Identity Cards Scheme Cost Report

May 2008

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

Home Office
Identity & Passport Service

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Contents

1. Summary

This Cost Report is the first since the publication of the National Identity Scheme Delivery Plan and the announcement by the Home Secretary on 6th March.

1.1 National Identity Scheme Delivery Plan 2008

The National Identity Scheme Delivery Plan 2008 was published by the Home Office in March 2008. This document sets out how the Government will deliver the National Identity Scheme, how the scheme will work and how it will be operated.

The Delivery Plan updates the Strategic Action Plan published in 2006, which was the basis of the Cost Report issued in November 2007. The plans remain consistent, but have been refined in two key ways:

- We are taking a twin track approach to delivery, to meet more quickly the key objectives of the Scheme to both increase public protection and make life easier
- We will increase the choices available to people in various aspects of the Scheme.

A great deal of progress has been made over the last year, both in improving and implementing the identity related services delivered today, and in refining plans to develop the Scheme and provide the benefits as quickly as possible. Details of these developments are contained in the Delivery Plan and so are not repeated here. The Delivery Plan can be accessed via the IPS website at: www.ips.gov.uk/identity/downloads/national-identity-scheme-delivery-2008.pdf.

The proposed approach and key milestones contained in the Delivery Plan are the basis for the cost estimates contained in this report.

1.2 Cost Estimates in this Cost Report

This report describes the savings that have been identified since the publication of the previous Cost Report in November 2007. A precise comparison can be made by using the same period covered by the last Cost Report i.e. October 2007 to October 2017. The saving is £975m including the impact of inflation over the ten year period. Costs have reduced for the following reasons:

- The estimated profile of issuing fingerprint biometric ID Cards and passports has changed to a more gradual roll out from 2009 but a faster roll out from 2012, resulting in an overall increase in costs
- The introduction of ID Cards in 2009, aimed at people working in sensitive areas of national infrastructure, and the issue of identity cards in 2010 to young people who want them

- The estimated cost of replacing the current passport application system has been reduced following more detailed analysis
- In order to enrol fingerprint and photograph biometrics in the most convenient and cost-effective way, we now plan to provide this through the open market. This will result in a cost reduction.

The costs for enrolling foreign nationals have been updated to reflect the revised roll out strategy, also announced by the Home Secretary on 6 March. Costs for issuing ID Cards to foreign nationals now stand at £311 million. This roll out strategy will see the UK Border Agency issuing a greater number of cards much quicker. All new applicants are now to be included in the Scheme within three years, and ID Cards will also be issued to the settled population resulting in 90% of all foreign nationals having an ID Card by the end of 2014/15.

2. Introduction

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 fourth 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 placed a notice in the Official Journal of the European Union for a strategic supplier framework and is currently in dialogue with potential suppliers about the service contracts the Scheme requires. 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.

3. 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.

3.1 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 October 2007 to October 2017 (as reported in November 2007)

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

These costs are shown at 2007/8 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 IPS. Specifically:

- The estimated profile of issuing fingerprint biometric ID Cards and passports has changed to a more gradual roll out from 2009 but a faster roll out from 2012, resulting in an overall increase in costs
- The introduction of ID Cards in 2009, aimed at people working in sensitive areas of national infrastructure, and the issue of identity cards in 2010 to young people who want them
- The estimated cost for replacing the current passport application system has been reduced following more detailed analysis
- In order to enrol fingerprint and photograph biometrics in the most convenient and cost-effective way, we now plan to provide this through the open market. This will result in a cost reduction.

The combined effect of these is a net decrease of around £975m in cost over the ten year Cost Report period including the impact of inflation, or £865m excluding the impact of inflation over the 10 year period. The impact of these changes on the figures published in November 2007 is shown in the following table.

Table 2: 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, including changes to the cost estimates

Cost Area	Cost for British and Irish citizens resident in the UK
Set up	£335m
Operational	£4,230m
Total	£4,565m

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

3.2 Current Estimates of Cost

Tables 1 and 2 above cover the period October 2007 to October 2017 and are presented in 2007/8 prices. The requirement for this Cost Report is to present costs for the ten years from publication, i.e. April 2008 to October 2018 in 2008/9 prices.

To update Table 2 to reflect the change from 2007/8 prices to 2008/9 prices an increase of £120m needs to be added to the estimates. Additionally, estimated costs for the period from October 2007 to April 2008 (£220m) need to be subtracted, and estimated costs for the period October 2017 to April 2018 (£275m) 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 April 2008 to April 2018

Cost Area	Cost for British and Irish citizens resident in the UK
Set up	£320m
Operational	£4,420m
Total	£4,740m

These costs are shown at 2008/9 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 Treasury[1].

The cost estimates presented above exclude the 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.

