

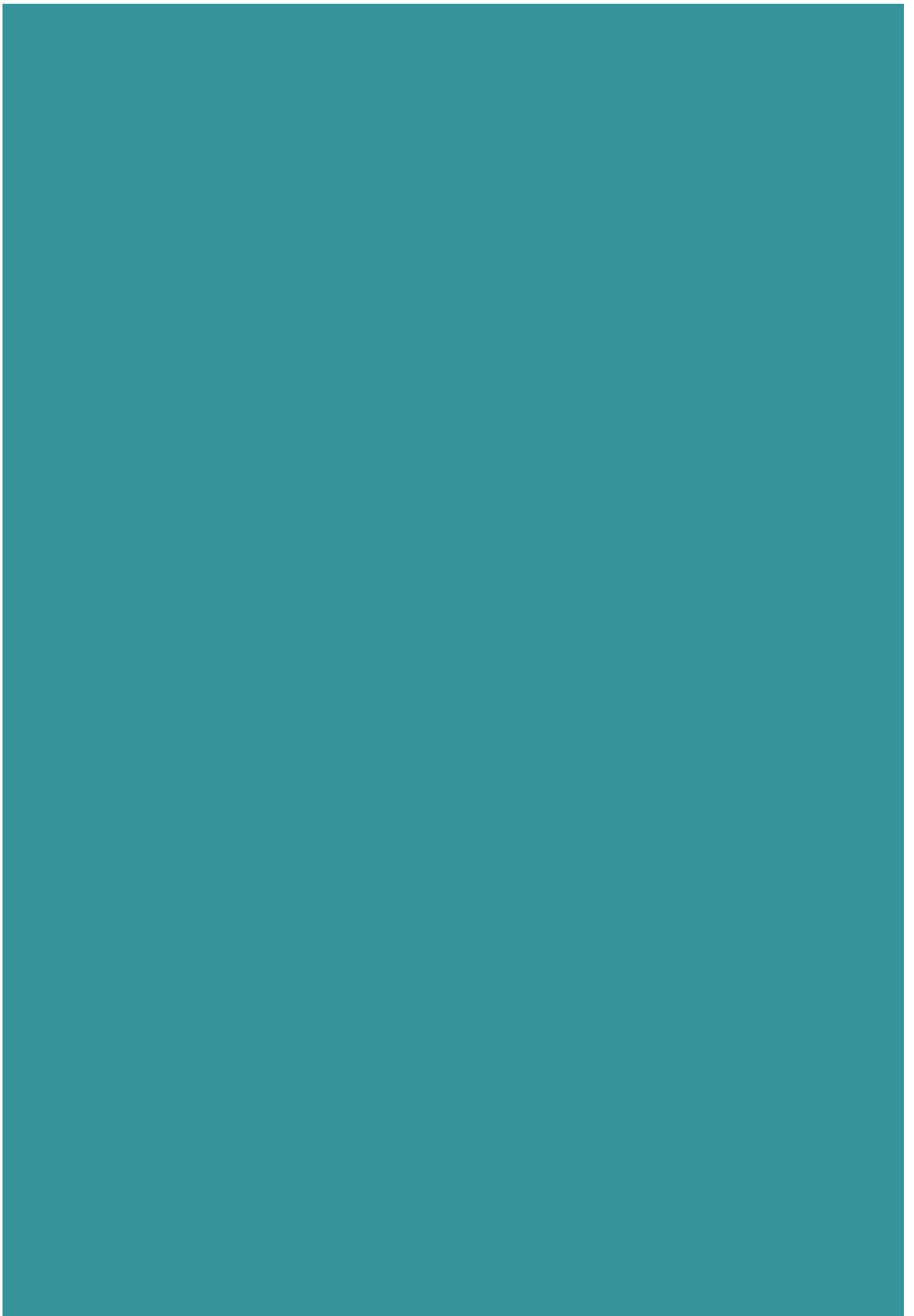
Identity Cards Scheme Cost Report

November 2007

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


Home Office

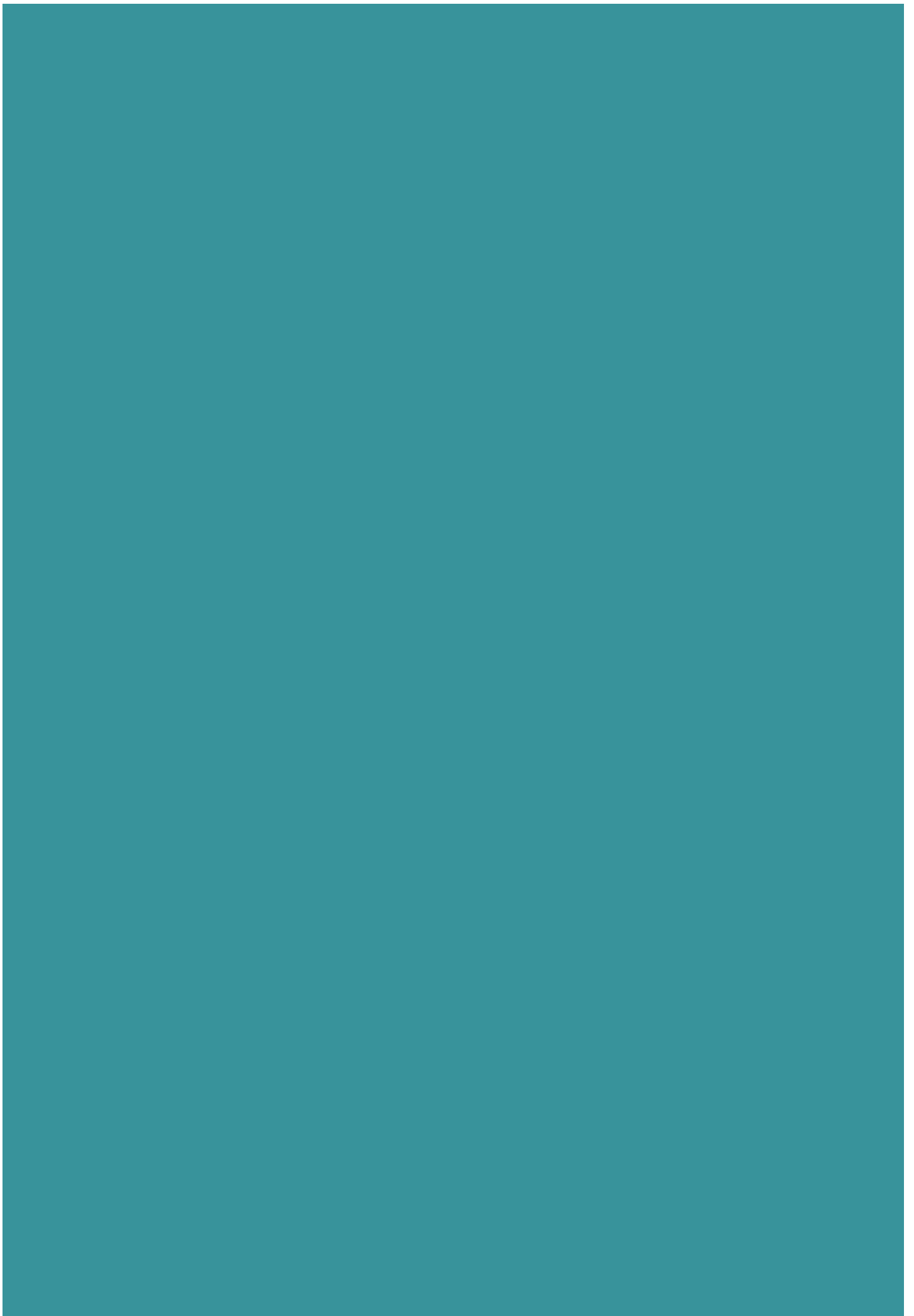
**Identity &
Passport Service**



Identity Cards Scheme Cost Report

November 2007

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



Contents

1. INTRODUCTION	3
1.1 The National Identity Scheme	3
1.2 The Strategic Action Plan	3
1.3 Developments over the last six months	4
1.4 Foreign Nationals	5
2. COST ESTIMATES FOR BRITISH NATIONALS	6
2.1 Previous Estimates of Cost	6
2.2 Current Estimates of Cost	6
2.3 Further Cost Analysis	8
2.4 Cost Make-Up	8
3. COST ESTIMATES FOR FOREIGN NATIONALS	10
3.1 Previous Estimates of Cost	10
3.2 Current Estimates of Cost	11
A1. THE IDENTITY CARDS ACT 2006	13

