Cabinet Economic Growth and Infrastructure Committee

PASSPORT FEES

Proposal

1. This paper presents options to lower passport fees, including introducing a fee for the new online passport renewal service.

Executive summary

2. Passport fees should be set to recover the full cost of passport operations including overheads. Fluctuations in the operating surpluses and deficits for the provision of passport and travel documents are managed through a memorandum account.

3. Over the past two years, the Department of Internal Affairs (the Department) has managed a significant increase in passport application volumes without costs increasing at a commensurate rate. As a result, and because modest savings are already beginning to be realised from the Passport Redevelopment Programme, a significant surplus has developed in the Passports Memorandum Account. Given the high volume of transactions, relatively small variations in cost and volume can quickly aggregate as surpluses. At 30 June 2012, the unaudited balance of that memorandum account was $27.368 million, with annual revenue of $87.071 million.

4. Adult passport fees currently subsidise the costs of producing child passports and other travel documents, the production costs of which are higher than for adult passports. Child passport fees are currently 53 per cent of the adult passport fee. While I consider there should continue to be a subsidy, I propose the fee for child passports and other travel documents should not be reduced at this time. Instead, I have considered the following options to reduce passport fees for adults:
   i) reduced fees for adult passport-holders renewing their passports, with a price differential for paper-based and online applications; and
   ii) reduced fees for all adult applicants, recognising that there are different costs for processing first-time applications, and renewal applications (whether paper-based or online).

5. I have considered reducing the surplus of the memorandum account over a three-year, four-year or five-year period. Lowering fees to deplete the surplus over a shorter period would force the memorandum account into deficit very quickly. This would require fees to be increased to close to their current levels in 2013 or 2014. Frequent readjustments of the fees are likely to be publicly unacceptable. Reducing fees over a three-year or four-year period would require fees to be increased in 2015 or 2016 respectively. Reducing fees over a five-year period would provide price stability over the medium to long term, and would align with the passport validity period. This would mean that lower fees
would apply to everyone who was due to renew a passport upon its expiry. My preference is to reduce all adult passport fees over a five-year period.

6. Changes are required to the Passport (Fees) Regulations 1996 to give effect to the proposals in the paper. These include making minor adjustments to the GST-component of passport fees.

Background

7. On 15 August 2012, the Cabinet Economic Growth and Infrastructure Committee (EGI) considered my proposal to introduce a reduced fee for a new online passport 'renewal' service. The new service will allow the majority of adult New Zealanders who have previously had a passport to apply online for a new passport, instead of lodging applications using paper-based forms. In its discussion of the proposal, EGI took into account that, as at 30 June 2012, the balance of the Passports Memorandum Account was $27.368 million (subject to audit). EGI invited me to submit a revised paper, which includes advice on the implications of the proposed renewal fee for the Passports Memorandum Account [EGI Min (12) 17/7].

8. Passport fees should be set to recover the full cost of passport operations including overheads. Some exceptions to full cost recovery have been made for child passports, refugee travel documents and certificates of identity. Call out and urgent fees have been set above cost to discourage people from using these services as 'business as usual'. These exceptions to full cost recovery are consistent with Treasury and Office of the Auditor General guidelines on pricing in the public sector. The Department uses a Passports Memorandum Account to manage fluctuations in the operating surpluses and deficits for the provision of passport and travel document products issued under the Passports Act 1992 on a full cost-recovery basis. This revenue cannot be used to cross-subsidise the provision of other services provided by the Department.

