



# Summary: Analysis & Evidence

# Policy Option 1

## Description:

### FULL ECONOMIC ASSESSMENT

Price Base Year 2018	PV Base Year	Time Period Years 1	Net Benefit (Present Value (PV)) (£m)		
			Low: 47.4	High: 50	Best Estimate: 50

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.1	Optional	Optional
High	2.6	Optional	Optional
Best Estimate	0.1		

#### Description and scale of key monetised costs by 'main affected groups'

The monetised costs associated with this fee increase are short term one off costs. It is estimated that the costs of a system change will be at most circa £100k. HMPO will also incur a further one off cost of up to £2.5m in order to implement some contingency measures in anticipation of a potential surge in demand. HMPO do not anticipate that there will be further ongoing costs beyond the considered one off costs.

#### Other key non-monetised costs by 'main affected groups'

It is not anticipated that there will be any significant behavioural impact as a result of the change in pricing, and therefore no significant non-monetised costs associated with the proposed fee increase.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	50		

#### Description and scale of key monetised benefits by 'main affected groups'

HMPO is expected to receive additional income of up to £50m in the financial year 2018-19 from the proposed fee increase. Expected income beyond 2018-19 is more uncertain, but it is expected that as the proportion of applications made online increases, income will decrease and cost saving efficiencies will be enabled, this process will support cost savings planned through the Spending Review period.

#### Other key non-monetised benefits by 'main affected groups'

Differential pricing should help move applicants towards the online application channel, and therefore help achieve operational savings.

#### Key assumptions/sensitivities/risks

Discount rate

The key assumptions are: the assumption of a 50:50 split between online and postal applications after the introduction of differential pricing. A negligible behavioural impact from higher prices; as the price rise is small relative to the cost of activities associated with passport use.

### BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs:	Benefits:	Net:	

# 1. Problem under consideration

*The Borders, Immigration and Citizenship System (BICS) faces significant financial pressures over the next few years which it will look to meet through a combination of cost reduction and increased income.*

In the Immigration Act 2016 (The Act) provision was made for the passport fee to cover the cost of British citizens crossing the UK border, in the same way that it makes a contribution to the costs of consular assistance provided by The FCO (known as the Consular premium).

Her Majesty's Passport Office (HM Passport Office) processes over six million passport applications each year. HM Passport Office is making continued efforts to reduce operating costs. The main elements of this effort are:

- The majority of customers will apply online in a digital form, including uploading digital photos and supporting documents.
- Any paper documents that HM Passport Office needs in support of an application will be minimised as much as possible.
- Applications will be subject to automated checks where relevant and possible.
- More value added optional services will be offered, including different delivery options with the option to purchase these additional premium services.

The outcome of this effort will be that HM Passport Office will be a more customer focused modern organisation that has a significantly smaller estate, a smaller workforce, a cheaper and more flexible IT infrastructure, and a reduced corporate centre.

A move towards full cost recovery as permitted by the Immigration Act 2016 will reduce the cost to the Exchequer of providing the overall Passport service by increasing the charges to those using the service. Not moving to full cost recovery now anticipates costs reducing over time.

The Equality implications of this policy and potential mitigations have been fully explored in a Policy Equality Statement.

## 2. Rationale for intervention

The charging structure and fee levels for UK passports have not been changed since the 2016 Immigration Act came into force. The Act provides that passport income cannot exceed the full cost of providing the service, but enables the Home Office to take into account wider passport-related costs, such as processing UK nationals at the UK border, to form part of the service costs. UK passport holders consume resources when they use their passports at the UK border, the cost of which currently falls to taxpayers. Inclusion of at least part of this resource consumption into the passport fee would bring the cost to British nationals more into line with visa fee payers, who also bear the cost of their UK border transactions through the fees we charge for entry clearance.

It is estimated that a paper application will cost circa £15.50 more than an online application to process once the fully automated process has been rolled out. Therefore, a fee change is an opportunity to reflect the lower processing costs of online applications, and accelerate customer take-up of applying online, through a price differential depending on the service used. This would meet Managing Public Money rules that allow HM Passport Office to differentiate pricing where this is supported by different cost drivers.

