

Identity and Passport Service

Annual Report and Accounts 2009–10

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

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Management Commentary

History and background

The Identity and Passport Service (IPS), an executive agency of the Home Office, came into existence on 1 April 2006. On the 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 the Chief Executive was appointed Registrar General for England and Wales.

Principal activities

The functions of IPS during 2009–10 were to provide passport services for British nationals in the United Kingdom, begin providing identity cards for UK citizens, continue to put in place the framework for the wider National Identity Service (NIS) and to provide the civil registration services of GRO. IPS is funded in a variety of ways; passport services are funded by passport fees, identity cards are part funded by identity card fees with any shortfall funded by central Home Office funds, future development of the NIS is funded by central Home Office funds and GRO activities are funded by a combination of fees for certificates and other civil registration services and central funds for the statutory responsibilities of the Registrar

General for which a fee is not chargeable. These activities are reported separately within these accounts.

On 20 May 2010 the Government published details of the coalition agreement which confirmed commitment to scrap Identity Cards, the National Identity Register and to halt the next generation of biometric passports. The cancellation of identity cards and the National Identity Register is subject to Parliament approving the Identity Documents Bill which was announced in the Queen's Speech. The Bill was introduced into Parliament on 27 May 2010 with the aim of achieving Royal Assent before summer recess, in order to begin decommissioning work as soon as possible. All Identity Cards will be cancelled within one month after Royal Assent. This was formalised in the Home Secretary's announcement on 27 May. Projected savings of £86m are forecast over a four year period after deducting one off estimated costs of £22.5m, which included asset impairment, contract termination penalties, staff restructuring and the closure of the Identity Commissioner's Office. The cost implications of terminating or amending other contracts impacted by the announcement are currently

a matter of commercial negotiation with suppliers, to protect the taxpayer's interests. It is therefore not possible to provide a breakdown of these costs at this time.

Within passport operations we began the year with a plan to breakeven with a forecast demand of 4.99m applications and assuming a fee increase near the start of the financial year. The demand forecast had been reduced downwards in the light of the difficult economic environment and a significant downturn in demand in 2008–09. A fee increase was agreed as part of the overall 2009–10 planning as a response to this falling demand given that a large proportion of IPS passport operational costs such as people and accommodation are fixed, in the short term at least. In practice passport demand recovered to a level similar to 2008–09 with 5.35m passport applications received and the passport fee increase of £5.50 for the standard passport and £3 for a child's passport was implemented after the summer peak months on 3 September 2009. The recovery in passport demand, later than planned passport fee increase and a combination of other factors including lower than planned other government department

income, costs incurred due to closing 10 interview offices and associated with realigning the depreciation period of epassport equipment to the contract expiry resulted in a small passport deficit of £4.2m or 1% of income. The decision to close 10 interview offices was taken in the context of reducing our future cost base whilst not materially impacting the service for our customers. As the offices were closed before the expiry of the lease agreements a constructive loss on assets and rental payments of £1.7m was incurred.

We have managed demand volatility during the year by continuing with our policy of not recruiting staff into the passport operation and using staff in the quieter demand periods to support a number of wider government initiatives such as clearing UK Border Agency (UKBA) casework volumes, supporting enrolment for identity cards for foreign nationals and undertaking national insurance number (NINO) interviews on behalf of DWP.

On 30 November 2009 IPS began a phased roll out of voluntary identity cards to British citizens resident and working in Greater Manchester and airside workers (including European Economic Area (EEA) nationals) at Manchester and London City airports. This was extended from January 2010 across the North West of England, and then to 16–24 year olds living in London and people registered on the Early Interest website. Up to the end of March 2010, we enrolled over 10,000 identity card applications. The fee for an identity card was set at £30. Cards for airside workers were issued at no fee during their introduction at Manchester and London City airports.

There was an operational deficit of £7.5m on identity card production, reflecting the early relatively low volumes, which was funded by central Home Office funds. The Identity Commissioner took up post on 1 October 2009 and produced his first report to Parliament on 25 February 2010.

GRO broke even in the year through using £6.5m of central funds for statutory services; for example, casework for which fees cannot be charged. The plan at the start of the year was that £7.2m of funding would be required but a combination of demand for certificates being slightly higher than planned with an outturn of 1.92m certificates against a plan of 1.9m and some cost underspends resulted in a lower funding requirement. A fee review for certificate services was undertaken during the year and a change to our fee structure has been agreed and was implemented on 6 April 2010. Demand for casework services grew by 7% in the year.

Development of future services incurred resource expenditure of £77.4m in the year against a budget of £99.2m. The underspend was mainly due to activity taken to reduce costs

during the year when demand for other IPS services remained uncertain, through reduced use of consultancy services and careful management to avoid using funds set aside to cover contingencies.

Overall, the above activities have resulted in an IPS underspend against original plans of £18.6m, or 4% of costs whilst still delivering all of our key objectives and commitments. Further detail of the financial performance of the separately funded IPS components is contained within note 3 to the accounts.

Within the NIS there was significant emphasis on concluding necessary contract arrangements as well as delivering the infrastructure for the launch of identity cards. The year has seen the expiry of some longstanding contractual partnerships which has resulted in extensive activity to manage a smooth and safe cutover and transition to new supplier partnerships. This has resulted in considerable effort within the business on developing our detailed requirements with our new supplier partners to modernise our passport application processing system including plans to significantly improve the online capability

and replacement of the existing passport production infrastructure to support the new passport design. In addition we have successfully migrated 9 separate IT and telephony contracts into one consolidated new supplier (CSC) and are working on the transition to our new passport supplier (DeLaRue) in October 2010.

Basis for preparing the accounts

IPS, in line with all Government departments and agencies is required to produce accounts to conform with the accounting principles and disclosure requirements of International Financial Reporting Standards (IFRS), for the first time. Prior year comparators have been restated and all HM Treasury trigger points in relation to first time adoption of IFRS have been complied with during the course of the year.

Business and future developments

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

- 5.35m passport applications were received. We exceeded all of our customer service targets and achieved a 98% customer satisfaction rating and award of the Customer Service Excellence standard;

- over 10,000 identity card enrolments in specified areas of the UK;
- 1.92m certificates primarily birth, death, marriage and civil partnership, were issued. We exceeded our service level targets in year;
- introduction of streamlined airside security pass application, issuing and related processes at Manchester Airport for identity card holders, providing the highest level of identity assurance and faster, cheaper services for employers and employees;
- we supported the issue of identity cards for foreign nationals by the UKBA through enrolment at 5 IPS offices throughout the UK and provision of data encryption services;
- over 50,000 personal cases relating to civil registration matters;
- completed the rollout of Registration Online (RON) services to all local authorities in England and Wales and introduced the first phase of the marriage module;
- we continued to work closely with the law enforcement community and other agencies responsible for tackling serious crime in the UK;

- continued collaboration with other government departments such as UKBA caseworking and Department for Work and Pensions (DWP) NINO interviews to use our spare capacity in a more efficient and effective manner to deliver wider government activities;
- continued to refine development schemes for our people including extension of key elements of our Leadership Programme and the Talent Scheme to include a scheme for senior managers;
- delivered within our overall budget;
- secured and began the fit-out of a new passport office in Belfast which will incorporate an integrated customer services office as a model of how we deliver our services to the public in the future;
- completed a move of over 200 HQ staff to Marsham Street from locations in Globe House and Allington Towers in line with the Home Office's initiative for more efficient use of the entire estate;
- customers rated IPS as the top ranking national public service provider when it comes to their satisfaction with the service provided;
- recognition in the form of a public sector award for our video interview service, a nomination for our next generation passport procurement and a bronze Investors In People award;
- signed a Memorandum of Understanding (MOU) with the Foreign and Commonwealth Office (FCO) on future integration of overseas passport issuing services;
- publication of the Safeguarding Identity Strategy, setting out a cross-government approach to the use and handling of identity information; and
- as part of our counter fraud efforts, we detected and deterred 7,344 fraudulent passport applications, which represents a shortfall against our target of 9,407 which is based on projections of fraudulent passport applications from historic sampling exercises. In addition to this figure, we have identified a further 949 applications which were withdrawn as a result of the ION interview process and this category of application will be included in future counter fraud performance reporting.

