



Annual Report and Accounts **2010-2011**

Home Office

**Identity &
Passport Service**



Identity and Passport Service

Annual Report and Accounts 2010-2011

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to Section 7 of the Government Resources
and Accounts Act 2000.

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Chief Executives' Foreword



The Identity and Passport Service (IPS) delivers both passport and civil registration services. Our customers say that's something we do exceptionally well and we are always looking to better this. This year we're taking significant steps to change the way we provide those services to increase security, value for money and become more efficient.

I was appointed as Chief Executive in July last year, taking over from James Hall, who led the Agency from October 2006. I would like to thank James for his leadership that guided the development of IPS and commitment to delivery. I am determined that we maintain this focus as IPS moves forward.

In November 2010 I was appointed by Her Majesty the Queen as the new Registrar General for England and Wales, and combining the role with that of Chief Executive underlines my commitment for IPS to operate as one organisation with two services.

The last twelve months has been a period of unprecedented change for IPS. Shortly after I took on the role as Chief Executive, IPS stopped issuing Identity cards, just one of many steps in the rapid and efficient decommissioning of the National Identity Service. That process ended with the physical destruction of the National Identity Register (NIR) in February 2011, marking the delivery of the Government's commitment to cancel Identity cards, the NIR and halt second generation biometric passports.

As a direct result and also at a time of continuing financial constraint in the public sector, we must ensure that the organisation is the right size and shape for the future, and delivers value for money. We have reduced spending on consultants and interim staff by nearly 70%; have decreased the number of Senior Civil Servants from 33 to 10; and are on course to deliver a reduction in administrative costs of one third by 2014-15.

What I'm particularly proud of is that whilst successfully managing these changes IPS has not only maintained but exceeded our passport service targets, as shown by our Key Performance Indicators (see page 8); for the third consecutive year IPS has scored highest within the public services (national) sector of the UK Customer Satisfaction Index. I am also proud that the civil registration operation has for the first time been awarded the National Standard for Customer Service Excellence.

In October 2010 we introduced a new scenic Britain passport book design with enhanced security features and we had delivered approximately 1.7million of the new books by 31 March 2011. From 1 April 2011, we expanded our customer base as IPS became a global organisation, following the transfer from the Foreign and Commonwealth Office (FCO) of responsibility for managing the setting of fees, policy and counter-fraud measures for UK passports issued overseas. We will continue to work in partnership with the FCO to deliver this service until it is fully integrated into our UK operations during 2013.

None of this would have been possible without the continuing professionalism and energy of our people. The past year has been a difficult time for many who have had to tackle significant change and uncertainty, which makes their enduring effort and dedication all the more commendable. I would like to thank everyone for their contribution and for enabling IPS to maintain our high standards of customer satisfaction and operational performance.

To support and help focus the drive and commitment of our people, I appointed a new leaner Executive team and we stated our renewed Purpose in November 2010, which is to 'provide accurate and secure records of key events and trusted passport services'. We set out five key principles (see page 6), underpinning the way in which IPS will operate to achieve this Purpose. At the same time we proposed a leaner organisational design which both consolidates and integrates our organisation and firmly positions our operational centre at the heart of what IPS does. After a period of consultation we'll complete the transition to our new structure early in 2012.

Our business plan for the year ahead contains an ambitious agenda that will enable IPS to maintain the integrity and security of our products, services and data; improve the way we interact with our customers; modernise our systems and processes; motivate and develop our people; and reduce costs. And what our people have delivered this year makes me confident that IPS can continue to do that exceptionally well.



Sarah Rapson

Chief Executive of Identity and Passport Service
and Registrar General for England & Wales
1 July 2011

Management Commentary

History

The Identity and Passport Service (IPS), an executive agency of the Home Office, came into existence on 1 April 2006. On 1 April 2008 IPS took over responsibility for the work of the General Register Office (GRO) for England and Wales from the Office for National Statistics (ONS) and 1 April 2011 marked another important milestone as IPS officially took responsibility from the Foreign and Commonwealth Office (FCO) for UK passports issued overseas.

Background

The last 12 months has been a period of very significant change and the Agency has been faced with many challenges, most of which have been externally generated. During that time the Agency responded to the Government's commitment to cancel Identity cards and the National Identity Register (NIR); we also halted our work on the inclusion of fingerprints in second biometric passports. The Executive team has been acutely aware of the risks associated with such complex change and actively manages them.

The Identity Documents Bill received Royal Assent in December 2010 and, as required, by 21 February 2011 the Identity card programme was fully decommissioned and the NIR and all associated data were destroyed. The process was completed in accordance with established secure destruction policy, procedures and guidelines and in an environmentally friendly way.

Whilst these have been important milestones, they are just a small part of the work of an organisation which is responsible for two services: administering civil registration in England and Wales and providing passport services to UK nationals at home and, with effect from 1 April 2011, abroad. Therefore, we end the year as a very different organisation to the one that began the year.

The organisation now operates through a leaner Executive team (see pages 60 and 61) and an early aim for this new team was to ensure that IPS was focused on our new Purpose, which is **“to provide accurate and secure records of key events and trusted passport services”**. This Purpose is supported by a set of five clear principles:

Trusted and Secure – we will maintain our high standards of integrity and reliability across all our products, services and the data we hold.

Customer Service – we are proud of the service we provide to customers and will deliver a modern and affordable service that meets the needs of today's society.

Operational Focus – we will create a more efficient and connected organisation with operational excellence at its core.

People – we value the contribution of all our people, treat them with respect and will support them through change.

Cost – we will deliver demonstrable value for fee-payers and reduce our burden on the tax payer.

These principles are being embedded in everything we do as an organisation.

Principal activities

The Agency's continuing activities during 2010-11 were to provide civil registration services for England and Wales and passport services for British Nationals in the UK. The cancellation of Identity cards and the NIR means that we are reporting Identity cards as a discontinued operation. Note 2 to the Accounts (see page 40) provides a breakdown of income and expenditure by these individual segments.

Business and future developments

In delivering our business, the key events of the year have been:

- **5.4 million** passport applications were processed and we exceeded all of our passport customer service targets;
- just under **300,000** identity authentication interviews were conducted;
- ~**1.5 million** notifications of birth, death and marriage registrations were received;
- ~**1.5 million** birth, death and marriage certificates were produced and ~ **50,000** pieces of casework were dealt with; and
- ~ **5.4 million** Passport Validation Service enquiries were processed.
- In October we went live with our new “scenic Britain” design e-Passports that have much improved security features and by the 31 March 2011 we had produced **1.7 million** of the new books. The books are being printed by our new passport supplier, De La Rue.
- We responded decisively to the new Government’s austerity measures and cut discretionary costs by £28m (65%) during the year.
- Early in 2010-11, we reduced our estate by closing ten smaller interview offices and followed this in October 2010 with a proposal to close a further 33 interview offices in 2011-12 reflecting lower interview demand than had originally been anticipated. We began a period of consultation over these proposals which confirmed in March 2011 that we will:
 - Create Customer Service Centres by co-locating our customer facing services (interviews and priority counter services) which are located in the same city, or very close to regional passport offices.
 - Reduce the number of stand alone Customer Service Offices (previously known as the Interview Office Network).
 - Establish flexible teams to make use of premises used or occupied by other government departments, local authorities and other agencies.
 - Continue the Video Interview Service in 26 locations, although we will centralise the back office function of this service in the Glasgow office.
- On 23 May 2011, after a period of consultation, we announced plans to restructure the Passports operation that bring capacity and demand into better balance. The plans are expected to result in savings over the Comprehensive Spending Review period, reduce estate capacity, and represent a significant part of a wider restructuring of operations.
- We implemented the Government’s decision to cancel the Identity card Programme and NIR, managing the closure of the programme and secure destruction of the related assets at a cost of £20m, having written off all operational Identity card assets (see note 2a to the Accounts on page 41).
- On 21 March 2011 the Permanent Secretaries of the Home Office and FCO signed the Accord Agreement which sets out how the parties will work together on the transfer of responsibility for overseas passport applications with effect from 1 April 2011.

Performance

Overall, IPS substantially met its financial aims during 2010-11, in particular to be self-funded on its £400m passport operation and to minimise the deficit on the £20m certificate services operation. The Statement of Comprehensive Net Expenditure (see page 30) reports a deficit of £5.5m (2009-10 £83.3m) from continuing operations and that the discontinued operation resulted in a deficit of £42.3m in the year.

The Agency has been effective throughout the year in reducing costs and has undergone a significant reduction in staff numbers following cancellation of Identity cards and the NIR; spend on contracted out consultancy services was cut by nearly 80% compared to 2009-10, a saving of nearly 70% against budget in the year; in total discretionary spend was reduced by almost 65% against budget, responding to the Government’s challenge to cut public spending. IPS is on course to meet its Comprehensive Spending Review targets, which is to be self-funded on core operations and has plans in place to reduce administrative costs by 33% by the end of the four year Spending Review period in 2014-15.

Key Performance Indicators

| | Year end target | Year end actuals | Achieved/ Not achieved |
|--|-----------------|------------------|------------------------|
| Achieve a customer satisfaction rating of at least 95% | 95.0% | 99.0% | A |
| Deliver straightforward passport applications within 10 working days | 99.5% | 100.0% | A |
| Deliver non-straightforward passport applications within 29 working days | 96.0% | 96.4% | A |
| Certificates produced within target | 90.0% | 85.5% | N |
| Unit costs for passports | £74.08 | £70.91 | A |
| Unit costs for certificates | £9.64 | £10.73 | N |
| Detected fraud to represent at least 0.176% of passport intake | 0.176% | 0.143% | N |
| Achieve a minimum standard of 58.0% on the staff engagement index | 58.0% | 50.0% | N |

The activity to reduce costs coupled with strong passport demand meant that the passport unit cost target was achieved in the year as was passport turnaround and customer satisfaction targets.

Certificate demand was 18.7% below plan during the year reflecting external consumer and markets trends which, despite cost reductions taking place, resulted in certificate unit costs being higher than target. Heavy levels of work in progress in the early part of the year also meant that the full year certificate turnaround target was missed. We are putting in place short and longer term measures to return the certificate operations to balance.

We detected and deterred 7,870 fraudulent passport applications during the year which fell 1,797 short of our target for the year. This target was derived from an estimate, based on sampling and statistical analysis, of the total number of fraudulent applications IPS might expect to receive. There is no reason to believe that the number of fraudulent applications has declined. We believe that the method used to establish our fraud target for last year was sound but it is complex and relies upon historic sampling. We have therefore introduced a more straightforward and transparent measure which is designed to better capture all our efforts in tackling fraud and requires a year on year improvement in performance in this vital area.

Our staff engagement measurement, following the annual civil service wide staff survey, was 50% against a target of 58% and against the previous years performance of 55%; for further detail on this see the staff engagement section (see page 10).

Non current assets

During the year, IPS made capital investment primarily on the 'New Passport Production' programme and on the 'Business Process and Transformation' programme (formally 'Transforming the Customer Experience' programme); there was also spend in relocating the Belfast office. Full capital expenditure in the year amounted to £67.3m.

Implementing the Government's decision to cancel Identity cards and to halt the second biometric passport, IPS wrote down in full the carrying value of its existing Identity card and NIR assets. With the halt on fingerprint biometrics, the benefit to IPS of two programmes (National Identity Assurance Service (NIAS) and Public Key Infrastructure Service System (PKISS)), which were being developed jointly with the UK Border Agency (UKBA), ended and the programmes and associated non current assets were transferred to UKBA.

The carrying value of the fingerprint biometric assets were assessed and reduced to economic value prior to the transfer.

Full details of non current assets are contained within notes 5 and 6 to the Accounts.

Funding

Passport fee receipts continue to fund passport related activity, certificate and statutory registrar services are funded by a combination of fees and Home Office funding whilst capital expenditure is funded by the Home Office. The costs of central corporate services are allocated to those different activities through a cost allocation process which ensures the integrity of the separate funding streams.

Home Office also funded the cost of closing the Identity card programme and write down of the NIAS and PKISS assets prior to their transfer to UKBA.

Note 2 to the Accounts (see page 40) provides an analysis of these funding streams.

All receipts were paid into an IPS account held with the Government Banking Service (previously the Office of the Paymaster General). Sufficient receipts were Appropriated in Aid from this account to cover expenditure.

Outsourcing

As previously reported, De La Rue became the passport production supplier in October 2010, under a 10 year contract with an estimated value of £400m. To ensure flexibility, value for money and delivery capability, IPS during the year renegotiated the contract with Computer Services Corporation for delivery of its major IT systems.

Corporate Governance

These accounts incorporate a Statement on Internal Controls, the content of which is supported by the work carried out by IPS Internal Audit service, as well as other internal and external reviews that cover IPS business controls.

The Internal Audit service is provided by the Home Office Audit and Assurance Unit under a shared service model; with a Service Level Agreement in place for the delivery of the service. A Risk Management working group that reports to the Executive Director of Finance and Corporate Services met regularly throughout the year to review significant risks and the effectiveness of risk management services. The IPS Audit Committee met quarterly to oversee all audit and assurance work.

The IPS external auditor is the Comptroller and Auditor General, supported by the National Audit Office (NAO), appointed under statute and reporting to Parliament. For the statutory audit carried out on this report and accounts, IPS paid notional fees to the NAO of £206k (2009-10: £225k).

Full details of the Board in place for the 2010-11 financial year is included within the Remuneration Report (see pages 22-26) and in the Management Board report (see pages 60 and 61).

As far as the Accounting Officer is aware, there is no relevant audit information of which IPS auditors are unaware, and the Accounting Officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that IPS auditors are aware of that information. "Relevant audit information" means information needed by the IPS auditor in connection with preparing the audit report.

Pension scheme

Comprehensive details of the various pension schemes available to IPS employees are contained within the Remuneration Report on page 26 and on page 42 in note 3 to the Accounts.

Value for money

IPS is committed to maximising the value for money delivered to its customers whilst delivering excellent customer service and ensuring the highest degree of security and integrity. IPS contributes to the overall Home Office value for money plan; examples of recent value for money improvements delivered include: the implementation of a new, more cost-effective passport supply contract; reductions in our permanent staffing base and a significant reduction in consultancy and contractor resources. These efficiencies have been delivered whilst maintaining high standards of customer service.

Basis for preparing the accounts

IPS, in line with all Government departments and agencies, is required to produce accounts in accordance with the 2010-11 Government Financial Reporting Manual (FReM) issued by HM Treasury (HMT), which apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.

Resource accounting and budgeting

The Home Office are preparing resource accounts for 2010-11, which will consolidate IPS accounts.

Payment performance

IPS paid 40% of all invoices within 10 days (2009-10: 26% *revised*) and monitors its performance in line with government guidance on prompt payment.

People

Our principles describe how 'we value the contribution of all our people, treat them with respect and will support them through change'. IPS is going through a period of unprecedented change: the cancellation of Identity cards and the NIR as well as our wider cost reduction programme affected hundreds of people and many of these people have now left the organisation. During 2011-12 the entire organisation will go through a period of restructure, and with our specialist functions in Human Resources, Finance and Procurement increasingly moving to shared services. We are committed to leading and supporting our people effectively through those changes.

Staff numbers

In taking forward the Government's direction on Identity cards, one of the first changes we made was to reduce the size of and refocus the IPS Executive team. We reduced the number of Senior Civil Servants in IPS from 33 to 10. At the same time, we reduced the number of contractors and consultants working for IPS, with an associated reduction in spending of nearly 70%.

During the 2010-11 financial year we have taken steps to reduce overall permanent IPS staffing numbers by 10% which results in over 400 people leaving the organisation. See note 3 to the Accounts on page 42.

We have improved our performance in reducing sickness absence. During 2010-11 we recorded an average of 8 days lost to sickness. This met the Home Office sickness absence target and when compared to the 9.25 days that IPS lost to sickness in 2009-10, this is a significant achievement.

Supporting change

Through our innovative Myfuture project we have provided practical, emotional and job search support for our staff whose roles are no longer required. The support to our people in the redeployment network has included help with CV writing, job applications and interview coaching. The success of Myfuture enabled us to promote wider collaboration across the Home Office. In doing so our model was adopted by the Home Office and UKBA and this has increased the resources that a broader inter-agency Myfuture is able to offer to our people.

