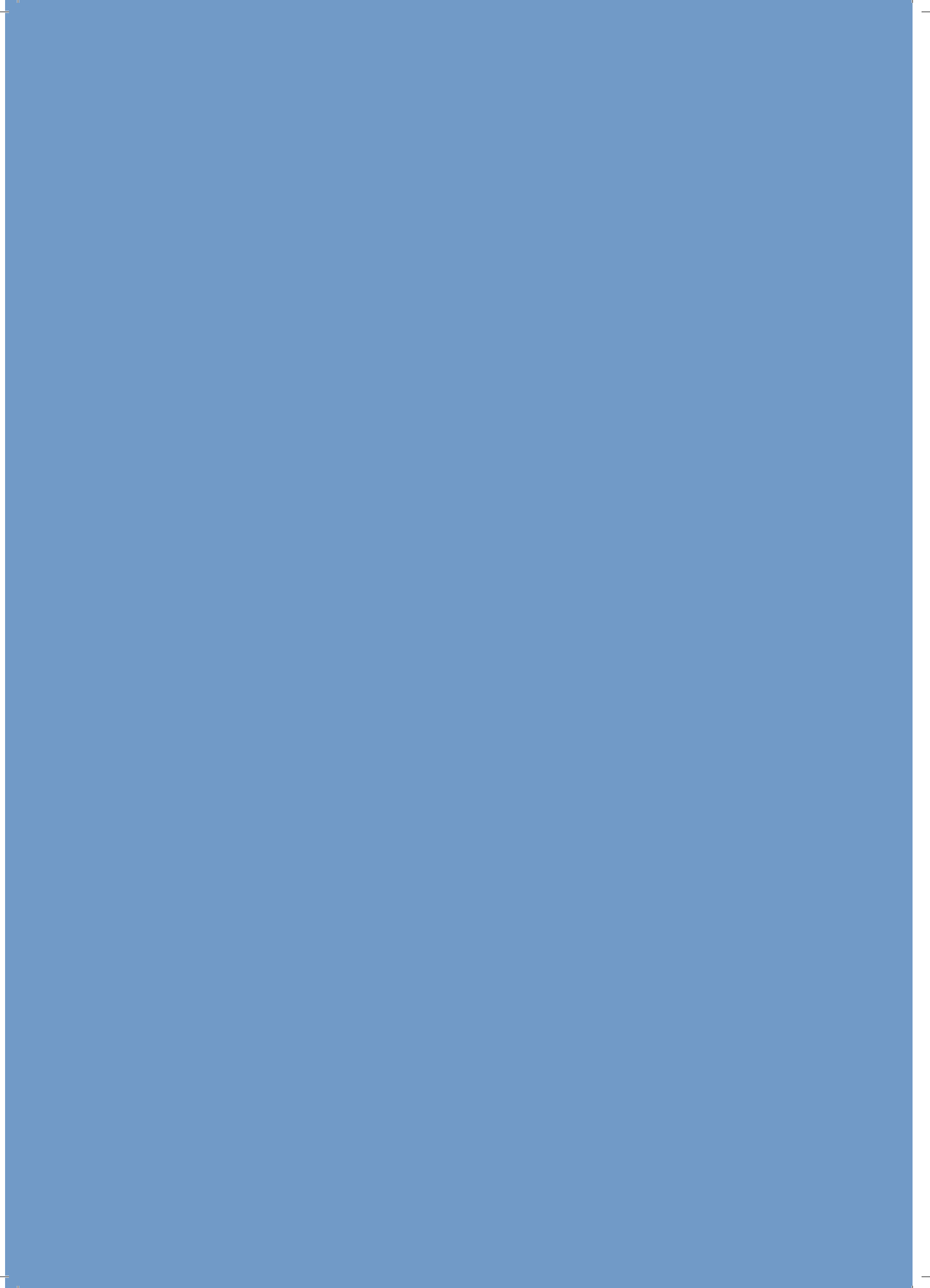


National Identity Service Cost Report October 2009

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



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IDENTITY CARDS ACT 2006 – SECTION 37 REPORT TO
PARLIAMENT ABOUT THE LIKELY COSTS OF THE ID
CARDS SCHEME

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Table of contents

1. Introduction	2
1.1 The National Identity Service	2
1.2 National Identity Service Delivery Update 2009	2
1.3 Developments over the last 6 months	3
1.4 Foreign nationals	3
2. Cost estimates for British nationals	5
2.1 Previous estimates of cost	5
2.2 Current estimates of cost	5
2.3 Further cost analysis	7
2.4 Cost make-up	8
3. Cost estimates for foreign nationals	9
3.1 Previous estimates of cost	9
3.2 Current estimates of cost	10
Appendix 1. The Identity Cards Act 2006	13

1

Introduction

1.1 The National Identity Service

The Identity Cards Act received Royal Assent on 30 March 2006. It establishes in statute the framework for a National Identity Service. This Service will be available to everyone aged 16 or over who is legally resident in the United Kingdom for a specified period, eventually 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 Service over the following ten years. This is the seventh 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 Service at this time.

