

**EXPLANATORY MEMORANDUM TO
THE CONSULAR FEES (AMENDMENT) ORDER**

2009 No. 1745

1. This explanatory memorandum has been prepared by the Foreign and Commonwealth Office and is laid before the House of Commons by Command of Her Majesty.
2. **Purpose of the instrument**
 - 2.1 This Order is made to enable Her Majesty to increase existing fees for the administration of passport applications made in the United Kingdom and overseas.
3. **Matters of special interest to the Joint Committee on Statutory Instruments**
 - 3.1 This Order increases the fees for administration of passport applications made in the United Kingdom above the rate of inflation. The increases are necessary as a result of a significantly reduced demand for passports caused by the current economic climate. The Order also increases the consular premium component of fees for the administration of passport applications both in the UK and overseas. The consular premium increase is also above the rate of inflation and is again the result of a significantly reduced demand for passports. Further explanation of the fee increases is provided in section 7 below and in the attached Impact Assessment.
4. **Legislative Context**
 - 4.1 This Order amends the Consular Fees Order 2009.
5. **Territorial Extent and Application**
 - 5.1 This instrument applies to all of the United Kingdom.
6. **European Convention on Human Rights**
 - 6.1 As this Order is not subject to Parliamentary procedure and does not amend primary legislation, no statement is required.
7. **Policy background**
 - *Why is a fee increase necessary?*
 - 7.1. The Consular Fees Act 1980 provides that Her Majesty may by Order in Council prescribe the fees that can be levied for performance of consular services. Consular fees are levied so that the costs of providing such services can be recovered from the customers that use them. The Consular Fees Order 2009 came into force on 9 April 2009 and prescribes the current levels of fees to be charged for consular services, however made no increase to the fees levied for the administration of passport applications made in the United Kingdom and, as further explained below, made no increase to the consular premium and emergency consular premium components of fees for administration of passport applications in the United Kingdom and overseas.
 - 7.2 The administration of passport applications made in the United Kingdom is a service performed by the Identity and Passport Service (IPS). IPS's costs increase each year in line with inflation, however there has been no increase to the fees levied for administration of

passports applications made in the United Kingdom since October 2006, as IPS has been able to manage increases to its cost base over that period by generating operating efficiencies to counter balance increases in its cost base.

- 7.3 Since Summer 2008 IPS has suffered a substantial loss of revenue, caused by declining demand for passports in the economic downturn. Much of IPS's cost base is fixed in the short term, which means that it has not been possible to fully offset the lost income by generating cost savings (through efficiencies). The increase in fees introduced by this Order is therefore necessary for IPS to recover the costs of providing passport services, as IPS is required to do by Managing Public Money.
- 7.4 Fees for the administration of applications for passports both in the UK, by IPS, and overseas, by the Foreign and Commonwealth Office comprise three elements. The bulk of the fee represents the costs incurred in administering passport applications, however the fee also includes elements known as the consular premium and the emergency consular premium. The income raised by these premiums provide the major source of revenue for meeting the cost of providing assistance to United Kingdom citizens overseas (the consular premium) and providing assistance when unexpected emergencies arise overseas (the emergency consular premium). The consular premium element of passport fees provides funding for consular assistance overseas and this has not been increased since 1 April 2007 for overseas passports and not since 1 October 2007 for UK passports.
- 7.5 The Consular Fees Order 2009 introduced no increase to the consular and emergency premium components of passport fees, as fees for passport services performed by IPS were not increased in that order. However, as a result of the predicted reduction in the number of passport applications that will be made over the coming year, the revenue generated by the consular premium will leave the consular assistance budget with a substantial deficit. To recover this shortfall this Order increases the consular premium by 4.42%. This represents an increase of £0.50 to the fees for administration of passports both in the UK and overseas.

