast is that we are forecasting that the people who deferred applying will now begin to apply because of the changes to border controls and mandatory quarantine requirements. The Department estimates that fifty percent of the deferred demand for passports will return over the 2022-25 period.

Figure 2 sets out actual passport issuance on a monthly basis for the period July 2018 to December 2021 and illustrates the reduction in demand for passports and travel documents since the onset of COVID-19.

Figure 1 Forecast Passport and Travel Document Issuance

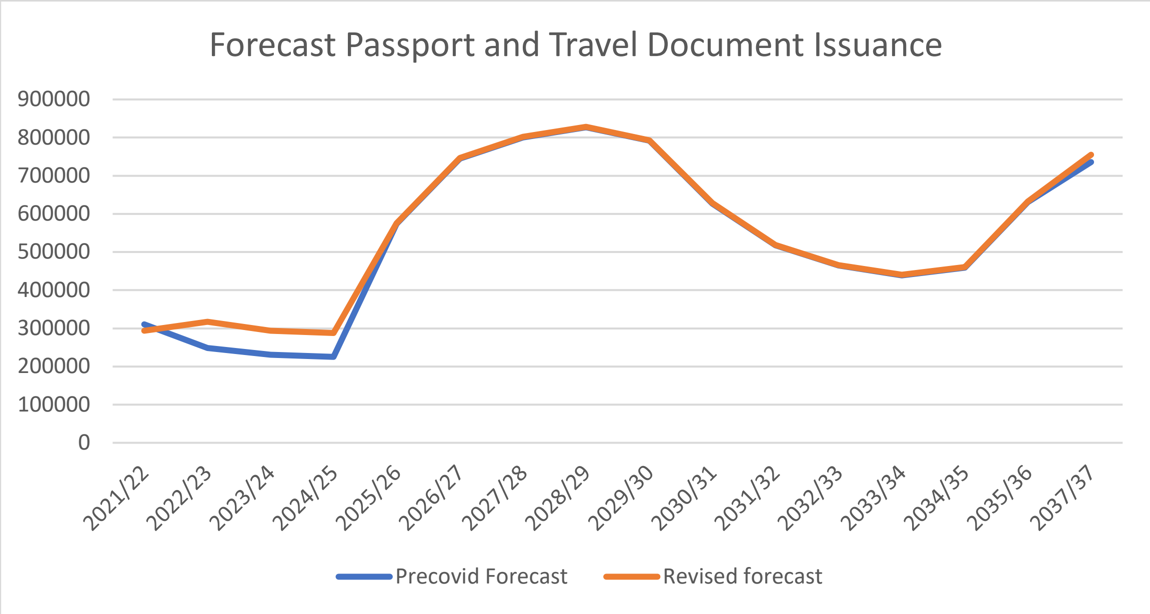
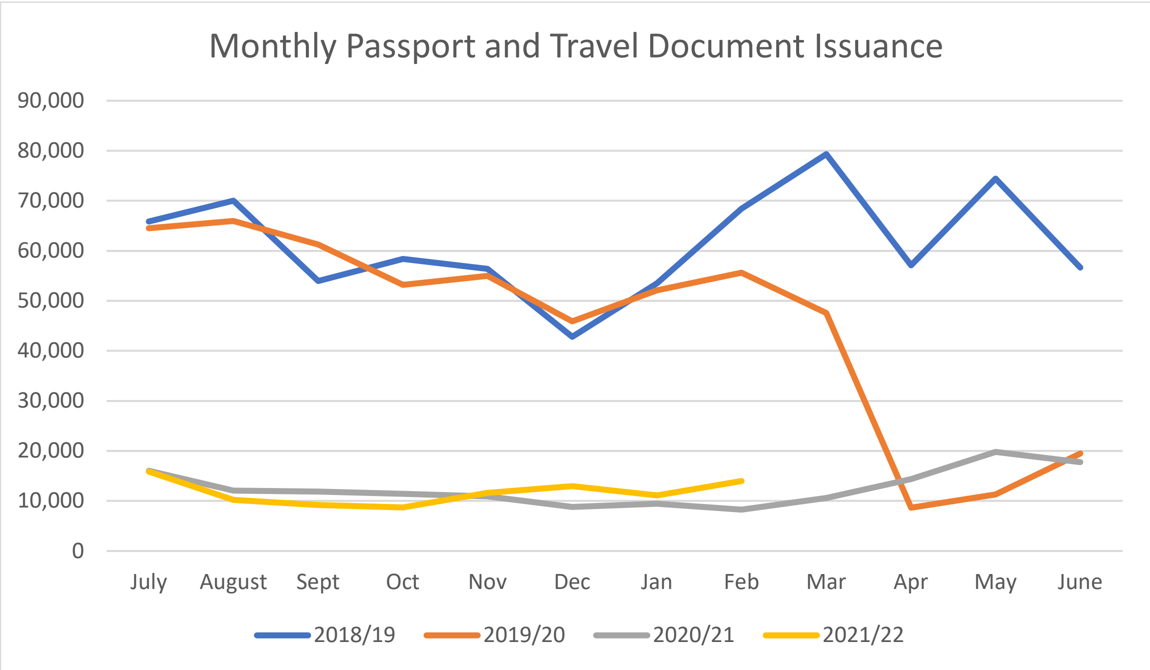