Staff engagement

We invited our staff to tell us how they feel about their place of work through the Civil Service People Survey in October 2010. The survey results told us that we have clear roles and objectives, are good at performance management and feedback, strike the right workload and work-life balance, and take action from employee engagement feedback.

However the survey also told us that we needed to improve our leadership visibility, communications and how we manage change, employee involvement in decisions, career development and in tackling unreasonable behaviour. We are committed to acting upon this feedback and have set up action plans that will enable us to understand how, together with our staff, we can address these concerns:

- In 2010-11 our engagement index score of 50% fell below the Civil Service benchmark, although we do recognise that at the time IPS was leading on the first wave of the new coalition government public sector changes.
- In 2011-12 we will look to actively meet or better the Civil Service benchmark staff engagement score and compare, on more equal terms, our performance against other government organisations.
- In 2011-12 we will again be using the Civil Service People Survey to provide this feedback. We recognise that this helps to underpin our efforts to drive change and create an atmosphere where people feel proud to work for IPS.
- During 2010-11 the Chief Executive initiated a series of monthly lunch time 'Leadership Listening Sessions' with our wider leadership team. This has provided her with the opportunity to hear views direct from leaders right across the business.
- In 2011-12 we will create an IPS engagement forum that will enable staff to express ideas designed to improve our engagement at an organisational level.

We will take forward work on 'Improving the IPS Experience' and will bring together the direction of the organisation, and the skills needed to take that direction, through the publication of an IPS 'People Story'.

Staff development

We are committed to improving the development opportunities that are available to all our staff. In 2010-11 we provided training events for nearly 4,000 delegates. In 2011 we will provide a 'common curriculum' for generic learning through 'Civil Service Learning'. This will provide access to a broader library of training and the flexibility for people to complete this at their own convenience, either at their desk or at home, and go back for refreshers when they need them.

Investing in Talent

We know we need to continue to invest in our talented staff, to give them the skills they need and to retain them in IPS. In 2010-11 we continued our TalentID programme and provided opportunities for nineteen junior and middle managers to stretch themselves through challenging short term secondments, selected to build their confidence and raise their self awareness.

In 2011-12 we will continue our internal talent schemes, 'Aspiring Talent' for our junior and middle Managers and 'Executive Talent' for our G6 and G7 staff.

Investors in People

We have begun a review of our Investor in People 'Bronze' accreditation, which in itself is recognition of the value we place in our people. But we want to improve and build upon that recognition during 2011 and in doing so increase the opportunities available for our people to gain new skills and work.

Equality and diversity

IPS supports the aims of the Home Office Diversity Strategy 2010-13 which are that:

- managers at all levels demonstrate **effective leadership** on equality and diversity;
- potential of under-represented groups developed to create a **representative workforce** at all levels;
- an inclusive **working environment** where staff respect and value each other's diversity;
- effective Home Office implementation of **statutory obligations** on equality and diversity; and
- **services delivered** in a way that promote equality and respect diversity.

IPS is committed to ensuring equality of opportunity and that all our systems are fair, open and objective and visible to those inside and outside the Organisation. We endeavour to promote this approach in those with whom we come into contact. Also we believe that we are all responsible for ensuring that the highest principles of equal opportunities are put into effect.

We recognise differences where they occur and are committed to being an equal opportunities employer, where people are not discriminated against or victimised on grounds of their age; disability; gender; gender identity; race; religion or belief; sexual orientation; marriage and civil partnership; or pregnancy and maternity.

All staff are encouraged to challenge discriminating attitudes. There are procedures for all who wish to seek support or make a complaint against the unjust treatment they have received (intentional or unintentional) from another member of staff or Manager.

In IPS, we pride ourselves on our valued behaviours which are **Customer Service, Personal Responsibility, Valuing People, Responding to Change, and Working Together**. We aim to ensure that the context in which we apply them remains up-to-date and relevant to the society in which we live and work. We have worked hard to engage with people from all backgrounds in a manner that respects and understands the diversity that is an integral part of our society. Recent examples of IPS engaging with our customers can be seen within our certificate services operation with the introduction of civil partnerships, same sex adoption and the recent changes to birth registration for same sex parents. Our diversity plan is underpinned by the need to ensure that our existing and future staff have the skills, knowledge and capabilities whilst taking active steps to ensure that our workforce, at all levels, is truly representative of the society IPS serves.

IPS is committed to the employment and career development of disabled people; disability is not regarded as a bar to recruitment or promotion and selection is based upon the ability of the individual to do the job. IPS is committed to ensuring that disabled staff have access to the same opportunities as other staff, not only when they first join the Agency but at all stages in their career. IPS operates the Guaranteed Interview Scheme, which guarantees an interview to anyone with a disability whose application meets the minimum criteria for the post. Once in post, disabled staff are provided with any reasonable support they might need to carry out their duties.

In 2010-11 over 11% of all IPS employees declared they had a disability, with over 4% of our G6 and G7 managers declaring a disability.

We have ensured that equality, diversity and inclusion are at the heart of our approach to organisational change. We have carried out Equality Impact Assessments as part of the consultation for organisational restructuring and ensured these were made available to those affected. We have also provided equality data on the staff in our redeployment network to ensure we can understand trends and be able to provide appropriate support.

Health and safety

IPS is committed to maintaining the standards required by the Health and Safety at Work Act 1974, and European Union regulations relating to the health and safety of its employees and the public. An Employee Assistance Programme, healthcare screening and a flu vaccination programme exist for all staff. There is a nominated Executive Director with lead responsibility for all health and safety activity within IPS.

Corporate and community issues

IPS is committed to its employees, customers, the environment and, in the wider context the community at large. For example, staff can apply for special leave with pay of up to five working days a year to work outside IPS as a volunteer on a corporate social responsibility activity. More days are available for example for staff who undertake community work as a special constable, a magistrate or a school governor.

Working with the trade union

IPS values its relationship with the trade unions and continues to build on the formal partnership agreement with the Public and Commercial Services Union (PCS).

Additionally, a Strategic Engagement Framework has been signed off and is in the process of being implemented.

The environment

IPS is committed to achieving the Sustainable Development objectives of the Government 'Green Agenda' and complying with relevant environmental legislation. We are taking steps to rationalise our estates' carbon footprint and programmes to improve sustainable performance include a move to secure telephony, which will reduce business travel, and the rationalisation of our IT and printer provisions, which will reduce energy, paper and consumables consumption.

In summary, IPS has responded well to the challenges it has been presented with this year and we believe the Agency is in a good position for the year ahead.

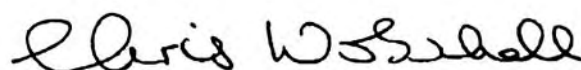


Sarah Rapson

Chief Executive of Identity and Passport Service
and Registrar General for England & Wales
1 July 2011

Accounts Direction

1. This direction applies to the Identity and Passport Service.
2. The Identity and Passport Service shall prepare accounts for the year ended 31 March 2011 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by HM Treasury (“the FReM”) which is in force for 2010-11.
3. The accounts shall be prepared so as to:
 - a) give a true and fair view of the state of affairs as at 31 March 2011 and of the income and expenditure (or, as appropriate, net resource outturn), changes in taxpayers’ equity and cash flows of the agency for the financial year then ended; and
 - b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.



Chris Wobschall
Head, Assurance and Financial Reporting Policy
Her Majesty’s Treasury
22 December 2010

Statement of the Identity and Passport Service Accounting Officer and Chief Executive's Responsibilities

Under section 7(2) of the Government Resources and Accounts Act 2000 HM Treasury has directed the Identity and Passport Service (IPS) to prepare for each financial year a Statement of Accounts in the form and on the basis set out in the Accounts Direction.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of IPS and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM) and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the Accounts; and
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

The Accounting Officer of the Home Office has designated the Chief Executive of the Identity and Passport Service as the Accounting Officer for the Agency.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding IPS's assets, are set out in Managing Public Money, published by HM Treasury.

Annual Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of IPS policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in 'Managing Public Money' and by the Home Office Accounting Officer. I have discharged these responsibilities in a year of considerable political and operational change.

As Chief Executive, I am responsible to the Home Secretary and the Permanent Secretary for the efficient running of the Agency. The Board and all the Executive Directors take collective responsibility for all decisions taken and are responsible through me to the Home Secretary, Permanent Secretary, and Parliament for those decisions.

The purpose of the system of internal control

The IPS system of internal control is:

- designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness;
- based on a continuous process, designed to identify, assess and prioritise the risks to the achievement of our policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and then manage them efficiently, effectively and economically; and
- has been in place in IPS for the year ended 31 March 2011 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

Capacity to handle risk

The IPS risk management strategy and supporting policies are endorsed by me and our Executive

Directors to provide direction and set the framework within which IPS manages its risks. All managers are accountable for the management and mitigation of risk within their delegated areas of responsibility. My objective as Accounting Officer is to seek continual improvement in IPS delivery, capability and capacity by embedding a culture in which senior leaders take personal responsibility for effective risk management, supported by good process and data.

The Agency's corporate risk function leads the development of this culture by providing structures, tools, training and other guidance to equip staff to fulfil these management responsibilities in a structured and proportionate manner. These are derived from relevant Home Office policy and guidance, good industry practice, reviews of internal lessons learned and by benchmarking against other public and private sector organisations.

Risks are managed in the context of delivery of the Agency's Purpose, principles and defined business priorities, taking full account of the operating environment. Key aspects of the operating environment during the year have included managing risks arising from the significant challenges of decommissioning the National Identity Scheme and the major organisational change and downsizing required to achieve sustainable cost reductions and reduce reliance on Home Office funding.

The risk and control framework

To manage risks to a practical and cost effective level, IPS maintains a flexible and scaleable risk process across all business areas, cascading from corporate to individual business unit levels. This includes monitoring and managing risks with clear ownership, timely management data and appropriate governance, including:

- a monthly Management Team meeting, with standing items on performance, corporate risks,

security breaches and other compliance issues; the Management Team considers a recently revised one page summary of the Agency's top corporate risks; the risk team ensure that there is clear senior ownership for each risk and mitigating actions;

- a Strategy Board, which has met regularly over the year, attended by Non-Executive Directors and a representative of the Home Office Director General who sponsors IPS; this Board has a standing quarterly item on performance;
- an Audit Committee that meets at least four times a year, chaired by a Non-Executive Director and including two other Non-Executive Directors;
- a Risk Management working group, reporting to the Executive Director of Finance and Corporate Services, attended by senior managers from all functions, which meets quarterly to review significant risks and the effectiveness of risk management practices; and
- a quarterly operating review, chaired by the Permanent Secretary, focusing on performance against the published business plan.

Over the course of 2010-11 IPS has linked corporate risks to our core principles and business priorities. Management of these risks drive our most critical activities – for example, how IPS plans and prioritises business delivery and allocate resources, creates and revises policies and measures and reviews performance. Management of the risks associated with these activities is cascaded throughout the Agency, in line with assigned objectives.

The Management Team regularly reviews the target status of our corporate risks and agrees any additional actions needed to reduce their severity to acceptable levels where necessary, considering issues of practicality, value for money, competing priorities and our appetite for taking considered, informed and controlled risks.

IPS continues to perform well against the requirements of the Cabinet Office Data Handling Review to improve its management of information risk. The Statement on Data Security and Integrity on pages 18 and 19 reports progress; activities in the year included a comprehensive training programme, especially for Information Asset Owners, and assessment of our suppliers' capabilities to manage information risks.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the Executive Directors within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

I have been advised on the implications of the result of my review by the Board, Audit Committee and Risk Committee and a plan is in place to address weaknesses and ensure continuous improvement of the system.

The Head of Internal Audit provides me with an overall opinion on risk, control and governance, based on the work conducted by the Internal Audit function. He has concluded: "IPS is in an inherent and residual high risk environment in which many of the challenges are externally generated and not entirely in the control of IPS managers. I stress that the high risk landscape is not a criticism of IPS management – it is a description of the challenge they are faced with. Appropriate risk management tools and techniques are being effectively deployed.

Good controls are being applied to appropriately manage the likelihood of these risks being realised even though the impact would still be severe if they were realised. A failure, if it were to arise, is more likely to arise from an external factor than from IPS management failure to take appropriate actions.

Current business systems are generally operating well as evidenced by our risk based audits of current business delivery.

A number of high level governance arrangements have been, and continue to be, subject to change. The changes are appropriate to reflect the changed circumstances of the organisation. It will be important for the Accounting Officer and Executive Directors to give ongoing careful attention to ensuring that governance arrangements are comprehensive and appropriate as the IPS risk and control landscape continues to develop."

In reviewing the effectiveness of our system of internal control I have also considered evidence of the maintenance of an effective control regime to manage high levels of inherent risk during the year, as highlighted on page 17.

Significant risks and internal control issues

The need to manage high levels of inherent risk requires the continuous improvement of our processes and controls, aligning planning, resourcing and other management activity to mitigate our key risks. Actions will be progressed in the coming year to improve further the risk and control environment where necessary.

Areas of high inherent risk and the controls we have put in place in response during the year include:

- decommissioning of the National Identity Scheme and destruction of the supporting infrastructure, including the National Identity Register by implementing a secure destruction methodology approved by the Information Commissioner;
- establishment of a new smaller top management team, implementation of a revised governance framework and a changed sponsorship arrangement with the Home Office;
- significant organisational change, downsizing and restructuring to enable IPS to become substantially fee funded from April 2011, including consultation on proposals to cease examining postal and online applications at a regional processing centre and reduce substantially the size of the Interview Office Network;
- transition to a new passport design, to De La Rue, as our new key passport supplier and to a new processing system. This critical change was handled by significant levels of senior management engagement, coordinated through a weekly steering group in addition to the usual programmatic structures. High levels of customer service have been maintained throughout;
- to ensure flexibility, value for money and delivery capability we renegotiated the contract with Computer Services Corporation (CSC) for the delivery of our major IT systems;
- preparation for taking responsibility for the production of passports for UK citizens overseas from April 2011 by defining the service levels and standards needed to meet customer demand and operational responsibility and formally agreeing these through a joint Accord;
- continuing low levels of demand for certificate services to which we responded by implementing short term cost reductions and reviewing longer term options for returning certificate operations to financial balance;

- a small data loss incident at one of our Application Processing Centres has led to the development of better internal controls and a strengthened assurance framework, to ensure a greater level of accountability and security of information assets; we worked closely on this with the Information Commissioner's Office;
- taken action to ensure recruitment controls are operating appropriately in response to one instance in a previous year where in a small number of cases employees were engaged under permanent rather than temporary employment contracts;
- migration of IPS HR, and preparation for the migration of our finance and procurement systems, to Home Office shared services (other business systems have also been considered for suitability for transition to a shared service basis).

A number of other control improvements have been made during the year:

- a strengthened, comprehensive monthly performance pack;
- continued refinement of our Change Assurance processes to provide early sight of business change risks;
- continued work on our data sharing service arrangements with other Government entities to ensure that these arrangements are bound in unambiguous agreements;
- further work to enhance the Agency's approach to knowledge management; and
- improvements in testing IT Disaster Recovery arrangements.

In conclusion I am satisfied that IPS has effectively managed a number of significant and complex risks effectively in order to maintain the excellent levels of customer service the public has come to expect of us. Over a period of significant operational change and implementation of business improvements, IPS has struck an effective balance in managing risks across our customer service, security and integrity and financial objectives.



Sarah Rapson

Chief Executive of Identity and Passport Service
and Registrar General for England & Wales
1 July 2011

Statement on Data Security and Integrity

IPS's core Purpose is to provide accurate and secure records of key events and trusted passport services. In delivering this purpose IPS holds personal data about British citizens. We also hold other sensitive and important data, including on commercial and operational performance. Ensuring the integrity and security of this data, in the ways that is held and used, is a top priority and critical to our success. The rights of the individual to privacy underpin our approach, alongside securing benefits where appropriate for society as a whole and improving transparency.

Areas of activity

Over the past year IPS has further strengthened our information security, including through a strengthened assurance plan implemented in all of our regional application processing centres, training all IPS staff in information security and reviewing our current data sharing arrangements. IPS achieved continued accreditation against the highest benchmark in the government-wide Information Assurance Maturity Model.