## 3. Policy objectives

The policy Objectives for the passport fees increase are to:

- Reflect passport related costs in the fees that HMPO charges for passports.
- Increase fees for priority services in the UK and overseas where a willing market already exists, whilst not disadvantaging compassionate cases.
- Ensure that passport applicants contribute significantly towards the overall cost of passport services provided by the Government.
- Introduce a discount to passport fees for online applications, to reflect the lower costs of processing online applications compared to traditional paper based applications.

## 4. Options Considered

As this is a final impact assessment the options considered are a do-nothing option, where passport fees remain at the current level, (including the increase to fees for premium services agreed by HMT in October 2017) and a preferred option where passport fees are increased by the amounts currently envisaged.

### Do Nothing

Under the do-nothing option, standard passport fees would remain at the 2016 level while premium charges would be increased in line with changes approved by HMT in October 2017.

### Preferred Option

Under the preferred option, HM Passport Office will move to a partial cost recovery model, and provide incentives for customers to move to online channels in the form of a discount for users of online applications. Table 4.0 shows the proposed change to fees in March 2018.

Table 4.0 - Proposed Fee Increases

PASSPORT APPLICATIONS MADE IN THE UNITED KINGDOM	
A.	Administering an application for a 34 page passport made in the United Kingdom, including an application for replacing an expired passport, replacing a passport of restricted validity with a new passport of full validity, issuing a new passport with amended personal details or replacing a lost or stolen passport and, if the application is successful, issuing a 34 page passport —
(a)	for an application made by post —

	(i)	where the applicant is 16 years of age or over but was born after 2nd September 1929	£85
	(ii)	where the applicant is under 16 years of age	£58.50
	(b)	for an application made online —	
	(i)	where the applicant is 16 years of age or over but was born after 2nd September 1929	£75.50
	(ii)	where the applicant is under 16 years of age	£49
	(c)	for an application made online using the premium collect service —	
	(i)	where the applicant is 16 years of age or over but was born after 2nd September 1929	£177.00
	(ii)	where the applicant is under 16 years of age	£151.00
	(iii)	where the applicant was born on or before 2nd September 1929	£77.50
	(c)	for an application made in person –	
	(i)	using the fast track service	
	(aa)	where the applicant is 16 years of age or over but was born after 2nd September 1929	£142.00
	(bb)	where the applicant is under 16 years of age	£122.00
	(cc)	where the applicant was born on or before 2nd September 1929	£42.50
	(ii)	using the fast track collect service	
	(aa)	where the applicant is 16 years of age or over but was born after 2nd September 1929	£164.50
	(bb)	where the applicant is under 16 years of age	£142.00
	(cc)	where the applicant was born on or before 2nd September 1929	£65.00
	(iii)	using the premium service	
	(aa)	where the applicant is 16 years of age or over but was born after 2nd September 1929	£177.00
	(bb)	where the applicant is under 16 years of age	£151.00
	(cc)	where the applicant was born on or before 2nd September 1929	£77.50
B.	Administering an application for a 50 page passport made in the United Kingdom, including an application for replacing an expired passport, replacing a passport of restricted validity with a new passport of full validity, issuing a new passport with amended personal details or replacing a lost or stolen passport and, if the application is successful, issuing a 50 page passport —		
	(a)	for an application made by post -	
	(i)	where the applicant is 16 years of age or over	£95