9. Passport fees were last revised in 2005. At this time passport fees were increased predominantly to cover the costs of the Department's Passport Redevelopment Programme. This programme has been running over a number of years with the aim of improving passport security and providing better service to the public in a more cost-effective manner. This includes the introduction of an online passport renewal service planned for launch in late-October 2012, which supports the Government's Better Public Services Result 10 (New Zealanders can complete their transactions with government easily in a digital environment). As I outlined to Cabinet in August 2012, I propose to introduce a reduced fee for the new online renewal service to reflect lower production costs and to encourage its uptake. I indicated at that time that it would be necessary to undertake a full fee review after the completion of the redevelopment programme in 2013/14 to ensure fees still reflect the cost-recovery principle. This would ensure that the actual benefits and cost savings associated with the

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1 The term 'renewal' refers to applications by individuals who have previously had a passport. The Department issues a new passport to those individuals; it does not simply 'renew' an individual's previous passport. First time passport applications, adults who have reported their previous passport lost or stolen, or have changed their name since their last passport was issued, and child passport applications will not be eligible for the online renewal service at this point in time.
redvelopment programme, and future investment requirements are well understood when calculating future fees.

10. The balance of the Passports Memorandum Account has increased significantly since 2008, and by close to $18 million in the last two years. At 30 June 2008, the balance was $3.481 million; at 30 June 2010 it was $9.457 million; at 30 June 2012, it was $27.368 million (subject to audit). The growth over the last two years in particular is due to an almost 40 per cent increase in application volumes (and revenue). Annual revenue for 2011/12 was $87.071 million. Over the same period, there have been limited increases in fixed costs, and modest savings have begun to be realised from the implementation of the Passport Redevelopment Programme, the combined effect of which have held overall cost increases in the period to around 32 per cent. The current production costs for adult and child passports for the 2012/13 financial year and current fees are outlined in Table 1 below:

Table 1: Breakdown of passport production costs and fees

<table>
<thead>
<tr>
<th>Type of passport</th>
<th>Current production costs (incl GST)</th>
<th>Current fee (incl GST)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult – new (AN)</td>
<td>$138 ($151 with subsidy*)</td>
<td>$153.30</td>
</tr>
<tr>
<td>Adult – renewal (AR)</td>
<td>$128 ($141 with subsidy*)</td>
<td>$153.30</td>
</tr>
<tr>
<td>Adult – online renewal (AC)</td>
<td>$120 ($133 with subsidy*)</td>
<td>Fee proposed in August EGI paper: $130.00</td>
</tr>
<tr>
<td>Child – new (CN)</td>
<td>$152</td>
<td>$81.70 (subsidised by adult passport fees)</td>
</tr>
<tr>
<td>Child – renewal (CR)</td>
<td>$143</td>
<td>$81.70 (subsidised by adult passport fees)</td>
</tr>
</tbody>
</table>

* The current fees for adult passports include a subsidy of $13.00 for child passports, refugee travel documents and certificates of identity issued under the Passports Act 1992.

11. I am mindful that a principle of fee-setting for public sector products is that the cost of a service should be met at the time of supply. That is, there should be no cross-subsidisation over time for the provision of the same service by former, current or potential future users. Reducing passport fees to align with current costs would address current over-pricing concerns. However, under this approach, the balance of the Passports Memorandum Account would remain stable and, in fact, would continue to increase because of the expected benefits of the Passport Redevelopment Programme being realised over time. Therefore, it is appropriate to take this opportunity to reduce passport fees to a greater extent now, to prevent the surplus being maintained or increasing.

Options to reduce passport fees

12. I asked officials to model a number of possible approaches to reduce fees over a one-to-five year period. These models were based on the following principles:

A. There should be a price differential between the online renewal service and the paper-based application process to account for lower processing costs
and help to encourage uptake of the online service. There are expected to be reduced direct and indirect costs associated with customer interaction and handling processes (including checking, receipting and scanning) for online applications. A lower fee will also bolster the other incentives for using the online service, such as ease of use and greater convenience for individuals. The modelling provides a $10 price differential to give effect to these factors, while also ensuring that fees for both paper-based and online applicants can be reduced to a substantial extent.