During the year we ensured that cancellation of the National Identity Scheme took full account of the need for data security. We successfully managed the decommissioning and secure disposal of the National Identity Register together with the supporting data and computer systems.

Through our ongoing programme of accreditation of IT systems we have ensured that our systems and processes meet government standards for the storage and handling of personal and other data. Our Information Assurance and Security teams working with a number of external advisors, including CESG (the Government's National Technical Authority for Information Assurance), the Information Commissioner's Office (ICO) and the Centre for the Protection of National Infrastructure (CPNI).

As a contribution to the government-wide transparency agenda, we began publishing information about financial transactions with a value greater than £25,000.

The Executive Committee has provided oversight of the effectiveness of our information security controls and assurance and the Audit Committee has scrutinised the implementation of our plans.

During the year the transition to the new passport provides enhanced protection to the individual against misuse of their identity and data, through improved security features.

Personal data incidents

The IPS Board take very seriously the loss of any personal data. Through regular reporting and a strengthened security and assurance programme we have increased our efforts to prevent any data losses and swiftly follow up the small number that occur.

During the year a single incident occurred where a small quantity of passport renewal forms and expired passports could not be located in one of our offices. This matter was escalated through the proper channels and the ICO was informed. The small number of customers whose applications were affected were contacted, their old passports were recorded as lost, cancelled on our systems and circulated to the relevant international authorities. The Information Commissioners' representative visited the office and walked through the processes and concluded "As a result of enquiries and inspection, it became apparent that data security is (as was expected) taken very seriously by the IPS and is strictly enforced."

Summary of other protected personal data incidents in 2010-11

Incidents deemed not to fall within the criteria for reporting to the ICO but recorded centrally within the Department are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures.

| Category | Nature of incident | 2010-11 | 2009-10 |
|----------|--|---------|---------|
| I | Loss of inadequately protected electronic equipment, devices or paper document from secured government premises. | 0 | 0 |
| II | Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises. | 0 | 0 |
| III | Insecure disposal of inadequately protected electronic equipment, devices or paper documents. | 0 | 0 |
| IV | Unauthorised disclosure. | 0 | 0 |
| V | Theft or loss of passports in transit to customers by courier. All documents concerned have a number of features to protect against fraudulent use, including a chip containing biometric information. All documents concerned have been cancelled and reissued. | 9 | 6 |

Remuneration Report

Period ended 31 March 2011

In accordance with the Financial Reporting Manual (FRM) IPS has prepared a Remuneration Report for the period 1 April 2010 – 31 March 2011. The objective of the Remuneration Report is to disclose fully information about IPS Senior staff in accordance with the Companies Act 1985 as interpreted for the public sector. Senior staff are defined as members of the Strategy Board of IPS and its Non-Executive directors. (See changes below under ‘The Board’).

Further details on other staff, including costs, can be found in note 3 to the annual accounts.

Remuneration policy

IPS employees hold substantive civil service contracts. Appointments may be terminated in accordance with the Civil Service Management Code.

The Chief Executive is a senior civil servant and her salary is set by the Home Office in consultation with the Cabinet Office. The remaining executive directors have their remuneration determined by a process consistent with Home Office and Cabinet Office rules.

The Permanent Secretary to the Home Office has delegated authority to create/abolish posts or change the mix of grades of Home Office Senior Civil Servants (SCS), including those in the Agency.

Performance pay is awarded in line with the procedures laid down and adopted across the Home Office. Additional performance-related pay, via Special Pay Awards and Minor Award schemes, are available to all civil servants. Both schemes are administered in line with Home Office policy.

All pay awards – consolidated base pay and non-consolidated bonus pay – are subject to satisfactory performance of the duties assigned.

A pay freeze has operated throughout the year and there have been no Performance pay awards and the only pay awards in the year were those awarded across the Civil Service for the most junior grades.

Remuneration committee

The salaries and performance pay of executive board members are agreed by a series of central Home Office remuneration committees. They are guided by performance assessments for each SCS employee and by the Chief Executive’s recommendations.

Service contracts

Civil service appointments are made in accordance with the Civil Service Commissioners’ Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

During 2010-11 IPS has made no salary or compensation payments to past senior managers for loss of office.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk

The Board

IPS has made staff savings in response to the new Government’s commitments to cut public expenditure. IPS’s contribution to the savings includes job reductions in relation to cancelling Identity cards and destroying the National Identity Register and, along with the rest of the Home Office, IPS has taken action to freeze recruitment. These changes have affected the structure of IPS and its senior management.

Between April and September 2010 the Management Board was the senior governance body within IPS; this was replaced in September when the Strategy Board was established, which became the most senior body, and operated as such over the remainder of 2010-11. Other Executive directors, together with those appointed to the Strategy Board, comprise the IPS Executive Team.

Salary and benefits in kind

The tables on pages 22-25 give details of all individuals who have acted as a member of the senior management team during the period. Salary includes gross salary, performance pay or bonuses, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances and any other allowance to the extent that it is subject to UK taxation.

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. There were no non-cash benefits in kind.

Salaries and pension analysis for each member of the IPS Senior Management Team, as at 31 March 2011 (Audited)

Table Part 1

| Senior staff name | Notes | Job title | 2010-11 | | 2009-10 | |
|---------------------------|-------|---|--|----------------|--|----------------|
| | | | Salary *1 | Bonus Payments | Salary *1 | Bonus Payments |
| | | | £'000 | £'000 | £'000 | £'000 |
| Sarah Rapson | *2, 3 | Chief Executive of Identity and Passport Service and Registrar General for England & Wales With effect from 19 July 2010. Appointed as Registrar General for England and Wales with effect 15 November 2010. | 105-110 | 10-15 | 100-105 | 10-15 |
| Alastair Bridges | *3 | Executive Director, Finance and Corporate Services This appointment was confirmed as permanent from 3 December 2010. | 85-90 | 0 | 60-65 (Annualised to 85-90) | 0 |
| Jane Carwardine | *3, 4 | Executive Director, Human Resources | 115-120 | 0-5 | 85-90 (Maternity leave during 2009-10) (Annualised to 100-105) | 10-15 |
| Susan Caldwell | *3 | Executive Director, Corporate Strategy Appointed to the post 17 September 2010. | 90-95 | 0-5 | n/a | n/a |
| Deborah Chittenden | *3, 5 | Executive Director, Organisation Transformation Appointed to the post 17 September 2010. | 95-100 | 5-10 | n/a | n/a |
| Ian Forster | *3, 6 | Executive Director, Commercial Employed by the Home Office from 1 October 2010 but remains a member of the IPS Executive Team. | 50-55 (Annualised to 85-90) | 5-10 | n/a | n/a |
| Paul Pugh | *3 | Executive Director, Operations Appointed 9 November 2010. | 20-25 (Annualised to 95-100) | n/a | n/a | n/a |
| Dame Janet Finch | *3, 7 | Non-Executive Director | 15-20 | n/a | 15-20 | n/a |
| Anne Tutt | *3, 8 | Non-Executive Director | 25-30 | n/a | 25-30 | n/a |
| Linda Walton | *3, 9 | Non-Executive Director | 25-30 | n/a | 25-30 | n/a |

Table Part 2

| Senior staff name | Real increase / decrease in pension at age 60 and related lump sum | Total accrued pension at age 60 at 31 March 2011 and related lump sum | Cash Equivalent Transfer Value (CETV) at 31 March 2010 | CETV at 31 March 2011 | Real increase in CETV after adjustment for inflation and changes in market investment factors |
|---------------------------|--|---|--|-----------------------|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Sarah Rapson | 2.5-5 plus 0-2.5 lump sum | 10-15 0-5 lump sum | 115 | 157 | 16 |
| Alastair Bridges | 0-2.5 plus 0-2.5 lump sum | 20-25 70-75 lump sum | 309 | 340 | 4 |
| Jane Carwardine | 0-2.5 plus 0-2.5 lump sum | 5-10 0-5 lump sum | 62 | 87 | 15 |
| Susan Caldwell | 0-2.5 plus 0-2.5 lump sum | 0-5 0-5 lump sum | 27 | 30 | -1 |
| Deborah Chittenden | n/a | n/a | n/a | n/a | n/a |
| Ian Forster | 0-2.5 plus 0-2.5 lump sum | 5-10 25-30 lump sum | 146 | 162 | 5 |
| Paul Pugh | 0-2.5 minus 2.5-5 minus lump sum | 35-40 70-75 lump sum | 596 | 586 | -20 |
| Dame Janet Finch | n/a | n/a | n/a | n/a | n/a |
| Anne Tutt | n/a | n/a | n/a | n/a | n/a |
| Linda Walton | n/a | n/a | n/a | n/a | n/a |

* Notes

- Salaries include, where applicable, excess fares, London weighting or gross taxable allowances.
- Sarah Rapson was appointed as Chief Executive Officer from 19 July 2010 to succeed James Hall. She was appointed by HM the Queen as the new Registrar General for England and Wales on 15 November 2010. Her previous role of Executive Director, Service Planning and Delivery, was covered by Vince Gaskell until 22 October 2010. Whilst in that role, Sarah was also the chair of the Service Delivery Committee.
- A new Board structure was agreed on 21 September 2010; the Strategy Board, as the most senior body, consists of the Chief Executive Officer, the Executive Director of Finance and Corporate Services, the Executive Director of Corporate Strategy, the Executive Director of Operations, the Non Executive Directors and the Director of Civil Liberties & Public Protection (Home Office); the other Executive Directors together with the Executive Director Commercial (Home Office), form part of the IPS Senior Management Team.
- Included in the excess fares payment for Jane Carwardine is an adjustment of £1,441, due to her because of an underpayment in previous years.
- Deborah Chittenden is a member of a Partnership pension scheme. Employer contributions to the scheme amounted to £769 in both 2009-10 and 2010-11.
- Ian Forster had home to work expenses paid for whilst he was an IPS employee. This amounted to £7,990 during the period; the tax liability of £7,030 on those costs will be met by IPS.
- Dame Janet Finch is a Non-Executive Director and was Chair of the GRO Committee.
- Anne Tutt is a Non-Executive Director and is also Chair of the Audit Committee and represents IPS on the Home Office Audit committee.
- Linda Walton is a Non-Executive Director and was Chair of the Finance Review Board; she will be leaving IPS at the end of June 2011. Linda attended meetings of the National Identity Service Management Board until it was disbanded in May 2010 and provides advice on Senior Civil Servant recruitment and remuneration. Linda ceased to receive a salary from 31 January 2011; instead she is paid for each day worked.

Salaries and pension analysis for senior managers, who have left the IPS Senior Management Team between 1 April and 31 March 2011 (Audited)

Table Part 1

| Senior staff name | Notes | Job title | 2010-11 | | 2009-10 | |
|------------------------|--------|--|--|----------------|-------------------|----------------|
| | | | Salary *1 | Bonus Payments | Salary *1 | Bonus Payments |
| | | | £'000 | £'000 | £'000 | £'000 |
| James Hall | *2, 10 | Chief Executive Officer and Registrar General Retired 15 July 2010. | 50-55 (part year) (Annualised to 195-200) | 10-15 | 195-200 | 10-15 |
| David Buckley | *11 | Executive Director, General Register Office (Deputy Registrar General) Left under Flexible Early Severance terms on 22 October 2010. | 55-60 (part year) (Annualised to 100-105) | 0-5 | 100-105 | 5-10 |
| Bill Crothers | | Executive Director, Chief Information Officer and Commercial Transferred to the Home Office with effect from 31 August 2010 to become Group Commercial Director. | 60-65 (part year) (Annualised to 145-150) | 10-15 | 145-150 | 10-15 |
| Katie Davis | | Executive Director, Strategy Transferred to the Cabinet Office with effect from 19 August 2010 to become Executive Director for Operational Excellence. | 55-60 (part year) (Annualised to 140-145) | 5-10 | 140-145 | 10-15 |
| Vince Gaskell | *2, 12 | Executive Director, New Service Implementation Acted as Executive Director, Service Planning and Delivery, from July 2010. Retired 22 October 2010. | 95-100 (part year) (Annualised to 175-180) | 5-10 | 175-180 | 10-15 |
| Dr Duncan Hine | *13 | Executive Director, Integrity and Security Left under Flexible Early Severance terms on 31 December 2010. | 95-100 (part year) (Annualised to 120-125) | 0-5 | 120-125 | 10-15 |
| Isabel Hunt | | Executive Director, Communications and Marketing Maternity Leave from 17 November 2009 to 1 November 2010. Transferred to Home Office with effect from 1 November 2010 to become Director, Strategy and International Group. | 75-80 (part year) (Annualised to 130-135) | 5-10 | 115-120 | 10-15 |
| Sarah Blackburn | *14 | Non-Executive Director Contract ended December 2009 | - | - | 35-40 (part year) | n/a |

Table Part 2

| Senior staff name | Notes | Real increase / decrease in pension at age 60 and related lump sum | Total accrued pension at age 60 at 31 March 2011 and related lump sum | Cash Equivalent Transfer Value (CETV) at 31 March 2010 | CETV at 31 March 2011 | Real increase in CETV after adjustment for inflation and changes in market investment factors |
|-------------------|--------|--|---|--|-----------------------|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 |
| James Hall | *2, 10 | n/a | n/a | n/a | n/a | n/a |
| David Buckley | *11 | 0-2.5 plus 0-2.5 lump sum | 20-25 0-5 lump sum | 265 | 291 | 3 |
| Bill Crothers | | 0-2.5 plus 0-2.5 lump sum | 5-10 0-5 lump sum | 58 | 69 | 10 |
| Katie Davis | | 0-2.5 plus 0-2.5 lump sum | 10-15 0-5 lump sum | 109 | 122 | 6 |
| Vince Gaskell | *2, 12 | 0-2.5 minus 0-2.5 minus lump sum | 60-65 180-185 lump sum | 1,265 | 1,350 | -4 |
| Dr Duncan Hine | *13 | 0-2.5 plus 0-2.5 lump sum | 5-10 0-5 lump sum | 90 | 120 | 20 |
| Isabel Hunt | | 0-2.5 plus 0-2.5 lump sum | 5-10 0-5 lump sum | 49 | 70 | 16 |
| Sarah Blackburn | *14 | n/a | n/a | n/a | n/a | n/a |

* Notes

10. James Hall retired from his position as Chief Executive Officer and Registrar General with effect from 15 July 2010. James Hall received allowances to cover home to work travel of £2,454 during the period, which is included in remuneration above. IPS bears the £2,159 of tax and NI liabilities for these travel expenses. James Hall is opted out of the pension scheme.
11. David Buckley left IPS under Flexible Early Severance terms on 22 October 2010, he received a compensation payment of £37,494. David Buckley had accommodation and home to work expenses when business needs dictated, paid for by IPS as part of his remuneration agreement. This amounted to £7,939 during the period; the tax liability of £6,987 on these costs is also met by IPS.
12. Vince Gaskell left under Approved Early Retirement terms on 22 October 2010. Vince Gaskell received an 'Additional Home Cost' allowance as part of his remuneration agreement. This amounted to £11,805 in the period and is liable to personal taxation. He also received a home to work allowance of £4,786 in this period. IPS bears the tax liabilities on the travel expenses, which amounted to £4,211 in the period. Following the decommissioning of the National Identity Scheme the New Service Implementation directorate was disbanded and the associated roles are no longer required. Vince also covered the role of Executive Director, Communications and Marketing, from November 2009 until 17 September 2010 as well as Executive Director, Service Planning and Delivery from July 2010. He retired from IPS with effect from 22 October 2010. The remainder of the Communications and Marketing directorate then merged with the Corporate Strategy directorate. The capitalised cost of the package he received was £110,660.66.
13. Duncan Hine left under Flexible Early Severance terms on 31 December 2010, he received a compensation payment of £31,910. Duncan Hine received an excess fares allowance, agreed as part of his contract, which amounted to £2,811 in the period. IPS bears the tax liabilities of £2,811 on this amount. He also acted as Chair of the Data Governance Committee.
14. Until 31 December 2009 Sarah Blackburn was a Non-Executive Director of the IPS Management Board. An overpayment of £10,372 gross was paid to Sarah in error during 2009-10. This was paid back to IPS during 2010-11 less an outstanding claim for expenses resulting in a net payment recovered of £6,190.05.