Non current assets

During the year IPS made significant capital investment, primarily in assets under construction for the NIS but also finalising the infrastructure for launch of the critical workers identity card (CWIC). Full capital expenditure in the year amounted to £112m.

During the year IPS undertook a full review of its existing asset base to determine the appropriateness of the carrying value, which resulted in the shortening of the useful economic life of ePassports with a corresponding impact of £3.9m, reclassification of Biographic Identity (BI) programme costs of £2.9m to revenue costs, write down of some legacy assets of £280k and impairing assets to nil value on the 10 interview offices which we have announced are to close in 2010–11 resulting in a £1.2m impact in year. Full details of non current assets are contained within note 6 and 7 to the accounts.

Funding

Passport fee receipts continue to fund passport related activity, identity card services are funded by a combination of fees and Home Office funding, GRO services are funded by a combination of fees and Home Office funding whilst NIS development and capital expenditure is funded by the Home Office. Where central services, particularly those from Headquarters, have been incurred on more than one activity of IPS a cost allocation process is in place to ensure the integrity of the separate funding streams. All receipts were paid into an IPS account held with the Office of the Paymaster General. Sufficient receipts were Appropriated in Aid from this account to cover expenditure.

Outsourcing

A contract was signed on 2 July 2009 with DeLaRue to replace and operate the current passport production contract which expires in October 2010. The new contract will exist for a period of 10 years with an estimated value of £400m.

Computer Sciences Ltd (CSC) was awarded a £385m 10 year contract to modernise IPS application and enrolment systems including an enhanced online application capability.

The contract with CSC was signed on 22 April 2009. Services previously provided by Siemens IT Solutions and Services, Atos Origin and Equifax have been subsumed into this single contract.

IBM was awarded a £260m contract on 1 May 2009 to develop secure data storage for fingerprint and related data.

Corporate Governance

These accounts incorporate a statement on IPS system of internal controls. It is in line with the requirements of the Turnbull report on Corporate Governance as set out in the HM Treasury's Financial Reporting Manual. This requirement for a Statement on Internal Control to be included in the Annual Report and accounts from 1 January 2001 was first introduced by DAO (GEN) 13/00.

The content of the statement 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. During 2009–10 the Internal Audit service completed its transition to a fully in house resourced service and during 2010–11 we are further developing this by merger with Home Office Audit and Assurance Unit and a shared service model with an SLA for

the delivery of IPS Internal Audit. The IPS Audit Committee met quarterly to oversee all audit and assurance work and was supported by a Risk Management Committee that also met regularly throughout the year.

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 NAO of £225,000.

Full details of the Board in place for the 2009–10 financial year is included within the Remuneration Report.

Pension scheme

Comprehensive details of the various pension schemes available to IPS employees are contained within the Remuneration Report.

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 which is monitored through the Home Office Value for Money Board. Activity recently delivered include

removal of postal examining from the Glasgow office reducing examiner numbers by around 100, collaboration with other government departments generating income of £2.4m in year, procurement savings from our strategic supplier framework and driving efficiencies from existing suppliers and plans to move to a HR shared service. In the future we expect the modernisation of services to deliver significant cost savings through an increased and improved online capacity, significant reductions in internal and suppliers costs, reduced spend on external resources and reduced people costs.

Resource accounting and budgeting

The Home Office are preparing resource accounts for 2009–10, which will consolidate IPS accounts.

Payment performance

The IPS payment performance for the year was 99.4% of all invoices paid within IPS standard terms of 30 days. IPS paid 15% of all invoices within 10 days but will adopt this as standard terms in 2010–11 in line with government guidance.

Unlocking staff potential

IPS can only succeed through the efforts of its people and it strives to be an employer of choice. At our busiest times of the year IPS employs over 4,000 people across the UK in 7 regional offices, 56 interview offices, General Register Office in Southport and the centre mainly based in central London. Our people are the foundation upon which IPS's current performance and plans are built. Developing, motivating and rewarding our people is fundamental to delivering the organisation's success and the IIP bronze award recognition is evidence of the value that we place in our people.

Developing our pool of talent is vital to our ongoing success and we are further developing the successful TalentID scheme to create a pipeline of talent. The second cohort is now in place taking to a total of 19 staff progressing through this programme. The scheme is aimed at junior and middle management staff that possess the track record, potential and aspiration to be promoted to more senior grades. This reflects IPS's commitment to staff development and to reducing the number of leadership posts that are filled externally. During the year 40% of all appointments

were filled by internal candidates, a target we will look to build on and improve upon on any recruitments undertaken in future.

We are also identifying talent at more senior levels so that we will have a complete picture of the talent within IPS and can offer focused development and a talent approach at all levels both within IPS and the wider Home Office.

Our people play a key role in delivering the IPS mission so it's vital that we provide good leadership. The IPS Leadership Vision is the focus for our suite of leadership development programmes, and in 2009 we have embedded the leadership behaviours we wish to encourage into the performance of all managers. We have made a significant investment in developing our leaders within IPS with a total of 835 managers having participated in the suite of leadership programmes since its inception in 2006–07 and 199 taking part during 2009–10.

Sick absence within the Agency improved during the year, the target of 10.2 days per person was achieved with an average of 9.25 days recorded. In 2008–09 sick absence levels recorded were 9.59 days.

Staff numbers

Permanent staff numbers have decreased by 52 on average during the 2009–10 financial year, mainly due to a policy of not automatically replacing staff when they leave but partly offset by a policy to replace non-permanent staff with permanent staff wherever possible. Non-permanent staffing has reduced by 65 on average during 2009–10 financial year.

There remains a need to employ short-term consultants where it does not make sense to recruit full time permanent civil servants or where the work is of a particularly specialist nature, but this will diminish significantly over the course of the next couple of years as programmes are delivered or civil servants are recruited if appropriate. These are included within ‘other costs’ in note 5b to the accounts.

Employment of disabled people

IPS employed an average of 165 staff who disclosed they had a disability (4.2% of total average staff numbers) with representation for disabled senior managers at 4%. In 2006, IPS published our Disability Equality Scheme document, in accordance with the Disability

Discrimination Act 2005. Overseeing the action plan associated with the Scheme is the responsibility of the Diversity and Inclusion team. We continue to consult with internal and external disabled stakeholders on Equality Impact Assessments to ensure our services are accessible to all.

The IPS diversity delivery plan was launched in December 2009 and underpins the IPS commitment to diversity and inclusion and sets out how all staff can work towards embedding diversity and inclusion at personal and corporate level. Diversity champions at senior grades have been appointed to help drive forward the diversity agenda.