B. It is important to maintain sustainability of the memorandum account and account for fluctuations in costs and volumes over time. While the balance of the memorandum account should trend to zero over time, for modelling purposes the Department has projected the balance reducing to approximately $3 million over the relevant periods. This accounts for potential errors in modelling assumptions, and would cover any unexpected cost and/or volume variations. A full fee review following the redevelopment programme's completion in 2013/14 will ensure actual benefits, cost savings and future investment requirements are well understood when calculating future fees.

C. Fees for adult passports should continue to subsidise the cost of child passports to a certain extent. However, maintaining fees for child passports at the current level will decrease the subsidy from adult passports when fees for those are reduced. The Department considered removing the subsidy for child passports, given that the cost of producing a child passport is marginally higher than the cost of producing an adult passport. This would result in a larger reduction in the cost of an adult passport but would increase the price of a child’s passport, and consequently raise the combined total cost of travel for families with children.

13. The financial modelling for the proposed fees balances a number of factors, including recalibrating fees so they do not exceed annual costs, reducing the surplus in the memorandum account, anticipating the timing of benefits realisation of the Passport Redevelopment Programme, and accounting for forecast changes to volume and cost. In balancing these factors across a high volume of transactions and annual revenue, relatively small variations away from forecast cost and volume and other modelling assumptions could have significant impacts on the memorandum account balance.

14. I have discounted options to reduce the surplus over a one-year or two-year period. While those approaches would result in the highest levels of fee reductions immediately, those reductions would be short-lived. By implementing fees that were substantially below production costs, the memorandum account would very quickly fall into deficit and fees would need to be increased to close to their current levels in late 2013 or 2014. Increasing passport fees so soon after decreasing them is unlikely to be publicly acceptable. Such frequent fee readjustments are undesirable. Approaches that create greater price stability are preferable.

15. Approaches that reduce the surplus over a three-year, four-year or five-year period more appropriately balance benefits and risks. Reducing the surplus over a three-year period would require fee increases in 2015 to maintain the memorandum account balance at a sustainable level, while a four-year period would require fee increases in 2016. Reducing fees set under a five-year
scenario would be more sustainable, and be unlikely to require further change as efficiency gains from the Passport Redevelopment Programme will, over the long-term, reduce the cost of production. Most importantly, adopting a five-year approach would align with the passport duration life. This would allow the benefit of fee reductions to be available to all those who have paid a higher fee over the five-year cycle. Lowering fees for just two or three years would mean that those who paid the higher fees, and have therefore created the surplus in the last two years, would not get the benefit of the lower fees. This is because their passports would not expire for another three years. They would only get the benefit if lower fees were in place over a five year period. The five-year approach is therefore my and the Department's preference.

Option One: Reduce Adult Renewal Fees

16. Under the first option, there would be reduced fees for adult renewal applications only, with a price differential for paper-based and online applications. The fees for first-time adult applications would remain at the current level ($153.30 (GST inclusive)). This approach would recognise that those applicants who are renewing their passports have paid higher costs over the past five to seven years, which first-time applicants have not. There are also lower costs associated with renewing passports compared with those for first-time applicants, particularly in relation to verifying the identity of the applicant.

17. The following table shows the proposed level of fees and amount of reduction from the current fee level under approaches that would reduce the surplus over a three-year, four-year or five-year period.

Table 2: Reduced adult renewal and online fee scenarios to deplete memorandum account

<table>
<thead>
<tr>
<th>Surplus reduction period</th>
<th>Passport type</th>
<th>3 years</th>
<th>4 years</th>
<th>5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(GST incl)</td>
<td>Fee</td>
<td>Drop</td>
<td>Fee</td>
</tr>
<tr>
<td>Adult paper-based first-time fee</td>
<td>$153.30</td>
<td>$0</td>
<td>$153.30</td>
<td>$0</td>
</tr>
<tr>
<td>Adult paper-based renewal fee</td>
<td>$126.50</td>
<td>$26.80</td>
<td>$131.50</td>
<td>$21.80</td>
</tr>
<tr>
<td>Adult online renewal fee</td>
<td>$116.50</td>
<td>$36.80</td>
<td>$121.50</td>
<td>$31.80</td>
</tr>
</tbody>
</table>

18. Under the three-year and four-year approach, the paper-based renewal fee would need to be increased at the end of the respective periods to $143.50 or $137.50 respectively, while the online fee would need to increase to $133.50 or $127.50 respectively to retain the balance of the Passports Memorandum Account at a sustainable level. Under the five-year approach, fees would not need to be increased over the medium to long term, as discussed in paragraph 15.