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 third such report to be laid before Parliament. This Cost Report is based on a number of key assumptions and is the best possible estimate of the cost of the National Identity Scheme at this time. As with any cost estimates covering a ten year forward period, there are considerable 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 Identity and Passport Service (IPS) has recently placed a notice in the Official Journal of the European Union for a strategic supplier framework. Over time, with the letting of these contracts, the Cost Report will reflect supplier quotes and contractual agreements. Where cost variations have arisen since the publication

of the last Cost Report, these are described later in this document.

This Cost Report presents gross costs, the majority of which will be covered by income from products and services. We have not included an estimate of this income as this depends on the future fee strategy and the emerging market in Identity Services.

1.2 The Strategic Action Plan

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. The Cost Report published in May 2007 was based on the assumptions and milestones set out in that Plan and was aligned with the last version of the Scheme Business Case. The Scheme Business Case will continue to be updated periodically in line with the key stages

in the lifecycle of the National Identity Scheme. Those updates therefore 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 Scheme will make it much more difficult for the many different types of identity fraud e.g. false identities, stolen identities etc, to be perpetrated;
- **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;
- **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.

1.3 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:

- Interviews of first time adult passport customers commenced in May 2007 in a limited number of interview offices; with further offices planned to be added progressively to the end of 2007;
- A joint IPS/Criminal Records Bureau trial, undertaken during June 2007 and

involving 160 volunteers across England and Wales, has demonstrated how the Scheme will help make the process of background checks more secure, and much faster, reducing turnaround times from four weeks to four days;

- In June, IPS and the Border and Immigration Agency began piloting an Employers' Checking Service, which will allow employers to check the validity of British passports presented as evidence of identity and the right of applicants to live and work in the UK. In a separate initiative, IPS began working with the retail industry on how to standardise proof of age checks for sales of restricted goods such as knives, solvents and alcohol;
- The first phase of the UKvisas Biometrics Programme (capturing ten digital fingerprints from visa applicants) has been rolled out. At the end of October 2007, fingerprints were being successfully collected and checked in 111 countries worldwide. Roll-out to the rest of UKvisas' posts will be complete by the end of 2007/08. To date, over 850,000 sets of prints have been collected, with some 8,750 matches to prints previously taken in the UK. Biometric visas are a vital part of the Government's strategy of strengthening the UK borders, although the costs of implementing the biometric visa are not part of the National Identity Scheme;
- IPS has published a notice in the Official Journal of the European Union inviting expressions of interest from potential suppliers. This paves the way for a Framework Agreement, a contract which creates a list of pre-qualified suppliers, along with a set of agreed contract terms. IPS will then be able to procure its requirements from this

pool of suppliers, as and when required. The Framework will also encompass related procurements across the Home Office, such as existing plans to enhance passport security, and Border and Immigration Agency projects to strengthen border control and enforce immigration rules. The procurement approach will select a small group of the best suppliers in the market for the required services. These suppliers will work with IPS and its partner agencies to deliver capabilities for the Scheme.

1.4 Foreign Nationals

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 Act 2007, which received Royal Assent on 31 October 2007, will 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 roll-out 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.

2.1 Previous Estimates of Cost

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 April 2007 to April 2017 (as reported in May 2007)

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

Table 1

These costs are shown at 2007/08 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:

- Reduction in forecast future passport volumes, due to customers delaying

passport renewals, resulting in lower operating costs of £85m;

- Reduction in the assumed unit based cost of producing and delivering passports and identity cards containing a fingerprint biometric of £100m.

The combined effect of these is a net decrease of around £185m in operating costs over the ten year Cost Report period. The impact of these changes on the figures published in May 2007 is shown below.

Table 2: 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, including changes to the cost estimates

Cost area	Cost for British and Irish citizens resident in the UK
Set-up	£285m
Operational	£5,080m
Total	£5,365m

Table 2

These costs are shown at 2007/08 prices and include provision for optimism bias (as defined by the Treasury Green Book) and contingency.

2.2 Current Estimates of Cost

Tables 1 and 2 above cover the period April 2007 to April 2017 and are presented in 2007/08 prices. The requirement for this Cost Report is to present costs for the ten years from publication, i.e. October 2007 to October 2017.

