



HOUSE OF COMMONS
LONDON SW1A 0AA

Dear Colleague,

- 7 FEB 2006

IDENTITY CARDS

I thought you might find it useful to have a detailed note about the costs of the Identity Cards scheme.

Important context

Two changes to the British passport to improve its security as an identity document are now imminent. First, by the end of this year, all new and reissued passports will include an electronic chip, leading to a full biometric passport by 2009. Second, from October, all first-time applicants will have to apply in person. These changes are planned irrespective of the Identity Cards Bill. They have all-party support.

The question which the Bill puts before the House is whether to build on this step forward in identity protection and create a National Identity Register that can be used: (a) to issue the new passport and identity cards; and (b) to improve the standard and security of the millions of ID checks carried out every day in Britain by a range of public and private sector organisations.

In considering this question, colleagues will want to weigh the benefits of this development against the additional costs of the NIR and identity card over and above the changes to the passport. The purpose of this note is to inform that consideration. It uses figures from the business case and Regulatory Impact Assessment (RIA) published alongside the Bill. These figures have been independently verified as sound by KPMG.

Consumer costs

The RIA puts the unit cost of enrolling an individual onto the National Identity Register and issuing a full biometric passport and ID card at £93. The passport will account for about 70% of this cost.

The price of a passport will rise over coming years irrespective of the decision on identity cards. It recently rose to £51 and will rise again in 06/07 when application by interview begins. **While we have yet to confirm next year's price, the unit cost of producing the passport in 06/07 has been put at £57.93.** It will rise further when the full biometric passport is introduced and fingerprints are added to the electronic chip.

Within this context, the Home Secretary has announced that it is affordable to make available a stand-alone ID card at a fee of around £30. The card will be able to be used as a travel document within the European Union.

Running costs

A new agency, based on the UK Passport Service, will manage the NIR and be responsible for issuing the new passports and ID cards. In the RIA, the annual running costs of this expanded operation are estimated at £584 million a year.

There are two important things about this figure: first, the bulk of it relates to issuing passports (around 70%); second, it is not additional to the current annual running costs of UKPS.

Reflecting the changes to the passport, UKPS running costs will increase significantly this year and next. From its **baseline expenditure** of **£219** million in 2004/5, UKPS will spend **£293** million in 05/06 and expects to spend **£397** million in 06/07.

It is simply wrong to suggest, as opponents of the scheme do, that the £584 million can be spent on other priorities such as policing. As today with the funding of the passport service, the costs of running the combined passport and identity card service will be predominantly raised through fees.

Set-up costs

To date, the Home Office has spent £30 million on the Identity Cards Programme. This expenditure has been made from Home Office funds voted by Parliament.

Once the legislation is in place, there will be annual costs to the Home Office above the current level of expenditure over the years leading up to the issue of the first identity card and the scheme reaching full issuing capacity. The Home Office will bear the cost of running a major procurement exercise and of building the IT infrastructure, including the purchase and commissioning of biometric recording equipment.

In line with best practice in major procurement, our estimated set-up costs have not been published. By doing so, we would provide information to potential bidders and restrict our potential to gain value for money. People are asking us to keep costs down on the one hand, but then on the other making requests that would limit our ability to do so.

However, these annual set-up costs will be much less than the annual running costs of the scheme as a whole and will be met entirely from within existing departmental budgets. Indeed, it is quite possible that suppliers may propose bearing some of the initial set-up costs and recharging them on an annual basis over the lifetime of the contract.

Integration costs

We expect that the NIR will be a valuable resource for other government departments and public bodies and enable them to make considerable savings by ending the current duplication of identity checking processes across the public sector. However, it is for each department to consider the business case for integrating their systems and processes with the NIR. Any costs they incur will be offset by benefits such as increased efficiency, reduced fraud or better service to the public so in the economic analysis there will be a net benefit to that organisation not a net cost.

LSE report

It is our view that the LSE 'Identity Project' report on the Home Office identity card scheme set out deliberately to inflate its costs. The cost estimate of £19 billion was based on a series of assumptions that do not correspond with the scheme we are proposing.

For example, the LSE report fails to explain why reputable research indicating 10-year reliability for biometrics should be discounted in favour of an assumption of a 5-year lifespan. If people have to be re-interviewed every five years, it adds enormous cost.