Option Two: Reduce All Adult Fees

19. Under this option, all adult passport fees would be reduced. Price differentials would be maintained for first-time applicants, and those renewing using paper-based forms and the online service, to recognise the different processing costs. While this approach would provide less compensation for those who have paid higher fees in the past, it would also ensure that first-time applicants are not
being charged at a rate above the current production costs. I believe this provides a fair balance, and therefore I support this option.

20. The following table shows the proposed level of fees and amount of reduction from the current fee level under approaches that would reduce the surplus over a three-year, four-year or five-year period for this option.

Table 3: Reduced adult renewal and online fee scenarios to deplete memorandum account

<table>
<thead>
<tr>
<th>Surplus reduction period</th>
<th>3 years</th>
<th>4 years</th>
<th>5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passport type</td>
<td>Fee</td>
<td>Drop</td>
<td>Fee</td>
</tr>
<tr>
<td>(GST incl)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adult paper-based first-time fee</td>
<td>$140.00</td>
<td>$13.30</td>
<td>$140.00</td>
</tr>
<tr>
<td>Adult paper-based renewal fee</td>
<td>$128.00</td>
<td>$25.30</td>
<td>$133.00</td>
</tr>
<tr>
<td>Adult online renewal fee</td>
<td>$118.00</td>
<td>$35.30</td>
<td>$123.00</td>
</tr>
</tbody>
</table>

21. As discussed in paragraph 15, under the three-year approach, the first-time fee would need to be increased at the end of the period to $148.00, the paper-based renewal fee would need to be increased to $144.00, and the online fee would need to increase to $134.00 to retain the balance of the Passports Memorandum Account at a sustainable level. Under the four-year approach, those fees would increase to $145.00, $137.00 and $127.00 respectively. Under the five-year approach, fees would not need to be increased over the medium to long term.

22. I recommend that Cabinet agree to the option to reduce all adult passport fees at the rate that reduces the surplus over a five-year period. This approach would be more sustainable, be unlikely to require further change over the long-term, and would mean that consistent fees would apply to everyone who had paid higher fees in the past and who were due to renew their passports. Under this approach, the balance of the memorandum account is projected to fall to $3.229 million by 30 June 2017.

Child passports and other travel documents, and overseas fees

23. Fees for adult passports are set at a level that subsidises the costs of producing child passports. The fee for a child’s passport is approximately 53 per cent of the adult’s passport fee level. However, the cost of producing a child passport is marginally higher than the cost of producing an adult passport. While I consider it is appropriate that there continues to be a subsidy, I do not propose reducing the fee for child passports at this time because of the higher production costs involved, nor creating a differential between first-time and renewal child applicants. The adult passport fees will continue to subsidise the costs of producing children’s passports, but at a lower proportion. There may be an opportunity to introduce a lower fee for children when the online application service is made available to them (for renewal applications).

24. Similarly, adult passport fees also subsidise the costs of producing refugee travel documents and certificates of identity issued under the Passports Act 1992.

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2 Fees for refugee travel documents are set at the same rate as for child’s passports (the lowest passport fee), to give effect to the 1951 United Nations Convention Relating to the Status of Refugees.
These are low-volume products (with high average unit production costs). I do not propose to change the fees for those products.

25. Fees for processing applications urgently (including outside of ordinary working hours) have been set above cost to discourage people from using these services as ‘business as usual’. These are also low-volume services. I do not propose to reduce those fees at this time (but, of course, adult applicants using these services will benefit from the lower fee for the passport).