- ***What is being done?***

- 7.6 The Order increases the fee for administration of passport applications made to the Foreign and Commonwealth Office as follows:
- 7.6.1 the fee for a standard adult 32 page passport will increase from £124 to £124.50;
- 7.6.2 the fee for a passport for a child will increase from £79 to £79.50;
- 7.6.3 the fee for an adult 48 page passport will increase from £150 to £150.50;
- 7.6.4 the fees for an emergency passport, a temporary passport and an emergency travel document will remain unchanged.
- 7.7 The Order increases the fee for administration of passport applications made in the United Kingdom as follows:
- 7.7.1 the fee for a standard adult 32 page passport will increase from £72 to £77.50;
- 7.7.2 the fee for a passport for a child will increase from £46 to £49;
- 7.7.3 the fee for an adult using the guaranteed one week counter service for a standard 32 page passport will increase from £97 to £112.50;

- 7.7.4 the fee for a child using the guaranteed one week counter service for a standard 32 page passport will increase from £81 to £96.50;
- 7.7.5 the fee for an adult using the guaranteed one week counter service with the passport collected in person for a standard 32 page passport will increase from £109 to £124.50;
- 7.7.6 the fee for a child using the guaranteed one week counter service with the passport collected in person for a standard 32 page passport will increase from £91 to £106.50;
- 7.7.7 the fee for an adult using the guaranteed same day service for a standard 32 page passport will increase from £114 to £129.50;
- 7.7.8 the fee for a child using the guaranteed same day service for a standard 32 page passport will increase from £94 to £109.50;
- 7.7.9 the fee for an adult 48 page passport will increase from £85 to £90.50;
- 7.7.10 the fee for an adult using the guaranteed one week counter service for a 48 page passport will increase from £105 to £120.50;
- 7.7.11 the fee for an adult using the guaranteed one week counter service when the passport is collected in person for a 48 page passport will increase from £109 to £124.50;
- 7.7.12 the fee for an adult using the guaranteed same day service for a 48 page passport will increase from £123 to £138.50;
- 7.7.13 the fee for a collective passport, for organised trips for schools and youth groups, will remain unchanged.

8. Consultation outcome

- 8.1 No consultation has been carried out in relation to this Order. Treasury rules require that the full cost of fee-bearing services is recovered through the fees charged, but impose no requirement to consult. The Order introduces no changes in policy and the fees are not considered to have a disproportionate impact on any particular stakeholders.

9. Guidance

- 9.1 Detailed information on passports and the fees charged is provided on the www.ips.gov.uk/passport/fees.asp website and the www.fco.gov.uk website. Hard copies of the fees table are on display at regional passport offices across the UK and passport offices overseas. This information will be updated to take into account the new fees set out in this Order. A copy of the Q&As will be provided at www.ips.gov.uk.

10. Impact

- 10.1 The impact on business, charities or voluntary bodies is minor.
- 10.2 The impact on the public sector is that the costs to the public sector of providing consular services will continue to be recovered from the fees charged for those services.

10.3 Two Impact Assessments, one concerning the increase in fees for administration of applications for UK passports and the other the increase to the consular premium, are attached to this memorandum.

11. Regulating small business

11.1 The legislation does not apply to small business.

12. Monitoring & review

12.1 The level of fees for services performed by IPS are reviewed annually, with a view to any increases or decreases being implemented at the start of each financial year. The level of the consular and emergency premiums are reviewed to coincide with any IPS fee increases.

13. Contact

Mark Maguire, HQ Finance, UK Passport Service can answer any queries regarding the instrument. Tel: 0207 901 2560 or e-mail: mark.maguire@ips.gsi.gov.uk

Summary: Intervention & Options

Department /Agency: IPS	Title: Impact Assessment of increasing passport fees through an amendment to the Consular Fees Order	
Stage: Proposal	Version: 0.1	Date: 1 June 2009
Related Publications:		

Available to view or download at:

<http://www.ips.gov.uk>

Contact for enquiries: Mark Maguire

Telephone: 0207 901 2560

What is the problem under consideration? Why is government intervention necessary?

IPS is required to recover the costs of producing passports from the fees charged for administering passport applications. Falling demand for UK passports in the economic downturn has led to a reduction in the fee income. IPS has reduced its costs across the business as far as it can in the short term without negatively affecting its service or the security of the UK passport, but is still forecasting a deficit for 2009/10.