In April 2009, the Identity and Passport Service (IPS) awarded contracts for upgrading IPS's application and enrolment system, and providing the biometric matching and storage capability to support the introduction of biometric passports and identity cards. In June 2009, IPS awarded a contract for the design and production of the next generation of biometric passports. The cost estimates reflect these contractual agreements and have been formulated using the latest volumetric estimates of product take-up and choice. Where cost variations have arisen since the publication of the last Cost Report, these are described later in this document.

As with any cost estimates covering a ten year forward period, there remain 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.

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 which is currently being developed, as well as the emerging market in Identity Services.

1.2 National Identity Service Delivery Update 2009

The National Identity Service Delivery Update 2009 was published by the Home Office in May 2009. This update outlines the progress made since publication of the National Identity Scheme Delivery Plan in March 2008.

The Delivery Update can be accessed via the IPS website at:

http://www.ips.gov.uk/cps/files/ips/live/assets/documents/Doc_D_IPS_delivery_report_8.pdf

1.3 Developments over the last 6 months

Since the publication of the last Cost Report, work to prepare for the implementation of the National Identity Service has continued. In particular, over the past six months:

- Following on from the contracts awarded in April 2009 for upgrading IPS's application and enrolment system, and providing the biometric matching and storage capability to support the introduction of biometric passports and identity cards, IPS awarded the contract for 'Passport Design and Production' in June 2009. The passport will have a new design and improved security features, including the capacity to hold fingerprint biometrics.
- On 30 June 2009, the Home Secretary announced his plans for the accelerated rollout of identity cards. In addition to residents of Greater Manchester, who will be able to apply for an identity card before the end of this year, residents in additional locations in the North West will be entitled to apply in 2010.
- On 14 September 2009, the appointment of the first Identity Commissioner, Sir Joseph Pilling, was announced. The new Identity Commissioner will act independently and on behalf of the public to ensure that information held on the National Identity

Register is accurate and secure as well as monitoring the use identity cards are put to by both public and private sectors.

- The UK Border Agency (UKBA) launched identity cards for foreign nationals on 25 November 2008 and has already met its pledge to issue 75,000 cards by November 2009. The Home Secretary has also recently announced plans to accelerate the successful roll out of identity cards for foreign nationals to include those applying to extend their stay in the UK under Tier 2 of the Points Based System.
- The image of the identity card for British citizens was officially unveiled by the Home Secretary on 30 July 2009 in Manchester and London. It will hold similar information to that currently contained in the UK passport as well as a photograph and fingerprints on a secure electronic chip - linking the owner of the card securely to their unique biometric identity.

1.4 Foreign nationals

Identity cards for foreign nationals are the first part of the National Identity Service and are being rolled out so all new entrants and those extending their stay will have a card within three years.

This will help keep our borders strong, and will provide additional protection against illegal immigration and illegal employment. The card provides evidence of the holder's nationality, identity and

status in the United Kingdom. It will provide information that will help public agencies, employers and educational establishments easily understand the entitlements for individual migrants.

Identity cards for foreign nationals are building on existing technology in place to protect the UK from illegal immigration. Already over 4 million people have been fingerprinted and thousands of cases of identity fraud have been identified. Frontline staff working in France and Belgium have, over the past five years, stopped over 88,500 attempts by people trying to enter the UK illegally, around 61,000 of which were in Calais. The electronic borders system, e-Borders, also allows UKBA staff to capture passenger information in advance of travel to or from the UK for analysis. Between April 2005 to July 2009 this technology has screened over 104m passenger movements, leading to more than 3,700 arrests, for crimes including murder, rape and assault and significant counter terrorist interventions.

UKBA has already started issuing cards to those non EEA foreign nationals extending their stay in the UK as students and under marriage / civil partnership immigration categories. From 31 March

this was extended to cover extensions to leave in the UK in the following extensions immigration categories:

- Academic visitors for leave of more than 6 months
- Visitors for private medical treatment
- Domestic workers in a private household
- UK Ancestry
- Retired persons of independent means
- Sole representatives (overseas employees recruited by an overseas company to act as their sole representative in the UK).

