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

PRESENTED TO PARLIAMENT PURSUANT TO SECTION 37 OF THE IDENTITY CARDS ACT 2006

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1. COST REPORT

1.1 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[1].

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 cost report is the first to be laid under that requirement. It explains the benefits, the approach to implementation and provides cost estimates based on the latest business case.

These costs have been subject to rigorous challenge including; the OGC Gateway process, scrutiny from HM Treasury and the examination of costing methodology by KPMG. The KPMG review concluded that the 'methodology used to cost the ID cards proposals is robust and appropriate for this stage of development.'

1.2 Benefits of the National Identity Scheme and improvements in identity management

Early internal estimates based on current assumptions about the way the scheme will work, suggest that the identity card scheme could deliver between £1 billion to £1.7 billion a year in economic benefits to the UK economy once the register's coverage of the population is fully comprehensive[2] and identity services are rolled out and used widely.

The benefits case is based broadly on the following principles:

1. Making the nation's borders more secure

The ID Cards Scheme sits at the heart of a wider programme of initiatives to issue more secure documents and strengthen our borders. From 2008, non-EEA nationals who have supplied their biometrics already (i.e. asylum seekers and visa nationals) will be issued with a biometric card if they seek, and are given permission, to stay longer in the UK. In addition successful new applicants for work and study in the UK will start having to verify their identity biometrically before being able to take up their entitlement. Biometric travel documents (based on facial images) will be issued to refugees by June 2007. The first identity cards for British citizens will be issued by 2009.

Ultimately this will ensure that everyone who has been given permission to enter the UK, those allowed to remain for more than a specified period (likely to be 3 months), and those claiming asylum can be identified securely using their biometrics.

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[1] Further primary legislation will be needed before the scheme can be made compulsory. However, the current Act envisages a scheme that will become compulsory in the future (e.g. Section 7: Identity Cards for those compulsorily registered).
[2] Fully comprehensive registration of all legal UK residents would result from the Scheme becoming compulsory.

This has a number of benefits:

- **Tackling illegal migration**: By providing a standard, secure way for people to prove their identity when accessing services (e.g. registering with a GP, applying for benefits, a national insurance number or a bank loan, or enrolling children in school) it will be much harder for people here illegally to carry out their daily business if they have no right to be in the UK. This is because people will (a) need to have their identity registered and (b) their record will show what status or right they have to be in the UK.

- **Tackling illegal working**: Illegal working will be made a lot more difficult as the National Identity Scheme is rolled out. Any employer will simply need to check a person's unique reference number against registered information about their identity to demonstrate whether an employee is permitted to work in the UK. Currently, employers do not have a reliable means of establishing whether a job applicant has the right to work here or not.

- **Identifying those who present a risk to the public**: It is difficult and resource intensive to ascertain the identity of prisoners suspected of being foreign nationals and those arrested by the police. Biometric ID cards open the opportunity of allowing anyone coming into contact with the criminal justice system to be identified quickly and easily. This will enable CJS agencies to establish with confidence if a person has previous convictions or if they are on the sex offenders' register. If they are a foreign national, it will also help establish whether they are wanted in another jurisdiction or subject to an extradition request, if they have poor immigration histories or have tried to claim asylum in the past, etc.

- **Identifying asylum seekers' entitlements**: Ensuring that people without a genuine claim to asylum do not remain in the country will be a good deal easier. Anyone granted asylum could be supplied with a biometric document which thereby proves their bona fides. A card already issued to asylum seekers includes a photograph and fingerprints to ensure that asylum seekers can be easily identified by the authorities and asylum support is given only to those who genuinely qualify.

2. Protecting the most vulnerable people

It is currently very difficult for Criminal Records Bureau (CRB) Registered Bodies to establish an applicant's identity efficiently, due to the multitude of different identity documents available and the difficulty of cross-checking information from one source against another. The documents used are also themselves not always very secure. It is already known that on some occasions, individuals are matched against the wrong criminal record, owing to poor identification.

For many applicants, this can lead to delays in processing their applications. In a small number of cases, people known to the police have been able to proceed through the system undiscovered.

The National Identity Register will increase the safety of the most vulnerable by preventing the use of multiple identities to secure positions of responsibility. Under the new system employers and public bodies will be able to check that people in positions of trust (e.g. teachers, child minders, carers for the elderly) are who they say they are, by carrying out an immediate on-line check to verify an applicant's

details against their biometric data. By using the person's unique identity information to search police records, there can be a quick and easy check to confirm whether that person has a criminal record which would bar them from employment.