To update Table 2 to reflect the current period, estimated costs for the period from April 2007 to October 2007 (£240m) need to

be subtracted, and estimated costs for the period April 2017 to October 2017 (£305m) need to be added. The effect of these changes 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 2007 to October 2017

Cost area	Cost for British and Irish citizens resident in the UK
Set-up	£245m
Operational	£5,185m
Total	£5,430m

Table 3

These costs are shown at 2007/08 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 reflect the estimated outcome of a number of competitive tendering processes, the first of which has only recently commenced. In addition, the cost estimates reflect a number of key assumptions around the number of applications for passports and/or identity cards, the operation of the enrolment 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 above costs through annual depreciation charges;
- The cost of the National Identity Scheme Commissioner for completeness;
- £70m of VAT that is unrecoverable to IPS but retained by HM Treasury¹.

The cost estimates presented above exclude:

- Costs falling to other organisations using ID cards to verify identities. The decision to use ID cards will be based upon the benefits and costs that fall to each organisation;
- Costs incurred by the Foreign and Commonwealth Office in running consular services abroad and recovered as a surcharge on the passport fee. 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. Currently the costs of passport production are met from fee income (an estimated £384m in 2007/08). The future development of a Fee Strategy will set the parameters for income and thus the net costs of providing passports and ID cards.

¹VAT 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 identity cards, passports and services provided for organisations to verify a person's identity.

2.3 Further Cost Analysis

The figures in Table 3 show how the estimated costs of the Scheme comprise set-up and on-going operating costs. The cost estimates of the Scheme can also be analysed between those specifically relating to the passport or ID card and those costs in support of both, known as common costs. These costs can also be analysed over the ten year Cost Report period. This analysis is shown overleaf in Table 4:

Table 4 also indicates the volume of passports and identity cards predicted to be issued each year over the Cost Report period. The full cost of registering individuals for passports and ID cards is included in common costs because the same technology infrastructure and business processes will be used. In many cases, the same application will result in the issue of both a passport and an ID card.

2.4 Cost Make-Up

The implementation of the scheme will result in IPS focusing on key business areas. This is illustrated in the following chart which identifies that the largest business area, in terms of cost will be the manufacture and distribution of biometric passports and identity cards (28 per cent). The cost of the necessary technology infrastructure will account for less than a quarter (23 per cent) of all costs. The wholly “customer-facing” functions of enrolment offices and the customer contact centre will account for almost a fifth (17 per cent) of all costs.

Average percentage expenditure by cost area 2007/08 to 2017/18

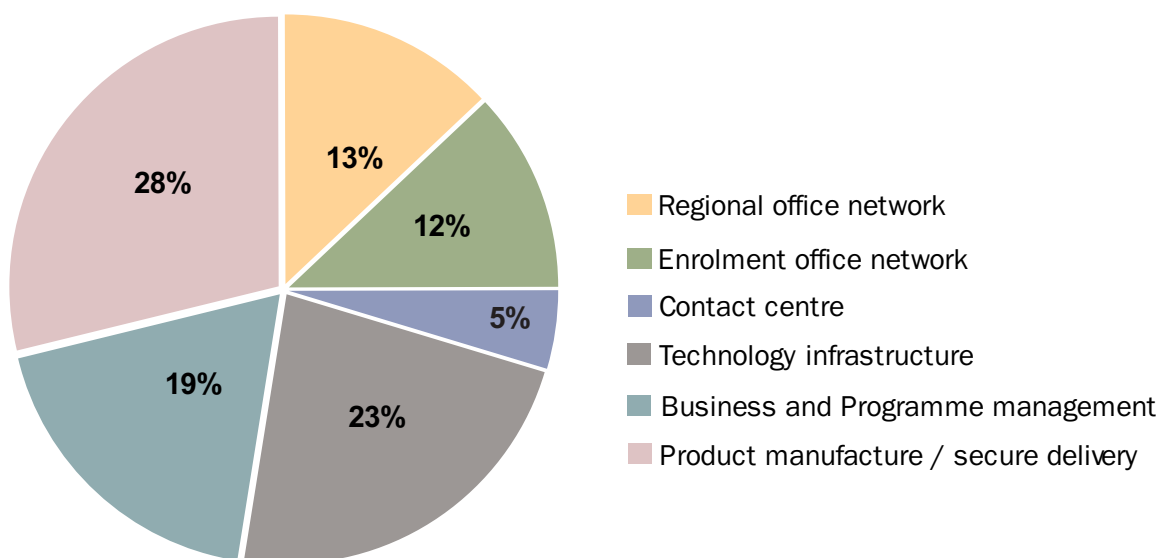


Table 4: Estimated annual resource costs of providing passports and ID Cards to British and Irish citizens resident in the UK for October 2007 to October 2017

