



## On Double Counting Costs for an ID System

June 28, 2005

In recent days, Home Office Ministers and even the Prime Minister have described the LSE cost projections as ‘absurd’, ‘nonsense’, and ‘incompetent’. One Home Office Minister claimed that our costings are based on double-counting.<sup>1</sup> They also dispute our assumption that identity documents will have to be renewed every four to five years.

In this document we will explain how the Government came to its costing of £93 per person over ten years. Then we will repeat our assumptions, and explain how we came to our figures on the contentious issue of double counting.

### *Revealing the Government’s £93*

To date the Government has been unwilling to release any detail regarding how they have come to their headline figure of £93. This figure was released in the May 2005 Regulatory Impact Assessment, following a prior figure of £85 in the November 2004 RIA. This cost covers the issuing of both a passport and an identity card.

We have no way of deciphering how they came to this figure. We do have figures from the UK Passport Service Corporate and Business Plans that state that the total revenue of the UKPS is expected to be £397m by 2006/2007, with full expenditures expected, and an average unit cost per passport at £67.93.<sup>2</sup>

Over ten years, the UKPS figures will therefore add up to approximately £4 billion. But passports are only issued to 80% of the population, so if we scale the UKPS figures for that population, it becomes £4.8 billion. If, as stated yesterday in repeated announcements, the cost of the ID card will be 30% of the full passport cost, then we can assume that the UKPS will also need to raise its expenditures by 30%. This results in £6.25 billion over ten years.

Following the Government’s assumption in the 2002 Consultation Document that there will be approximately 67.5 million cards issued over the next ten years, if we divide the UKPS costs by 67.5 million, the result is £92.60.

This assumes that the passport infrastructure can cover the entire identity system. This is a difficult assumption to justify.

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<sup>1</sup> ‘Critics lay into Blair on ID cards’, Patrick Wintour, The Guardian, June 28, 2005.

<sup>2</sup> UKPS Corporate and Business Plans 2005 –2010, page 30, figure 4.1.

## *How the LSE Derived its Figure*

### **On Renewal**

The Government has disputed our assumption that the cards will need to be renewed.

It is important to note that we do not reduce the passport renewal period to 5 years, as the government claims. However, many countries already do this. Canada, for instance has a five year renewal. International standards-bodies have considered making this a requirement so that new anti-counterfeiting techniques can be incorporated into passports. Nevertheless, in our costings we do not incorporate a five-year renewal as an assumption: we are giving the government the benefit of the doubt when they say that they will not reduce the life-span of passports. This is despite a statement from the head of UKPS, quoted on June 28 saying: “All we can do is keep on changing the design and we are going to have to change more frequently than every 10 years.”<sup>3</sup>

On identity cards the situation is quite different. Repeatedly, experts have noted that the renewal of the ID card must be between every 3-5 years. Northrop Grumman, the operator of the national fingerprint information system (Nafis) argued that cards would need to be replaced on average every three years.<sup>4</sup> The Home Office consultation document of 2002 estimates that the chip on the cards would have to be replaced twice during a 10-year period,<sup>5</sup> though that same document admits that the range is more likely to be every 3-5 years.<sup>6</sup> The chips need replacing because of intensive use. This is one of the many reasons why credit cards have similar expiry dates.

In our costings, we merely assume that the chip card will need to be replaced every 4 years. This does not mean that individuals will have to be entirely re-enrolled; we merely account for the cost of the card with the chip (and we cost this at £4-6 per card-chip, which is far less than the Home Office’s 2002 estimate of £15). We include in our estimate the need for additional cards through theft and loss, and defective cards, based on UKPS estimates and other studies.

A crude calculation of the cost of the cards themselves (without the system behind it), covering the full population of Britain over ten years is £12. This is a significant underestimate, but for the purpose of the report we felt that this was an appropriate assumption.

The significant costs arise from the registration process, the national register, and its management, not from the renewal.

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<sup>3</sup> ‘Passport technology will have to be updated’, Jimmy Burns and Nicholas Timmins, the Financial Times, available at <http://news.ft.com/cms/s/af8cc1e6-e81b-11d9-9786-00000e2511c8.html>.

<sup>4</sup> ‘Memorandum submitted by Northrop Grumman’, submitted to the Select Committee on Home Affairs, January 2004, available at <http://www.publications.parliament.uk/pa/cm200304/cmselect/cmhaff/130/130we40.htm>.

<sup>5</sup> Consultation Document, Section 5, 2002, paragraph 30.