3. Tackling terrorism and increasing crime detection

The biometric data held by the Scheme has the potential to make the work of the police in detecting crime a lot easier. Detection rates could increase as a direct result, resulting in an increase in welfare for the population. The Scheme could potentially increase the police's ability to detect crime, for example by enabling them to compare 900,000 outstanding crime scene marks with fingerprints held on the National Identity Register.

The activities of terrorists and criminals who use false and multiple identities to avoid detection and enable them to 'launder' money will also be hindered. One September 11th hijacker used 30 false identities to obtain credit cards and a quarter of a million dollars of debt. Since then, the problem has worsened: over the last few years, some major terrorist suspects arrested had up to 50 identities. By recording biometric data it will be much harder for people to register with the ID Cards Scheme under a false identity, and the scheme will make it far easier to detect people attempting to register more than once (as their biometrics would be detected), so people who assume a false identity will be stuck with it. This will help to curtail the illegal activity of terrorists and organised criminals.

4. Preventing fraud

Identity fraud already costs the country £1.7bn per annum. Research by CIFAS found 135,000 incidents of identity fraud in 2005. The Department for Work and Pensions estimates that between £20m and £50m of identity-related benefit fraud is committed each year. 1 in 5 companies could be hit by identity fraud, 1 in 4 individuals are touched by identity fraud.

The complex ways we use to identify ourselves are a boon to criminals. Stolen documents containing personal identity information will be worthless to an identity fraudster when secure biometric ID cards are widely held. Tax payers will save money and thousands of individuals will be spared the trauma and cost of being victims of fraud.

Biometric checks and reduced reliance on paper documentation will help ensure that claimed identities are real, not fabricated or stolen. Each person registered will have a quick and secure way of proving who they are whenever needed, for example via a quick online match of their ID Card and biometrics or unique reference number. Individuals can only register once as their biometrics will be linked to a single identity, which will prevent the creation and use of multiple identities.

The great benefit of the biometric card is that it is more resistant to forgery than predecessor technologies. The ID Card will be much more secure than documents currently requested by financial service providers as proof of identity (primarily passports, driving licences and utility bills). As the ID Card will link your identity to your unique set of biometrics, it will be much more difficult for fraudsters to use this document in order to impersonate others.

Whilst it might be possible for fraudsters to produce a good-looking forgery of an ID card, they will not be able to use it to verify their identity without a matching record on

the Register containing their biometrics. Individuals will need to undergo a biometric check, and to apply in person, in order to obtain an ID card.

5. Transforming services

There is scope to use a new national identity management scheme to improve and in some cases transform the way government delivers services to the public, and the private sector delivers to customers.

<u>Front-end delivery</u>

At its most basic level an ID card or biometric check could form the basis of allowing a person access to certain restricted areas, such as secure company buildings, without the need for separate identity or security documents. For example, the US Federal Bureau of Prisons uses biometric identification to allow access for prison visitors; and travellers to the US can benefit from the Passenger Accelerated Access Service System.

<u>Back-office systems</u>

Over a lifetime we are obliged to come into contact with a multitude of different government departments and agencies, in different ways (some, remotely, by post or the internet, some requiring face to face contact). We are issued with various documents reflecting our personal identity information, including birth certificate, driving licence, national insurance number, passport, electoral registration number, NHS number, child index numbers, chip and pin cards for pensions etc. There are approximately 300 million records of personal contact information (name, address, date of birth etc) held by the UK public sector alone; this is an average of five records for every citizen. Most of these records do not update each other for changes in circumstance. This creates inconvenience for individuals and makes it hard to deliver services to people in a personal, responsive and efficient way. It also makes it harder to spot and prevent fraud (e.g. people claiming separate housing benefit when they are living together). Around half of UK citizens have moved house in the past 7 years and some have changed address several times. Sharing information about change of address/circumstance could allow services to keep up with these changes at minimal cost or inconvenience to individuals.

Sharing information about individuals held by government on a secure register could deliver tangible benefits for individuals and create economies of scale and more efficient and effective services. This is common practice in other countries, including 21 in Europe, who use a citizen database or databases, linked to identity cards to deliver public services. Denmark and Latvia are the only two EU countries which have a population register without an associated identity card scheme.

Firstly, it would allow organisations to be more proactive – people could be contacted before their passport needs to be renewed; when employees need to fill out self-assessment tax returns; targeting the 300,000 citizens who are currently not claiming state pensions or those in particular age ranges who are eligible for health screening; allowing local authorities to collect debt from citizens who have moved to another area; and reducing the overall administrative burden on bereaved people.