Health and safety

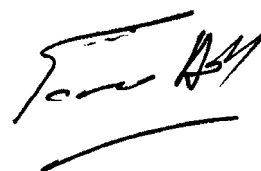
IPS is committed to maintaining the standards required by the Health and Safety at Work Act 1974, and European Union regulations relating to the health and safety of its employees and the public. An Employee Assistance programme, healthcare screening and a flu vaccination programme exists for all staff. 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.

Partnership agreement with the trade union

IPS values its relationship with the Public and Commercial Services Union (PCS) and continues to build on the formal partnership agreement with them which has been refreshed and will shortly be signed off.



James Hall
Chief Executive of
Identity and Passport Service
and Registrar General
14 June 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 to prepare a statement of accounts for each financial year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of IPS and of its income and expenditure, changes in taxpayers equity and cash flows for the financial year.

In preparing the accounts 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 Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that IPS will continue in operation.

The Accounting Officer for 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.

The purpose of the system of internal control

The 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;
- an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically; and
- has been in place in IPS for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.



Capacity to handle risk

As an Executive Agency of the Home Office, IPS derives its risk management strategy from appropriate elements of their relevant policy and guidance. The strategy and supporting policies endorsed by me, the Management Board and Executive Directors provides direction and sets 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 continually seek to improve the capability and capacity of IPS by developing a culture of considered and informed risk management. 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 their management responsibilities in a structured and appropriate manner. These are derived from good industry practice, reviews of internal lessons learned and by benchmarking with other public and private sector organisations.

The risk and control framework

The IPS ambition to drive forward public service standards by developing products that meet the needs of an expanding range of customers, whilst operating in a rapidly changing environment, inevitably requires us to manage high levels of inherent risk. The need to balance strategic delivery, customer service, financial, and information risks in a considered manner has required a number of tactical trade offs. On occasion this has resulted in IPS being willing to accept higher severity residual risks than planned for a limited period during deployment to deliver effective customer service and value for money.

To manage risks to a practical and cost effective level and to increase the likelihood of our success, IPS maintains a flexible and scalable risk strategy and supporting processes to encourage and facilitate the identification, recording, reporting and escalation of risks through the regular business management chain.

Key elements of this process include a number of governance bodies embedded within the organisation to monitor and ensure appropriate risk management activity:

- a monthly Management Board meeting, attended by Non-Executive Directors, with standing items on significant risks and security breaches and Executive Director reports on performance and risks;
- a monthly Scheme Management Board, designed to bring an effective and coordinated cross government approach to the governance of and management of risk within National Identity Service delivery;
- 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 sub group to the Audit Committee, attended by senior managers and which reviews significant risks and the effectiveness of risk management practices; and

- a Data Governance Committee to oversee the Agency's approach to data security, information governance and risk.

These governance functions receive assurance from many sources including:

- annual declarations from Executive Directors to provide assurance on the effectiveness of risk management and the operation of key business controls in each directorate;
- annual declarations from Key Suppliers to provide assurance on the effectiveness of risk management and the operation of key business controls in the supply chain;
- a developing system to record and monitor risks to objectives at operational, programme and corporate levels;
- regular reports by internal audit covering management and control of the Agency's main risks and key business processes;

- dedicated Counter Fraud and Security Teams, responsible for investigating all issues relating to passport fraud and security; and

- a programme of business assurance review activity across IPS to ensure risks are appropriately managed and that, there is an appropriate level of resilience, health and safety.

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 managers within the department 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 the Audit Committee and risk committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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 that, based on internal audit work in 2009–10, there is not a material or immediate threat to the 'business as usual' delivery of Passport Services, to the progression of the National Identity Scheme, or to the delivery of General Register Office services. This represents no change to his opinion for 2008–09. He has continued, as in 2008–09, to find a number of cases of unsatisfactory control and of failure to apply good risk management principles arising in the various systems and processes that support

(rather than directly deliver) IPS business activities which, as with any control issues, carries a reputational and customer confidence risk if not adequately addressed. However, the number of cases is less than in 2008–09 and he considers that the engagement of management with the findings of Internal Audit work has improved during 2009–10 and is confident that all significant issues identified by his work have been, or are in the process of being, addressed. He also considers that a range of management initiatives (such as the ongoing ‘Transforming HR’ and the newer ‘Transforming Finance’ programmes) should bring about material general improvements in the IPS control environment.

In reviewing the effectiveness of our system of internal control I also considered evidence of the effective management of a number of risks during the year.

- we commenced issuing identity cards for UK citizens and continued support for the production of identity cards for foreign nationals, both as part of our major programme of IT development. This has entailed working closely with our suppliers and government partners to develop integrated IT infrastructures and services to facilitate the effective protection of our borders whilst allowing people to travel safely;
- lessons learned from these activities are being applied to future change activity during 2010–11, especially as we prepare for the transition to a new passport processing system, product and supplier as well as for future integration of overseas passport issuing services with the Foreign and Commonwealth Office (FCO);
- we took action to enhance our resilience and preparedness in the event of a severe flu pandemic. These plans were subsequently used to manage disruptions caused by industrial action and weather related travelling difficulties;
- governance and control structures have been developed to deliver a smooth transition to new production and IT infrastructure suppliers and prepare for the introduction of new services and products. They will be constantly reviewed and tested to ensure they are sufficiently robust to meet the high levels of inherent risk in these major developments;
- strengthened controls and risk mitigation measures were introduced in year to contain security incidents, including theft during delivery of passports to customers;
- controlling the risks associated with the large capital spend is a key element of the major developments facing IPS and new governance and financial control processes were introduced to manage a capital milestone tracker payment procedure around milestone acceptance which will continue throughout 2010–11 and beyond; and

- as part of the IPS commitment to delivering the Government transformational Agenda to expand on the use of existing Government assets, IT infrastructure and information, IPS has entered into a number of service arrangements with other Government entities. IPS is working to ensure that these arrangements are bound in unambiguous agreements which include terms and conditions.

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. Action plans will be progressed in the coming year to address identified issues, to improve the risk and control environment where necessary.

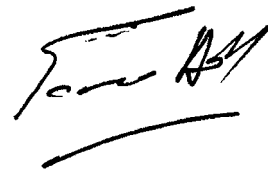
In particular we will take account of the lessons learned in the early delivery of identity cards and other major IT development programmes, to ensure that we

maintain an effective control environment and an active and appropriate balance in the handling of risks to manage these to an acceptable level of business performance, value for money, resilience and integrity. We will focus our governance arrangements and internal expert scrutiny on key delivery decisions and areas of potential vulnerability.

A number of control developments have been introduced during the year, including a number which address risks and control issues reported for 2008–09:

- we initiated a formal programme of work to enhance identified improvements needed in IT Disaster Recovery and the testing of these arrangements will be completed during 2010–11;
- we have refined our approach to the management of risks transitioning from change programmes into business operations to ensure that these are addressed early in the lifecycle of our major development programmes;

- we have continued to review and enhance our approach to data security and information risk. A separate statement on data security and information risk is included in the annual report;
- further work has been carried out to enhance the Agency's approach to knowledge management. This will continue in 2010–11; and
- a continuous Health and Safety improvement programme has commenced, following the appointment of a Head of Health and Safety during 2008–09. This work will also continue during 2010–11.