	(ii)	where the applicant is under 16 years of age	£68.50
	(b)	for an application made online —	
	(i)	where the applicant is 16 years of age or over	£85.50
	(ii)	where the applicant is under 16 years of age	£59
	(c)	for an application made online using the premium collect service	
	(i)	where the applicant is 16 years of age or over	£187.00
	(ii)	where the applicant is under 16 years of age	£161.00
	(c)	for an application made in person —	
	(i)	using the fast track service	
	(aa)	where the applicant is 16 years of age or over	£152.00
	(bb)	where the applicant is under 16 years of age	£132.00
	(ii)	using the fast track collect service	
	(aa)	where the applicant is 16 years of age or over	£174.50
	(bb)	where the applicant is under 16 years of age	£152.00
	(iii)	using the premium service	
	(aa)	where the applicant is 16 years of age or over	£187.00
	(bb)	where the applicant is under 16 years of age	£161.00
C.	Administering an application for a collective passport made in the United Kingdom and, if the application is successful, issuing a collective passport –		
	(a)	for an application made by post	£39.00
	(b)	for an application made in person	£54.00
	For the purposes of this entry a collective passport is “a collective travel document issued to parties of young persons pursuant to the “European agreement on travel by young persons on collective passports between the member countries of the Council of Europe” done at Paris, on 16th December 1961”(a).		
D.	Arranging the return of supporting documents accompanying an application or up to four applications made in the United Kingdom for a 34 or 50 page passport or passports (as the case may be)		£5.00

	PASSPORT APPLICATIONS MADE OUTSIDE THE UNITED KINGDOM		
E.	Administering an application for a 34 page passport made outside the United Kingdom, including an application for replacing an expired passport, replacing a passport of restricted validity with a new passport of full validity, issuing a new passport with amended personal details or replacing a lost or stolen passport and, if the application is successful, issuing a 34 page passport —		
	(a)	where the application is made by post and the applicant does not fall within paragraphs (c) to (f) –	
	(i)	where the applicant is 16 years of age or over, but was born after 2nd September 1929	£95.50

<sup>(a)</sup> European agreement on travel by young persons on collective passports between the member countries of the Council of Europe” done at Paris, on 16th December 1961 (Council of Europe - European Treaty Series - No. 37).

	(ii)	where the applicant is under 16 years of age	£65.50
	(b)	where the application is made online and the applicant does not fall within paragraphs (c) to (f) below –	
	(i)	where the applicant is 16 years of age or over, but born after 2nd September 1929	£86
	(ii)	where the applicant is under 16 years of age	£56
	(c)	where the applicant is —	
	(i)	a member of, or attached to, Her Majesty's Diplomatic Service, and the passport is applied for by the applicant in his or her official capacity	£75.50
	(ii)	an officer of her Majesty's Government, and the passport is applied for by the applicant in his or her official capacity	£75.50
	(d)	where the applicant is —	
	(i)	a member of, or attached to, Her Majesty's Armed Forces, and the application is made in accordance with the procedure whereby applications are checked and submitted to Her Majesty's Passport Office by Armed Forces personnel who are nominated for that purpose	£85
	(ii)	a member of, or attached to, Her Majesty's Armed Forces, and applies online	£75.50
	(e)	where a passport is applied for by the applicant as a dependant of a person falling within paragraph (c) and the applicant is —	
	(i)	16 years of age or over	£75.50
	(ii)	under 16 years of age	£49
	(f)	where a passport is applied for by the applicant as a dependant of a person falling within paragraph (d) and the applicant is —	
	(i)	16 years of age or over and applies online	£75.50
	(ii)	under 16 years of age and applies online	£49
	(iii)	16 years of age or over and applies by post	£85
	(iv)	under 16 years of age and applies by post	£58.50
F.	Administering an application for a 50 page passport made outside the United Kingdom, including an application for replacing an expired passport, replacing a passport of restricted validity with a new passport of full validity, issuing a new passport with amended personal details or replacing a lost or stolen passport and, if the application is successful, providing a 50 page passport –		
	(a)	where the application is made by post and the applicant does not fall within paragraphs (c) to (f) –	
	(i)	where applicant is 16 years of age or over	£105.50
	(ii)	where applicant is under 16 years of age	£75.50