What are the policy objectives and the intended effects?

To continue to recover the full costs of processing passport applications, while maintaining the high levels of service and security of the UK passport.

What policy options have been considered? Please justify any preferred option.

IPS considered four options to eliminate its forecast deficit:

Option 1: Keep fees the same by reducing costs - most of IPS's costs are fixed in the short term and do not reduce with demand so cost cutting alone is not enough.

Option 2: Reduce the fee to stimulate demand - historically demand for passports has been price inelastic, so it is felt that a fee reduction would not stimulate demand.

Option 3: Keep fees the same by requesting more funding from Home Office - no funds are available

Option 4: Reduce costs and increase the fees - this is the preferred option

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? IPS monitors its actual income and cost versus budget on a monthly basis so the impact of the policy will be seen quickly. A full fee review is conducted annually where the policy will be reviewed.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

Phil Woolas.....Date: 26 June 2009

Summary: Analysis & Evidence

Policy Option: Increase UK passport fees	Description:
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups'	
	One-off (Transition) Yrs		
	£ Nil		
	Average Annual Cost (excluding one-off)		
	£ Nil	Total Cost (PV)	£ Nil
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups'	
	One-off Yrs		
	£ Nil		
	Average Annual Benefit (excluding one-off)		
	£ Nil	Total Benefit (PV)	£ Nil
Other key non-monetised benefits by 'main affected groups'			

Key Assumptions/Sensitivities/Risks IPS assumes that it can implement the fee increase and that demand does not fall below its latest annual forecast of 5.0m

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
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What is the geographic coverage of the policy/option?	UK
On what date will the policy be implemented?	03 September 2009
Which organisation(s) will enforce the policy?	IPS
What is the total annual cost of enforcement for these organisations?	£ n/a
Does enforcement comply with Hampton principles?	Yes
Will implementation go beyond minimum EU requirements?	N/A
What is the value of the proposed offsetting measure per year?	£ Nil
What is the value of changes in greenhouse gas emissions?	£ Nil
Will the proposal have a significant impact on competition?	No
Annual cost (£-£) per organisation (excluding one-off)	Micro Small Medium Large
Are any of these organisations exempt?	Yes/No Yes/No N/A N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)
Increase of £	Decrease of £	Net Impact £ Nil

Key: Annual costs and benefits: Constant Prices (Net) Present Value

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

In line with Treasury guidance, the passport service operates on the basis of full cost recovery on an annual basis. IPS has had a good understanding of its cost base and, historically, of the demand for its products. It has been reasonably straightforward to set fees for the range of passport products (adult, child, jumbo, group, priority etc).

Currently, a standard adult customer who applies for a passport through the postal route pays IPS a fee of £72 for the passport book. Customers that select to use our priority services pay more. A one week Fast Track service is currently offered for £97 and a one-day premium service is currently offered for £114.

Recent economic events have impacted on the demand for passports. During the last financial year passport demand fell by an overall 5%, with an accelerating trend from September 2008. IPS has therefore revised its annual demand forecast for 2009/10 down by 500,000 passports from 5.5m passports to 5.0m.

24% of the unit costs of producing a passport are truly variable (printing and distribution) and can be saved when a passport is not produced. The remaining 76% of the unit cost is essentially fixed in the short term and is incurred whether a passport is produced or not.

Issuing 500,000 fewer passports in 2009/10 would result in £36m less income. However, the variable costs saved would only be £9m, leaving a budget gap of £27m, caused by reduced demand.

We have therefore considered four options to eliminate the budget deficit:

- Keep fees the same by reducing costs further
- Keep fees the same by requesting more funding from Home Office
- Reduce the fee to stimulate demand
- Reduce costs and increase the fees

Option 1: Keep fees the same by reducing costs further

IPS has focused on closing the budget gap by challenging every individual budget to reduce its cost forecast. The budget challenge work has now been completed, but the net result is that, even with measures to reduce net costs, including rigorous pruning of spending plans, generating income through collaborative working with UKBA and other government organisations, a budget deficit of £12m is still predicted. Reducing cost alone is not sufficient to eliminate the budget deficit.

