Identity Cards Scheme

Cost Report

May 2007

Presented to Parliament pursuant to Section 37 of the Identity Cards Act 2006.

Home Office
Identity & Passport Service

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Contents

1. Introduction

1.1 The National Identity Scheme

The Identity Cards Act received Royal Assent on 30 March 2006. It establishes in statute the framework for a National Identity Scheme. This scheme will eventually cover everyone aged 16 or over who is legally resident in the United Kingdom for a specified period, likely to be three months or more.

Section 37 of the Act requires the Government to lay before Parliament at least every six months an estimate of the public expenditure likely to be incurred on the scheme over the following ten years. This is the second such report to be laid before Parliament.

The Strategic Action Plan for implementing the National Identity Scheme was published by the Home Office in December 2006. This plan sets out the proposed approach and a number of key milestones and was the basis for an updated business case and cost estimates. This cost report is based on the assumptions and milestones set out in that plan and is aligned with the updated business case. As with any cost estimates covering a ten year forward period, there are uncertainties. The estimates in this report are therefore subject to change in the light of new information or assumptions and there is a significant probability that the estimates will change in the light of further experience. The business case will continue to be updated periodically in line with the lifecycle of the National Identity Scheme. Those updates will not necessarily align with the publication timetable for future cost reports.

The plan also summarised the benefits of an effective National Identity Scheme. Specifically, it will:

- Prevent identity fraud: the use of false identity information currently costs the UK more than £1.7 billion a year. The Scheme will make it much more difficult for such fraud to occur;
- Help secure our borders and tackle illegal immigration: effective identity management will mean that only those entitled can live and work in the UK;

- Improve customer service: the Scheme will make it possible to join up and personalise services across government departments, and the wider public sector, by ensuring that we have a consistent means of identifying those receiving services; and
- Provide a defence in the fight against crime and terrorism: the use of false identities plays an increasing part in illegal activity, with sometimes devastating and costly results.

1.2 Developments over the last six months

Since the publication of the last cost report, work to prepare for the implementation of the National Identity Scheme has continued. In particular, over the past six months:

- the implementation of ePassports, which incorporate a chip holding personal data and the digital photograph of the passport holder, has been completed on time and on budget, an achievement recently acknowledged by the National Audit Office and the Chairman of the Public Accounts Committee. From October 2006 all new passports have been issued in this form;
- preparations for the introduction of interviews for first time adult customers have continued, with the first interviews scheduled for May 2007;
- the Strategic Action Plan for the National Identity Scheme has been developed and was published in December 2006 setting out the key milestones for delivering the Scheme over the next three years;
- studies have concluded that it is lawful and feasible to use the Department for Work and Pensions' Customer Information System (CIS) database technology to host the biographic element of the National Identity Register i.e. information such as name, address and date of birth. Re-use of this asset will reduce the risk of implementing the National Identity Scheme. These findings have been endorsed by a Ministerial Steering Group, and a formal project to take this forward is being initiated. Biometric information will be held on a separate database;
- a review of the management structure of IPS has been completed. This has identified changes to the structure and additional skills required to deliver this major programme of change;
- recruitment is underway to add further skills and capabilities to the Identity and Passport Service in support of the programme of work ahead;
- an extensive process of consultation with the technology industry, enabled through Intellect as the relevant trade association, has been completed on the back of the Strategic Action Plan; and
- the cost estimates and business case have been updated to reflect the Strategic Action Plan.

In December 2006 the Home Office published the Borders, Immigration and Identity Action Plan. This sets out how the Border and Immigration Agency will put in place an effective approach to managing the identity of foreign nationals to help secure our borders, manage migration, cut illegal working and shut down fraudulent access to benefits and services.

The UK Borders Bill has since been introduced in Parliament to provide the additional powers needed to require foreign nationals in the UK to apply for Biometric Immigration Documents.