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 £383m in 2008/09). The future development of a Fee Strategy will set the parameters for income and thus the net costs of providing passports and ID Cards.

3.3 Further Cost Analysis

The figures in Table 3 above show how the estimated costs of the Scheme comprise of 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 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.

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

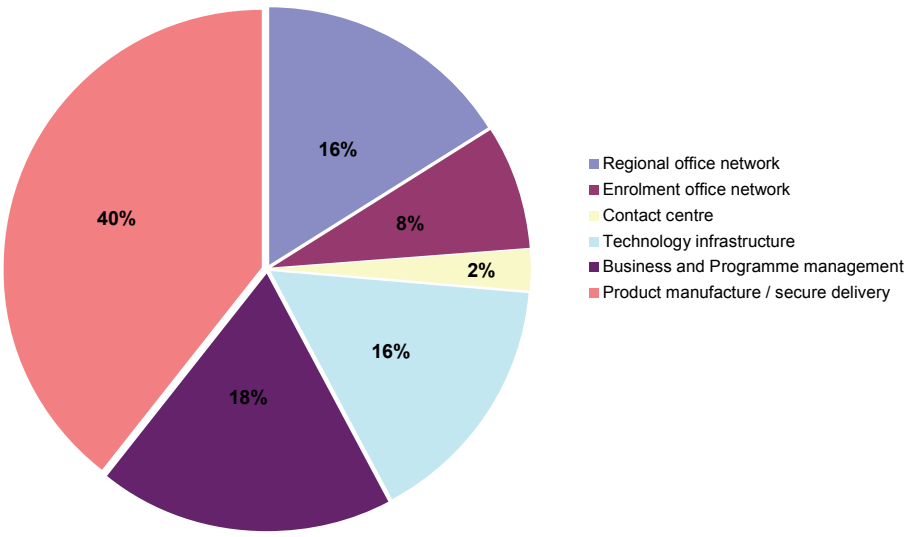
Table 4: Estimated annual resource costs of providing passports and ID cards to British and Irish citizens resident in the UK for April 2008 to April 2018

Cost area	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	Total
Common passport & identity card	£275m	£275m	£250m	£275m	£275m	£275m	£260m	£250m	£245m	£230m	£2,610m
Passport specific	£95m	£95m	£110m	£95m	£90m	£100m	£105m	£110m	£110m	£100m	£1,010m
Identity card specific	£25m	£45m	£55m	£90m	£140m	£115m	£155m	£165m	£165m	£165m	£1,120m
Total	£395m	£415m	£415m	£460m	£505m	£490m	£520m	£525m	£520m	£495m	£4,740m
Product volume (millions)	5.6	5.5	5.4	5.9	7.9	10.5	12.5	12.9	13.1	12.3	

3.4 Cost Make-Up

The implementation of the scheme will result in IPS focussing on key business areas. This is illustrated in the chart below which identifies that the largest business area, in terms of cost, will be the manufacture and distribution of biometric passports and identity cards (40%). The cost of the necessary technology infrastructure will account for less than a fifth (16%) of all costs. The wholly "customer-facing" functions of enrolment offices and the customer contact centre will account for 10% of all costs.

Average percentage expenditure by cost area 2008/09 to 2017/18



4. 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 Act 2007 provides powers to require third country foreign nationals (i.e. from outside the European Economic Area) to apply for ID Cards (known in legislation as 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 ID Cards. In due course these will be designated under the Identity Cards Act powers which will mean that they 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 below. These planning assumptions have been updated since the last Cost Report was issued in November 2007 to reflect the recently launched roll out strategy for identity cards for foreign nationals[2]. The costs comprise the current estimated costs of implementing identity cards for foreign nationals between 2008 and 2018. Our roll out will start in November 2008 and all new applicants will be covered within three years of starting roll out. By the end of 2014/15 90% of all foreign nationals will have an ID Card.

2 "Introducing compulsory identity cards for foreign nationals" can be found at http://www.bia.homeoffice.gov.uk/sitecontent/documents/managingourborders/compulsoryidcards/

The UK Border Agency will be rolling these out to replace the current vignette-based residence permits[3] 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 now also include the cost of issuing ID 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.

4.1 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 October 2007 to October 2017[4]

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

These cost estimates are shown at 2007/8 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 October 2007 – October 2017 period; this does not represent full coverage of all foreign nationals in the UK.

In updating the cost assumptions since the publication of the last Cost Report, there have been significant changes to the number of foreign national ID Cards we will be issuing, and to the cost estimates compared to the figures published previously. Previous Cost Reports have contained the costs of issuing cards to those extending their leave in the UK. Under the new roll out plans, the scheme will be extended to include other groups of foreign nationals. In particular:

- Those coming to the UK to work or study on visas valid for more than 6 months and
- Those foreign nationals already settled in the UK with indefinite leave to remain.