Option 2: Keep fees the same by requesting more funding from Home Office

There is no headroom within the Home Office budget to cover what would be a £12m deficit if IPS cannot balance its budget. The Home Office as a whole faces significant pressures on its resource budget in 2009-10. Other areas are also facing cost pressures and possible declines in income (such as on UKBA visa income). There is therefore no central funding available, and no possibility of reallocation from other areas to make up for any shortfall between income and expenditure on passports in the event that the passport fee is not increased.

Option 3: Reduce the fee to stimulate demand

We also looked at whether a reduction in the passport fee might be used to increase demand. Historical price changes have been analysed in detail and have tended to have some very short term impacts – causing a rise in actual demand for a few weeks preceding the price change, and a fall in actual demand for a few weeks afterwards. Historically we have not seen significant long term changes in demand even whilst the price has significantly varied. Demand for passports has been relatively price inelastic. This is thought to be because passports are an 'enabling' document, so demand for them is inherently driven by demand for what they enable; mostly international travel. Passport costs represent a very small proportion of the total costs of travel. At present our reduction in demand appears to be consistent with the reduction in holiday bookings and the emerging research evidence of a switch from overseas to UK holidays, currently estimated at around 12%. Given this, and the absence of historical evidence of a clear link between price and demand, we do not believe that a reduction in the passport fee could be justified against the risk of further increasing our deficit.

Option 4: Reduce costs and increase fees

IPS has focused on closing the budget gap by challenging every individual budget to reduce its cost forecast. The budget challenge work has now been completed, but the net result is that, even with measures to reduce net costs, including rigorous pruning of spending plans, generating income through collaborative working with UKBA and other government organisations, a budget deficit of £12m is still predicted. Reducing cost alone is not sufficient to eliminate the budget deficit. A balanced budget can only be achieved through generating an extra £12m income by increasing fees as well as seeking these cost savings. The extra £12m of fee income will be generated by increasing fees on 03 September 2009.

The following fee increases are proposed from 03 September 2009 to generate an additional £12m of fee income:

- A fee increase for our Premium (same day) and Fast Track (one week) products of £15 each to £129 and £112 respectively would provide approximately £3 million additional revenue in 2009/10.
- A fee increase of £5 on the standard passport fee and £2.50 on the child passport, taking them to £77 and £48.50 respectively would raise approximately £9 million additional revenue.

This is the preferred option. These fee increases reflect the actual cost differences to IPS of delivering each product and have been reviewed and agreed by HMT.

Conclusion

We intend to set a balanced budget for 2009-10. We have gone through a rigorous process of budget challenge and explored every avenue but after full consideration have ruled out the possibility of removing the deficit by cutting costs alone, generating the extra income by attempting to stimulate demand with fee decreases or gaining additional funding for the deficit. We have set a balanced budget for 2009-10 through a rigorous process of budget challenge, coupled with a fee increase which does not pose an unacceptable level of risk to the maintenance of customer service standards and integrity and security of the passport business.

We propose fee increases of £5 for the adult passport, £2.50 for the child passport and £15 for priority services. These fee increases are expected to generate £12m extra revenue if they can be implemented no later than 3rd September 2009.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	No	No
Small Firms Impact Test	No	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Annexes

Summary: Intervention & Options

Department /Agency: FCO, Consular Directorate		Title: Impact Assessment of a revised consular fees order	
Stage: Proposal	Version: 1.0	Date: 21 April 2009	
Related Publications:			

Available to view or download at:

<http://www.>

Contact for enquiries:

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What is the problem under consideration? Why is government intervention necessary?

Income from the consular premium is used to fund the costs of providing assistance activity abroad and represents a small part of the overall passport price. As a result of falling demand for British passports and continued increases in assistance activity the consular premium is no longer sufficient to cover the costs of providing consular services abroad.

What are the policy objectives and the intended effects?

To continue to recover full costs, and be able to continue to supply current levels of consular assistance to British nationals overseas.

What policy options have been considered? Please justify preferred option?