Cost estimates for bringing foreign nationals into the National Identity Scheme through the rollout of Biometric Immigration Documents have now been developed on the basis of the Borders Immigration and Identity Action Plan. These are set out in Section 3 of this report.

2. Cost estimates for British nationals

The legislation requires the Secretary of State to lay before Parliament a rolling ten year forecast of cost. To ensure clarity we present here costs for the period set out in our last cost report and detail alterations to the methodology, adjustments for increases and decreases in costs, and modifications to the time period and the inflation assumptions.

The costs reported in the previous cost report were as follows:

Table 1: Estimated total resource costs of providing passports and ID Cards to British and Irish citizens resident in the UK for October 2006 to October 2016 (as reported in October 2006).

Cost area	Cost for British and Irish citizens resident in the UK
Set-up	£290m
Operational	£5,130m
Total	£5,420m

Table 1

These costs are shown at 2006/7 prices and include provision for optimism bias (as defined by the Treasury Green Book) and contingency.

In updating the business case and cost report for the National Identity Scheme it was identified that the previous cost report included costs which were not public expenditure likely to be incurred on the National Identity Scheme. Specifically, the previous cost report included costs incurred by the Foreign and Commonwealth Office in running consular services abroad and recovered as a surcharge on the passport fee. The total FCO costs included in the previous cost report were £510m.

These costs should have been excluded as they do not form part of the costs of the National Identity Scheme. The table below sets out revised figures reflecting that exclusion.

Table 2: Estimated total resource costs of providing passports and ID Cards to British and Irish citizens resident in the UK for October 2006 to October 2016 (as reported in October 2006), excluding charges for consular services.

Cost area	Cost for British and Irish citizens resident in the UK
Set-up	£290m
Operational	£4,620m
Total	£4,910m

Table 2

These costs are shown at 2006/7 prices and include provision for optimism bias (as defined by the Treasury Green Book) and contingency.

In updating the business case since the publication of the last cost report, there have been changes to the cost estimates compared to the figures published previously. These changes reflect greater understanding of the work required and current experience of the Identity and Passport Service. Specifically:

- estimates of staff examining passport and ID Card applications have been increased in the early years and it has been assumed that future reductions in staff numbers will be achieved

later. This reflects current initiatives to increase counter-fraud measures and a decision to retain current staff levels until the improved systems made available by the National Identity Scheme are fully implemented. This provides increased confidence in our ability to continue to check applications and issue passports during the transition period;

- estimates of the staff necessary to deliver the National Identity Scheme and associated support functions have been increased to reflect the current view of the effort required; and
- estimates of production costs for future biometric passports have been reduced to reflect the experience gained in the recent successful introduction of ePassports.

The combined effect of these is an average increase of around £60m per annum in the years 2007/08 to 2013/14 and approximately £20m thereafter. The impact of these changes on the figures published in October 2006 is shown below.

Table 3: Estimated total resource costs of providing passports and ID Cards to British and Irish citizens resident in the UK for October 2006 to October 2016, excluding charges for consular services and including changes to the cost estimates.

Cost area	Cost for British and Irish citizens resident in the UK
Set-up	£300m
Operational	£5,010m
Total	£5,310m

Table 3

These costs are shown at 2006/7 prices and include provision for optimism bias (as defined by the Treasury Green Book) and contingency.

Tables 1, 2 and 3 above all cover the period October 2006 to October 2016 and are presented in 2006/7 prices. The requirement for this cost report is to present costs for the ten years from publication, i.e. April 2007 to April 2017. To update Table 3 to reflect the current period, two adjustments are required:

- estimated costs for the period from October 2006 to April 2007 (£200m) need to be subtracted, and estimated costs for the period October 2016 to April 2017 (£300m) need to be added; and
- estimated costs need to be adjusted to 2007/8 prices (a 2.7% increase to allow for inflation).

The effect of these changes is shown below.

Table 4: Estimated total resource costs of providing passports and ID Cards to British and Irish citizens resident in the UK for April 2007 to April 2017.