James Hall
Chief Executive of
Identity and Passport Service
and Registrar General
14 June 2010

Statement on Data Security and Integrity

Data security

IPS is the delivery organisation for the NIS and, as Chief Executive of IPS, I have a clear responsibility to protect the personal information that is held and used. We continue to ensure that this information is used for the benefit of the individual and the UK as a whole, in a way that fully recognises the rights of the individual to privacy. The security and integrity of information held by IPS is fundamental to our success.

Integrity and security

The Information Assurance and Security teams in IPS are working with a number of external advisors to assure the security of the NIS (National Identity Scheme), including CESG (the Government's National Technical Authority for Information Assurance), the Identity Commissioner, the Office for Security and Counter-Terrorism (OSCT), the Information Commissioner's Office (ICO) and the Centre for the Protection of National Infrastructure (CPNI).

Areas of activity

IPS continues to work as part of the wider Home Office including UKBA (United Kingdom Border Agency), and with colleagues at FCO (Foreign Commonwealth Office) to ensure the timely delivery of travel documents and the ability to conduct robust checks at borders with minimal inconvenience to the traveller. In the last year IPS has awarded a number of contracts which together will provide the NIS and other supporting services. Throughout the pre and post contract phases we have been working closely with the suppliers to ensure that systems are designed to manage data appropriately. At the same time we have used our external advisors to provide advice and assurance on the measures that can be taken to increase trust. IPS has been building on its close relationship with the Office for Security and Counter-Terrorism and the Management Board has recently agreed the IPS Counter-Terrorism (CT) Strategy in support of the Cross-Government CT Strategy.

During the year the Data Governance Committee has continued to oversee data-related issues and provide assurance to the Management Board that new data sharing arrangements are appropriate. My Board and I take the protection of information, in particular personal information, very seriously and intend to ensure that we continue our efforts to provide a secure and transparent service to the public.

Personal data incidents

In accordance with the Government's commitment to enhanced transparency for Parliament and the public, all departments and agencies now cover information assurance issues in their annual reports. Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation. There were no 'protected personal data' incidents that required reporting to the Information Commissioner's Office (ICO) in 2009-2010.

Statement on Data Security and Integrity

Table 1: Summary of other protected personal data incidents in 2009–10

Incidents deemed by the Data Controller (the officer who has full responsibility for IPS data, and who reports to the Executive Director of Integrity and Security) 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 | 2009–10 | 2008–09 |
|----------|--|---------|---------|
| I | Loss of inadequately protected electronic equipment, devices or paper documents 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. | 6 | 6 |

Remuneration Report

Period ended 31 March 2010

In accordance with the Financial Reporting Manual (FRoM) IPS has prepared a Remuneration Report for the financial year 2009–10. The objective of the remuneration report is to fully disclose information about IPS Senior staff in accordance with the Companies Act 1985 as interpreted for public sector. Senior staff are defined as members of the Management Board of IPS and its Non-Executive directors.

Further details on other staff including costs can be found in note 4 to the annual accounts.

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 2009–10 IPS has made no salary or compensation payments to past senior managers for loss of office and has no senior staff on fixed term contracts.

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

Salary and benefits in kind

The table on page 22 gives details of all individuals who have acted as a member of the Management Board during the course of the year. 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.

Salaries and pension analysis for each senior manager of the current IPS Management Board as at 31 March 2010 is set out below in bands of £5,000.

| SENIOR STAFF NAME | Job title | Salary 2009–10 £'000 ¹ | Salary 2008–09 £'000 |
|---|--|---|------------------------------------|
| JAMES HALL² | Chief Executive Officer and Registrar General | 205–210 | 205–210 |
| ALASTAIR BRIDGES | Executive Director, Finance and Performance (Temporary Appointment from June 2009) | 60–65 (annualised 85–90) | n/a |
| DAVID BUCKLEY³ | Executive Director, General Register Office (Deputy Registrar General) | 105–110 | 110–115 |
| JANE CARWARDINE | Executive Director, Human Resources (returned from Maternity Leave in February 10) | 95–100 | 120–125 |
| BILL CROTHERS | Executive Director, Chief Information Officer and Commercial | 160–165 | 160–165 |
| KATIE DAVIS | Executive Director, Strategy | 150–155 | 145–150 |
| VINCE GASKELL⁴ | Executive Director, New Service Implementation (Additionally covering Maternity Leave of Director of Communications and Marketing, from November 09) | 185–190 | 25–30 (annualised 175–180) |
| DR DUNCAN HINE | Executive Director, Integrity and Security | 130–135 | 125–130 |
| ISABEL HUNT | Executive Director, Business Development and Marketing (Maternity Leave from November 2009) | 125–130 | 120–125 (annualised 125–130) |
| ANDREW POWLES | Executive Director, Human Resources (Covering Maternity Leave from May 09) | 90–95 | n/a |
| SARAH RAPSON | Executive Director Operations and Service Planning and Delivery | 110–115 | 105–110 |
| DAME JANET FINCH^{5&7} | Non-Executive Director | 15–20 | 15–20 |
| ANN TUTT^{5&8} | Non-Executive Director | 25–30 | 20–25 |
| LINDA WALTON^{5&9} | Non-Executive Director | 25–30 | 20–25 |

Notes

- Salaries for all Executive Directors include Performance Bonuses and, where applicable, Excess Fares, London Weighting or gross taxable allowances. 2008–09 remunerations have been restated to reflect the gross amount of taxable allowances.
- James Hall received allowances to cover home to work travel of £5,088 during the period, which is included within remuneration above. IPS meets the tax liability of £4,477. On 2 June 2010 the Chief Executive, James Hall announced his resignation, effective 15 July 2010.
- David Buckley has accommodation and home to work expenses paid for by IPS when business needs dictate as part of his remuneration agreement. This amounted to £12,298 during the period and IPS meets the tax liability of £10,822.
- Vince Gaskell received an Additional Home Cost Allowance (AHCA) of £28,333 as part of his remuneration agreement, which is liable to personal taxation. He also received a home to work allowance of £12,489 in the period. IPS bears the tax liability on the travel expenses of £10,990.
- The contracts of service for all five Non-Executive Directors ended on 31 December 2009. Three of those contracts were renewed following consultation with the Permanent Secretary.
- On 1 January 2010, Dame Janet Finch, Anne Tutt and Linda Walton started new service contracts. They are contracted for 20, 25 and 35 days respectively. Janet and Anne are contracted for 2 years, Linda for 1. The previous contracts were for 20 days per year.

| Real increase in pension at age 60 and related lump sum (£'000) | Total accrued pension at age 60 at 31 March 2010 and related lump sum (£'000) | Cash Equivalent Transfer Value (CETV) at 31 March 2009 (nearest £'000) | CETV at 31 March 2010 (nearest £'000) | Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £'000) | Employee contributions and transfers in (to nearest £100) |
|---|---|--|---------------------------------------|---|---|
| n/a | n/a | n/a | n/a | n/a | n/a |
| 0-5 plus 0-5 lump sum | 20-25 plus 65-70 lump sum | 340 | 361 | 15 | 1,000 |
| 0-5 plus 0-5 lump sum | 20-25 plus 0-5 lump sum | 265 | 304 | 22 | 2,700 |
| 0-5 plus 0-5 lump sum | 5-10 plus 0-5 lump sum | 45 | 73 | 21 | 3,300 |
| 0-5 plus 0-5 lump sum | 0-5 plus 0-5 lump sum | 0 | 65 | 0 | 64,900 |
| 0-5 plus 0-5 lump sum | 5-10 plus 0-5 lump sum | 44 | 76 | 25 | 4,300 |
| 0-5 plus 10-15 lump sum | 55-60 plus 175-180 lump sum | 1,177 | 1,347 | 106 | 1,900 |
| 0-5 plus 0-5 lump sum | 5-10 plus 0-5 lump sum | 57 | 98 | 34 | 4,100 |
| 0-5 plus 0-5 lump sum | 5-10 plus 0-5 lump sum | 27 | 58 | 26 | 4,300 |
| 0-5 plus 0-5 lump sum | 5-10 plus 0-5 lump sum | 56 | 81 | 20 | 2,600 |
| 0-5 plus 0-5 lump sum | 10-15 plus 0-5 lump sum | 91 | 136 | 23 | 15,300 |
| n/a | n/a | n/a | n/a | n/a | n/a |
| n/a | n/a | n/a | n/a | n/a | n/a |
| n/a | n/a | n/a | n/a | n/a | n/a |