	6 month period ending 31-Mar-08	Year ending 31-Mar-09	Year ending 31-Mar-10	Year ending 31-Mar-11	Year ending 31-Mar-12	Year ending 31-Mar-13	Year ending 31-Mar-14	Year ending 31-Mar-15	Year ending 31-Mar-16	Year ending 30-Mar-17	6 month period ending 30-Sep-17	Total
Common to Passports & ID Cards	£36	£63	£130	£375	£370	£380	£375	£360	£350	£355	£170	£2,964
Passport Specific	£164	£342	£300	£120	£105	£80	£85	£85	£85	£65	£30	£1,461
ID Card Specific	£10	£30	£40	£105	£100	£125	£130	£130	£125	£140	£70	£1,005
TOTAL	£210	£435	£470	£600	£575	£585	£590	£575	£560	£560	£270	£5,430
Annual volume of products issued (millions)	5.8	5.6	5.9	9.4	10.2	11.2	11.6	11.7	11.8	10.4	11.3	

Table 4

3. Cost Estimates for Foreign Nationals

Amongst other things, the Identity Cards Act 2006 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 Act 2007, which received Royal Assent on 31 October 2007 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 nationals who will be required to apply for Biometric Immigration Documents. Biometric Immigration Documents will in due course be designated under the Identity Card Act 2006 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 set out in in Table 5. The costs comprise the current estimated costs of providing 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 permits² with secure, biometric cards for migrants who apply to extend their leave to remain in the UK.

To ensure clarity, we present costs for the period set out in the last Cost Report and detail subsequent adjustments for changes in costs and modifications to the time period.

3.1 Previous Estimates of Cost

The costs reported in the previous Cost Report were as follows:

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 2017³

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 2007/08 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

² A vignette is a sticker that is affixed to a customer's passport or travel document.

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.

have been changes to the cost estimates compared to the figures published previously. These changes reflect greater understanding of the work required to deliver Biometric Immigration Documents, and in particular:

- Changes in volume projections;
- Reductions in the projected costs of recording fingerprint biometrics and producing and delivering Biometric Immigration Documents.

The combined effect of these is a net decrease of £24m in operating costs over the ten year Cost Report period. The impact of these changes on the figures published in May 2007 is shown in Table 6.

Table 6: 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, including changes to cost estimates

Cost area	Cost for foreign nationals applying to extend their leave in the UK
Set-up	£39m
Operational	£137m
Total	£176m

Table 6

These cost estimates are shown at 2007/08 prices and include provision for optimism bias (as defined by the Treasury Green Book) and contingency.

3.2 Current Estimates of Cost

Tables 5 and 6 cover the period April 2007 to April 2017 and are presented in 2007/08 prices. The requirement for this Cost Report, however, is to present costs for the ten years from publication, i.e. October 2007 to October 2017.

To update Table 6 to reflect the current period, estimated costs for the period April 2007 to October 2007 (£1m) need to be subtracted and estimated costs for the period April 2017 to October 2017 (£7m) need to be added. The effect of these changes is shown in Table 6.

Table 7: Incremental estimated resource costs for providing ID cards to foreign nationals applying to extend their leave in the UK from October 2007 to October 2017

Cost area	Cost for foreign nationals applying to extend their leave in the UK
Set-up	£38m
Operational	£144m
Total	£182m

Table 7

These cost estimates are shown at 2007/08 prices and include provision for optimism bias (as defined by the Treasury Green Book) and contingency.

These costs will be fully recovered through charges to those 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 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;
- Delivery of cards to customers;
- 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 of competitive tendering processes 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 and 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, 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 1 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 to authorised individuals. 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.