Civil Service pensions

Pension benefits are provided through the civil service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (classic, premium or classic plus); or a 'whole career' scheme (nuvos). Further details on civil service pension can be found at the web site www.civilservice-pensions.co.uk

Cash Equivalent Transfer Values (CETV)

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figures and other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed.

They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

IPS has made no payment to a Partnership Pension plan during 2010-11 (£nil 2009-10) for senior managers. One senior manager is a member of a Partnership pension scheme and their personal contributions, paid by IPS to the scheme on their behalf, amounted to £769 in both 2009-10 and 2010-11.



Sarah Rapson

Chief Executive of Identity and Passport Service
and Registrar General for England & Wales
1 July 2011

The certificate and report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Identity and Passport Service (IPS) for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Changes in Taxpayers' Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and auditor

As explained more fully in the Statement of the Identity and Passport Service Accounting Officer and Chief Executive's Responsibilities, the Chief Executive is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the IPS's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the IPS; and the overall presentation of the financial statements.

In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the Identity and Passport Service's affairs as at 31 March 2011, and of the net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and

- the information given in the Chief Executive's Foreword and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

5 July 2011

Accounts for the year ended 31 March 2011

Statement of comprehensive net expenditure

For the year ended 31 March 2011

| | Notes | 2010-11 £'000 | 2009-10 £'000 (Restated*) |
|--|-------------|------------------|---------------------------------|
| Continuing operations | | | |
| Income | 1.11, 2 | (415,314) | (379,941) |
| Other operating income | 1.14, 2, 4c | (8,639) | (8,439) |
| Cost of sales | 2, 4a | 171,150 | 182,319 |
| Other programme expenditure | 2, 4b | 187,898 | 228,431 |
| Impairments | 2, 4d | 6,445 | 1,898 |
| Loss on disposal of non current assets | 2 | 50 | 72 |
| Consular protection fees | 2, 19 | 63,906 | 58,995 |
| Net operating cost for the year from continuing operations | | 5,496 | 83,335 |
| Discontinued operation and programmes | | | |
| Net operating costs from the Identity card discontinued operations | 2 | 7,281 | 7,170 |
| Termination costs for Identity cards and National Identity Register | 2a, 18 | 20,175 | - |
| Impairment of assets under construction, for transferred assets and programmes transferred to UKBA | 2b, 18 | 14,890 | - |
| Deficit for the year from discontinued operation | | 42,346 | 7,170 |
| Total operating cost for the year | | 47,842 | 90,505 |

| | Continuing Operations £'000 | Discontinued Operation and Programmes £'000 | 2010-11 £'000 | Continuing Operations £'000 | Identity cards £'000 | 2009-10 £'000 (Restated*) |
|--|--------------------------------|--|------------------|--------------------------------|-------------------------|---------------------------------|
| Programme costs | | | | | | |
| Staff | 120,257 | 1,684 | 121,941 | 127,591 | 967 | 128,558 |
| Programme costs | 309,192 | 40,819 | 350,011 | 344,124 | 6,399 | 350,523 |
| Income | (423,953) | (157) | (424,110) | (388,380) | (196) | (388,576) |
| Net operating cost for the year | 5,496 | 42,346 | 47,842 | 83,335 | 7,170 | 90,505 |

* The 2009-10 comparatives have been restated to show that as part of the HM Treasury (HMT) Alignment Project from 1 April 2010 Cost of Capital (£5,119k: 2009-10) is removed from expenditure lines. Fees & charges will continue to include Cost of Capital charge as an economic cost, in the same way that other non-cash charges are included as a relevant cost incurred by Government as a whole.

| | Notes | 2010-11 £'000 | 2009-10 £'000 (Restated*) |
|---|-------|------------------|---------------------------------|
| Other comprehensive expenditure | | | |
| Net gain/(loss) on revaluation of Property, plant and equipment | 5 | 495 | 3,175 |
| Net gain/(loss) on revaluation of intangibles | 6 | (2,857) | 75 |
| Total other comprehensive expenditure | | (2,362) | 3,250 |
| Total comprehensive expenditure | | 45,480 | 93,755 |

The notes on pages 35-59 form part of these accounts.

Statement of financial position

As at 31 March 2011

| | Notes | 2011 £'000 | 2010 £'000 (Restated) | 2009 £'000 (Restated) |
|--|--------------|------------------|-----------------------------|-----------------------------|
| Assets | | | | |
| Non current assets | | | | |
| Property, plant and equipment | 1.2, 5 | 126,468 | 179,867 | 105,623 |
| Intangible assets | 1.3, 6 | 30,941 | 26,982 | 36,765 |
| Total non current assets | | 157,409 | 206,849 | 142,388 |
| Current assets | | | | |
| Inventories and work in progress | 1.9, 1.10, 8 | 2,721 | 3,829 | 6,645 |
| Trade and other receivables | 9a | 33,200 | 30,069 | 21,965 |
| Cash and cash equivalents | 7, 10 | 58,318 | 55,979 | 22,451 |
| Assets held for sale | 2a, 9a | 45 | - | - |
| Total current assets | | 94,284 | 89,877 | 51,061 |
| Total assets | | 251,693 | 296,726 | 193,449 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Trade and other payables | 11a | (118,803) | (157,309) | (92,115) |
| Provisions | 1.21, 12 | (4,069) | (3,185) | (1,146) |
| Total current liabilities | | (122,872) | (160,494) | (93,261) |
| Total assets less net current liabilities | | 128,821 | 136,232 | 100,188 |
| Non current liabilities | | | | |
| Provisions | 1.21, 12 | (6,113) | (4,659) | (4,974) |
| Other payables | 11b | (7,139) | (7,367) | (7,346) |
| Total non current liabilities | | (13,252) | (12,026) | (12,320) |
| Net assets | | 115,569 | 124,206 | 87,868 |
| Taxpayers' equity | | | | |
| General fund | 1.26 | 110,555 | 117,753 | 79,744 |
| Revaluation reserve | 1.27 | 5,014 | 6,453 | 8,124 |
| Total taxpayers' equity | | 115,569 | 124,206 | 87,868 |

The notes on pages 35-59 form part of these accounts.



Sarah Rapson

Chief Executive of Identity and Passport Service
and Registrar General for England & Wales
1 July 2011

Statement of cash flows

For the year ended 31 March 2011

| | Notes | 2010-11 £'000 | 2009-10 £'000 (Restated) |
|---|----------------|------------------|--------------------------------|
| Cash flows from operating activities | | | |
| Net operating cost as per SOCNE | | (47,842) | (90,505) |
| Consular protection fees | 2 | 63,906 | 58,995 |
| (Increase)/Decrease in trade and other receivables | 9 | (3,110) | (8,104) |
| (Increase)/Decrease in inventories and work in progress | 1.9,1.10, 8 | 1,108 | 2,816 |
| Increase/(Decrease) in trade payables | 11 | (8,722) | 5,329 |
| Adjustments for non-cash transactions | | 75,496 | 49,109 |
| Loss on disposal of non current assets | | 50 | 72 |
| Movement in provisions | 12 | 2,338 | 1,724 |
| Net cash inflow from operating activities | | 83,224 | 19,436 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 1.2, 5 | (102,654) | (81,927) |
| Purchase of intangible assets | 1.3, 6 | - | (235) |
| Charges/(Receipts) on disposal of non current assets | 1.2, 1.3, 5, 6 | 2 | (3) |
| Net cash outflow from investing activities | | (102,652) | (82,165) |
| Cash flows from financing activities | | | |
| Funding from parent | 1.13, 19 | 85,000 | 173,500 |
| Payment of Funding Surplus (CFERs) to parent | 1.13 | - | (18,794) |
| Payment of Consular protection fees (CFERs) | 1.13, 19 | (63,233) | (58,449) |
| Net cash outflow from financing activities | | 21,767 | 96,257 |
| Net increase/(decrease) in cash and cash equivalents in the period | | 2,339 | 33,528 |
| Cash and cash equivalents at the beginning of the period | 1.25, 10 | 55,979 | 22,451 |
| Cash and cash equivalents at the end of the period | 1.25, 10 | 58,318 | 55,979 |
| Net increase/(decrease) in cash and cash equivalents in the period | | 2,339 | 33,528 |

Statement of cash flows (continued)

For the year ended 31 March 2011

| | 2010-11 £'000 | 2009-10 £'000 (Restated) |
|---|------------------|--------------------------------|
| Of the above the discontinued operation cash flows were | | |
| Net cash outflow from operating activities | (9,754) | (7,170) |
| Net cash outflow from investing activities | - | - |
| Net cash flows from financing activities | 42,346 | 7,170 |
| Net increase/(decrease) in cash and cash equivalents in the period | 32,592 | - |
| Cash and cash equivalents at the beginning of the period | - | - |
| Cash and cash equivalents at the end of the period | 32,592 | - |
| Net increase/(decrease) in cash and cash equivalents in the period | 32,592 | - |

The notes on pages 35-59 form part of these accounts.

Statement of changes in taxpayers' equity

For the year ended 31 March 2011

| | Notes | General Fund £'000 | Revaluation Reserve £'000 | Total Reserves £'000 |
|---|----------------------------|-----------------------|------------------------------|-------------------------|
| Changes in taxpayers' equity for 2009-10 | | | | |
| | 1.26, 1.27 | | | |
| Balance at 1 April 2009 | | 79,744 | 8,124 | 87,868 |
| Funding from Home Office | 1.13, 19 | 173,500 | - | 173,500 |
| Cash surplus due to Home Office | 11 | (48,909) | - | (48,909) |
| Net loss on revaluation of non current assets | 1.2, 1.3, 1.6, 1.26 | - | 1,655 | 1,655 |
| Non-cash charges – auditor's remuneration | 4b | 225 | - | 225 |
| Non-cash charges – payroll services | 4b | 372 | - | 372 |
| Realised Revaluation Reserve to General Fund | 1.2, 1.3, 1.26, 1.27 | 3,326 | (3,326) | - |
| Net operating cost for the year excluding non retainable element of passport fee for consular protection | | (31,510) | - | (31,510) |
| Non retainable element of passport fee for consular protection | 19 | (58,995) | - | (58,995) |
| Balance at 31 March 2010 | | 117,753 | 6,453 | 124,206 |
| Changes in taxpayers' equity for 2010-11 | | | | |
| | 1.26, 1.27 | | | |
| Balance at 1 April 2010 | | 117,753 | 6,453 | 124,206 |
| Funding from Home Office | 1.13, 19 | 85,000 | - | 85,000 |
| Non-cash deemed supply funding from Home Office | 1.13, 19 | 48,909 | - | 48,909 |
| Cash surplus due to Home Office | 1.13, 11 | (56,931) | - | (56,931) |
| Net increase on revaluation of non current assets | 1.2, 1.3, 1.6, 1.27 | - | 2,928 | 2,928 |
| Non-cash charges – auditor's remuneration | 4b | 206 | - | 206 |
| Non-cash charges – payroll services | 4b | 374 | - | 374 |
| Realised Revaluation Reserve to General Fund | 1.2, 1.3, 1.26, 1.27 | 4,367 | (4,367) | - |
| Transfer to Other Government Departments* | 1.2, 1.3, 1.26, 1.27, 5, 6 | (41,281) | - | (41,281) |
| Net operating cost for the year excluding non retainable element of passport fee for consular protection | | 16,064 | - | 16,064 |
| Non retainable element of passport fee for consular protection | 19 | (63,906) | - | (63,906) |
| Balance at 31 March 2011 | | 110,555 | 5,014 | 115,569 |

* IPS transferred assets and liabilities for two programmes – National Identity Assurance Service (NIAS) and Public Key Infrastructure Shared Services (PKISS) – to United Kingdom Border Agency (UKBA) through the taxpayer's equity. In the case of NIAS, IPS transferred non current assets with a NBV of £41.2m and liabilities of £3.6m. In addition IPS transferred £3.7m of PKISS assets to UKBA; the total net transfer between the two parties was £41.3m.

The notes on pages 35-59 form part of these accounts.

Notes to the Accounts

1.0. Statement of accounting policies

These financial statements have been prepared in accordance with the 2010-11 Government Financial Reporting Manual (FReM) issued by HM Treasury (HMT). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context and the Companies Act 2006.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be the most appropriate to the particular circumstances of IPS for the purposes of giving a true and fair view has been selected. The particular policies adopted by IPS are described below. They have been consistently applied in dealing with items that are considered material to the financial statements.

New Standards

IFRS 9 – Financial Instruments was issued in November 2009 and will become effective from January 2013. This IFRS will replace IAS 39. It simplifies the classification and measurement of financial assets, removing the numerous categories of financial asset specified in IAS 39, and resulting in one impairment method. IPS intends to apply this new standard in the accounting year 2013-14. The impact of applying this new standard has not been quantified.

IAS 24 – Related Party Disclosures was amended in November 2009 to become effective from January 2011. The revision of IAS 24 simplifies and clarifies the definition of a related party, and provides government-related entities with partial exemption from the disclosure requirements relating to related party transactions and outstanding balances (including commitments). IPS intends to apply the amended IAS 24 in the accounting year 2011-12. The impact of applying this revised standard is expected to be negligible.

1.1. Accounting convention

The accounts are prepared using the historic cost convention, modified to account for the revaluation of property, plant and equipment, intangible assets.

1.2. Property, plant and equipment

Property, plant and equipment is reported at fair value. Where held at the depreciated historical cost this is regarded as a suitable proxy for fair value.

a) Land

Includes freehold land owned by IPS. This is capitalised at cost and revalued annually. An independent valuation is undertaken every five years by external experts.

b) Buildings

Includes freehold buildings owned by IPS and improvements to its leasehold estate. This is capitalised at cost and revalued annually. Freehold buildings are also subject to an independent valuation which is undertaken every five years by external experts.

c) Information technology

Includes electrical equipment with a value over £500 and telecommunications equipment over £750 which are capitalised at cost.

Other software development, not classified as intangible under note 1.3 is also classified as property, plant and equipment as part of the hardware on the basis that the software and hardware are intrinsically linked and cannot readily operate when separated.

d) Plant and machinery and motor vehicles

Includes the machinery and associated enabling infrastructure which forms the production line used to produce passports. Also included are those motor vehicles owned by IPS. Individual assets over a value of £500 are capitalised at cost.

e) Furniture and fittings

Furniture and fittings are capitalised at cost. There is no lower limit of capitalisation for furniture and fittings.

f) Assets under construction

All assets being developed and not in operation at year-end are capitalised as assets under construction. Once the asset is brought fully into use the asset cost is transferred to the appropriate category of non current assets and depreciation is charged.

An annual review of any assets that have not been transferred into use is undertaken to ensure that their continued treatment and valuation as assets is still appropriate.

g) Research

IPS expenditure on research is written off to the Statement of Comprehensive Net Expenditure in the year in which it is incurred.

1.3. Intangible assets**a) Information technology and websites development**

Expenditure on software development is capitalised as an intangible asset, separately from its hardware where the hardware is able to operate independently of the software itself. The hardware used is capitalised as property, plant and equipment.

Expenditure, which does not meet the criteria for capitalisation, is written off to the Statement of Comprehensive Net Expenditure in the year in which it is incurred.

IPS capitalises the directly attributable costs associated with populating databases where they meet the recognition criteria of an intangible asset, the costs of populating the database are clearly separable from normal business activities and if they are held to deliver identifiable service potential or other economic benefits.

Database assets are amortised over the expected useful life over which the benefits envisaged will be delivered.

b) Software licences

All IPS licences covering a period in excess of one year are capitalised at cost and amortised over their useful life subject to a maximum of ten years.

1.4. Depreciation

Depreciation is charged on all property, plant and machinery in the month that the assets are brought into use. No depreciation is charged in the month of disposal.

Depreciation is calculated to write off the cost or valuation of each asset evenly over the expected useful life. The estimated useful economic lives are as follows, subject to the annual review:

Land is considered to have an infinite life and not depreciated.

| | |
|-------------------------------|---|
| Buildings | 25 years |
| Leasehold improvements | Over the remaining period of the lease |
| Information technology | 5 years |
| Plant and machinery | 5 years |
| Furniture and fittings | 10 years |

Development is depreciated over the expected useful life over which the service potential or other economic benefits will be delivered.