Cost area	Cost for British and Irish citizens resident in the UK
Set-up	£300m
Operational	£5,250m
Total	£5,550m

Table 4

These costs are shown at 2007/8 prices and include provision for optimism bias (as defined by the Treasury Green Book) and contingency.

As with any cost estimates covering a ten year forward period, there are uncertainties. The estimates in this report are therefore subject to change in the light of new information or assumptions and there is a significant probability that the estimates will change in the light of further experience. In particular, it should be noted that costs are subject to the completion of a number of competitive

tendering processes, which have not yet started, and reflect the current view of the outcome of those processes. In addition, the cost estimates reflect a number of key assumptions around the number of applications for passports and/or ID Cards, the details of the application processes and achievable levels of staff productivity, all of which may well change in the light of more detailed work and practical experience.

The cost estimates presented above include:

- all resource set-up and operational costs;
- capital costs which are reflected in the costs above through annual depreciation charges;
- the cost of the National Identity Scheme Commissioner for completeness; and
- £85m of VAT that is unrecoverable to IPS but retained by HM Treasury[1] .

The cost estimates exclude costs falling to other organisations using ID Cards to verify identities. The decision to use ID Cards is for each organisation and will be based upon the benefits and costs that fall to each organisation. These costs are outside the scope of the requirements of section 37 of the Identity Cards Act 2006.

The estimates are gross costs and do not reflect income from fees and charges (e. g. the passport fee which in 2006/07 financial year just ended is estimated to provide £340m).

3. Cost estimates for foreign nationals

Amongst other things, the Identity Cards Act provides the means to incorporate the functionality of an ID Card into official documents such as immigration documents via a power known as designation. The Act does not impose any obligation to apply for a designated document or an ID Card. The UK Borders Bill, which is currently before Parliament, will provide powers to require third country nationals (i.e. from outside the European Economic Area) to apply for Biometric Immigration Documents. The power will be exercised incrementally via secondary legislation which will specify particular categories of foreign national who will be required to apply for Biometric Immigration Documents. Biometric Immigration Documents will in due course be designated under the Identity Cards Act powers. This will mean that a Biometric Immigration Document will have the functionality of an ID Card and the holder will also be subject to obligations such as registering changes of address with the National Identity Scheme.

The resource cost estimates for rolling out ID Cards to foreign nationals, under current planning assumptions, are shown in table 5 below. The costs comprise the current estimated costs of implementing Biometric Immigration Documents to foreign nationals applying to extend their leave in the UK between 2007 and 2017. From 2008, the Border and Immigration Agency will be rolling these out to replace the current vignette-based residence permits[2] with secure, biometric cards for migrants who apply to extend their leave to remain in the UK.

[1]VAT is not levied on the passport and will not be levied on ID Cards. Unrecoverable VAT refers to VAT paid to suppliers for the development and operation of parts of the infrastructure which cannot be recovered from HM Treasury and therefore must be recovered from fees for ID Cards, passports and services provided for organisations to verify a person's identity.

[2] A vignette is a sticker that is affixed to an applicant's passport or travel document.

Table 5: Incremental estimated resource costs for providing ID Cards to foreign nationals applying to extend their leave in the UK from April 2007 to April 2017[3].

Cost area	Cost for foreign nationals applying to extend their leave in the UK
Set-up	£40m
Operational	£160m
Total	£200m

Table 5

These cost estimates are shown at 2007/8 prices and include provision for optimism bias (as defined by the Treasury Green Book) and contingency.

These costs will be recovered through charges to the foreign nationals to whom cards are issued.

The costs are for all resource set-up and operational costs. Capital set-up costs are reflected in the costs above through annual depreciation charges.

The estimates include the costs of:

- application processing functions and interview offices where biometrics will be recorded;
- the contact centre which responds to queries and books appointment slots and the Border and Immigration Agency business and programme management functions;
- setting up the expanded common functions required;
- production of blank cards;
- personalisation of cards for customers;
- secure delivery of cards to customers; and
- costs associated with designating Biometric Immigration Documents as ID cards, for example, costs arising from the need to maintain data on the National Identity Register such as registering changes of address.