7. Dame Janet Finch is a Non-Executive Director of the IPS Management Board, Chair of the GRO Committee and, since 01 January 2010, a member of the Audit Committee.

8. Anne Tutt is a Non-Executive Director of the IPS Management Board. Until 31 December 2009 she was a member of the IPS Audit Committee and Chairman of the Service Delivery Committee. On 1 January 2010 she stepped down from the Service Delivery Committee, becoming Chairman of the Audit Committee. She also represents IPS on the Home Office Audit Committee.

9. Linda Walton is a Non-Executive Director of the IPS Management Board and Chairman of the Finance Review Board (formerly the Investment Sub Committee). She also provides advice to HR on Senior Civil Servant bonus ratings. From 1 January 2010 Linda became a member of the Audit Committee.

10. Until 31 December 2009 Alan Hughes was a Non-Executive member of the IPS Management Board and Audit Committee and the Chairman of the Independent Scheme Assurance Panel for the NIS.

11. Until 21 December 2009 Sarah Blackburn was a Non-Executive Director of the IPS Management Board. She was also Chairman of the Audit and Data Governance Committees, and represented IPS at the Home Office Audit Committee. An overpayment of £10,372 gross was paid to Sarah in error during 2009-10. This will be paid back to IPS during 2010-11.

Salaries and pension analysis for senior managers of the IPS Board who have left during 2009–2010 is set out below in bands of £5,000.

| SENIOR STAFF NAME | Job title | Salary 2009–10 £'000 ¹ | Salary 2008–09 £'000 | Real increase in pension at age 60 and related lump sum (£'000) | Total accrued pension at age 60 at 31 March 2010 and related lump sum (£'000) | Cash Equivalent Transfer Value (CETV) at 31 March 2009 (nearest £'000) | CETV at 31 March 2010 (nearest £'000) | Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £'000) | Employee contributions and transfers in (to nearest £100) |
|---|---|--------------------------------------|-------------------------|---|---|--|---------------------------------------|---|---|
| MARK MCLAUGHLIN | Executive Director Finance and Performance (Resigned June 2009) | 30–35 (part year) | 130–135 | 0–5 plus 0–5 lump sum | 45–50 plus 0–5 lump sum | 634 | 660 | 18 | 1,000 |
| SARAH BLACKBURN <small>5 & 11</small> | Non-Executive Director (Contract ended December 2009) | 35–40 (part year) | 40–45 | n/a | n/a | n/a | n/a | n/a | n/a |
| ALAN HUGHES <small>5 & 10</small> | Non Executive Director (Contract ended December 2009) | 40–45 (part year) | 50–55 | n/a | n/a | n/a | n/a | n/a | n/a |

* for notes see page 22–23

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.gov.uk

Cash Equivalent Transfer Values

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.

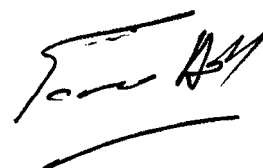
The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

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 2009–10 (£nil 2008–09) for senior managers.



James Hall
 Chief Executive of
 Identity and Passport Service
 and Registrar General
 14 June 2010

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 2010 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement, 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 Chief Executive 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 applicable law and 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 Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Agency; and the overall presentation of the financial statements.

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 Agency's affairs as at 31 March 2010, and of the net operating cost, changes in taxpayers' equity and cash flows 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 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 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.
- 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
16 June 2010

Accounts Direction

1. This direction applies to the Identity and Passport Service
2. Executive agencies shall prepare accounts for the year ended 31 March 2010 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by H M Treasury ("the FReM") which is in force for 2009–10.
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 2010 and of the income and expenditure (or, as appropriate, net resource outturn), total recognised gains and losses (or, as appropriate, recognised gains and losses), 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.



Chris Wobschall

Head of Assurance and Financial Reporting Policy Team
Her Majesty's Treasury
21 December 2009

Accounts for the year ended 31 March 2010

Operating cost statement

| For the year ended 31 March 2010 | NOTES | 2009–10 £'000 | 2008–09 £'000 |
|--|-----------------|------------------|------------------|
| Passport, certificate and ID card income | 1.8, 1.12, 5c | 380,137 | 366,289 |
| Cost of sales | 5a | (184,927) | (185,047) |
| Administrative expenses | 5b | (235,087) | (224,177) |
| Other operating income | 1.11, 5d | 8,439 | 4,623 |
| (Loss) on disposal non-current assets | 1.2, 1.3 ,6 , 7 | (72) | (40) |
| Cost of capital | 1.7 | (5,119) | (3,847) |
| Consular protection fees | 21 | (58,995) | (58,727) |
| Net operating cost | | (95,624) | (100,926) |

Analysis of programme and administration costs

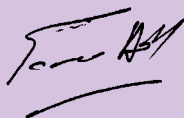
| Programme costs | NOTES | 2009–10 £'000 | 2008–09 £'000 |
|------------------------------|----------------------------|------------------|------------------|
| Income | 1.8, 1.11, 1.12, 5c, 5d | 388,576 | 370,912 |
| Staff costs | 4a, 4b | (128,558) | (135,502) |
| Programme costs | 1.14, 5a, 5b | (355,642) | (336,336) |
| Total programme costs | | (95,624) | (100,926) |

The notes on pages 34–55 form part of these accounts

Statement of financial position

| As at 31 March 2010 | NOTES | 2009–10 £'000 | 2008–09 £'000 | 2007–08 £'000 |
|--|--------------|------------------|------------------|------------------|
| Assets | | | | |
| Non-current assets: | | | | |
| Property, plant and equipment | 1.3, 6 | 179,867 | 105,623 | 111,559 |
| Intangible assets | 1.2, 7 | 26,982 | 36,765 | 42,688 |
| Total non current assets | | 206,849 | 142,388 | 154,247 |
| Current assets | | | | |
| Inventories | 1.5, 1.6, 10 | 3,829 | 6,645 | 6,158 |
| Trade and other receivables | 8, 11 | 30,069 | 21,965 | 14,294 |
| Cash and cash equivalents | 8, 12 | 49,369 | 19,091 | 52,035 |
| Total current assets | | 83,267 | 47,701 | 72,487 |
| Total assets | | 290,116 | 190,089 | 226,734 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Trade and other payables | 8, 13 | (150,699) | (88,755) | (134,618) |
| Provisions | 1.16, 14 | (3,185) | (1,146) | (1,003) |
| Total current liabilities | | (153,884) | (89,901) | (135,621) |
| Non-current assets less net current liabilities | | 136,232 | 100,188 | 91,113 |
| Non-current liabilities | | | | |
| Provisions | 1.16, 14 | (4,659) | (4,974) | (4,285) |
| Other payables | 13 | (7,367) | (7,346) | (7,324) |
| Total non-current liabilities | | (12,026) | (12,320) | (11,609) |
| Assets less liabilities | | 124,206 | 87,868 | 79,504 |
| Taxpayers' equity: | | | | |
| General fund | | 117,753 | 79,744 | 66,126 |
| Revaluation reserve | 1.3 | 6,453 | 8,124 | 13,261 |
| Government grant reserve | 1.13 | – | | 117 |
| Total taxpayers' equity | | 124,206 | 87,868 | 79,504 |