26. Currently, higher fees apply to applications lodged in the Department’s London and Sydney offices than for those lodged in a New Zealand office. As there are higher costs associated with producing passports in those offices, I do not propose reducing those fees at this time. I note that almost all overseas-based adult applicants would already have a New Zealand passport and should therefore be able to take advantage of the lower fee for (and convenience of) the online renewal service.

Other matters

27. There are two further matters I seek decisions on from Cabinet, as set out below. In addition, I will proceed with work to examine options to change the validity period for passports.

Zero-rating of passport fees for non-residents applying from overseas

28. Section 11A(1)(k) of the Goods and Services Tax Act 1985 provides that services that are supplied to a person who is a non-resident and who is outside New Zealand at the time the services are performed must have GST charged at zero per cent. Accordingly, the fee charged for renewing a passport online for a non-resident applying from overseas should include GST at the rate of zero per cent.

29. It should also be clear that applicants applying from overseas using paper-based forms rather than the online renewal service are also eligible to pay GST at zero per cent. The fees set out in the regulations for applications lodged in the Department’s London and Sydney offices already include GST at zero per cent. However, some overseas applicants may choose to send their applications to the New Zealand office, rather than to the London or Sydney office. Currently, the regulations state that the prescribed fees “include GST (where applicable)”. The Department’s legal advice is that the regulations are not sufficiently clear that GST can be zero-rated for people applying from overseas.

30. I propose that the Passport (Fees) Regulations be amended to clarify that fees charged for applications lodged in New Zealand by persons applying from overseas using the online service or the paper-based service include GST at the rate of zero per cent.

Amending existing fees to reflect 2010 GST increase

31. On 1 October 2010, GST increased from 12.5 per cent to 15 per cent. Under section 78 of the Goods and Services Tax Act 1985, when the GST rate changes, fees in other Acts or regulations, including the Passport (Fees) Regulations, are deemed to be modified to reflect the change. As a result, the
Passport (Fees) Regulations, as published, no longer provide the public with a readily-accessible statement of the current fee levels.

32. For the purposes of clarity, the regulations could be amended to expressly state the up-to-date application fees inclusive of the current rate of GST. Alternatively, the regulations could express the fees as being exclusive of GST. Under this latter approach, the Department's website, applications forms and other publications would show the GST-inclusive rate. While it is a drafting matter as to which approach is appropriate, expressing fees as exclusive of GST may be a simpler approach to address the issue outlined in paragraphs 28 to 30 about supplying passports to non-residents applying from overseas.

33. I therefore propose that, subject to drafting advice by the Parliamentary Counsel Office, the Passport (Fees) Regulations be amended to express passport fees as being exclusive of GST.

Passports' validity period

34. In 2005, the validity period of the New Zealand passport was reduced from 10 years to five years. A five-year period allows the most advanced security features to be incorporated into each new passport series. This reduces the number of passports with outdated security features in use and keeps our passports difficult to counterfeit or fraudulently alter. For instance, having a relatively recent photograph of the passport holder allows for better facial recognition technology to be used for automated border crossings (for example, Smartgate).

35. However, since the change was made, concern has been expressed that the reduction in the validity period has exacerbated the effect of complying with certain countries' entry requirements. Some countries require that visitors must have at least six months remaining on their passports at the date of their arrival in that country. While New Zealand has no control over the conditions other countries set on visitors prior to arrival, I have asked the Department to examine options for changing the validity period to help passport-holders get the full benefit of the passport's five-year validity. One option, for example, is to enable a passport validity period to run on from the date of expiry of a previous passport if applicants apply up to six or nine months in advance of the current passport's expiry. Another option is to change the validity period for passports to five-and-a-half years.