Secondly, it makes life more convenient for people: an integrated identity management system would allow citizens to update their change of address or circumstances once – to the National Identity Scheme. This sharing of data would also provide the foundations for more personalised services. For example, in the case of bereavement, a person may need to contact separately the Probate Service,

the Department for Work and Pensions, HMRC and at least one local authority (more if the person dies away from home) about the death of a relative or next of kin. With the right processes, the automatic sharing of information about a person's death would allow departments to ensure the seamless continuation of any benefits accruing to dependents, and would also prevent monies being paid unnecessarily in cases where they were no longer due.

Thirdly, it would provide the basis for much more accurate statistical analysis and policy making, by creating a standard population register, removing the need for a full census (which cost £207m in 2001), providing better 'real time' data on population changes, e.g. as a result of migration.

The fact that people will have a secure way of proving their identity could drive major benefits for the private sector and other organisations too. In other countries the private sector is already exploiting the use of biometric identification. For example, companies in the US and Japan are already using biometric verification systems in retail and banking, allowing their customers to use their biometric identity as a quick way of paying for goods and services. There is scope to look at ways in which a national identity management system could provide services to other organisations on a commercial basis.

The scope for collaboration between public and private sector to ensure secure identity, simpler and better service for customers and harness the best technology is being explored by the Public/Private Forum chaired by Sir James Crosby which was set up by the Chancellor and will report in April 2007.

1.3 Approach to implementation of the National Identity Scheme

The implementation of the National Identity Scheme is part of a wider programme of change within the Identity and Passport Service (IPS)[3], UKvisas and the Immigration and Nationality Directorate of the Home Office to put in place a more comprehensive identity management infrastructure. For British citizens, the programme has been deliberately designed to build on the existing systems and processes for issuing passports in IPS.

Over the last four months the review commissioned by the Home Secretary has resulted in:

- Much closer linkages between plans for ID cards for British citizens and more secure biometric identification for foreign nationals – before they arrive, at the border and while they are in the country;

- The expansion of our biometric (fingerprint) visa programme to cover all visa-issuing posts by April 2008. Biometric visas will make it much easier to identify people who pose a risk to the UK before they travel, for example whether they have been arrested and convicted of a criminal offence on a previous visit to the UK or whether they have previously applied for asylum. We have already conducted successful trials of biometric visas, which has

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[3] The Identity and Passport Service (IPS) is an executive agency of the Home Office, which came into being on 1 April 2006. It builds upon the strong foundations of the UK Passport Service (UKPS) to provide passport services and in the future will operate the National Identity Scheme.

resulted in identifying over 1,400 failed asylum seekers or people with a previous adverse immigration history before they could travel to the UK;

- A commitment to implement ID Cards as rapidly as possible starting with biometric cards for foreign nationals in 2008 and rolling out to UK nationals thereafter. Biometric cards will provide a secure means for foreign nationals to prove their identity to the same level of assurance as UK nationals. This will help, for example, legitimate employers verify a foreign national's entitlement to work and help prevent abuse of our public services by those not entitled to use them;

- A review of the technical development options. This has identified opportunities to use existing assets and resources available across Government which might reduce delivery and cost risks e.g. in the development of database solutions to implement the National Identity Register;

- All of the above will affect the cost estimates of the Scheme. As the work is ongoing over the next few months they have not yet been reflected in this cost report.

In order to reduce risk and avoid big bang implementation, these and other changes are being delivered incrementally and are designed to grow from existing services development plans. Some of these incremental changes are already in place:

- The first e-passports incorporating a chip containing a digital facial image and the holder's personal details were issued in March 2006. Over 2 million have now been issued and all passports are now issued in this form;

- We are acquiring and fitting out 69 offices throughout the UK. Next year we will progressively introduce interviewing of first time adult passport applicants which will be an important measure to deter and to detect fraud.

The vast majority of the costs associated with the National Identity Scheme would be incurred anyway as the infrastructure for issuing secure biometric passports – and for secure identity management in other parts of Government – is upgraded. Changes to passports are required to keep in step with international developments, for example the European Union has mandated both fingerprints and facial biometrics for Member State's passports within the Schengen area by July 2009. The biometric registration of around 80% of the UK adult population who are British citizens will therefore occur naturally as passports are upgraded to include fingerprint biometrics. ID cards will share most of this infrastructure.

As a result it is not possible to separate the cost estimates for ID cards from those incurred in developing passport products and infrastructure. The cost estimates outlined in this report therefore cover the costs likely to be incurred over the next 10 years on:

- A series of passport changes including the introduction of a new generation of biometric passports which incorporate, the recording of fingerprints as well as the current digital facial image;

- The establishment, operation and maintenance of the National Identity Register;

- The issue, modification, renewal, replacement, re-issue and surrender of ID cards and passports;

- The provision, from the Register, of information where authorised by the Identity Cards Act and any subsequent legislation;

The cost estimate also includes for completeness the cost of the National Identity Scheme Commissioner (although this is not required to be included in this report by section 37 of the Act).