An annual review of useful economic lives is undertaken based on the latest relevant factors and is adjusted as appropriate.

1.5. Amortisation

Intangible non current assets are amortised over the expected useful life over which the service potential or other economic benefits will be delivered. The useful economic life of software development is considered to be longer than that of the host hardware which it operates upon. This judgement is based upon past experience of IPS software developments and the planned technical and development strategy for future software development. A review of the useful life is undertaken annually.

1.6. Revaluation

IPS adopts the revaluation model relating to its assets. It discloses non current assets in the Statement of Financial Position at their revalued cost. IPS policy is to revalue the cost all of property, plant and equipment assets that are in use, by applying appropriate indices to each class of operational asset. Plant and equipment are revalued by indices compiled by the Office for National Statistics (ONS). Property and refurbishment assets are revalued using the PUBSEC indices provided by the Building Cost Information Services (BCIS) website. In addition, an external valuation of freehold land and buildings is undertaken every five years.

Assets under construction are not revalued until they become operational.

Intangible assets are revalued annually using the GDP deflator indices published on HM Treasury website.

1.7. Non current assets impairments

IPS reviews its property, plant and equipment and intangible assets annually to assure itself that the valuation of an asset is still considered appropriate, and recorded at recoverable amount.

From 2010-11, following FReM guidance, impairment losses that arise from a clear consumption of economic benefit are taken to the Statement of Comprehensive Net Expenditure, with a corresponding transfer of any balance on the revaluation reserve (up to the level of the impairment) to the general fund.

Only impairment losses that do not result from a loss of economic value or service potential are taken to the revaluation reserve as a revaluation decrease and to the extent that the impairment does not exceed the amount in the revaluation surplus for that asset. This guidance supersedes any guidance provided in IAS 36.

1.8. Leases

Assets held under finance leases, which transfer to IPS substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the Statement of Comprehensive Net Expenditure so as to achieve a constant rate of interest on the remaining balance of the liability.

Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term. Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and the rentals payable are charged to the Statement of Comprehensive Net Expenditure on a straight line basis over the lease term.

Rental payments for land and buildings occupied by IPS, on the basis of operating leases or equivalent, are charged to the Statement of Comprehensive Net Expenditure. As required by IAS 17, where a lease contains pre-determined increases during its term, the impact of these increases are spread equally over the term of the lease.

IPS reviews its lease arrangements each year to confirm the appropriate classification as operating or finance. IPS has no finance leases.

1.9. Inventories

Inventories are valued at weighted average cost and comprise blank biometric passports, blank certificates and associated consumables.

1.10. Work in progress

a) Passports

Work in progress (WIP) is valued based on the stage which the passport application has reached in the overall production process.

Applications which have been completed and await printing are valued to include all direct costs associated with the application except for the costs of printing.

Applications that are part of the way through the examination process are valued to include an estimate of the examination costs and all costs associated with initial scanning and verification of the application.

b) Certificate services

The production and issuing process for certificates is completed within the same day and as a result only notional costs can be attributed to an application which has not yet been issued. These costs are not considered material and are not recorded as WIP.

1.11. Income

Turnover from continuing activities represents:

a) Passports fees

All passport activities are governed by the Consular Fees Act 1980 and considered to be one single class of business.

b) Certificate fees

Certificate fees are collected in accordance with the Births & Deaths Registration Act 1953, section 30(2c) and are classed as one single class of business.

c) Identity cards (discontinued)

Identity card fees were collected in accordance with the Identity card Act 2006 (Fees) Regulations 2009 and were considered one class of business.

All income is recognised when the services and goods are issued.

1.12. Capital charge

In accordance with the HM Treasury Alignment Project, from 1 April 2010 Cost of Capital is removed from expenditure lines. Fees & charges will continue to include Cost of Capital charge as an economic cost, in the same way that other non-cash charges are included as a relevant cost incurred by Government as a whole.

Cost of Capital for fees & charges is calculated at a real rate set by HM Treasury (currently 3.5%) on an average carrying amount of all assets less liabilities except for:

a) Property, plant and equipment and intangible assets where the cost of capital is based on opening values, adjusted pro rata for in year:

- additions at cost
- disposals as values in opening Statement of Financial Position (plus any subsequent expenditure prior to disposal)

- impairments at the amount of the reduction in opening Statement of Financial Position value (plus any subsequent capital expenditure)
- depreciation of property, plant and equipment and amortisation of intangible assets

b) Donated assets and cash balances with Office of the Paymaster General where the charge is nil.

1.13. Funding and Consolidated Fund Extra Receipts (CFERs)

The principal activities of IPS are funded on a net resource basis from Home Office (HO) Request for Resources.

IPS relies on the cash generated from the passport and certificate fees to fund its fee funded activities. The HO provides additional cash to help fund operating deficits, the capital programme and non fee funded activities.

Since 2010-11 any excess of receipts over expenditure is recognised by IPS as deemed supply and treated as in year funding. In prior years IPS would have paid this amount over to HO as a Consolidated Fund Extra Receipt (CFER).

The non-retainable element of Consular protection fees collected by IPS is remitted to HMT via the HO as a CFER on a monthly basis.

1.14. Other operating income

Other operating income relates directly to the operating activities of the Agency and represents miscellaneous receipts relating to Passport Validation Service (PVS) income, lease regearing, revenue funding from European Union, receipts from HMRC and DWP for consolidated payments to local authorities or for services provided, charges for services provided to UKBA and charges for use of IPS facilities and other minor services.

1.15. Deferred Income

a) Income is deferred where a passport fee or certificate fee has been received but where the passport or certificate has not yet been issued.

b) Lease incentives are deferred over the term of the lease on a straight-line basis.

1.16. Programme expenditure

The classification of expenditure and income as programme follows the definition set out by HMT and interpreted by the HO.

1.17. Pension costs

Past and present employees of IPS are covered by the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. IPS recognises the expected cost of these elements on a systematic and rational basis over the period which it benefits the employees' services by payments to PCSPS of the amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of defined contributions schemes, IPS recognises the contributions payable for the year.

1.18. Voluntary exit and early release schemes

Total severance and early retirement costs are expensed in full in the year in which the departure is agreed. Both offer and acceptance of the scheme conditions must be confirmed by the employee and the date agreement is reached dictates the year in which the costs are expensed.

All confirmed early severance scheme costs not actually paid for prior to year end will be accrued for at the end of the financial year.

1.19. Segmental reporting

The net operating cost reported in IPS Statement of Comprehensive Net Expenditure includes income and costs associated with passport, Certificate, Statutory and HO funded activities.

For passport related activities the surplus / deficit of income over expenditure generated by IPS is intended to meet the cost of the passport and non-fee bearing consular services overseas provided by the FCO. The non-retainable element of the passport fee for consular protection is paid to HMT via the HO.

For Certificate related activities, the fee covers the cost of certificate and related services provided directly to the public. In addition central HO funding is received for Statutory activities where costs are not currently recovered through the certificate or other related fees.

For HO funded activities, supply funding is drawn down from the HO and is used to fund capital and revenue expenditure as incurred. These activities relate principally to the transitional arrangements during IPS' reorganisation. From 2011-12 IPS plan passport fees to be funded in full by fee receipts.

HO fully funded the closure costs of the Identity card and National Identity Register programmes as well as the fair value adjustment of the fingerprint biometric programmes prior to transfer to the UK Border Agency.

1.20. Allocation of corporate costs to Operating Segments

IPS undertakes passport, certificate, statutory and HO funded activities. In 2010-11 activities classed as discontinued operations were funded principally by HO. Where costs are shared between these activities they are classified as either:

a) Programme overheads

These directly support the delivery of developments and are allocated based on a management view of the number, size and complexity of projects; or

b) Strategic overheads

These are costs that directly contribute to the current and future strategy and are allocated based on a management view of the strategic activities undertaken across IPS; or

c) General overheads

These are costs that cannot easily be allocated to any other category and are allocated based on the direct staff numbers working in each activity.

1.21. Provisions

IPS accounts for any provisions in accordance with IAS 37. The Agency provides for legal or constructive obligations, which are of uncertain timing, or arise at the Statement of Financial Position date on the basis of the best estimate of the expenditure required to settle the obligation.

1.22. Contingent liabilities

IPS has disclosed any contingent liabilities in accordance with IAS 37. Any possible obligations that arise from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events (not wholly within IPS control) are disclosed.

In addition to contingent liabilities disclosed in accordance with IAS 37, the Agency discloses for parliamentary reporting and accountability purposes, certain contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Managing Public Money and Government Accounting Northern Ireland.

Where the time value of money is material, contingent liabilities, which are required to be disclosed under IAS 37, are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.23. Contingent assets

Any possible assets that arise from unplanned or unexpected past events, whose existence will be confirmed only by the occurrence of one or more uncertain future events (not wholly within the control of IPS) that give rise to the possibility of an inflow of economic benefits are disclosed, in accordance with IAS 37.

1.24. Value added tax

Where input tax is chargeable on goods and services provided to IPS and is recoverable expenditure, it is stated net of recoverable VAT otherwise this is added to the expenditure that it relates to.

Where output tax is charged on other operating income, the amounts are stated net of VAT.

1.25. Financial instruments

IPS complies with IAS 32 Financial Instruments – Disclosure and Presentation, IAS 39 – Financial Instruments – Measurement, Recognition and Derecognition, IFRS 7 Financial Instruments – Disclosure as interpreted by the FReM. All relevant disclosures are made in note 7.

1.26. Taxpayers' equity

This represents the Agency's total assets less liabilities.

1.27. Revaluation reserve

This reflects the unrealised balance of the cumulative indexation and revaluation adjustments to assets other than those funded by grants including those from the EU.

1.28. Critical accounting judgements and key sources of estimating uncertainty

IPS is required when applying its accounting policies to make judgements, estimates, and assumptions. These judgements and associated assumptions are based on historical experience and other factors that are considered appropriate from external sources.

These judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

Note 2 – Fees and Charges

Business segments 2010-11

| | Notes | Passports | Certificate Statutory | Services Other | Home Office funded activities | Sub total | Identity card discontinued operation | Total |
|--|----------------------|-----------------|--------------------------|-------------------|--|------------------|---|------------------|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Income | 1.11 | (398,003) | (1,417) | (15,894) | - | (415,314) | (155) | (415,469) |
| Other operating income | 1.14, 4c | (5,084) | (927) | (2) | (2,626) | (8,639) | (2) | (8,641) |
| Cost of sales | 4a | 159,119 | 4,186 | 7,841 | 4 | 171,150 | 2,869 | 174,019 |
| Other programme expenditure | 4b | 154,716 | 5,470 | 8,565 | 19,147 | 187,898 | 4,569 | 192,467 |
| Impairments | 4d | 6,445 | - | - | - | 6,445 | - | 6,445 |
| Loss on disposal of non current assets | 1.2, 1.3 | 50 | - | - | - | 50 | - | 50 |
| Consular protection fees | 19 | 63,906 | - | - | - | 63,906 | - | 63,906 |
| Net operating cost | | (18,851) | 7,312 | 510 | 16,525 | 5,496 | 7,281 | 12,777 |
| Impairments | | - | - | - | 14,890 | 14,890 | 16,238 | 31,128 |
| Other termination costs | | - | - | - | - | - | 3,937 | 3,937 |
| Discontinued operation and programmes – termination costs | | - | - | - | 14,890 | 14,890 | 20,175 | 35,065 |
| Operating deficit/ (surplus) | | (18,851) | 7,312 | 510 | 31,415 | 20,386 | 27,456 | 47,842 |
| Home Office Funding | | | | | | | | |
| Resource funding | 1.13 | - | (7,312) | (510) | (18,846) | (26,668) | (7,281) | (33,949) |
| Discontinued operation and programmes - termination costs | | - | - | - | (14,890) | (14,890) | (20,175) | (35,065) |
| Total funding | | - | (7,312) | (510) | (33,736) | (41,558) | (27,456) | (69,014) |
| Operating deficit/ (surplus) after funding | | (18,851) | - | - | (2,321) | (21,172) | - | (21,172) |
| Other Information | | | | | | | | |
| Total NBV of asset base | 1.2, 1.3, 5, 6 | 130,432 | 12,112 | 4,573 | 10,292 | 157,409 | - | 157,409 |

Business segments 2009-10

| | Notes | Passports | Certificate Statutory | Services Other | Home Office funded activities | Sub total | Identity card discontinued operation | Total |
|--|-------------|-----------|--------------------------|-------------------|--|-----------|--|-----------|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Income | 1.11 | (361,132) | (1,874) | (16,935) | - | (379,941) | (196) | (380,137) |
| Other operating income | 1.14, 4c | (3,391) | (885) | (10) | (4,153) | (8,439) | - | (8,439) |
| Cost of sales | 4a | 170,109 | 4,487 | 7,536 | 187 | 182,319 | 2,608 | 184,927 |
| Other programme expenditure | 4b | 138,004 | 6,322 | 7,376 | 78,699 | 230,401 | 4,758 | 235,159 |
| Consular protection fees | 19 | 58,995 | - | - | - | 58,995 | - | 58,995 |
| Operating cost | | 2,585 | 8,050 | (2,033) | 74,733 | 83,335 | 7,170 | 90,505 |
| Home Office central funding | 1.13, 19 | - | (8,050) | 2,033 | (101,025) | (107,042) | (7,170) | (114,212) |
| Operating deficit/(surplus) after funding | | 2,585 | - | - | (26,292) | (23,707) | - | (23,707) |

Other Information

| | | | | | | | | |
|--------------------------------|----------------------|--------|--------|-------|---------|---------|--------|---------|
| Total NBV of asset base | 1.2, 1.3, 5, 6 | 65,262 | 13,656 | 5,052 | 105,059 | 189,029 | 17,820 | 206,849 |
|--------------------------------|----------------------|--------|--------|-------|---------|---------|--------|---------|

IPS complies with IFRS 8 and provides an analysis of the types of services for which it charges a fee, which is set out above. Fees are agreed annually with HM Treasury in line with the fees and charges principle. The Agency's activities are wholly attributable to the UK.

Passport

Passport activities include all services relating to the issuing of passports, where the financial objective of this activity is to break even in year. A fee is charged for all passports except for those issued to war veterans.

During 2010-11 43,906 (2009-10: 71,311) passports were issued free of charge under the war veterans initiative.

Certificate Services

Includes all services relating to the issuing of certificates for birth, death and marriage. In addition central HO funding is provided for support functions to maintain the registers of all key life events. The financial objective is to break even after central HO funding for non fee bearing activities.

HO funded activities

IPS receives central HO funding to support the setup and implementation costs associated with restructure and future services.

Note 2a – Discontinued operation

Acting on the government decision to cancel Identity cards and the National Identity Register, the issuing of Identity cards ended in July 2010. Operational identity card assets were impaired to their fair value by £16,238k and then removed to a central location before being either securely destroyed or sold to a third party in the case of certain non specialised assets; Staff identified as surplus were either reassigned work, offered redundancy terms or resigned and left. The associated commercial contracts were either amended or terminated; and costs which could be identified as relevant to Identity card decommissioning were attributed to this discontinued operation.

Prior to cancellation, in 2010-11 5,163 (2009-10 : 2,511) Identity cards were issued for airside workers and for early adopters.