	(b)	where the application is made online and the applicant does not fall within paragraphs (c) to (f) below –	
	(i)	where applicant is 16 years of age or over	£96
	(ii)	where applicant is under 16 years of age	£66
G.	Arranging delivery of a passport for an application made outside the United Kingdom for a 34 or 50 page passport and if the application is successful delivering the passport —		
	(a)	to an address in the United Kingdom (including British Forces Post Office address)	£5.00
	(b)	to a United Kingdom embassy, High Commission or consulate by diplomatic channels	£11.41
	(c)	to an address, not being one of the above, specified by the applicant or the Secretary of State	£9.70
H.	Arranging the return of supporting documents accompanying an application or applications (up to a maximum of 4 applications) made outside the United Kingdom for a 34 or 50 page passport —		
	(a)	to an address in the United Kingdom	£5.00
	(b)	to an overseas address specified by the applicant or Secretary of State, where the applicant (or one of the applicants) was born after the 2nd September 1929	£10.16
I.	Forwarding an application or up to four applications made outside the United Kingdom for a 34 or 50 page passport to a passport office in the United Kingdom to be administered —		
		where the applicant (or one of the applicants) was born after 2nd September 1929	£13.31

## 5. Monetised costs and benefits

The following sections presents the analysis on additional costs and benefits of the preferred options compared to the do-nothing option. We have considered direct and indirect costs and benefits.

### Do nothing option

The ‘do nothing’ option would be to maintain the current fee structure with passports, as outlined in the Table above. Under this option, it is assumed that 35% use online applications and 65% apply for paper passports.

### Preferred option

The preferred option is to move to a differentiated pricing passport system, allowing the online application route to cost £9.50 less than the proposed postal fee, reflecting lower processing costs. It is assumed that under this 50% apply online and 50% use a paper application. It is assumed that the increase incurs no further behavioural response, as the additional cost is unlikely to affect demand for a passport.

### Costs

#### **Direct Costs**

Firm quotes are yet to be received from suppliers however, based on previous fee changes it is estimated that one-off costs associated with the systems change will be at most circa £100k. It is not anticipated that there will be any ongoing costs associated with the fees change. The increase in fee could lead to a surge, which could incur an additional short term one off cost – this is discussed below.

#### **Indirect Costs**

There could be costs that might result from behavioural impacts, however because the rise in the passport fee level is small relative to the cost of activities associated with the use of a passport<sup>1</sup> it is not anticipated that there will be any significant additional costs of this policy beyond the direct costs outlined above.

## Benefits

### ***Direct Benefits***

It is anticipated that the passport fee increases being enabled by this SI would bring in up to an additional £50m income in 2018-19, assuming approximately 50% of applications are received through the online channel, against c.35% on average this financial year to date<sup>2</sup>.

Additional revenue beyond 2018-19 is more uncertain, but it is expected that the proportion of applications made online will increase year-on-year, reducing income, but also enabling efficiencies to be realised within the service, as applications made online are cheaper for the organisation to process. It is estimated that a paper application will cost around £15.50 more to process once the fully automated process has been rolled out. Every 10% of additional applications made online will reduce income by an estimated £5.5m, and reduce costs by £9m thus helping HMPO to deliver operational savings.

### ***Indirect Benefits***

Differential pricing of online and postal application routes provides a financial incentive to use the less expensive online route. HMPO anticipate that in the first year the behavioural impact of this will result in 15% of total applications shifting from postal to online<sup>3</sup>. There may be ongoing benefits associated with the behavioural impact of differential pricing; differential pricing may accelerate growth in online uptake, thus helping to achieve operational savings.

## Short Term Surge

Historic fee increases have been associated with surges in demand during the period between which fee increases are made public knowledge and the implementation date. While past fee increases have coincided with HMPO's low demand period this increase coincides with a higher demand period, potentially amplifying any adverse impacts.

Based on limited experience of passport fee increases during peak demand periods, HMPO has identified that up to 200 additional staff may be needed to handle extra demand that may occur between the fee increase becoming public knowledge and the new fees coming into force. It has been estimated that this will cost between £1.5-£2.5m. HMPO are reviewing their operational contingency planning activity to ensure demand can be serviced without significant impact on customer experience.