Signed :



James Hall
Accounting Officer
14 June 2010

Statement of cash flows for the year ended 31 March 2010

| | NOTES | 2009–10 £'000 | 2008–09 £'000 |
|---|---------------|------------------|------------------|
| Cash flows from operating activities | | | |
| Net operating cost * | | (36,629) | (42,199) |
| (Increase) in trade and other receivables | 8, 11 | (8,104) | (7,671) |
| (Increase)/decrease in inventories | 1.5, 1.6, 10 | 2,816 | (600) |
| Increase/(decrease) in trade payables | 8, 13 | 2,079 | (7,901) |
| Adjustments for non-cash transactions | | 54,228 | 40,720 |
| Loss on disposal of non current assets | | 72 | 40 |
| Movement in provisions | 14 | 1,724 | 832 |
| Net cash outflow from operating activities | | 16,186 | (16,779) |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 1.3, 6 | (81,927) | (13,169) |
| Purchase of intangible assets | 1.2, 7 | (235) | (2,227) |
| Costs on disposal of non current assets | 1.3, 6, 7 | (3) | - |
| Net cash outflow from investing activities | | (82,165) | (15,396) |
| Cash flows from financing activities | | | |
| Funding from parent | 1.9, 1.22, 21 | 173,500 | 124,130 |
| Payment of Funding Surplus (CFERs) to parent | 1.9, 1.22, 21 | (18,794) | (50,981) |
| Payment of Consular protection fees (CFERs) | 1.22, 21 | (58,449) | (73,918) |
| Net financing | | 96,257 | (769) |
| Net increase/(decrease) in cash and cash equivalents in the period | | 30,278 | (32,944) |
| Cash and cash equivalents at the beginning of the period | 1.22, 12 | 19,091 | 52,035 |
| Cash and cash equivalents at the end of the period | 1.22, 12 | 49,369 | 19,091 |
| Net increase/(decrease) in cash and cash equivalents in the period | 1.22, 12 | 30,278 | (32,944) |

* Net operating cost excludes the consular protection fees

Statement of changes in taxpayers' equity

| | Notes | General Fund £000 | Revaluation Reserve £000 | Government Grant Reserve £000 | Total Reserves £000 |
|--|-------------|----------------------|--------------------------------|--|---------------------------|
| Changes in taxpayers' equity for 2009–10 | | | | | |
| Balance at 1 April 2009 | | 79,744 | 8,124 | – | 87,868 |
| Net loss on revaluation of non-current assets | 1.3, 6 | – | 1,655 | – | 1,655 |
| Non-cash charges – cost of capital | 1.7, 21 | 5,119 | – | – | 5,119 |
| Non-cash charges – auditor's remuneration | 5b, 21 | 225 | – | – | 225 |
| Non-cash charges – payroll services | 5b, 21 | 372 | – | – | 372 |
| Realised revaluation reserve to general fund | 1.3, 6 | 3,326 | (3,326) | – | – |
| Net operating cost for the year excluding non retainable element of passport fee for consular protection | | (36,629) | – | – | (36,629) |
| Non retainable element of passport fee for consular protection | 1.9, 21 | (58,995) | – | – | (58,995) |
| Total recognised income and expense for 2009–10 | | (6,838) | 6,453 | – | (385) |
| Funding from parent | 1.9, 21 | 173,500 | – | – | 173,500 |
| CFERs payable to the consolidated fund | 1.9, 21 | (48,909) | – | – | (48,909) |
| Balance at 31 March 2010 | | 117,753 | 6,453 | – | 124,206 |
| Changes in taxpayers' equity for 2008–09 | | | | | |
| Balance at 1 April 2008 | | 66,126 | 13,261 | 117 | 79,504 |
| Net loss on revaluation of non-current assets | 1.3, 6 | – | (335) | – | (335) |
| Non-cash charges – cost of capital | 1.7, 5b, 21 | 3,847 | – | – | 3,847 |
| Non-cash charges – auditor's remuneration | 5b, 21 | 225 | – | – | 225 |
| Non-cash charges – payroll services | 5b, 21 | 334 | – | – | 334 |
| Government grant reserve | 1.13, 5d | – | – | (117) | (117) |
| Realised revaluation reserve to general fund | 1.3, 6 | 4,802 | (4,802) | – | – |
| Net operating cost for the year excluding non retainable element of passport fee for consular protection | | (42,199) | – | – | (42,199) |
| Consular protection fee | 1.9, 21 | (58,727) | – | – | (58,727) |
| Total recognised income and expense for 2008–09 | | (25,592) | 8,124 | – | (17,468) |
| Funding from parent | 1.9, 21 | 124,130 | – | – | 124,130 |
| CFERs payable to the consolidated fund | 1.9, 21 | (18,794) | – | – | (18,794) |
| Balance at 31 March 2009 | | 79,744 | 8,124 | – | 87,868 |

The notes on pages 31–51 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 2009–10 Government Financial reporting Manual (FReM) issued by HM Treasury. 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 1985.

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.

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 and inventories.

1.2 Intangible assets

Intangible assets comprise:

a) Software licences

Covering a period in excess of one year. These are capitalised at cost and amortised over their useful life subject to a maximum of ten years. A review of the useful life is undertaken annually.

b) 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 Operating Cost Statement in the year in which it is incurred.

c) Databases

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 for normal business activities and if they are held to deliver identifiable service potential or other economic benefits.

Database assets are depreciated over the expected useful life over which the benefits envisaged will be delivered. A review of the useful life is undertaken annually.

d) Amortisation

Intangible fixed assets are depreciated 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 of future software development. A review of the useful life is undertaken annually.

e) Revaluation

IPS adopted the revaluation model relating to its intangible assets in 2009–10. It discloses fixed assets in the Statement of Financial Position at their revalued cost. IPS policy is to revalue the cost of all intangible assets in use based on the GDP deflator index published on HM Treasury website.

1.3 Property, plant and equipment

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 1.2 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

Includes the machinery and associated enabling infrastructure that forms the production line used to produce passports. Also included within plant, machinery and vehicles 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 fixed 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 Operating Cost Statement in the year in which it is incurred.

h) Revaluation

IPS adopts the revaluation model relating to its assets. It discloses fixed 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 compiled by ONS to each class of operational asset. An external valuation of freehold land and buildings is undertaken every five years.

Assets under construction are not revalued until they become operational.

i) 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.

j) Depreciation

Depreciation is charged on all property, plant and equipment 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, machinery and vehicles | 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.

1.4 Leases

Rental payments for land and buildings occupied by IPS, on the basis of operating leases or equivalent, are charged to the Operating Cost Statement. 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.