The results of this discontinued operation, which have been included in the Statement of Comprehensive Net Expenditure, were as follows:-

| | 2010-11 £'000 |
|---|------------------|
| Contractual payments to suppliers | 2,126 |
| Other termination costs | 1,811 |
| Termination costs | 3,937 |
| Impairment of assets to fair value | 16,238 |
| Total termination costs | 20,175 |

Operational Identity card assets were removed to a central location before being either securely destroyed or, in the case of the non-specialised assets, sold to a third party

| | |
|--|-----------------|
| | 2010-11 |
| | £'000 |
| Cost or valuation | 21,509 |
| Depreciation | (5,123) |
| Impairment | (16,238) |
| Disposals | (19) |
| Hardware transferred to a different programme | (84) |
| Non-current assets held for sale | 45 |

Note 2b – Discontinued programmes

The Home Secretary's announcement to halt work on the fingerprint biometric passport meant that the benefit to IPS of two programmes – National Identity Assurance Service (NIAS) and Public Key Infrastructure System (PKISS) – ended and the programmes and associated assets under construction were transferred to UKBA.

| | Gross book value, before impairment | Impairment charge | Gross book value of transfer | Accumulated depreciation | Net book value of transfer |
|--------------|--|------------------------------|---|-------------------------------------|---------------------------------------|
| NIAS | 54,624 | (12,878) | 41,746 | (650) | 41,096 |
| PKISS | 8,275 | (2,012) | 6,263 | (2,446) | 3,817 |
| Total | 62,899 | (14,890) | 48,009 | (3,096) | 44, 913 |

Note 3 – Staff numbers and related costs

(a) Staff costs

| | Notes | Permanently employed staff | | Non permanently employed staff | | Total all staff | |
|---------------------------------|-------|----------------------------|------------------|--------------------------------|------------------|------------------|------------------|
| | | 2010-11 £'000 | 2009-10 £'000 | 2010-11 £'000 | 2009-10 £'000 | 2010-11 £'000 | 2009-10 £'000 |
| Wages and salaries | | 88,535 | 96,400 | 2,874 | 8,157 | 91,409 | 104,557 |
| Social security costs | | 6,234 | 6,482 | - | - | 6,234 | 6,482 |
| Other pension costs | 1.17 | 15,706 | 16,113 | - | - | 15,706 | 16,113 |
| Voluntary exit costs | 1.18 | 8,592 | 1,406 | - | - | 8,592 | 1,406 |
| Total gross salary costs | | 119,067 | 120,401 | 2,874 | 8,157 | 121,941 | 128,558 |

In addition to £8,592k voluntary exit costs above, a further provision of £3,844k has been recognised and is included in note 4b) as part of the non cash cost movement in provisions, and the total is reflected in note 3c).

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but IPS is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/my-civil-service/pensions).

For 2010-11, employers' contributions of £15.7m were payable to the PCSPS (2009-10 £16.1m) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2010-11 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

In addition, employer contributions of £126k, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

No persons (2009-10: nil) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to nil (2009-10: nil).

(b) Average number of persons employed

| | 2010-11 | 2009-10 |
|---------------------------------------|--------------|---------|
| Permanently employed staff | 3,824 | 3,900 |
| Non permanently employed staff | 19 | 61 |
| Total staff numbers | 3,843 | 3,961 |

The timing of staff exits means that the impact of the 426 leavers (shown in table c) below) will be seen in 2011-12.

(c) Reporting of Civil Service and other compensation schemes – exit packages

| Exit package cost band | Notes | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | |
|---|-------|-----------------------------------|---------|-----------------------------------|---------|--|----------------|
| | | 2010-11 | 2009-10 | 2010-11 | 2009-10 | 2010-11 | 2009-10 |
| <£10,000 | | - | - | 74 | 1 | 74 | 1 |
| £10,000 – £25,000 | | - | - | 180 | 7 | 180 | 7 |
| £25,000 – £50,000 | | - | - | 110 | 2 | 110 | 2 |
| £50,000 – £100,000 | | - | - | 48 | 9 | 48 | 9 |
| £100,000 – £150,000 | | - | - | 14 | 2 | 14 | 2 |
| £150,000 – £200,000 | | - | - | - | 2 | - | 2 |
| Total number of exit packages | | - | - | 426 | 23 | 426 | 23 |
| | | | | | | 2010-11 | 2009-10 |
| | | | | | | £'000 | £'000 |
| Total resource cost of exit packages | 1.18 | | | | | 12,436 | 1,406 |

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Note 4 – Programme costs

(a) Cost of sales

| | Notes | Continuing operations £'000 | Discontinued operation £'000 | 2010-11 £'000 | Continuing operations £'000 | Identity cards £'000 | 2009-10 £'000 |
|---------------------------------------|-------------------|--------------------------------|---------------------------------|------------------|--------------------------------|-------------------------|------------------|
| Passport outsourcing service charges | | 74,801 | - | 74,801 | 82,031 | - | 82,031 |
| Permanent staff costs | 1.17, 1.18, 3a | 62,973 | 425 | 63,398 | 65,605 | 752 | 66,357 |
| Call centre charges | | 7,696 | 55 | 7,751 | 9,611 | - | 9,611 |
| Passport stationery | | 4,416 | 1 | 4,417 | 4,148 | - | 4,148 |
| Application forms | | 2,628 | - | 2,628 | 2,773 | - | 2,773 |
| Distribution costs | | 17,851 | 29 | 17,880 | 17,366 | 9 | 17,375 |
| Identity card production system costs | | - | 2,357 | 2,357 | - | 1,846 | 1,846 |
| Bank charges | | 785 | 2 | 787 | 785 | 1 | 786 |
| Total cost of sales | | 171,150 | 2,869 | 174,019 | 182,319 | 2,608 | 184,927 |

(b) Other programme expenditure

| | Notes | Continuing operations £'000 | Discontinued operation £'000 | 2010-11 £'000 | Continuing operations £'000 | Identity cards £'000 | 2009-10 £'000 |
|---|--------------------|--------------------------------|---------------------------------|------------------|--------------------------------|-------------------------|------------------|
| Permanent staff costs | 1.17, 1.18, 3a, | 54,464 | 1,205 | 55,669 | 54,012 | 215 | 54,227 |
| Staff training, travel and subsistence | | 3,839 | 104 | 3,943 | 6,777 | 109 | 6,886 |
| Accommodation | 1.8 | 32,741 | 117 | 32,858 | 29,906 | 29 | 29,935 |
| Telecoms charges | | 1,542 | 16 | 1,558 | 2,656 | - | 2,656 |
| Publications, stationery and printing | | 1,313 | 34 | 1,347 | 5,733 | 1 | 5,734 |
| IT running costs | | 28,428 | 659 | 29,087 | 21,172 | 507 | 21,679 |
| Temporary staff and contractors | 3a | 2,820 | 54 | 2,874 | 8,157 | - | 8,157 |
| Contracted out consultancy | | 7,757 | 179 | 7,936 | 37,782 | - | 37,782 |
| Other contracted out services | | 1,327 | 5 | 1,332 | 2,368 | - | 2,368 |
| Legal and professional services | | 1,602 | 19 | 1,621 | 2,126 | - | 2,126 |
| Market research, surveys and public conferences | | 3,480 | 49 | 3,529 | 1,611 | - | 1,611 |
| Staff healthcare and uniforms | | 1,083 | 15 | 1,098 | 928 | - | 928 |
| General Register Office payments | | 838 | - | 838 | 812 | - | 812 |
| TUPE costs | | 4,800 | - | 4,800 | - | - | - |
| Other costs | | 3,067 | 649 | 3,716 | 9,351 | 2 | 9,353 |

(b) Other programme expenditure (continued)

| | Notes | Continuing operations £'000 | Discontinued operation £'000 | 2010-11 £'000 | Continuing operations £'000 | Identity cards £'000 | 2009-10 £'000 |
|--|----------|--------------------------------|---------------------------------|------------------|--------------------------------|-------------------------|------------------|
| Non cash costs | | | | | | | |
| Home Office payroll services | | 373 | 1 | 374 | 372 | - | 372 |
| External audit fees* | | 206 | - | 206 | 225 | - | 225 |
| Depreciation of tangible assets | 1.4, 5 | 26,317 | 1,446 | 27,763 | 28,376 | 3,896 | 32,272 |
| Amortisation of intangible assets | 1.5, 6 | 8,717 | 17 | 8,734 | 10,234 | - | 10,234 |
| Downward revaluation of non current assets | 1.6, | 846 | - | 846 | 4,108 | - | 4,108 |
| Increase in provisions | 1.21, 12 | 2,338 | - | 2,338 | 1,724 | - | 1,724 |
| Total other programme expenditure | | 187,898 | 4,569 | 192,467 | 228,430 | 4,759 | 233,189 |

*IPS auditors have not received any remuneration for non audit work (2009-10: nil).

(c) Other operating income

| | Notes | Continuing operations £'000 | Discontinued operation £'000 | 2010-11 £'000 | Continuing operations £'000 | Identity cards £'000 | 2009-10 £'000 |
|--|-------|--------------------------------|---------------------------------|------------------|--------------------------------|-------------------------|------------------|
| | 1.14 | | | | | | |
| Consolidated payments | | 856 | - | 856 | 826 | - | 826 |
| Passport validation service | | 551 | - | 551 | 467 | - | 467 |
| Services provided to other government departments* | | 3,896 | - | 3,896 | 5,878 | - | 5,878 |
| Rental income | | 1,241 | - | 1,241 | 454 | - | 454 |
| Grant income from European Union | | 57 | - | 57 | 166 | - | 166 |
| Other operating income | | 2,038 | 2 | 2,040 | 648 | - | 648 |
| Total other operating income | | 8,639 | 2 | 8,641 | 8,439 | - | 8,439 |

*IPS provided services during the period to UKBA's Identity cards for Foreign Nationals Enrolments (ICFN) programme, subsequently renamed Biometric Residence Permits (BRP). IPS registered applicants on behalf of UKBA and recognised £458k in income (2009-10: £720k). In addition, as part of the PKISS programme, IPS provided encryption technology to the BRP programme, recognising income of £487k (2009-10: £800k). IPS recognised £2,079k as a contribution towards the NIAS programme running costs until August 2010 when the programme was transferred to UKBA (2009-10: £2,700k). IPS was also required to amend the software for the births and registration systems as a result of legislation. IPS recharged £130k to the Department for Education for the work relating to registration of births.

(d) Impairments

| | Notes | 2010-11 £'000 | 2009-10 £'000 |
|--------------------------------|-------|------------------|------------------|
| BPIT * | 1.7 | 4,526 | - |
| Allington Towers ** | 1.7 | 1,680 | 1,898 |
| Belfast relocation *** | 1.7 | 239 | - |
| Total other expenditure | | 6,445 | 1,898 |

* Business Process and Infrastructure Transformation (BPIT) programme assets were impaired following a reassessment of expenditure incurred to date.

** The staff moves from Allington Towers and the 5th and 6th floors of Globe House during the financial year resulted in impairments of the leasehold refurbishment assets.

*** The Belfast Office Relocation resulted in asset impairments, which were mainly leasehold refurbishment assets in the old premises.

Note 5 – Property, plant and equipment

2010-11

| | Notes 1.2, 1.4, 1.6, 1.7 | Land £'000 | Buildings £'000 | Information Technology £'000 | Plant, Machinery & Motor Vehicles £'000 | Furniture & Fittings £'000 | Assets under construction £'000 | Total £'000 |
|--|--------------------------------|---------------|--------------------|------------------------------------|---|----------------------------------|--|-----------------|
| Cost or valuation | | | | | | | | |
| At 1 April 2010 | | 1,200 | 65,597 | 68,910 | 49,535 | 9,210 | 99,966 | 294,418 |
| Additions | | - | 79 | 136 | - | 223 | 66,857 | 67,295 |
| Disposals | | - | (2,231) | (18,158) | (49,478) | (293) | - | (70,160) |
| Impairments | | - | (2,115) | (16,828) | - | (126) | (16,319) | (35,388) |
| Revaluations | | 51 | 2,748 | (4,825) | 300 | 80 | - | (1,646) |
| Transfers into use | | - | 3,811 | 25,100 | 6,876 | 355 | (56,458) | (20,316) |
| Transfers to Other Government Departments | | - | - | (4,214) | - | - | (33,275) | (37,489) |
| At 31 March 2011 | | 1,251 | 67,889 | 50,121 | 7,233 | 9,449 | 60,771 | 196,714 |
| Depreciation | | | | | | | | |
| At 1 April 2010 | | - | 35,506 | 32,630 | 41,419 | 4,996 | - | 114,551 |
| Charged in year | | - | 7,626 | 10,659 | 8,627 | 851 | - | 27,763 |
| Disposals | | - | (2,201) | (18,097) | (49,478) | (268) | - | (70,044) |
| Revaluations | | - | 519 | (1,728) | 17 | 41 | - | (1,151) |
| Transfers to Other Government Departments | | - | - | (873) | - | - | - | (873) |
| At 31 March 2011 | | - | 41,450 | 22,591 | 585 | 5,620 | - | 70,246 |
| Net book value at 31 March 2011 | | 1,251 | 26,439 | 27,530 | 6,648 | 3,829 | 60,771 | 126,648 |
| Net book value at 1 April 2010 | | 1,200 | 30,091 | 36,280 | 8,116 | 4,214 | 99,966 | 179,867 |
| Asset financing | | | | | | | | |
| Owned | | 1,251 | 26,439 | 27,530 | 6,648 | 3,829 | 60,771 | 126,468 |
| On-balance sheet PFI contracts | | - | - | - | - | - | - | - |
| Net book value at 31 March 2011 | | 1,251 | 26,439 | 27,530 | 6,648 | 3,829 | 60,771 | 126,468 |

Note 5 – Property, plant and equipment

2009-10

| | Notes 1.2, 1.4, 1.6, 1.7 | Land £'000 | Buildings £'000 | Information Technology £'000 | Plant, Machinery & Motor Vehicles £'000 | Furniture & Fittings £'000 | Assets under construction £'000 | Total £'000 |
|--|--------------------------------|---------------|--------------------|------------------------------------|---|----------------------------------|--|----------------|
| Cost or valuation | | | | | | | | |
| At 1 April 2009 | | 1,518 | 77,992 | 35,384 | 49,138 | 8,807 | 17,664 | 190,503 |
| Additions | | - | 1,663 | 6,112 | 1 | 514 | 103,848 | 112,138 |
| Disposals | | - | (2,902) | (401) | (52) | (2) | - | (3,357) |
| Impairments | | - | (1,402) | (31) | - | (185) | (280) | (1,898) |
| Revaluations | | (318) | (10,233) | 7,562 | 448 | 76 | - | (2,465) |
| Transfers into use | | - | 479 | 20,284 | - | - | (21,266) | (503) |
| At 31 March 2010 | | 1,200 | 65,597 | 68,910 | 49,535 | 9,210 | 99,966 | 294,418 |
| Depreciation | | | | | | | | |
| At 1 April 2009 | | - | 33,943 | 18,104 | 28,743 | 4,090 | - | 84,880 |
| Charged in year | | - | 6,500 | 12,751 | 12,156 | 865 | - | 32,272 |
| Disposals | | - | (2,899) | (383) | (40) | 11 | - | (3,311) |
| Revaluations | | - | (2,038) | 2,158 | 560 | 30 | - | 710 |
| At 31 March 2010 | | - | 35,506 | 32,630 | 41,419 | 4,996 | - | 114,551 |
| Net book value at 31 March 2010 | | 1,200 | 30,091 | 36,280 | 8,116 | 4,214 | 99,966 | 179,867 |
| Net book value at 1 April 2009 | | 1,518 | 44,049 | 17,280 | 20,395 | 4,717 | 17,664 | 105,623 |
| Asset financing | | | | | | | | |
| Owned | | 1,200 | 30,091 | 36,280 | 8,116 | 4,214 | 99,966 | 179,867 |
| On-balance sheet PFI contracts | | - | - | - | - | - | - | - |
| Net book value at 31 March 2010 | | 1,200 | 30,091 | 36,280 | 8,116 | 4,214 | 99,966 | 179,867 |

A full valuation of GRO land and buildings was carried out in March 2010 by DTZ Limited; additionally a full Dilapidations Survey of all other IPS occupied offices was undertaken during the financial year 2010-11.

Asset additions in year included: £29m New Passport Production (NPP); £20.6m BPIT; £13.2m NIAS and £2m Belfast office relocation.

Transfers into use included: £27m NPP; Belfast office Relocation £4m; NIAS £2m and PKISS £1.8m.

Major impairments in year included Identity cards £16.2m, NIAS 2nd Biometrics £11.8m, BPIT £4.5m and £1.7m in relation to London office moves, all of which were expensed.

Following the cancellation of Identity cards and second biometrics programmes, IPS transferred two major programmes to UKBA, NIAS and PKISS. In the case of NIAS the gross book value (GBV) transferred was £34.9m with the accumulated depreciation transfer being £0.1m. PKISS assets were transferred at £2.6m and £0.8m respectively.