It should be noted that a potential surge in demand would not be considered an increase in gross demand but a temporal demand shift from the period post fee increase to the period before. Those who bring forward their application from after the fee increase to before would be subject to the old fee structure rather than the new. HMPO would therefore not benefit from increased revenue associated with the fee increase for this portion of passport demand, this may result in short term revenue increases after implementation being lower than those forecasted.

## **6. Rationale and evidence that justify the level of analysis used in the IA (proportionality approach);**

The proposed change in passport fees does not represent a substantial increase in fees, both for postal application and particularly for online applications, and based on existing evidence and insight, is not

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<sup>1</sup> See Section 7 – Application Volumes for further details.

<sup>2</sup> An in-depth breakdown of this additional income cannot be published due to sensitivities surrounding the publication of Internal HMPO analysis.

<sup>3</sup> See Section 7 – Application Channel for further details.

expected to generate large changes in volumes of passport applications. Therefore, the level of analysis presented in this impact assessment is considered proportionate to the policy change.

## 7. Risks and assumptions;

### *Application Channel*

This is the first time that HMPO have introduced differential pricing for online and postal applications therefore; there is no empirical evidence that might provide insight into how the proportion of applications through each channel may shift as a result. The assumption that 15% of applicants will shift from postal to online, i.e. the post fee change split between postal and online will move from the current 65:35 to 50:50, is based on business insight and some limited customer research which introduces a degree of uncertainty.

### *Application Volumes*

It is assumed that the increased fees proposed will have a negligible impact on total passport application volumes compared to volumes in the absence of the increase. The basis of this assumption is that the fee increase is small in comparison to the cost of activities associated with the use of a passport for example property purchase, holidaying abroad and employment. The following example is indicative of the low relative cost of passports compared to the cost of activities associated with their use; over the 10-year validity of a passport the average UK household spends circa £10,000 on package holidays abroad<sup>4</sup>. The proposed passport fee increase represents between a £7.2 and £30 increase in costs to the household over this period<sup>5</sup>, dependant on passport application route. This increase represents less than 0.5% of expenditure on package holidays abroad. Thus, the increase is likely to have a minimal impact on the demand for such activities. Based on this evidence we assume that application volumes are likely to be negligibly impacted.

It should be noted that this assumption is with respect to total annual demand volumes; the effect of the fee change on the distribution of in year demand in 2018/19 is considered in the *Short Term Surge* section.

## 8. Direct costs and benefits to business calculations (following BIT methodology);

Fees and charges are out-of-scope of the Business Impact Target.

## 9. Wider impacts

No further wider impacts have been identified at this stage.

## 10. Summary and preferred option with description of implementation plan.

If HMPO were to move to full cost recovery as permitted by the new legislation, the maximum additional income that can be secured is approximately £130m. This equates to an average increase of roughly £20 per passport. This proposal is for a lower rate of fee increase which while not moving to full cost recovery, does reduce the cost of providing the overall Passport service to taxpayers by increasing the cost to those using the service.

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<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/bulletins/familyspendingintheuk/financialyearendingmarch2016>

<sup>5</sup> Assuming the household is made up of 2.4 persons

<https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families>

It is estimated that a paper application will cost circa £15.50 more than an online application to process once the fully automated process has been rolled out. Therefore, a fee change is an opportunity to reflect the lower processing costs of online applications, and accelerate customer take-up of applying online, through a price differential depending on the service used. This would meet Managing Public Money rules that allow HM Passport Office to differentiate pricing where this is supported by different cost drivers.

HM Passport Office has identified a range of actions that will be taken to support customers to transfer to digital channels and to take advantage of the discounts available for online applications, and to mitigate any potential equality implications identified in the Policy Equality Statement.

The fee increase, if approved, will be effective from March and it is anticipated that there will be a surge in applications, between the date the increase is announced and the date of the increase being applied. HM Passport Office is identifying additional resources to deal with this expected surge and to maintain processing standards and targets.