Figure 2 Monthly Passport Issuance



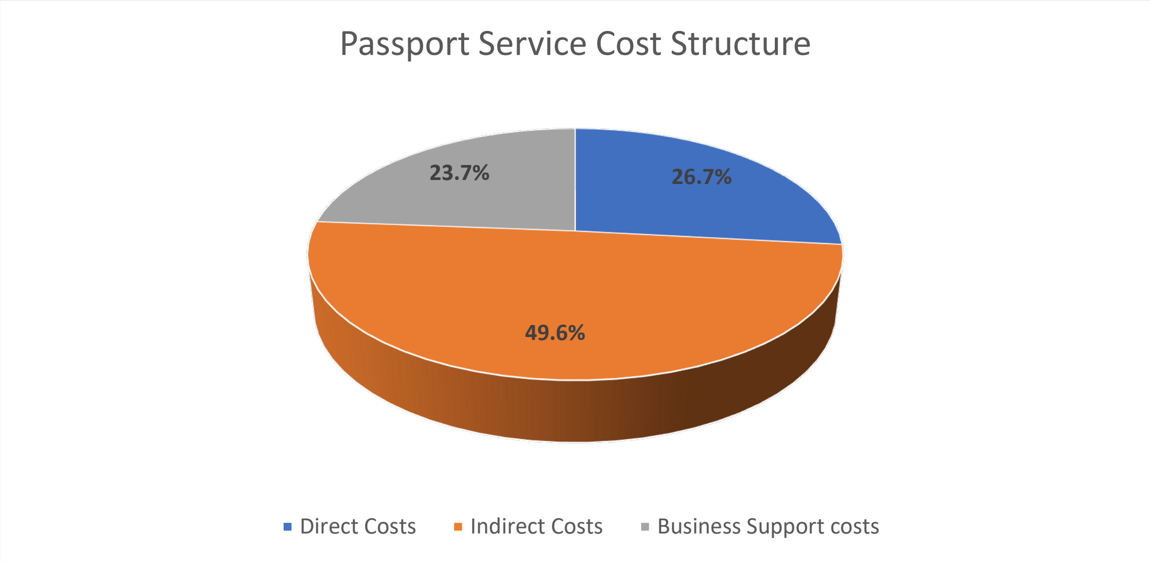
Costing the activity

The proposed fee increases are needed to fully recover the production costs of passports and travel documents over the fifteen-year period. The costs to be recovered are:

- direct costs, passport books, staff and courier costs;
- indirect costs, technology costs and all other passport book production costs that are not directly linked to volumes; and
- business support costs, such as administration costs, including those related to shared services (e.g. finance, human resources, legal etc).

The breakdown of costs of the passport service is provided in Figure 3.