IPS reviews the useful economic lives of all of its material assets each year and has made a revision to the useful economic life of the Interview Office Network, shortening the useful life of the refurbished assets at the 39 Interview Offices planned to be closed.

Note 6 – Intangible assets

2010-11

| | Notes 1.3, 1.5, 1.6, 1.7 | Information technology £'000 | Website development £'000 | Software licences £'000 | Total £'000 |
|--|--------------------------------|------------------------------------|---------------------------------|-------------------------------|-----------------|
| Cost or valuation | | | | | |
| At 1 April 2010 | | 58,800 | - | 3,181 | 61,981 |
| Additions | | - | - | - | - |
| Disposals | | (523) | - | - | (523) |
| Transfers from tangible assets | | 20,316 | - | - | 20,316 |
| Impairment | | (2,185) | - | - | (2,185) |
| Revaluation | | 1,773 | - | 70 | 1,843 |
| Transfers to other Government Departments | | (10,520) | - | - | (10,520) |
| At 31 March 2011 | | 67,661 | - | 3,251 | 70,912 |
| Amortisation | | | | | |
| At 1 April 2010 | | 32,990 | - | 2,009 | 34,999 |
| Charged in year | | 8,249 | - | 485 | 8,734 |
| Disposals | | (525) | - | - | (525) |
| Revaluation | | (1,066) | - | 52 | (1,014) |
| Transfers to other Government Departments | | (2,223) | - | - | (2,223) |
| At 31 March 2011 | | 37,425 | - | 2,546 | 39,971 |
| Net book value at 31 March 2011 | | 30,236 | - | 705 | 30,941 |

Note 6 – Intangible assets

2009-10

| | Notes 1.3, 1.5, 1.6, 1.7 | Information technology £'000 | Website development £'000 | Software licences £'000 | Total £'000 |
|--|--------------------------------|------------------------------------|---------------------------------|-------------------------------|----------------|
| Cost or valuation | | | | | |
| At 1 April 2009 | | 57,645 | 387 | 3,078 | 61,110 |
| Additions | | - | - | 46 | 46 |
| Disposals | | - | (379) | - | (379) |
| Transfers from tangible assets | | 503 | - | - | 503 |
| Revaluation | | 652 | (8) | 57 | 701 |
| At 31 March 2010 | | 58,800 | - | 3,181 | 61,981 |
| Amortisation | | | | | |
| At 1 April 2009 | | 22,598 | 287 | 1,460 | 24,345 |
| Charged in year | | 9,702 | 69 | 463 | 10,234 |
| Disposals | | - | (356) | - | (356) |
| Revaluation | | 690 | - | 86 | 776 |
| At 31 March 2010 | | 32,990 | - | 2,009 | 34,999 |
| Net book value at 31 March 2010 | | 25,810 | - | 1,172 | 26,982 |
| Net book value at 1 April 2009 | | 35,047 | 100 | 1,618 | 36,765 |

Intangible assets comprise:

Information technology

Internally developed software and databases which are separable from the host hardware.

Software licences

Includes licences to operate external developed software for a period in excess of one year or more.

During the year the following assets were transferred into use: £9.6m NPP, £8.0m NIAS and £2.0m PKISS.

Following the cancellation of Identity cards and halt on fingerprint biometric passports, NIAS assets were subsequently impaired by £1.1m to fair value on 1 September 2010, before being transferred to UKBA. The value of the transfers was: £6.9m (GBV) and £0.5m accumulated amortisation.

In addition PKISS assets were impaired by £1.1m before transfer to UKBA on 1 October. The value of the transfers was: £3.6m (GBV) and £1.7m accumulated amortisation.

IPS reviews the useful economic lives of all of its material assets each year and has made a revision to the useful economic life of the Authentication by Interview Operating System (ABIOS) IT infrastructure, which has been extended until 2018.

Note 7 – Financial instruments

As the cash requirements of IPS are met through fees and funding from the HO, financial instruments play a more limited role in creating and managing risk than would normally apply to a non-public sector body. IPS has very limited powers to borrow, invest surpluses or purchase foreign currency. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risk facing the Agency in undertaking its activities. The majority of financial instruments relate to contracts to buy non-financial items in line with the Agency's expected purchase and usage requirements, and the Agency is, therefore, exposed to minimal credit, liquidity or market risk. However, the FRM requires disclosure of the objectives and policies of an entity in holding financial instruments and the role financial instruments have had during the period in creating or changing the risks the entity faces in undertaking its activities.

Liquidity Risk

The Agency's net revenue resource requirement is financed by Home Office funding, as is its capital expenditure. It is therefore not exposed to significant liquidity risks and, although the Agency has no need to maintain commercial borrowing facilities, it does utilise an overdraft facility.

Interest Rate Risk

The Agency has no material financial assets or financial liabilities carrying variable rates of interest and it is therefore, not exposed to significant interest rate risk.

Currency Risk

The Agency does not conduct any material business denominated in foreign currency and, therefore, is not exposed to any significant risk as a result of currency fluctuations.

Credit Risk

There are no significant concentrations of credit risk within the Agency unless otherwise disclosed. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the date of the Statement of Financial Position.

| | Notes 1.25 | Total book value £'000 |
|--------------------------------------|---------------|------------------------------|
| Financial instruments 2010-11 | | |
| Financial assets | | |
| Cash | 10 | 58,318 |
| Trade and other receivables | | 30,576 |
| Financial liabilities | | |
| Bank overdraft | 11a | (1,280) |
| Trade and other payables | | (111,103) |
| Total | | (23,489) |

| | Notes 1.25 | Total book value £'000 |
|--------------------------------------|---------------|------------------------------|
| Financial instruments 2009-10 | | |
| Financial assets | | |
| Cash | 10 | 55,979 |
| Trade and other receivables | | 28,058 |
| Financial liabilities | | |
| Bank overdraft | 11a | (6,610) |
| Trade and other payables | | (139,033) |
| Total | | (61,606) |

The above total book value has been assessed and it has been deemed that there is no difference between total book value and fair value.

Note 8 – Inventories and work in progress

| | Notes | 2010-11 £'000 | 2009-10 £'000 | 2008-09 £'000 |
|---|-------|------------------|------------------|------------------|
| Passport and certificate inventories | 1.9 | 2,447 | 3,336 | 5,891 |
| Work in progress | 1.10 | 274 | 493 | 754 |
| Total inventories and work in progress | | 2,721 | 3,829 | 6,645 |

Note 9 – Trade receivables and other current assets

(a) Trade receivables and other current assets

| | Notes | 2010-11 £'000 | 2009-10 £'000 | 2008-09 £'000 |
|--|-------|------------------|------------------|------------------|
| Amounts falling due within one year: | | | | |
| Trade receivables | | 65 | 112 | 108 |
| Deposits and advances | | 324 | 375 | 319 |
| Partnership receivables | | 4,650 | 4,776 | 3,916 |
| HM Government receivables | 19 | 2,604 | 1,686 | 4,740 |
| HMRC | | 17,105 | 14,074 | 6,347 |
| Prepayments and accrued income | | 8,452 | 9,046 | 6,535 |
| Total trade receivables and other current assets excluding assets held for sale | | 33,200 | 30,069 | 21,965 |
| Identity card assets held for sale | 2a | 45 | - | - |
| Total trade receivables and other current assets | | 33,245 | 30,069 | 21,965 |

There were no trade receivables due after more than one year.

(b) Intra-Government balances

| | 2010-11 £'000 | 2009-10 £'000 | 2008-09 £'000 |
|---|------------------|------------------|------------------|
| Current | | | |
| Balances with other central government bodies | 26,043 | 26,027 | 14,052 |
| Balances with Local Authorities | 886 | 242 | 199 |
| Balances with public corporations and trading funds | - | 1 | 7 |
| Subtotal: intra-government balances | 26,929 | 26,270 | 14,258 |
| | | | |
| Balances with bodies external to government | 6,316 | 3,799 | 7,707 |
| Total at 31 March 2011 | 33,245 | 30,069 | 21,965 |

IPS has no non current asset intra government balances.

Note 10 – Cash and cash equivalents

| | 2010-11 £'000 | 2009-10 £'000 | 2008-09 £'000 |
|--|------------------|------------------|------------------|
| Balance at 1 April | 55,979 | 22,451 | 52,035 |
| Net change in cash and cash equivalent balances | 2,339 | 33,528 | (29,584) |
| Balance at 31 March | 58,318 | 55,979 | 22,451 |

The following balances at 31 March were held at:

| | | | |
|--|---------------|--------|--------|
| Office of HM Paymaster General * | - | 25,172 | 5,044 |
| Commercial banks and cash in hand | 58,318 | 30,807 | 17,407 |
| Balance at 31 March | 58,318 | 55,979 | 22,451 |

* The 2010-11 balance on this account is nil due to the closure of the account and movement to Government Banking Service.

Note 11 – Trade payables and other current liabilities

(a) Amounts falling due within one year

| | Notes | 2010-11 £'000 | 2009-10 £'000 | 2008-09 £'000 |
|--|-------|------------------|------------------|------------------|
| Trade payables | | 1,852 | 1,897 | 6,280 |
| Payables due to other government departments | | 7,336 | 6,373 | 6,116 |
| Surplus supply funding from Home Office consolidated fund | 19 | 56,931 | 48,909 | 18,794 |
| Accruals and deferred income | 1.15 | 40,373 | 47,134 | 40,404 |
| Capital accruals | | 11,031 | 46,386 | 17,161 |
| Bank overdraft* | | 1,280 | 6,610 | 3,360 |
| Total trade payables and other current liabilities | | 118,803 | 157,309 | 92,115 |

* For 2010-11 the bank overdraft has been deemed a trade payable. In previous years it has been included as part of the cash and cash equivalents note.

(b) Amounts falling due after more than one year

| | Notes | 2010-11 £'000 | 2009-10 £'000 | 2008-09 £'000 |
|--|-------|------------------|------------------|------------------|
| Other payables, accruals and lease incentives | 1.15 | 7,139 | 7,367 | 7,346 |

(c) Intra-Government balances

| | 2010-11 £'000 | 2009-10 £'000 | 2008-09 £'000 |
|---|------------------|------------------|------------------|
| Current | | | |
| Balances with other central government bodies | 69,504 | 63,211 | 32,138 |
| Balances with Local Authorities | 3 | 1 | 9 |
| Balances with public corporations and trading funds | 217 | 1,970 | 158 |
| Subtotal: intra-government balances | 69,724 | 65,182 | 32,305 |
| | | | |
| Balances with bodies external to government | 49,079 | 92,127 | 59,810 |
| Total at 31 March 2011 | 118,803 | 157,309 | 92,115 |
| | | | |
| Non Current | | | |
| Balances with bodies external to government | 7,139 | 7,367 | 7,346 |
| Total at 31 March 2011 | 7,139 | 7,367 | 7,346 |

IPS has no non current liability intra-government balances.

Note 12 – Provisions for liabilities and charges

2010-11

| | Notes 1.21 | Legal costs £'000 | Dilapidation costs £'000 | Early departure costs £'000 | Other costs £'000 | Total £'000 |
|--------------------------------------|---------------|----------------------|--------------------------------|--------------------------------------|-------------------------|----------------|
| Balance at 1 April 2010 | | 505 | 4,213 | 1,352 | 1,774 | 7,844 |
| Provided in the year | | 159 | 772 | 3,968 | 2,538 | 7,437 |
| Provisions not required written back | | (165) | (1,810) | (370) | - | (2,345) |
| Provisions utilised in the year | | (252) | - | (728) | (1,774) | (2,754) |
| Balance at 31 March 2011 | | 247 | 3,175 | 4,222 | 2,538 | 10,182 |

Analysis of expected timing of discounted flows

| | | | | | | |
|--|--|------------|--------------|--------------|--------------|---------------|
| In the remainder of the spending review period | | 247 | 275 | 1,009 | 2,538 | 4,069 |
| Between 2012 and 2017 | | - | 1,580 | 2,669 | - | 4,249 |
| Between 2018 and 2027 | | - | 1,320 | 544 | - | 1,864 |
| Total of flows | | 247 | 3,175 | 4,222 | 2,538 | 10,182 |

2009-10

| | Notes 1.21 | Legal costs £'000 | Dilapidation costs £'000 | Early departure costs £'000 | Other costs £'000 | Total £'000 |
|--------------------------------------|---------------|-------------------------|--------------------------------|--------------------------------------|-------------------------|----------------|
| Balance at 1 April 2010 | | 182 | 3,924 | 721 | 1,293 | 6,120 |
| Provided in the year | | 540 | 304 | 768 | 481 | 2,093 |
| Provisions not required written back | | (151) | (6) | (19) | - | (176) |
| Provisions utilised in the year | | (66) | (9) | (118) | - | (193) |
| Balance at 31 March 2010 | | 505 | 4,213 | 1,352 | 1,774 | 7,844 |

Analysis of expected timing of discounted flows

| | | | | | | |
|--|--|------------|--------------|--------------|--------------|--------------|
| In the remainder of the spending review period | | 505 | 660 | 246 | 1,774 | 3,185 |
| Between 2011 and 2016 | | - | 1,450 | 1,032 | - | 2,482 |
| Between 2017 and 2027 | | - | 2,103 | 74 | - | 2,177 |
| Total of flows | | 505 | 4,213 | 1,352 | 1,774 | 7,844 |

Legal costs

Provisions have been made for various legal claims against IPS. The provision reflects all known claims where the legal advice indicates that it is more likely than not that the claim will be successful and the amount of the claim can be reliably estimated.

Dilapidation costs

IPS makes provision to cover its obligations for reinstatement of its leasehold buildings to their original state before its occupation. A full Dilapidations Survey of IPS occupied offices was undertaken during the financial year by DTZ Limited. The Dilapidations provision was reduced by £1.8m to reflect the new estimates contained within this survey.

Early departure costs

IPS meets the additional costs of benefits beyond the PCSPS in respect of employees who retire early. IPS provides in full for this obligation when it becomes binding and utilises the provision each year as costs are incurred.

In 2010-11 IPS utilised the full £82k of the provision raised in 2009-10 to offset the expected redundancy costs, following the closure of ten Interview offices on 3 April 2010.

As a result of the Government expenditure review, IPS undertook an exercise in 2010-11 to release surplus staff. A provision of £3.8m was raised to cover the future costs of early retirees. IPS has since utilised £478k of this provision and a further £168k for other early retirement provision outside of this scheme.

| Provision details | Provision raised in year £'000 | Provision utilised in year £'000 |
|---|---|---|
| Future early retirement costs | 3,800 | 478 |
| Other early retirement/ redundancy costs | 168 | - |
| Redundancy costs | - | 82 |
| Retirement costs | - | 168 |
| | 3,968 | 728 |

Other costs

IPS recognised that it had an obligation to securely decommission its passport printing equipment at the end of its life. A full provision of £1,293k had been previously recognised in accordance with IAS 16 to recognise this cost. The provision was fully utilised in October 2010.

In October 2010 IPS announced the proposal to rationalise its Interview Office Network estate and in March 2011 it was announced that thirty-nine offices would be closed to the public in June 2011. As a result, a provision of £1,068k was raised to meet the estimated decommissioning costs of IT and telephony equipment and £1,376k for the onerous lease commitments from June until the expiry of the lease in September 2011.

| Provision details | Provision raised in year £'000 | Provision utilised in year £'000 |
|----------------------------------|---|---|
| ION decommissioning costs | 1,068 | 1,774 |
| Onerous lease commitments | 1,376 | - |
| Fruitless payments | 94 | - |
| | 2,538 | 1,774 |

Note 13 – Capital commitments

| | 2010-11 £'000 | 2009-10 £'000 |
|--|------------------|------------------|
| Contracted capital commitments at 31 March not otherwise included in these accounts | | |
| Not later than one year | 12,089 | - |
| Later than one year and not later than five years | 4,498 | 174,100 |
| Later than five years | - | 1,668 |
| Total capital commitments | 16,587 | 175,768 |

The government decision to cancel Identity cards and the National Identity Register and halt fingerprint biometric passports has resulted in reducing the number and value of contractual commitments.