36. Such a change would require an amendment to the Passports Act 1992. The validity period for passports is set under section 6(1) of that Act. I am considering how best to progress such a change, for example as part of an omnibus regulatory reform bill or statutes amendment bill.

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3 Five-year passports are international best practice, used by 159 (80 per cent) of the 199 nations using the International Civil Aviation Organisation passport standards, as at September 2011. Notable exceptions are Australia, United Kingdom and United States of America which continue to issue 10-year passports. In addition, Canada will offer both five-year and 10-year passports from early 2013.
Consultation

37. The Treasury and Inland Revenue Department were consulted on this paper. The Department of the Prime Minister and Cabinet and Parliamentary Counsel Office were informed. The Officials' Committee for EGI considered the paper on 10 September 2012. The paper reflects agencies' comments.

38. Public consultation on the proposed fee changes has not been undertaken. Given the need to report to Cabinet as quickly as possible on options to reduce fees, so that they can be implemented at the same time as the new online renewal service is introduced in late-October 2012, it has not been feasible to undertake public consultation on the options. However, I do not believe that the lack of public consultation poses any disadvantage to the public as the proposals involve introducing reduced fees.

Financial Implications

39. Funding for passport services is sourced from third party contributions. Fees for products and services provided to third parties under statutory authority in a non-contestable environment should be set on a cost recovery basis. The options set out in this paper will reduce the significant surplus that has built up in the Passports Memorandum Account, to ensure that fees are not recovering more than the total production costs including overheads.

40. The projected impact of the three-year, four-year and five-year reduction scenarios on the passport memorandum account, under either of the two options, is as set out in the following graph. The graph demonstrates the continuing effect of the reduced fees if decisions are not made to increase fees after the relevant periods.4

Figure 1: Impact of surplus reduction scenarios on Passports Memorandum Account balance

<table>
<thead>
<tr>
<th>Financial year ending 30 June</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passports Memorandum Account balance</td>
</tr>
<tr>
<td>2012</td>
</tr>
<tr>
<td>2013</td>
</tr>
<tr>
<td>2014</td>
</tr>
<tr>
<td>2015</td>
</tr>
<tr>
<td>2016</td>
</tr>
<tr>
<td>2017</td>
</tr>
</tbody>
</table>

41. The modelling balances a number of factors. The major factors are:
- forecast volumes for applications (which are influenced for example by international travel patterns); and
- the rate of uptake for the online service.

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4 The graph displays the projected reduction under Option 2 scenarios. The Option 1 trajectory is similar.
42. The Department has adopted medium-range volume forecast figures for the modelling rather than taking a conservative or overly-optimistic approach. The modelling assumes an even growth for the online service over the first three years of its use, to reach 70 per cent uptake by 2015/16, in line with the Better Public Services Result 10 target. The modelling also assumes changes in variable costs, particularly as the Passport Redevelopment Programme is implemented, and that inflationary pressures and unexpected changes in fixed costs will be absorbed by the Department. It is prudent for the modelling to factor a small surplus ($3 million) over the relevant periods, given that the total annual revenue is approximately $90 million and relatively small variations from the forecasts can quickly accumulate as operating deficits or surpluses.

43. Reducing the surplus in the memorandum account over a five-year period is more sustainable in the long term and will not result in fees being increased as soon or by as much as would be the case with the three-year or four-year scenarios, and would also accommodate the risks inherent in the modelling. Given this, and for the reasons set out in paragraph 15, this is my preference.

44. Reducing the balance of the passport memorandum account will impact on the overall balance of all of the Department’s memorandum accounts, and the Department’s overall working capital position. Should the overall balance of all departmental memorandum accounts be driven into deficit, it would be necessary to seek Crown revenue and/or increase third party fees for products to fund the immediate operating requirements for the services to which those accounts relate. A three-year scenario would have this effect, but the four-year and five-year scenarios are less likely to do so.