Figure 3 Breakdown of the costs of the passport service



Forecast Revenue and Expenses

Table 5 sets out the opening balance of the PMA at the start of the financial year, the forecasted revenue for the financial year, the forecast expenses and the forecasted balance of the PMA at the end of the financial year. Forecasts are based on current fee levels with no fee increases. Details for the 2019/20 and 2020/21 financial years are actual figures to provide a basis for comparison.

Table 5 Forecast PMA Revenue and Expenses 2021-25 ($'000s)

Financial Year	Forecast PMA Opening Balance	Forecast Revenue	Forecast Expenses	Net Surplus or Deficit for year	Forecast PMA Closing Balance
2019/20	**78,492**	**91,178**	**(86,660)**	**4,518**	**83,010**
2020/21	**83,010**	**22,163**	**(73,610)**	**(51,447)**	**31,563**
2021/22	**31,563**	**42,222**	**(81,368)**	**(39,146)**	**(7,583)**
2022/23	**(7,583)**	**44,023**	**(84,474)**	**(40,451)**	**(48,034)**
2024/25	**(48,034)**	**39,962**	**(92,479)**	**(52,517)**	**(100,551)**

Table 5 demonstrates that revenue and expenses over the current financial year and the following two financial years will not align for the reasons set out in this Cost Recovery Impact Statement.

Changes in underlying assumptions.

Government decisions taken in 2015 to change the period of validity of an adult passport from 5 to 10 years created an ongoing cyclical pattern of reduced demand for adult passports every 5 years. This decision created a need for repayable capital injections to ensure that the balance of the PMA did not move into a deficit position as a result of the reduced demand. The various responses to COVID-19 have resulted in a significant reduction in demand for passports and travel documents. This has required that the previous underlying forecasting assumptions be changed.

The underlying assumptions behind the new forecasts are that:

- the Australia/New Zealand travel bubble reopens for fully vaccinated travellers from 27 February 2022 and remains open;
- the travel bubble with the Cook Islands remains open;
- Fully vaccinated New Zealanders, and other eligible travellers from the rest of the world, will be able to travel to New Zealand without going through MIQ from 13 March 2022;
- 50% of the deferred demand for passports returns over the 202-25 period; and
- the 42% subsidy of the cost of child passports from the fees paid by adults will continue.

If these assumptions significantly change it will be necessary to reforecast demand. In any event the 2025 Fee Review will reforecast demand and the projected fee increases and capital injections.

Efficiency/Productivity Improvements

The Department has already achieved savings in passport issuance equivalent to the reduction of 70 full time employees. Savings have also been achieved through system improvements including the introduction of a service to enable a person to apply for their first passport on-line. This complemented the existing service for online renewal of passports.

Fee Comparison

New Zealand’s passport and travel document fees are medium range compared to our five nations partners. For the purposes of this comparison the cost of New Zealand’s passports is based on Option 1 and the fees of the other countries are the least cost option. The comparison has some limitations because:

- funding structures for comparable passport services vary and countries interpret and define cost recovery differently, for example some countries fee structures include discounts for on line applications and higher costs for paper-based applications;
- our five nations partners have larger populations, so their fee levels reflect greater economies of scale for passport production; and
- pricing for passport books varies because of the differing security features and application methods e.g. online, postal, face to face.

Table 6 Passport Fee Comparison

As at 31/01/22	NZ	Australia[7]	Canada[8]	Ireland[9]	UK[10]	USA[11]
Adult Passport	$228	$329.02 (AUD$308)	$191.42 (C$160)	$127.75 (€75)	$152 (£75.50)	$247 (USD$165)
Child Passport	$132	$165.58 (AUD155)	$68.19 (C$57)	$34.07 (€20)	$98 (£49.00)	$202 (USD$135)

Impact analysis

The Department forecasts that total annual passport issuance over the next five years will be 1,767,349 passports. The table shows the number of applicants who will be impacted by the fee increases and the cumulative impacts of the increases over a five-year period for each option.