Note 14 – Commitments under leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

| | Notes | 2010-11 £'000 | 2009-10 £'000 |
|--|---------|------------------|------------------|
| Buildings | 1.8, 4b | | |
| Not later than one year | | 15,522 | 16,569 |
| Later than one year and not later than five years | | 42,515 | 41,664 |
| Later than five years | | 37,456 | 30,776 |
| Total | | 95,493 | 89,009 |
| Facilities management | | | |
| Not later than one year | | 4,443 | 4,653 |
| Later than one year and not later than five years | | 5,580 | 8,757 |
| Later than five years | | 7,117 | 1,332 |
| Total | | 17,140 | 14,742 |
| Other: | | | |
| Not later than one year | | 162 | 162 |
| Later than one year and not later than five years | | - | 162 |
| Total | | 162 | 324 |
| Total commitments under leases | | 112,795 | 104,075 |

On 4 February 2010 IPS signed an agreement to lease its new office in Belfast. This office was fully occupied on 6 December 2010 and is now fully operational. The lease commitment of £3.3m for 10 years has been recognised in these accounts.

IPS has entered into a Memorandum of Terms of Occupation (MOTO) arrangement with the HO. On 1 April 2010 IPS sublet the 5th and 6th floors of Globe House to the HO, who, in turn, have sublet space in the 2 Marsham Street (2MS) building to IPS, enabling IPS to decant staff from Allington Towers to Globe House and 2MS.

Note 15 – Commitments under PFI contracts

There were no commitments under PFI contracts at 31 March 2011 (2009-10: £Nil).

Note 16 – Other financial commitments

| | 2010-11 | 2009-10 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Not later than one year | 92,921 | 89,445 |
| Later than one year and not later than five years | 267,670 | 390,757 |
| Later than five years | 190,630 | 268,558 |
| Total other financial commitments | 551,221 | 748,760 |

The Agency has entered into non-cancellable contracts (which are not leases or PFI contracts) for provision of contracted out services for passport production, cashiering and application scanning, administration of IT systems, secure delivery and the provision of a telephone contact centre. The payments to which the Agency is committed, analysed by the period during which the obligation becomes due, is given in the table above.

Note 17 – Contingent liabilities

Notes 1.22

Following the announcement to close thirty-nine interview offices, IPS will be liable for redundancy payments. However it is not possible to quantify the impact until IPS completes the consultation exercise and confirms the number of staff eligible for redundancy payments. This is expected to be completed by October 2011.

In October 2010 IPS announced proposals to restructure passport operations and on 23 May 2011, after a period of consultation, IPS announced restructure plans to bring capacity and demand into better balance. The plans will result in significant cost savings over the Comprehensive Spending Review period, will reduce estate capacity, and will represent a significant part of a wider restructuring of operations. At the Statement of Financial Position date the outcome was contingent upon factors not entirely within the control of IPS and it was, therefore, not possible to estimate with any certainty the quantum of any potential liability.

IPS is discussing a supplier's performance against contractual obligations, the outcome of which is uncertain but may result in a variation to the contractual terms and could lead to a liability.

Note – 18 Losses and special payments

Following the announcement of the Government decision to cancel Identity cards and the National Identity Register and to halt fingerprint biometric passports, IPS has undertaken a major restructuring programme, resulting in considerable descoping of contractual arrangements and a rationalisation of the office estate. In addition, IPS has reset a major contract with a supplier and entered into a contingency arrangement with an outgoing supplier. Further details are provided in the management commentary. The resultant losses or fruitless payments are set out in the table below.

| Description | Programme | 2010-11 £'000 | 2009-10 £'000 |
|---|------------------------|------------------|------------------|
| Cancellation of Identity cards | | | |
| Impairment of Identity card assets to fair value prior to either being securely destroyed or sold to a third party: | | | |
| Impairment Identity cards assets (Loss) | Identity cards | 16,238 | - |
| Closure costs of the Identity card programme, comprising contractual payments on early termination of commercial contracts and programme closure costs. | | | |
| Closure costs of the Identity card programme (Loss) | Identity cards | 3,937 | - |
| | | 20,175 | - |
| Halt of second biometric programmes | | | |
| The government decision to halt work on the fingerprint biometric passport meant that the benefit to IPS of two programmes – National Identity Assurance Service (NIAS) and Public Key Infrastructure System (PKISS) – ended and the programmes and associated assets were transferred to UKBA. Prior to transfer the associated assets were reduced by impairment to their fair value: | | | |
| Impairment NIAS assets (Loss) | NIAS | 12,878 | - |
| Impairment PKISS assets (Loss) | PKISS | 2,012 | - |
| | | 14,890 | - |
| Contract reset | | | |
| To ensure flexibility, value for money and delivery capability, IPS renegotiated the contract with Computer Services Corporation (CSC) for the delivery of its major IT systems: | | | |
| Partial termination of project (Loss) | BPIT | 681 | - |
| Payment for the production environment before Go Live (Fruitless payment) | BPIT | 3,557 | - |
| | | 4,238 | - |
| Restructure of the Interview Office Network (ION) | | | |
| IPS reduced its estate by closing 10 smaller interview offices and plans to close a further 39 interview offices, incurring onerous lease and closure costs: | | | |
| Decommissioning and onerous lease provision (Loss) | ION | 2,444 | 1,701 |
| | | 2,444 | 1,701 |
| Other | | | |
| Compensation for suppliers' additional costs (Loss) | New Passport Programme | 990 | - |
| Waiving of contractual entitlements (Loss) | New Passport Programme | 750 | - |
| Losses and special payments under £250k* | N/a | 153 | 130 |
| | | 1,893 | 130 |
| | | 43,640 | 1,831 |

* Includes 1,628 cases of compensation to members of the public and staff (2009-10: 2,187).

Note 19 – Related-party transactions

The HO is regarded as a related party. Material transactions between the HO and IPS which occurred during the year are as follows:

- a) Amounts paid to the HO during 2010-11 included £63.2m for the non-retainable element of the passport fee (2009-10: £58.9m), which is remitted to HMT for FCO provided Consular Services.
- b) IPS payroll service is provided by the HO Pay and Pensions Service (HOPPS), resulting in transactions of £111.5m (2009-10: £115.1m).
- c) Net accommodation costs paid by the HO during the year amounted to £2.2m (2009-10: £1m). IPS has entered into a one year MOTO arrangement with HO. IPS have sublet the 5th and 6th floors of Globe House to HO who, in turn, have sublet part of 2MS to IPS.
- d) HO provided £85m in 2010-11 to fund capital expenditure, operational deficits, HO funded activities and non fee-funded activities of passports, identity cards and certificate services (2009-10: £173.5m). IPS also generates its own cash resources, which will be surrendered to the HO once IPS accounts have been approved, in accordance with government accounting policy. During 2010-11 IPS has received £48.9m non-cash supply funding from the HO (2009-10: nil).

FCO is regarded as a related party. IPS collects £15.62 per adult standard passport, £4.28 per child and £23.18 per jumbo passport to recover the cost incurred by FCO for providing consular protection abroad. The total collected during the year on behalf of FCO was £63.9m (2009-10: £59.0m). IPS remit these fees through the HO to HMT. The total paid over to HO during the period was £63.2m and the amount outstanding owed to the HO as at the balance sheet date is £7.3m (2009-10: £58.5m and £6.6m respectively).

UKBA is regarded as a related party. IPS has provided support by delivering interviews for the registration of foreign nationals and received income of £458k (2009-10: £720k). IPS has also recharged £2,079k resource relating to the NIAS programme until August 2010, after which the programme was transferred to UKBA (2009-10: £2,700k resource charge and £18.7m capital contribution). UKBA has also been recharged £487k (2009-10: £800k) for the services provided relating to the PKISS programme when producing Biometric Residence Permits. In October, the PKISS programme was transferred to UKBA, although IPS agreed to provide ongoing support. Since August 2010, IPS has settled invoices from the 3rd party supplier on behalf of the UKBA BRP programme until the contract is novated across. IPS has recharged £1,300k of costs to date.

Following the cancellation of the Identity card and halting of the fingerprint biometric passport, both NIAS and PKISS (in the form of BRP) programmes were transferred to UKBA on 1 September and 1 October respectively, the net asset transfer amounted to £41.3m.

Post Office Limited (POL) collected passport fees during the period amounting to £190.4m (2009-10: £179.7m). There was £4.6m outstanding POL debtor balance at the end of the period (2009-10: £4.8m).

Other government departments and agencies with which IPS transacted in the normal course of business during the year include the Ministry of Justice, HM Revenue and Customs, Driver and Vehicle Licensing Agency, Department of Work and Pensions, Office for National Statistics, National School of Government, Department for Education, Department for Transport, Treasury Solicitors and the Central Office of Information.

Board members and key senior management staff are subject to a standard annual interests review. It is confirmed that no Board members, key manager or other related parties have undertaken any material transactions with IPS during the financial year.

All related party transactions are conducted on an arms length basis.

Note 20 – Events after the reporting period

The Chief Executive duly authorised the issue of these financial statements on the date of the Comptroller and Auditor General's audit certificate.

From 1 April 2011 the responsibility for UK passport operations overseas has been transferred from the FCO to IPS.

IPS now manages the setting of fees, policy and counter-fraud measures for British passports issued overseas. Over the next two years the application handling, printing and delivery process will be gradually integrated into IPS operations from the FCO.

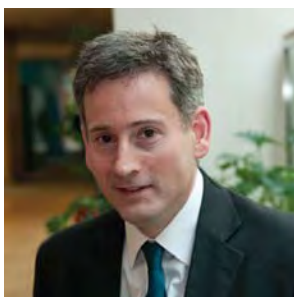
Management Board



Sarah Rapson

Chief Executive and Registrar General

Sarah became the Chief Executive of IPS in July 2010 and was appointed Registrar General for England and Wales by HM The Queen in November 2010. Since becoming Chief Executive, Sarah is leading IPS through a wide-ranging transformational restructuring designed to meet the anticipated future needs of government and citizens. Sarah joined IPS in March 2005 as Operations Director and in 2008 was appointed Executive Director of Service Planning & Delivery. Sarah has a background in the financial services industry and holds an MBA from the London Business School.



Alastair Bridges

Executive Director, Finance and Corporate Services

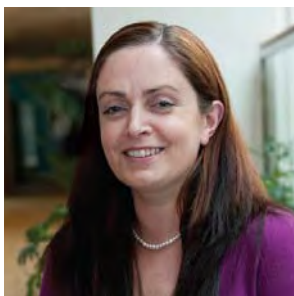
Alastair joined IPS as Executive Director of Finance and Performance in June 2009. In 2010 he took responsibility for a broader set of finance and corporate services including IT operations, Estates, Security and risk management. Before joining IPS Alastair worked as Finance Director of the Crime and Policing Group in the Home Office, with responsibility for ensuring affordability and value for money across £7 Billion of Public Expenditure. He is a finance professional, qualified with CIPFA.



Susan Caldwell

Executive Director, Corporate Strategy

Susan joined IPS in 2009 and now has responsibility for strategy development & planning, customer, channel & product development, operational policy and communications. Prior to IPS Susan held international strategy and marketing roles in Barclays Bank Plc, and worked as a management consultant to the retail & consumer goods sectors. She holds an MBA.



Jane Carwardine

Executive Director, HR & Organisational Development

Jane joined IPS in 2007. She is an experienced HR professional with over twenty years experience including the last fifteen at Director level. Jane has worked in a range of organisations including The Law Society, Coca Cola Enterprises and Marks and Spencer. She has particular experience of employee engagement, organisational development and change and employee relations.



Deborah Chittenden

Executive Director, Organisational Transformation

Deborah joined IPS in 2007 as a Programme Director and was appointed to the IPS Management Board in 2010. Deborah is responsible for the delivery of all change projects within IPS. Prior to joining IPS Deborah was a Partner in a global management consultancy firm, and she has extensive experience specialising in the delivery of large scale complex systems integration and organisational change programmes across the financial and utilities sectors.



Ian Forster

Executive Director, Commercial

Ian joined IPS in 2000 after 17 years in financial services and was a founding member of the Commercial Directorate in 2005. Ian is responsible for the commercial policy and management of IPS strategic suppliers. Ian has broader responsibilities in the Home Office as a member of the Commercial Senior Leadership Team and leads on group supplier relationship management.



Paul Pugh

Executive Director, Operations

Paul joined IPS in November 2010. He is responsible for the delivery of all operations (passports and certificates). Before joining IPS, Paul was the Regional Director of the Government Office for the East of England. He has held senior Civil Service posts in the Home Office since 1995, with spells outside the department as Chief Executive of the Central Police Training Authority, HR Director at Great Ormond Street Hospital NHS Trust, and Executive Director of Organisational Development at the North West London Strategic Health Authority.

Non Executive Directors



Dame Janet Finch

Janet has been a Non-Executive Director since January 2008. She is a member of the Audit Committee. Janet has a background in Universities and is a social scientist. She was awarded a CBE in 1999 and a DBE in 2008 for services to social science and higher education. Following her retirement from her full-time position as Vice-Chancellor of Keele University, she has concentrated on a portfolio of non-executive roles in the public and private sectors.



Anne Tutt

Anne has been a Non-Executive Director since January 2008. She has been the Chairman of the Audit Committee since 1 January 2010, and represents IPS at the Home Office Audit Committee. Anne has been an executive member of many private sector boards for over 25 years, mainly as Finance Director in different sectors including manufacturing and banking. Since August 2006 she has had a portfolio of Non-Executive Directorships and financial consultancy roles across the public, private and social enterprise sectors.



Linda Walton

Linda has been a Non-Executive Director of IPS since 2003 and provides advice on Senior Civil Servant recruitment and remuneration. She chaired the Finance Review Board and attended meetings of the National Identity Service Management Board until both were disbanded following the termination of the National Identity Service. Linda spent the majority of her career in financial services, latterly as Operations Director of a major credit card lender. Now freelance, she enjoys a portfolio career based around consultancy, coaching and training.

Glossary

| | |
|-------|---|
| ABIOS | Authentication by Interview Operating System |
| BCIS | Building Cost Information Service |
| BPIT | Business Process and Infrastructure Transformation |
| BRP | Biometric Residence Permits |
| CESG | Government National Technical Authority for Information Assurance |
| CETV | Cash Equivalent Transfer Value |
| CFER | Consolidated fund extra receipts |
| CPNI | Centre for the Protection of National Infrastructure |
| CSC | Computer Sciences Limited |
| DWP | Department for Work and Pensions |
| FCO | Foreign and Commonwealth Office |
| FRem | Financial Reporting Manual |
| GBV | Gross Book Value |
| GRO | General Register Office |
| HO | Home Office |
| HOPPS | Home Office Payroll and Pensions Service |
| HMRC | HM Revenue & Customs |
| HMT | HM Treasury |
| HR | Human Resources |
| IAS | International Accounting Standard |
| ICFN | Identity for Foreign Nationals |
| ICO | Information Commissioners Office |
| IFRS | International Financial Reporting Standard |
| IiP | Investors in People |
| ION | Interview Office Network |
| IPS | Identity and Passport Service |
| MOTO | Memorandum of Terms of Occupation |
| NAO | National Audit Office |
| NINO | National Insurance Number |
| NIAS | National Identity Assurance Service |
| NIR | National Identity Register |
| NIS | National Identity Service |
| NPP | New Passport Production |
| OGC | Office of Government Commerce |
| ONS | Office of National Statistics |
| PCS | Public and Commercial Services Union |
| PCSPS | Principal Civil Service Pension Scheme |
| PFI | Public Finance Initiative |
| PKISS | Public Key Infrastructure Service System |
| POL | Post Office Limited |
| PVS | Passport Validation Service |
| RON | Registration Online |
| SIA | Security Industry Authority |
| STORK | Secure Identity Across Borders |
| TSO | The Stationery Office |
| UKBA | UK Border Agency |
| VAT | Value Added Tax |
| WIP | Work in progress |

Contact

If you wish to receive further information on any of the issues in this document or have any questions relating to the services provided by the Identity and Passport Service, please contact:

Corporate Strategy
Identity and Passport Service
2 Marsham Street
London SW1P 4DF

Or via the Identity and Passport Service website:
www.homeoffice.gov.uk/ips

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