Treasury rules, require the consular operation overseas to recover the full economic costs of delivering its services.

The preferred option is to increase the consular premium charged on UK and overseas passports to help meet the current gap between income and costs and thus to continue to provide the existing level of service.

Other than the preferred option of increasing the cost of a passport, other options would be to:

- (a) discontinue a wide range of services provided to British nationals overseas;
- (b) return to funding via direct taxation.

It would not be acceptable to reduce the level of services offered to British nationals overseas in current circumstances and funding by direct taxation would mean that people who never travel abroad are paying for those who do.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

Consular Directorate will review the level of its consular fees between September and November 2009. This exercise will look at the income and expenditure for each fee category, to see specifically if the fee level is sufficient to recover the full costs of overseas assistance operations. If forecast income is not sufficient to cover costs a further fee review will be necessary from April 2010. A final statement of our income and costs, known as a Memorandum Trading Account will be produced at the end of the financial year 2009-10.

Ministerial Sign-off For Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options

Signed by the responsible Minister:

GILLIAN MERRON MPDate: 05 May 2009

Summary: Analysis & Evidence

Policy Option:	Description:
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COSTS	ANNUAL COSTS	Description and scale of key monetised costs by 'main affected groups'
	One-off (Transition) Yrs	
	£ Nil	
	Average Annual Cost (excluding one-off)	
£ Nil	Total Cost (PV) £	
Other key non-monetised costs by 'main affected groups'		

BENEFITS	ANNUAL BENEFITS	Description and scale of key monetised benefits by 'main affected groups'
	One-off Yrs	
	£ Nil	
	Average Annual Benefit (excluding one-off)	
£ Nil	Total Benefit (PV) £	
Other key non-monetised benefits by 'main affected groups'		

Key Assumptions/Sensitivities/Risks

The impact of depreciation on sterling has been estimated for purposes of the fee calculation but it is impossible to say how accurate this figure is. The final outturn will depend upon the movement of exchange rates over the 2009-10 and 2010-11 financial periods.

The volumes used in the fee model relating to passport volumes are crucial to the overall fee calculation and if they are not maintained during the present economic downturn full cost will not be recovered.

Annex C

Price Base Year	Time Period Years	Net Benefit Range (NPV) £		NET BENEFIT (NPV Best estimate) £
What is the geographic coverage of the policy/option?				UK and Overseas
On what date will the policy be implemented?				03 Sep 2009
Which organisation(s) will enforce the policy?				FCO
What is the total annual cost of enforcement for these organisations?				£ n/a
Does enforcement comply with Hampton principles?				n/a
Will implementation go beyond minimum EU requirements?				n/a
What is the value of the proposed offsetting measure per year?				£ Nil
What is the value of changes in greenhouse gas emissions?				£ Nil
Will the proposal have a significant impact on competition?				No competition
Annual cost (£-£) per organisation (excluding one-off)		Micro n/a	Small n/a	Medium n/a
Are any of these organisations exempt?		Yes/No	Yes/No	N/A
Impact on Admin Burdens Baseline (2005 Prices)				(Increase - Decrease)
Increase	£	Decrease	£	Net £ Nil
Key:				Annual costs and benefits: Constant Prices (Net) Present Value

Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

Treasury rules require us to recover the full cost of fee-bearing services, through the fees charged. In principle, the taxpayer should not subsidise fee-bearing services; and the recipients of those services should not subsidise tax-funded central government.

Overseas Consular assistance work is funded from the Consular Premium on every British passport issued.

Consular is expected to incur additional expenditure in 2009-10 because the pound has depreciated significantly against other major currencies.

The net expenditure for 2009-10 plus any unrecovered amounts from prior years needs to be recovered through the fee and exceptionally Treasury have allowed us to do this over financial years 2009-10 and 2010-11. This has allowed us to minimise the increase in fees.

The impact of this legislation falls squarely on the shoulders of the public. There will be little or no impact on business or the third sector.

Specific Impact Tests: Checklist (This needs to be completed)

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	No	No
Small Firms Impact Test	No	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Annexes

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