Table 3 Forecast demand

Financial year	Forecast Issuance	Option 1	Option 2
2021/22	293,513	19.37%	3.97%
2022/23	316,995		8.10%
2023/24	293,715		12.40%
2024/25	287,751		16.86%
2025/26	575,375		21.50%
Total	1,767,349		

The fee increases will increase the cost of travel documents and services evenly for all population groups. The price increases will have an impact on family groups wishing to travel overseas where family members do not have a current passport. The fee increases will also have a disproportionate impact on low income earners as the fees will be a greater proportion of their expenses. To partly mitigate this the cost of a child's passport (currently $111) is subsidised from the fees paid by adult applicants. This subsidy also recognises that over a ten-year period a child passport would cost more than an adult passport. This is because child passports have a 5-year validity period, which means that the total cost over 10 years would be $222 compared to an adult passport, with a 10-year validity period, which currently costs $191.

[7] https://www.passports.gov.au/getting-passport-how-it-works/passport-fees

[8] https://www.canada.ca/en/immigration-refugees-citizenship/services/canadian-passports/fees/passport-canada.html

[9] https://www.dfa.ie/passports/fees/

[10] https://www.gov.uk/passport-fees

[11] https://travel.state.gov/content/dam/passports/forms-fees/Passport%20Fees%20Chart_TSG_JAN%202022.pdf

Some individuals who cannot obtain a driver licence may obtain a passport purely for domestic identification purposes. The proposed passport and travel document fees changes would increase the cost of obtaining photographic identification for such individuals. Other groups that rely on passport and travel documents for identification, such as seniors, may also be impacted.

The table below compares the impacts of each option on fee payers.

Table 7 Option impacts

	Option 1	Option 2
Fee Increase	In Option 1 there is one fee increase of 19.37% scheduled for 2022. The option also provides for a fee review in 2025 which may or may not recommend a further fee increase.	Option 2 provides for 5 fee increases of 3.97%. Fee reviews will also take place every three years to confirm that issuance is on the path to cost recovery
Impact	Low income earners will initially be impacted more by the 19.37% fee increase.	Low-income earners will initially be impacted less by the lower fee increase but they will be equally impacted by the increases by 2026, by which time fees would have increased by 21.5%
Capital injections	While the capital injections will be initially funded by Government the injections are repayable. This is the same impact for both options	While the capital injections will be initially funded by Government the injections are repayable. This is the same impact for both options

Another factor to consider in determining the long-term impact of fee increases on applicants is that the next fee review is scheduled for mid-2025. This review will include a review of forecasted costs, revenue, demand and capital injection requirements over the next three-year period to 2028. This will impact on the forecasted fee increases.

There will always be a group of applicants who feel that fee increases are unfair, this is especially true for applicants who apply just after a fee increase or those who apply before a fee decrease.

Both options meet the cost recovery principles and objectives set out in Table 2 above.

Consultation

The Department has consulted on the Cabinet Submission with the following agencies:

- Treasury, on the financial and policy implications of the proposal;
- Ministry of Business Innovation and Employment on Immigration Policy;
- New Zealand Customs Service on border control; and the
- Ministry of Foreign Affairs and Trade on any impact on New Zealand's external relationships or on services provided to New Zealanders overseas though their diplomatic posts. The Ministry of Foreign Affairs Trade (MFAT) provides the Department with some services relating to the provision of Emergency Travel Documents to New Zealanders overseas who have lost or had their passport stolen or whose passport has expired, and they have an urgent need to travel to New Zealand.

MFAT also charge a $50 handling fee for documents received by overseas posts for transmission to New Zealand.

Treasury had no feedback on the options set out in the draft Cabinet Paper. Their feedback related to the phrasing of the paper's recommendations relating to the financial implications of the options. The recommendations were revised to address these matters.

The view of the Ministry of Foreign and Trade is that the Proposed Option 1 (a single increase) is preferable. The single jump is a slightly smaller increase overall, so creates fewer barriers to travellers getting the travel documents they require, and also the single change is administratively simpler for our posts and for New Zealanders around the world, rather than having three changes in consecutive years.