1.5 Inventories

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

1.6 Work in progress

a) Passport and ID card services

Work in progress is valued based on the stage which the passport and ID card 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) General Register Office certificate services

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

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 work in progress.

1.7 Capital charge

A charge reflecting the cost of capital utilised by IPS, is included in operating costs. The charge 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 the 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.

1.8 Turnover from continuing activities

Turnover from continuing activities represents:

a) Passport fees

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

b) Certificate fees

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

c) ID card fees

ID card fees are collected in accordance with the Identity Cards Act 2006 (Fees) Regulations 2009 and considered to be one single class of business.

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

1.9 Funding

The principal activities of IPS are funded on a net resource basis from Home Office Request for Resources 1–subhead g.

IPS relies on the cash generated from the passport, and certificate fees to fund its fee funded activities. The Home Office provides additional cash to fund the capital programme, non fee funded activities and the National Identity Service setup costs.

1.10 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.

This is accounted for as a statutory defined benefit scheme. IPS is required to pay an employer's contribution, which is currently between 16.7% and 24.3% of pensionable pay depending on the grade of staff.

These contributions are charged to operating expenses as and when they become due.

1.11 Other operating income

Other operating income is income which 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, charges for use of IPS facilities and other minor services.

1.12 Deferred income

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

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

1.13 Government grants

Grants received are contributions toward specific fixed asset expenditure.

The Government Grant reserve is credited with the full amount of grant received and a transfer made from the Government grant reserve to the Operating Cost Statement over the life of the asset.

1.14 Administration and programme expenditure

The Operating Cost statement is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or programme follows the definition set out by HMT and interpreted by the Home Office.

1.15 Segmental reporting

The net operating cost reported in IPS Operating Cost Statement includes income and costs associated with passport, GRO and Home Office 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 Foreign and Commonwealth Office (FCO). This non-retainable element of the passport fee for consular protection is paid to HMT via the Home Office.

For GRO related activities, the fee covers the cost of certificate and related services provided directly to the public. In addition GRO also receives central Home Office funding for those activities where costs are not currently recovered through the certificate or other related fees.

For Home Office funded activities, supply funding is drawn down from the Home Office and is used to fund capital and revenue expenditure as incurred. These activities relate principally to the development and implementation of the National Service (NIS).

1.16 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.

1.17 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.

1.18 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.

1.19 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.

1.20 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.

The following are critical judgements applied when applying the accounting policies:

1.21 Allocation of corporate costs to operating segments

IPS undertakes passport, ID card, GRO and Home Office funded activities (which include the NIS). 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.

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.

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.

1.22 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 8.

Note 2 First-time adoption of IFRS – taxpayers equity

| Reconciliation between IFRS and UK GAAP | NOTES | General Fund £'000 | Revaluation Reserve £'000 |
|---|-------------|-----------------------|------------------------------|
| Taxpayers' equity at 31 March 2009 under UK GAAP | | 88,248 | 8,124 |
| Adjustments for: | | | |
| IAS16 – reclassification of asset under construction as a revenue expense | 1.3, 6 | (461) | – |
| IAS19 – accrual for IAS19 employee benefits | 4a, 4b, 13 | (3,585) | – |
| IAS17 – accrual for pre-determined increases in lease payments | 1.4, 5b, 16 | (4,458) | – |
| IAS16 – reclassification of PFI contract to on balance sheet | 1.2, 6, 17 | – | – |
| Taxpayers' equity at 1 April 2009 under IFRS | | 79,744 | 8,124 |

Note 2 First-time adoption of IFRS – Operating Cost

| Reconciliation between IFRS and UK GAAP | | 2008–09 £'000 |
|--|-------------|------------------|
| Net operating cost under UK GAAP | | (97,580) |
| Adjustments for: | | |
| IAS19 – accrual for IAS19 employee benefits | 4, 13 | (2,006) |
| IAS17 – accrual for pre-determined increases in lease payments | 1.4, 5b, 16 | (309) |
| IAS16 – reclassification of PFI contract as on balance sheet | 1.2, 6, 17 | (1,250) |
| Cost of capital adjustment | | 219 |
| Net operating cost under IFRS | | (100,926) |

In line with HM Treasury advice, Prior Period Adjustments (PPAs) arising from the adoption of IFRS were not included in spring Supplementary Estimates for 2009–10 on the basis that the PPA numbers could have been misleading, particularly where transactions may well have pre-dated the 2001–02 cut off point for reporting PPAs, as only part of an obligation would have been included. PPAs arising from a change in accounting policy related to other than IFRS were included in the Estimates in line with conventional arrangements.

Note 3 – Fees and Charges

| Business segments – 2009–10 | NOTES | Passports | General Register Office | Identity Cards | Home Office funded activities | Total |
|---|----------------|------------------|--------------------------------|-----------------------|--------------------------------------|------------------|
| | | £'000 | £'000 | £'000 | £'000 | £'000 |
| Turnover from continuing activities | 1.8, 1.12, 5c | 361,132 | 18,809 | 196 | – | 380,137 |
| Other operating income | 1.11, 5d | 3,391 | 895 | – | 4,153 | 8,439 |
| Cost of sales | 5a | (170,109) | (12,023) | (2,519) | (276) | (184,927) |
| Administrative expenses | 5b | (137,932) | (13,698) | (4,758) | (78,699) | (235,087) |
| Cost of capital | 1.7 | (1,638) | (461) | (461) | (2,559) | (5,119) |
| (Loss) on disposal of non-current assets | 1.2, 1.3, 6, 7 | (72) | – | – | – | (72) |
| Consular protection fees | 21 | (58,995) | – | – | – | (58,995) |
| Operating cost | | (4,223) | (6,478) | (7,542) | (77,381) | (95,624) |
| Home Office resource funding | 1.9, 21 | – | 6,478 | 7,542 | 100,192 | 114,212 |
| Operating surplus/(cost) after funding | | (4,223) | – | – | 22,811 | 18,588 |
| Other Information | | | | | | |
| Total NBV of asset base | 6, 7 | 65,262 | 18,708 | 17,820 | 105,059 | 206,849 |
| Business Segments – 2008–09 | | | | | | |
| | NOTES | Passports | General Register Office | Identity Cards | Home Office funded activities | Total |
| | | £'000 | £'000 | £'000 | £'000 | £'000 |
| Turnover from continuing activities | 1.8, 5c | 349,555 | 16,734 | – | – | 366,289 |
| Other operating income | 1.11, 5d | 2,159 | 2,001 | – | 463 | 4,623 |
| Cost of sales | 5a | (174,387) | (10,660) | – | – | (185,047) |
| Administrative expenses | 5b | (128,494) | (14,303) | – | (81,380) | (224,177) |
| Cost of capital | 1.7 | (3,040) | (649) | – | (158) | (3,847) |
| (Loss) on disposal of non-current assets | 1.3, 6 | (40) | – | – | – | (40) |
| Consular protection fees | 21 | (58,727) | – | – | – | (58,727) |
| Operating cost | | (12,974) | (6,877) | – | (81,075) | (100,926) |
| Home Office central funding | 1.9, 21 | 5,000 | 6,877 | – | 86,254 | 98,131 |
| Operating surplus/(cost) after funding | | (7,974) | – | – | 5,179 | (2,795) |
| Other Information | | | | | | |
| Total NBV of asset base | 6, 7 | 99,919 | 19,628 | – | 22,841 | 142,388 |

Accounts for the year ended 31 March 2010

IPS is required to provide an analysis of the types of services for which it charges a fee which is set out on the previous page. Fees are agreed annually with HM Treasury in line with the fees and charges principle.