45. Passport revenue forecasts will be updated in the next available baseline update process to reflect the decision on the new fee levels. Up to 30 June 2011, surpluses from memorandum accounts were paid to the Crown. These amounts, as a debt owed by the Crown, will need to be repaid to the Department to ensure the Department has a sufficient level of cashflow available to manage annual operating deficits as the memorandum account balance reduces.

46. Regardless of which option is chosen, a detailed review of all passport fees will need to be undertaken following the completion of the Passport Redevelopment Programme in 2013/14. The review will look at the efficiencies of the system, the uptake of the online passport service and the financial state of the Passports Memorandum Account.

Legislative Implications

47. The proposals to amend passport fees in this paper will result in amendments to the Passport (Fees) Regulations 1996. I will issue drafting instructions to reflect Cabinet’s decisions.
48. The proposal to change the validity period for passports would require an amendment to the Passports Act 1992. I am considering how best to progress such a change through the House, for example as part of an omnibus regulatory reform bill or statutes amendment bill.

Regulatory Impact Analysis

49. The Regulatory Impact Analysis requirements apply to these proposals. A Regulatory Impact Statement (RIS) is attached to this paper.

50. The Chair of the Department's Regulatory Impact Analysis Panel has reviewed the RIS and associated supporting material and considers that the information and analysis summarised in the RIS meets the quality assurance criteria.

51. I have considered the analysis and advice of my officials, as summarised in the attached RIS, and I am satisfied that the regulatory proposals recommended in this paper:
   a. are required in the public interest;
   b. will deliver the highest net benefits of the practical options available; and
   c. are consistent with our commitments in the Government statement "Better Regulation, Less Regulation."

Timing and 28-day rule

52. At the relevant time, I may seek a waiver of the 28-day rule for the amendments to the regulations. This would be to prevent potential applicants delaying their passport applications until after the new fee is introduced, causing a spike in application volumes. The waiver of the 28-day rule is appropriate as these changes confer only benefits for New Zealanders applying for a passport. The waiver will ensure that New Zealanders will benefit from lower fees as soon as possible. If Cabinet agrees to the waiver, the regulations would come into effect the day after they are notified in the New Zealand Gazette.

Compliance

53. The proposals appear to comply with:
   a) the principles of the Treaty of Waitangi;
   b) the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993; and
   c) the principles and guidelines set out in the Privacy Act 1993.

54. A final view on compliance will be reached when the regulations are drafted.

Publicity

55. I have signalled publicly that I am considering introducing lower fees for passports, including for online passport renewals. I intend to issue a further press release when the online renewal service and new fees are in place on the promulgation of the regulations. I also intend to proactively release this paper, subject to consideration of any deletions that would be justified if the information
had been requested under the Official Information Act 1982 (CO Notice (09) 5). The Department of Internal Affairs intends to publicise the fee changes on its website.

Recommendations

56. The Minister of Internal Affairs recommends that the Committee:

1. note that, in August 2012, Cabinet considered a proposal to introduce a reduced fee for an online passport renewal service which the Department of Internal Affairs intends to launch in late-October 2012;

2. note that Cabinet invited the Minister of Internal Affairs to submit a revised paper as soon as practicable, which includes advice on the implications of the proposed renewal fee for the Passports Memorandum Account [EGI Min (12) 177];

3. note that, as at 30 June 2012, the balance of the Passports Memorandum Account was $27.368 million (subject to audit), with the surplus having developed due to higher than expected application volumes without a commensurate increase in costs, particularly over the past two years;

Options for reduced adult passport fees

4. note that the current fee for an adult passport through the paper-based process is $153.30 (GST inclusive) in New Zealand;

5. note that the Department has modelled the financial implications of the following two options to reduce fees for adult passport applicants, to reduce the surplus in the Passports Memorandum Account over a three-year, four-year or five-period:

5.1 reduced fees only for adult passport-holders who are applying for a new passport (adult renewal applicants), with lower fees for those applying online to reflect the lower production costs and to encourage the uptake of the online renewal service;