Consultation with the Policy Advisory Group, Department of Prime Minister and Cabinet, NZ Customs Service and the Ministry of Business Innovation and Employment has been completed and no issues were identified.

The public was not consulted regarding the fees increase as the passport service is based on a cost recovery model (including repayable capital injections) and changes to that model are outside of the scope of these proposals. Additionally, DIA is not proposing any change to passport services. Therefore, the value of public or stakeholder consultation would be limited. Public consultation has also not been undertaken as this would signal an intention to increase fees which would result in an increase in demand for travel documents from persons wishing to avoid the increase. Such an increase would delay timely processing of applications and issuance.

Conclusions and recommendations

Both options meet the desired policy outcome of passport issuance continuing a cost recovery basis and zeroing the balance of the PMA by 2037. The Department's preference is for a fee increase of approximately 19.37% in 2022 with 3-yearly fee reviews thereafter.

Under this option the fee for a standard adult passport would increase from $191 to $228 in 2022 and the fee for a child's passport would increase from $111 to $132. Repayable capital injections of $195m would be required over 2022-2035, with full repayment over 2026-2037. This option is the Department's preference for the following reasons:

- Over a three-year period, the cost of a passport under option 2 would increase by 12.40% compared to 19.37% under option 1. By year 5 the costs under option 2 would have increased by 21.50% compared with 19.37% under option 1. This means that after year 5 option 1 would be the least cost option for future applicants;
- option 1 requires the least amount of capital injections by $15.6m; and
- option 1 is administratively simpler and less expensive to implement in terms of the cost and number of system changes and changes to published content relating to fees.

Both of the options have provision for a further fee review in 2025. That fee review will take into account demand, revenue, expense forecasts and capital injection requirements to determine if changes need to be made to fees. The outcome of the 2025 fee review will impact on the relative financial costs and benefits of the two options, in terms of least cost to applicants. Regardless of future fee changes option 1 will remain easier to implement and less expensive and is therefore the preferred option.

Implementation plan

The implementation process includes updating the Passport (Fees) Regulations 2015 to provide the legislative framework for the increase in fees. The Department will seek an exemption from the 28-day gazetting rules to allow for the changes to be implemented without this waiting period. This exemption is needed to prevent a surge of applications being lodged before the pricing increases take effect. The Minister and the Department will issue press statements with details of the fees and an explanation why the fee increases are required. The Department will update web content with relevant details.

Monitoring and evaluation

Fees for travel documents are formally reviewed every three years. These fee reviews involve a comparison of actual volumes against forecasted volumes to help determine if there are any inconsistencies in the forecasting methodology. The review also involves an update of the forecasted volumes to assess the likely revenue against the expenses incurred in producing the travel documents. Fee increases will be considered where the indication is that expenses will exceed forecasted revenue. In determining expenses, we also consider the costs associated with maintaining travel document systems.

In addition to the three-yearly fee reviews the Department continually monitors the balance of the PMA to ensure that it is sufficient to meet the forecasted expenses. Details of the PMA balances are published in the Departments Annual Report and in the Estimates of Appropriations.

Performance metrics

Performance metrics for the passport service are set out in the Estimates of Appropriation for the Department of Internal Affairs. The relevant metrics are that: 97% of passports will be issued within business timeframe standards on receipt of the application; the ease of accessing Identity and Life Event Services is assessed as 80%; and 75% of applications are made on line through the online service. The Department reports on performance against these metrics in its Annual Report.

Review

The Department conducts a formal review of travel document and passport fees every three years. This review considers: the current balance of the Passport Memorandum Account; demographic changes impacting on application volumes and projected revenue; external factors impacting on demand; and forecasted expenses over the period covered by the fee review.

Version control

Other version	Date	Link
V1	1 February 2022	RIS V1
V2		No version 2
V3	24 February 2022	RIS V3

V4	3 March 2022	RIS V4
V5	4 March 2022	RIS V5