Additionally, those applying whilst in the UK for a transfer of existing conditions from a passport or other such document will also receive an identity card instead of a stamp or vignette, if their application is successful.

Cost estimates for bringing foreign nationals into the National Identity Service are set out in Section 3 of this Cost Report.

2

Cost estimates for British nationals

The legislation requires the Secretary of State to lay before Parliament a rolling ten year forecast of future costs. 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.

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 identity cards to British and Irish citizens resident in the UK from April 2009 to April 2019 (as reported in May 2009)

Cost Area	Cost
Set up costs	£245m
Operational costs	£4,700m
Total	£4,945m

These costs are shown at 2009/10 prices and include provision for optimism bias (as defined by the Treasury Green Book) and contingency.

Since the publication of the May 2009 Cost Report, cost estimates have been updated to reflect the recent contract awards. Cost estimates are based upon the latest volumetric estimates of product take-up and choice (including EEA/Swiss nationals resident in the UK). The overall impact of these changes is a cost reduction of £365m.

The impact of these changes on the figures published in May 2009 is shown below.

Table 2: Estimated total resource costs of providing passports and identity cards to British/Irish citizens and EEA/Swiss nationals resident in the UK from April 2009 to April 2019, including changes to the cost estimates

Cost Area	Cost
Set up costs	£450m
Operational costs	£4,130m
Total	£4,580m

These costs are shown at 2009/10 prices and include provision for optimism bias (as defined by the Treasury Green Book) and contingency.

2.2 Current estimates of cost

Table 1 and Table 2 above cover the period April 2009 to April 2019 and are presented in 2009/10 prices. The requirement for this Cost Report is to present costs for the ten years from publication, i.e. October 2009 to October 2019 in 2009/10 prices. To update Table 2 to show the current cost estimates, the following changes are made (see Table 3 overleaf):

Table 3: Estimated total resource costs of providing passports and identity cards to British/Irish citizens and EEA/Swiss nationals resident in the UK from October 2009 to October 2019

	Base Year	Cost
Revised Cost Estimates (as per table 2)	09/10	£4,580m
Deduct 6 months April 09 to Oct 09	09/10	(£205m)
Add 6 months April 19 to Oct 19	09/10	£200m
Current Cost Report	09/10	£4,575m

The set-up and operational cost breakdown for the current estimates is shown below.

Table 4: Estimated total resource costs of providing passports and identity cards to British/Irish citizens and EEA/Swiss nationals resident in the UK from October 2009 to October 2019

Cost Area	Cost
Set up costs	£395m
Operational costs	£4,180m
Total	£4,575m

These costs are shown at 2009/10 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 ongoing review and 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 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 Identity Commissioner¹
- VAT that is unrecoverable to IPS but retained by HM Treasury².

The cost estimates presented above exclude the costs falling to other organisations using identity cards to verify identities. The decision to use identity cards will be based upon the benefits and costs that fall to each organisation.

¹ Known as the National Identity Scheme Commissioner in legislation
² 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 identity cards, passports and services provided for organisations to verify a person's identity.

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. The future development of a fee strategy will set the parameters for income and thus the net costs of providing passports and identity cards.

2.3 Further cost analysis

The figures in Table 4 above show how the estimated costs of the Service comprise set-up and on-going operating costs. The cost estimates of the Service can also be analysed between those specifically relating to the passport or identity card and those costs in support of both, known as common costs. Since the last Cost Report, these estimates have been refined to reflect the latest picture of expected costs and the

outcome of recent procurements. These costs can also be analysed over the ten year Cost Report period. This analysis is shown in Table 5.

The full cost of registering individuals for passports and identity cards is included in common costs as 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 identity card.

Table 5 also indicates the volume of passports and identity cards predicted to be issued each year over the Cost Report period. The volumetric estimates show total products issued, including transactions associated with the replacement of lost or damaged items.