<sup>6</sup> Consultation Document, Section 5, 2002, paragraph 7

## Calculating the Passport and Register Figures

Like the Home Office indicative figures, we separate out the cost of the ID card from the passport. Indeed our assumptions do differ on the larger identity system.

On the cost of the Passport itself, we break down the costs as follows:

- Cost of the passport booklet: 35.60 GBP (according to UKPS figures)
- Costs of changes to passports: 32.40 GBP (according to UKPS figures)
- Errors involve 0.25% of passports (based on UKPS figures)
- Re-issuing passports upon being lost or stolen (predicted figures)

We understand that UKPS is planning on a number of innovations in the next few years and this will account for the rise in cost in passports. According to UKPS reports, these changes include

- interview for new applicants
- changing current database from a passport-centric system to a person-centric system
- secure home delivery of passports
- placing chip in passport with a digital photograph
- basic staffing costs (presumed) to manage this new passport

We predicted that the £32.40 per passport would go toward covering these costs. While the Government seems to be arguing that this £32.40 will cover the cost of biometric enrolment, staffing the 70+ registration centres, managing the national identity register, on top of all the changes to the UKPS, we believe that this estimate is unrealistic, and we make this case carefully in the full body of the report over a number of sections. Presumably, the Government also envisions that this will cover the cost of readers throughout the Government departments outlined on the face of the bill.

We believe that there will also be a line item for 'Managing the National Identity System'. This is where we include:

- the cost of establishing a national register of all residents, with the 51 data-types as envisioned by the bill, including all the biometrics, and the registration centres for enrolment
- running costs of the enrolment process
- costs for updating information on the register (change of address, circumstances)
- costs for verification processes (e.g. when employer or government department wishes to call up to verify details)
- correction of information on the register (e.g. compliance with Data Protection Act)
- establishing the biographic footprint of all applicants through credit reporting and connections to other government systems
- other nominal costs that are inherent to large databases involving 67.5 million records.

Over ten years the cost of these operations is likely to run quite high. Already the NPL/BTexact study estimated that there would be 3000 new enrolments every day after the initial rollout.<sup>7</sup> The amount of changes-of-addresses are likely to be very high as

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<sup>7</sup> NPL/BTexact study, 2003, paragraph 13.

well. These operations are likely to involve increased communications costs and even a call centre.

As a result, we also have a budget line-item for staffing. While the UKPS probably envisioned some staff costs in their £32.40 increase, our understanding of the NIR requirements is that there will be many more staff members working in this new 'national identity agency'. Our estimates are conservative, however, calling for about 80 to 100 staff members over one year (including roll-over) at each centre, including the call centre, presuming between 70 and 100 such centres. We also include training for these staff members, background checks because of the highly sensitive operations involved, and training for some of the users of the NIR or the verifiers of biometrics across Government.

Therefore, the key difference between our costings and the Home Office costings is that they believe that the Passport process will cover 70 per cent of the cost of implementing and running the Register. We believe that the changes to the UKPS are insufficient to run the Register, and rather the UKPS figures are merely sufficient for basic actions such as putting a chip in the passport, placing a biometric on the chip, transforming their current database, and secure home delivery (which alone would cost 5 GBP per person at a minimum).

### ***Concluding Remarks***

The Identity Project Report goes into much greater detail than here to explain why we believe the Government's proposed identity system will be technologically challenging, and in turn, creating costs that are likely to be higher than estimated. The Government has only provided what appears to be a 'back-of-the-envelope' costing.

In our analysis, we find that the confusion in the costings is due to the Government relying on the passport infrastructure to develop the basis of an identity card system. We show that this is contrary to international obligations and technological experience. It is also contrary to what is occurring internationally.

The UK Government is about to implement the most expensive passport system in the world. And this is being noted. New passports were announced recently in Germany. Those passports cost 59 euros, rather than the 23 euros originally cited,<sup>8</sup> and from 2007 every passport will also include two index-fingerprints.<sup>9</sup> There is no back-end database to the German passport.

When controversy arose in Germany regarding the cost of the passport, the Minister in charge pointed out, "that is 5.90 euros per year," adding that German passports will still remain cheaper than the international average. He then pointed out that biometric passports are going to cost 103 euros in Great Britain.

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<sup>8</sup> 'Biometric passports are to cost 59 euros', Richard Sietmann and Craig Morris, Heise Online, June 2, 2005.

<sup>9</sup> 'Germany to Issue Passports with Biometric Data This Fall', John Blau, IDG News Service, June 2, 2005.