The combined effect of these is an increase of £7m in set-up costs and £112m in operating costs over the ten year Cost Report 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 November 2007 is shown below.

Table 6: Incremental estimated resource costs for providing ID Cards to foreign nationals from October 2007 to October 2017, including changes to cost estimates

Cost Area	Cost for foreign nationals
Set up	£45m
Operational	£256m
Total	£301m

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

4.2 Current Estimates of Cost

Tables 5 and 6 above cover the period October 2007 to October 2017 and are presented in 2007/8 prices. The requirement for this Cost Report is to present costs for the ten years from publication, i.e. April 2008 to April 2018.

To update table 6 to reflect the current period, estimated costs for the period October 2007 to April 2008 (£4m) need to be subtracted and estimated costs for the period October 2017 and April 2018 (£14m) need to be added. The effect of these changes is shown overleaf.

Table 7: Incremental estimated resource costs for providing ID Cards to foreign nationals from April 2008 to April 2018

Cost Area	Cost for foreign nationals
Set up	£41m
Operational	£270m
Total	£311m

These cost estimates are shown at 2008/9 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 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
- The contact centre which responds to queries and books appointment slots and the UK Border 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; 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 the UK Border Agency in the normal exercise of its immigration control functions and any casework that might arise from issuing cards to the settled population
- 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 EEA nationals; and
- Identity checking services which are covered by the costs in Table 7 (apart from the ongoing development of the UK Border 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, 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.

Delivery of value for money is at the heart of our expenditure decisions. By working closely with the IPS we will look for opportunities to reduce costs further. This could include joint delivery of services such as application and enrolment and card production.

The Identity Cards Act 2006 establishes

Appendix 1.
The Identity Cards Act 2006

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 product. 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.

Appendix 2.
Fees and Charges Strategy

This document sets out how IPS will approach the consultation and setting of fees and charges for identity products and services (including Identity Cards) described in the Delivery Plan.

Background

Currently passport fees are reviewed on an annual basis taking into account planned changes to services and their impact on cost. Fees are set to recover all IPS costs, without making a profit. In addition, the fee charged to passport applicants includes a charge levied by the Foreign and Commonwealth Office (FCO) for the provision of consular services overseas that is collected by IPS on behalf of FCO. At the moment the FCO premium is £15.12 per adult passport.

In the future, a wider range of products and services will be available, for example registration on the National Identity Register (NIR), the issue of an ID Card, or the update of information on the NIR. Fees for these additional products and services have not yet been set and will require the approval of Parliament through secondary legislation.

This secondary legislation will be subject to consultation in the autumn of 2008 and will include consultation on fees and charges. This document sets out the principles on which any future fee regime will be based and the areas on which the consultation on the secondary legislation is likely to seek views with respect to fees and charges.

Principles Underpinning and Fees Regime

There are two basic principles on which any future fee regime will be based:

- Once set-up, the National Identity Scheme will be self-financing, with all operational costs being funded by fees from the recipients of IPS products and services. This will ensure that there is no transfer of costs to general taxation, this principle currently applies to passport costs.
- As previously indicated the fee for an ID Card in 2009 and 2010 will be £30, or less

Uncertainty remains in the cost estimates with a potential impact on fees and charges in the following areas:

- The impact on demand for passports and identity cards as a result of offering a choice of product following registration on the NIR
- The role of the private sector and other partners in the delivery of elements of the NIS
- Cost estimates have not yet been tested with suppliers in the market place and are therefore subject to potential change.

Questions for consultation

We will undertake a formal consultation on fees and charges later in 2008. The specific areas that will be included in the consultation with respect to fees and charges will include (but not be limited to):

- Should IPS recover all costs through a fee for products issued or separate costs (and hence fees) into elements of the process for example registration on the NIR as a separate fee to the issue of products?
- Should IPS charge a fee for the amendment of data on the NIR such as change of name or change of address?
- Should discounts for identity products and services be offered to any sector of society (for example for older people)? If so, which and why?
- Should fees for products be varied to encourage different application or renewal patterns for example offering a price reduction for passport or identity card applications made outside of the peak summer period?
- What is a reasonable premium to charge for a service to enable customers to obtain a passport or ID Card in a specified, and reduced, period of time to the normal processing time?
- With the introduction of the ID Card, what alternative arrangements are there for ensuring transparency of the charge for consular services levied by the FCO whilst ensuring individuals are only charged once irrespective of the travel document selected?

The full consultation document about fees and charges will be published later in year. We would welcome any comments on the questions above, and responses should be sent to:

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National Identity Scheme Consultation
Home Office
Identity and Passport Service
Globe House
London
SW1E 5EB

Comments may also be sent by e-mail to identitycards@ips.gsi.gov.uk. If commenting by email please include 'consultation response' in the title.