5.2 reduced fees for all adult passport applicants, with lower fees for passport-holders applying for a new passport, the lowest fee being for online applications;

6. EITHER

Options to reduce fees for adult renewal applicants

6.1 agree to provide reduced fees only for adult renewal applicants, recognising they have paid the higher fees in the past, and with lower fees for those applying online, under an approach that reduces the surplus over:

EITHER

6.1.1 a three-year period, with fees of:

- adult paper-based first-time fee: $153.30;
- adult paper-based renewal fee: $126.50; and
- adult online renewal fee: $116.50;

OR
6.1.2 a four-year period, with fees of:
- adult paper-based first-time fee: $153.30;
- adult paper-based renewal fee: $131.50; and
- adult online renewal fee: $121.50;
OR
6.1.3 a five-year period, with fees of:
- adult paper-based first-time fee: $153.30;
- adult paper-based renewal fee: $133.00; and
- adult online renewal fee: $123.00;

OR

Options to reduce fees for all adult applicants

6.2 agree to provide reduced fees for all adult applicants, to ensure all fees are not exceeding unit production costs, with lower fees for adult renewal applicants and the lowest fees for those applying online, under an approach that reduces the surplus over:

EITHER

6.2.1 a three-year period, with fees of:
- adult paper-based first-time fee: $140.00;
- adult paper-based renewal fee: $128.00; and
- adult online renewal fee: $118.00;
OR
6.2.2 a four-year period, with fees of:
- adult paper-based first-time fee: $140.00;
- adult paper-based renewal fee: $133.00; and
- adult online renewal fee: $123.00;
OR [Supported by the Minister of Internal Affairs and the Department of Internal Affairs]
6.2.3 a five-year period, with fees of:
- adult paper-based first-time fee: $140.00;
- adult paper-based renewal fee: $134.50; and
- adult online renewal fee: $124.50;

7. note that passport revenue forecasts will be updated in the next available baseline update process to reflect the decision on the new fee levels;

8. agree that no change is made at this time to the fees for child passports, refugee travel documents and certificates of identity as fees for adult passports subsidise the production costs (which are higher than for the adult passport) for those products;
9. agree that no change is made at this time to the fees for processing
overseas applications and urgent applications, as there are higher costs
associated with those products and services to discourage those services
being used as 'business as usual';

Zero-rating of passport fees for non-residents applying from overseas

10. note that section 11A(1)(k) of the Goods and Services Tax Act 1985
provides that services that are supplied to a person who is a non-resident
and who is outside New Zealand at the time the services are performed
must have GST charged at zero per cent;

11. agree that the Passport (Fees) Regulations be amended to clarify that
fees charged for applications lodged in New Zealand or online by non-
residents applying from overseas be charged GST at the rate of zero per
cent;

Amending existing fees to reflect 2010 GST increase

12. note that fees contained in Schedule 1 of the Passport (Fees)
Regulations do not reflect the current rate of GST;

13. agree that, for the purposes of clarity, the Passport (Fees) Regulations be
amended so that the fees in Schedule 1 be expressed as being exclusive
of GST, subject to drafting advice by the Parliamentary Counsel Office;

Drafting instructions

14. invite the Minister of Internal Affairs to issue drafting instructions to the
Parliamentary Counsel Office to give effect to the above decisions;

Passports' validity period

15. note that some countries require that visitors must have at least six
months remaining on their passports at the date of their arrival in that
country, giving the impression that a five-year passport is valid for less
than this period;

16. note that I am considering options to amend the Passports Act 1992 to
address this problem, for example via an omnibus regulatory reform bill,
statutes amendment bill or other legislative vehicle; and

Publicity

17. note that I intend to publish this paper and related Cabinet decisions
online, subject to consideration of any deletions that would be justified if
the information had been requested under the Official Information Act
1982.

Hon Chris Tremain
Minister of Internal Affairs

\[\text{9/9/2012}\]