The LSE also allocated an inflated £1 billion marketing budget and assumed a much higher loss/theft rate than is the case for existing documents. In that way, the research generated headlines of the kind that read '£300 for an ID card' which some may say was the object of the exercise.

Conclusion

There has been much inaccurate comment on the costs of the scheme. Some of it has been intended to undermine public confidence in the principle of an identity card scheme.

As I hope this note shows, the investment needed to bring the National Identity Register and identity cards into being – on top of the considerable funds already being made available to improve the security of the passport – is both realistic and affordable for the Home Office, the Government and the individual citizen.

But, more than that, we believe it will bring the country significant benefits for years to come. The benefits case for the scheme is based on detailed work with other departments. It shows that the benefits of the scheme will far outweigh its costs when fully operational.

At present, the only document in Britain which provides a high degree of identity assurance is the passport. But, false passport applications are still made and, at 45-48 million records, the system does not cover the whole of our population. Indeed, it is people on the lowest incomes who are most likely not to have a passport and therefore more likely to miss out on the protection and convenience it provides.

It is the very lack of a comprehensive identity management system that makes it possible for identity fraudsters to exploit gaps in the system. Latest estimates show that identity fraud is growing and costs the country £1.7 billion every year. An identity card backed by a biometric National Identity Register will put the individual in control of the use of their personal data and cut the potential for identity fraud.

I also enclose a table detailing the Lords' amendments that I hope you will find useful.

Yours sincerely



ANDY BURNHAM

OPPOSITON AMENDMENTS IN THE HOUSE OF LORDS TO THE IDENTITY CARDS BILL

Issue	Impact	Divisions in the Lords
1. REASONABLY REQUIRING PROOF OF IDENTITY	Amends part of the statutory purposes in clause 1(3)(a) so that it now provides that ID cards should be a convenient method for individuals to prove identity to those " <u>who reasonable require proof</u> "	<u>Reasonably requiring proof</u> – Lost at Committee on 16 th November by 141 to 126 votes (majority of 15)
2. REPORT ON COSTS AND BENEFITS	Would require <u>a special report on estimated costs and benefits of the scheme to every Government Department over 10 years and published before the identity cards legislation can be commenced.</u>	<u>Costs</u> – (4 amendments) Division lost on first day of Report on 16 th January by 237 votes to 156 (majority of 81)
3. LIMITING USE BY PUBLIC SERVICES	Limits the scheme to " <u>preventing illegal or fraudulent access to public services</u> - rather than "securing the efficient and effective provision of public services" meaning identity cards couldn't be used to deliver better public services for the citizen.	<u>Public services</u> – Division lost on 16 th January by 194 votes to 141 (majority of 53)
4. SECURE AND RELIABLE REGISTER	Adding a reference to the <u>security and reliability of the information recorded</u> and stored on the National Identity Register.	<u>Security</u> – Division lost by 206 votes to 144 (majority of 62);
5. DESIGNATION OF DOCUMENTS (REMOVES REQUIREMENT TO ISSUE ID CARDS WITH PASSPORTS)	Removes the <u>requirement</u> for anyone obtaining a designated document (such as a passport) to register and be issued automatically with an identity card. Would make identity cards an optional extra for people renewing passports.	<u>Designation</u> – Division lost (2 amendments) on 23 rd January by 186 votes to 142 (Opposition majority of 44);
6. COMPULSION	<u>Removes completely from the Bill the provisions for compulsion</u> (clause 6) and for this to be brought in later by secondary legislation using the "super-affirmative" resolution procedure (clause 7).	<u>Compulsion</u> – Division lost (4 amendments) on 23 rd January by 198 votes to 140 (majority of 58);
7. COMMISSIONER TO BE APPOINTED BY THE CROWN	Makes the <u>appointment of the National Identity Scheme Commissioner by Her Majesty</u> rather than by the Home Secretary.	<u>Commissioner's appointment</u> – Division lost on 30 th January by 155 to 138 votes (majority of 17);
8. COMMISSONER TO REPORT DIRECT TO PARLIAMENT	Requires <u>Commissioner to report direct to Parliament</u> , rather than to the Home Secretary who would decide whether anything need be excluded on national security grounds etc.	<u>Commissioner's Reports</u> – Division lost on 30 th January by 145 to 139 votes (majority of 6);