Table 5: Estimated annual resource costs of providing passports and identity cards to British/Irish citizens and EEA/Swiss nationals resident in the UK from October 2009 to October 2019

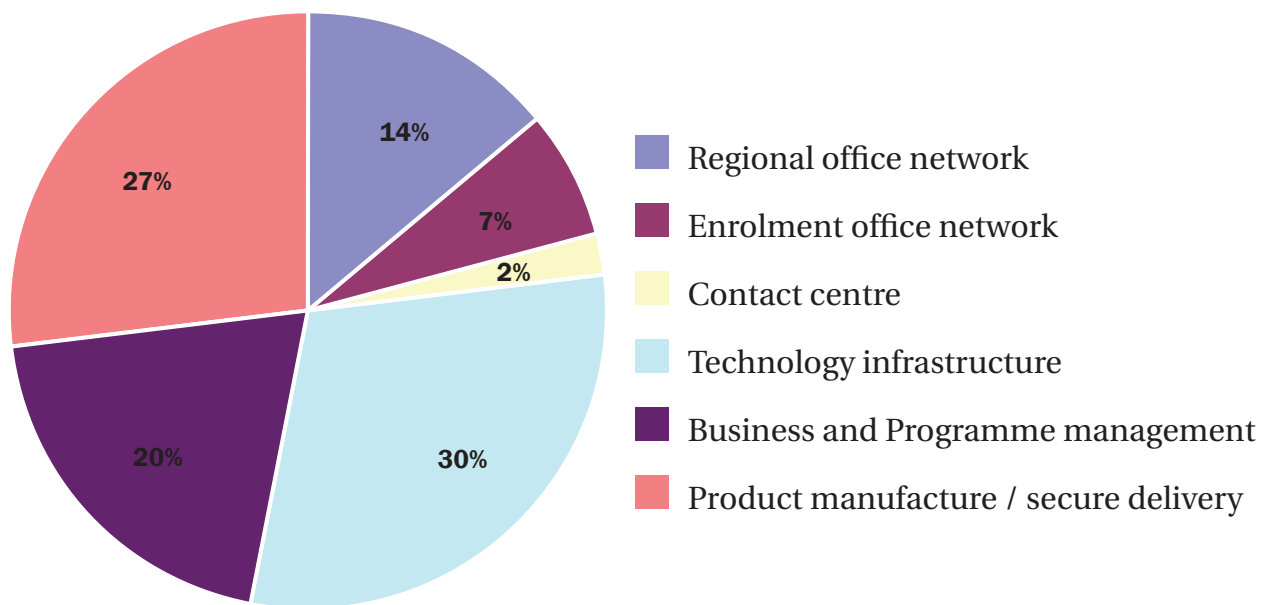
Cost area	6 months period ending 31-Mar-10	Year Ending 31-Mar-11	Year Ending 31-Mar-12	Year Ending 31-Mar-13	Year Ending 31-Mar-14	Year Ending 31-Mar-15	Year Ending 31-Mar-16	Year Ending 31-Mar-17	Year Ending 31-Mar-18	Year Ending 31-Mar-19	6 months period ending 30-Sep-19	Total
Common passport & identity cards	£150m	£265m	£325m	£355m	£335m	£315m	£305m	£290m	£270m	£280m	£135m	£3,025m
Passport specific costs	£40m	£125m	£80m	£70m	£65m	£65m	£60m	£60m	£60m	£60m	£30m	£715m
Identity card specific costs	£15m	£45m	£55m	£75m	£105m	£105m	£100m	£105m	£100m	£95m	£35m	£835m
Total	£205m	£435m	£460m	£500m	£505m	£485m	£465m	£455m	£430m	£435m	£200m	£4,575m
Product volume (millions)	2.6	5.4	5.8	8.4	9.4	9.9	10.4	10.6	10.2	10.2	5.3	88.2

2.4 Cost make-up

The implementation of the Service will result in IPS focussing on key business areas. This is illustrated in the following chart which identifies that the two largest business areas, in terms of cost, will be the manufacture and distribution of biometric passports and identity cards (27%), and the supporting technology infrastructure (30%).

The wholly “customer-facing” functions of enrolment offices and the customer contact centre will account for 9% of all costs.

Percentage expenditure by cost area over the Cost Report period



3

Cost estimates for foreign nationals

Amongst other things, the Identity Cards Act provides the means to incorporate the functionality of an identity 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 identity card. The UK Borders Act 2007 provides powers to require third country foreign nationals (i.e. from outside the European Economic Area) to apply for identity cards (known in legislation as biometric immigration documents). The power is being exercised incrementally via secondary legislation which will specify particular categories of foreign national who will be required to apply for identity cards. In due course these will be designated under the Identity Cards Act powers which will mean that they have the functionality of an identity card and the holder will also be subject to obligations such as registering changes of address with the National Identity Service.

The resource cost estimates for rolling out identity cards to foreign nationals under current planning assumptions are shown below. These planning assumptions include the changes due to the accelerated roll out which were recently announced. The costs comprise the current estimated costs of implementing identity cards for foreign nationals between 2009 and 2019. Under current planning assumptions new applicants will be covered within three years of starting roll out. By the end of 2014/15 90% of all non EEA foreign nationals will have an identity card.