The costs exclude:

- casework carried out by the Border and Immigration Agency in the normal exercise of its immigration control functions;
- existing costs of the UKvisas Biometrics Programme;
- existing costs of issuing biometric Application Registration Cards (ARC) to asylum seekers;
- future costs of issuing ID Cards to other foreign nationals such as visa holders coming to the UK for extended periods, non-EEA foreign nationals already settled in the UK and EEA nationals (although it is anticipated that these groups will be included under the National Identity Scheme in due course); and
- identity checking services which are covered by the costs in Table 4 (apart from the ongoing development of the Border and Immigration Agency's current arrangements for checking the status of foreign nationals).

As with all cost estimates covering a ten year period, the estimates in this report are subject to change in the light of new information or assumptions. There is a significant probability that the estimates will change in the light of further experience.

In particular, it should be noted that costs are subject to the completion of a number

[3]Figures are for the current estimated costs for the provision of Biometric Immigration Documents to non-EEA foreign nationals applying to extend their leave to remain in the UK within the April 2007 – April 2017 period; this does not represent full coverage of all foreign nationals in the UK.

of competitive tendering processes, which have not yet started, and reflect the current view of the outcome of those processes. In addition, the cost estimates are based on a number of key assumptions about the entry of foreign nationals into the National Identity Scheme, the details of application processes and achievable levels of staff productivity, all of which may well change in the light of more detailed work and practical experience.

Appendix 1
The Identity Cards Act 2006

The Identity Cards Act 2006 establishes both the purposes of the Scheme and the context within which it can be used. The Scheme must provide a secure and reliable means for individuals in the United Kingdom to be able to prove their identity. It will also enable key basic facts about an individual to be checked or ascertained where it is necessary and in the public interest.

For the purposes of the Act, something is necessary and in the public interest if it is:

a) In the interests of national security;

b) For the purposes of the prevention and detection of crime;

c) For the purposes of the enforcement of immigration controls;

d) For the purposes of the enforcement of provisions on unauthorised working or employment;

e) For the purposes of securing the efficient and effective provision of public services.

A register of individuals will be established. This will be called the National Identity Register (NIR). The security and reliability of the NIR will be ensured by the Secretary of State. The Register will hold key identity information such as name, date and place of birth and gender. It will also hold details of addresses and documents already held by the card-holder such as passports or immigration documents. Each person's identity will be secured by the registering of a number of biometric identifiers, such as fingerprints and facial images. The recording of iris biometrics is also an option. The biometric information will make it much easier to detect attempts to record duplicate identities. As part of a number of methods offered to verify a person's identity, the introduction of biometrics will also enable individuals, when appropriate, to easily prove their identity to a high degree of assurance by providing a biometric for verification against the biometric recorded when the ID card was issued.

The Act allows the scheme to be rolled out by 'designation' of other Government-issued documents, such as the passport or immigration documents. This means that from the date of designation anyone applying for a designated document will be required to have their data entered into the Register. They will then receive an ID card (those applying for a passport before 1st January 2010 could opt not to be issued with a card). This system of designation will help to ensure that the scheme is rolled out in a manageable and efficient way.

The Act also allows for the provision of information from the Register. This will primarily be with consent, for example, when an individual is opening a bank account and gives the bank permission to confirm his or her identity. Information will only be provided without consent

to organisations such as the police and security services that are specified on the face of the Act. Information without consent could also be provided to accredited public organisations such as government departments where that has been approved by Parliament through further secondary legislation.

A National Identity Scheme Commissioner is to be appointed in order to keep the operation of the scheme under review. The Commissioner's role will include reviewing the arrangements for ensuring the scheme's integrity and confidentiality and the arrangements for dealing with complaints. The Commissioner will also report to the Secretary of State on these issues and these reports will be published to Parliament.