Around 70% of these costs would be incurred in the issuing of new generation biometric passports as the technical and office infrastructure would be largely the same, differing only in the volume of people who would be registered, the need to produce an identity card as well as a passport and the central infrastructure to support on-line verification of ID cards. Currently 10% of applicants visit an office; this will increase to 20% as interviews for first time applicants are introduced and to 100% of passport applicants when second biometric passports are introduced. This same infrastructure will be used for the introduction of ID cards. Although approximately 15% of costs relate to technology, the vast majority of the estimated costs relate to the people and premises necessary to interview passport and identity card applicants rather than relating to technology costs.

The requirement to publish six monthly cost reports to Parliament is not necessarily aligned with the programme's lifecycle. As a result, it may not always be possible to provide updated costs estimates in each report.

1.4   Cost estimates

The resource cost estimates of providing passports and ID cards to British and Irish citizens resident in the UK are shown in Table 1 below.

Table 1: Total resource costs of providing Passports and ID Cards to British and Irish citizens resident in the UK for October 2006 to October 2016

Cost area	Cost for British and Irish citizens resident in the UK
Set-up	£290m
Operational[4]	£5,100m
Total	**£5.4bn**

These costs are shown at 2006/07 prices and include provision for optimism bias (as defined by the Treasury Green Book[5]) and contingency.

The cost estimate includes:

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[4] Operational costs include those of the Identity and Passport Service which are currently recovered from fees charged for passports; the expected passport income for IPS in 2006/07 is forecast to be £388m. Future operational costs will predominantly be recovered through charges for identity cards, passports and services provided for organisations to verify a person's identity. No decisions on the actual fee structure have yet been made. The fee setting powers in the Act cannot be used to raise revenue other than for purposes connected with the scheme.
[5] Optimism Bias is a percentage uplift added to key cost parameters. It is based on the tendency for appraisers to be over-optimistic in the forecast of capital costs, works duration, operating costs and benefits delivery.

- The operational costs of issuing passports and ID cards and for providing verification services;

- All estimated Set-up Costs for the Scheme;

- Resource Set-up Cost estimates are shown in the table separately, Capital Set-up Costs are reflected in the operational costs through annual depreciation charges;

- An estimate for the operation and maintenance of the infrastructure;

- £100m of VAT that is unrecoverable to IPS but retained by HM Treasury[6].

The cost estimate excludes:

- Costs associated with foreign nationals, which will largely be recovered by charging;

- 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, hence these costs are outside the scope of this report and of the requirements laid down in section 37 of the Identity Cards Act 2006.

1.5   Comparison with cost estimates that have been presented in the past

In May 2005 the Home Office published the Regulatory Impact Assessment (RIA) for the Identity Cards Bill which detailed high level cost estimates for the total average running costs for issuing passports and ID cards to UK nationals over ten years. This cost was estimated at £584m[7], equating to £5.8bn over a 10 year period.

The cost estimates presented above are in line with the RIA figure, but are not directly comparable because:

- The RIA excluded Resource Set-up Costs, which we set out today for the first time. The RIA operational costs (on an annual basis) should therefore be compared against only the operational costs in this report (that are shown on a 10-year basis) i.e £5.8bn in the RIA versus £5.1bn in this report;

- The RIA operational cost estimates covered the 10-year period from financial year 2009/10 to 2018/19 whereas the figures in this report are for the 10-year period from October 2006 to October 2016 (as required by section 37 of the Identity Cards Act);

- The RIA figures were shown at 2005/06 prices whereas the cost estimates in this report are shown at 2006/07 prices;

- Continued refinement of cost estimates since May 2005. This report sets the current best estimate of cost, as the programme develops we expect that the estimate will continue to vary.

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[6] VAT is not levied on passports and will not be levied on identity cards. Unrecoverable VAT refers to VAT paid to suppliers for the development and operation of parts of the infrastructure.
[7] At 2005/06 prices and including allowances for contingency, optimism bias and non-recoverable VAT.

A1. APPENDIX 1: THE IDENTITY CARDS ACT 2006

The Identity Cards Act 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 or iris images. The biometric information will make it much easier to detect attempts to record duplicate identities. It will also enable individuals, when necessary, 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 may also be provided to accredited public organisations such as government departments where specified in 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.