UKBA are rolling these out to replace the current vignette-based residence permits³ and to supplement paper-based visas with secure, biometric cards for visa holders and migrants who apply to extend their leave to remain in the UK. The costs include the cost of issuing identity cards to those foreign nationals subject to immigration control who are already settled 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, the revised roll out strategy and modifications to the time period.

3.1 Previous estimates of cost

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

Table 6: Incremental estimated resource costs for providing identity Cards to foreign nationals applying to extend their leave in the UK from April 2009 to April 2019⁴

Cost Area	Cost
Set up	£35m
Operational	£344m
Total	£379m

These cost estimates are shown at 2009/10 prices and include provision for optimism bias (as defined by the Treasury Green Book) and contingency.

³ A vignette is a sticker that is affixed to an applicant's passport or travel document.

⁴ 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 2009 – April 2019 period; this does not represent full coverage of all foreign nationals in the UK.

In updating the cost assumptions since the publication of the previous Cost Report, there have been some changes regarding the profile of the foreign national identity cards we plan to issue which have resulted in reduced cost estimates. UKBA has also aligned its longer term biometric enrolment strategy with that for the wider NIS which is to use an open market for provision of these services. This has also led to a cost saving. These changes to cost estimates result in a real decrease of £74m over the ten year period.

These costs will be fully recovered through charges to the foreign nationals to whom cards are issued. The impact of these changes on the figures published in May 2009 is shown below.

Table 7: Incremental estimated resource costs for providing identity Cards to foreign nationals applying to extend their leave in the UK from April 2009 to April 2019, including changes to cost estimates

Cost Area	Cost
Set up	£32m
Operational	£273m
Total	£305m

These cost estimates are shown at 2009/10 prices and include provision for optimism bias (as defined by the Treasury Green Book) and contingency.

3.2 Current estimates of cost

Table 6 and Table 7 above cover the period April 2009 to April 2019. However the requirement for this Cost Report is to present costs for the ten years from publication, i.e. October 2009 to October 2019. Starting from the recalculated costs shown in Table 7, the following changes have been made to show the current cost estimates for the new period October 2009 to October 2019:

Table 8: Incremental estimated resource costs for providing ID Cards to foreign nationals applying to extend their leave in the UK from October 2009 to October 2019

	Base Year	Cost
Revised Cost Estimates (as per table 7)	09/10	£305m
Deduct 6 months Apr 09 to Oct 09	09/10	(£9m)
Add 6 months Apr 19 to Oct 19	09/10	£13m
Current Cost Report	09/10	£309m

The set-up and operational cost breakdown for the current estimates is shown below.

Table 9: Incremental estimated resource costs for providing identity Cards to foreign nationals applying to extend their leave in the UK from October 2009 to October 2019

Cost Area	Cost
Set up	£28m
Operational	£281m
Total	£309m

These cost estimates are shown at 2009/10 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 in the UK
- Incremental cost of issuing identity cards to visa holders
- Incremental cost of issuing cards to the foreign national settled population
- The contact centre which responds to queries and books appointment slots and UKBA business and programme management functions

- Setting up the expanded common functions required
- Production of blank cards
- Personalisation of cards for customers
- Costs of securely delivering cards to those extending their stay in the UK
- Costs of additional fingerprint checks against police databases for those extending their stay and those already settled in the UK, and
- Costs associated with designating biometric immigration documents as identity 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 UKBA in the normal exercise of its immigration control functions and any casework that might arise from issuing cards to the settled population
- Costs to customers choosing to make use of the open market provided enrolment option rather than visiting a Home Office enrolment location
- Existing costs of the biometric visas programme
- Existing costs of issuing biometric Application Registration Cards (ARC) to asylum seekers

- Future costs of issuing identity cards to EEA nationals, and
- Identity checking services (apart from the ongoing development of UKBA's current arrangements for checking the status of foreign nationals).

Delivery of value for money is at the heart of our expenditure decisions. IPS and UKBA will continue to look for opportunities and expect to reduce costs. This could include joint delivery of services such as application and enrolment and card production.

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, especially as the profile of foreign nationals expected to be issued with cards is subject to changes in migration patterns.

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 Service, 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 Service and the context within which it can be used. The Service 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 identity card was issued.

The Act allows the Service 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 identity card or passport or both products. This system of designation will help to ensure that the Service 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.

An Identity Commissioner, known as the National Identity Scheme Commissioner in legislation, has been appointed in order to keep the operation of the Service under review. The Commissioner's role will include reviewing the arrangements for ensuring the Service'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.