The 2009–10 FReM has been amended to require all reporting entities other than departments to apply IFRS 8 in full as revised in April 2009. The effective date of this revision to IFRS 8 is 1 January 2010, and this therefore constitutes early adoption.

Passport

Passport activities include all services relating to the issuing of passports. A fee is charged for all passports except for those issued to war veterans for which central funding was provided by the Home Office from inception until the end of 2008–09. The financial objective of this activity is to break even in year.

General Register Office

GRO activities include all services relating to the issuing of certificates for birth, death and marriage. In addition GRO also includes support functions to maintain the registers of all vital events for which central Home Office funding is provided. The financial objective of GRO is to break even after central Home Office funding for non fee bearing activities.

Identity Cards

Identity Cards activities include all services relating to the issuing of Identity cards. A fee of £30 is charged for all voluntary Identity cards, with airside worker cards being issued free of charge at Manchester and London City airports during the 18 month trial period. The financial objective of this activity is to break even over the initial period of the Identity Card Service. Accordingly the fee in 2009–10 has not been set to recover all costs. The publication of the coalition agreement on 20 May 2010 and subsequent formal announcement from the Home Secretary on 27 May 2010, has resulted in a decision to scrap identity Cards. These assets will therefore be impaired to Nil value.

Home Office funded activities

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

Note 4 Staff numbers and related costs

a) Staff costs

| | NOTES | Permanently Employed Staff | | Non permanently employed staff | | Total all staff | |
|---------------------------------|-------|----------------------------|---------|--------------------------------|---------|-----------------|---------|
| | | 2009–10 | 2008–09 | 2009–10 | 2008–09 | 2009–10 | 2008–09 |
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Wages and salaries | | 97,806 | 91,676 | 8,157 | 21,852 | 105,963 | 113,528 |
| Social security costs | | 6,482 | 6,010 | – | – | 6,482 | 6,010 |
| Other pension costs | 1.10 | 16,113 | 15,964 | – | – | 16,113 | 15,964 |
| Total gross salary costs | | 120,401 | 113,650 | 8,157 | 21,852 | 128,558 | 135,502 |

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. A full actuarial valuation was carried out as at 31 March 2009. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2009–10, employers' contributions of £16.1m were payable to the PCSPS (2008–09 £16m) at one of four rates in the range 16.7% to 24.3% (2008–09: 17.1% to 25.5%) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2009–10 and will change again from 2010–11. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

In addition, employer contributions of £129k, 0.8% of pensionable pay; (2008–09: £127k 0.8%), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

b) Average number of persons employed

| | NOTES | 2009–10 | 2008–09 |
|--------------------------------|-------|--------------|---------|
| Permanently employed staff | 1.10 | 3,900 | 3,952 |
| Non permanently employed staff | | 61 | 126 |
| Total staff numbers | | 3,961 | 4,078 |

Note 5 Programme Costs

| a) Cost of Sales | NOTES | 2009–10 | 2008–09 |
|---------------------------------------|------------|----------------|---------|
| | | £000 | £000 |
| Outsourcing service charges* | | 82,031 | 78,390 |
| Staff costs | 1.10, 4a,b | 66,357 | 70,690 |
| Call centre charges | | 9,611 | 10,091 |
| Passport stationery | | 4,148 | 4,249 |
| Application forms | | 2,773 | 3,149 |
| Distribution costs | | 17,375 | 17,661 |
| Identity card production system costs | | 1,846 | – |
| Bank charges | | 786 | 817 |
| Total cost of sales | | 184,927 | 185,047 |

* Outsourcing service charges include the costs of initial receipt, cashiering and data capture of passport applications and the manufacturing, personalisation and issue of passports.

| b) Other programme expenditure | NOTES | 2009–10 | 2008–09 |
|---|------------|----------------|---------|
| | | £000 | £000 |
| Permanent staff | 1.10, 4a,b | 54,227 | 46,702 |
| Staff training, travel and subsistence | | 6,886 | 7,374 |
| Accommodation | 1.4, 16 | 29,935 | 29,920 |
| Telecoms charges | | 2,656 | 2,341 |
| Publications, stationery and printing | | 5,734 | 2,567 |
| IT running costs | | 21,679 | 20,560 |
| Temporary staff and contractors | 4a,b | 8,157 | 18,109 |
| Contracted out consultancy | | 37,782 | 40,463 |
| Other contracted out services | | 2,368 | 1,990 |
| Legal and professional services | | 2,126 | 7,929 |
| Market research, surveys and public conferences | | 1,611 | 3,636 |
| Staff healthcare and uniforms | | 928 | 926 |
| General Register Office payments | | 812 | 1,851 |
| Other costs | | 9,353 | 1,987 |
| Non cash costs | | | |
| Home Office payroll services | 21 | 372 | 334 |
| External audit fees | | 225 | 225 |
| Depreciation of tangible assets | 1.3j, 6 | 32,272 | 25,398 |
| Amortisation of intangible assets | 1.2d,7 | 10,234 | 8,429 |
| Downward revaluation of tangible assets | 6, 7 | 4,108 | 440 |
| Impairment of tangible assets | 1.3i, 6,9 | 1,898 | 2,164 |
| Increase in provisions | 1.16, 14 | 1,724 | 832 |
| Total other programme expenditure | | 235,087 | 224,177 |

Accounts for the year ended 31 March 2010

| c) Income | NOTES | 2009–10 | 2008–09 |
|---------------------|--------|----------------|---------|
| | | £000 | £000 |
| Passport fees* | 1.8, 3 | 361,132 | 349,555 |
| Certificate fees | 1.8, 3 | 18,809 | 16,734 |
| ID Card fees** | 1.8, 3 | 196 | – |
| Total income | | 380,137 | 366,289 |

* 71,311 (2008–09: 82,034) passports were issued free of charge in the year under the war veterans initiative.

** 2,511 identity cards were issued free of charge in the year for airside workers as part of the 18 month trial period.

| d) Other operating income | NOTES | 2009–10 | 2008–09 |
|--|-------|----------------|---------|
| | | £000 | £000 |
| Consolidated payments | | 826 | 1,837 |
| Passport validation service | | 467 | 420 |
| Services provided to other government departments* | 21 | 5,878 | 361 |
| Government grant transfer | 1.13 | – | 117 |
| Rental income | | 454 | 285 |
| Grant income from European Union ** | | 166 | 310 |
| Other operating income | | 648 | 1,293 |
| Total other operating income | | 8,439 | 4,623 |

* IPS provided services during the year to UKBA for identity cards for foreign nationals enrolments (ICFN), receiving £389k in income. IPS also provided public key infrastructure support to the ICFN programme, recognising £800k. IPS also recognised £2.7m as a contribution towards the NIAS programme. In addition, 75 staff were seconded from the Liverpool office to provide casework support for UKBA, recharging £720k (2008–09 £319k). In addition IPS provided support to DWP in providing National Insurance numbers interviews receiving £1.3m in income (2008–09 £42k).

** European Union grant income of £166k was recognised (2008–09 £310k), to contribute towards IPS' continued involvement in the Secure Identities Across Borders programme.

Note 6 Property, Plant and Equipment**Property, plant and equipment 2009–10**

| NOTES 1.3, 9 | Land | Buildings | Information Technology | Plant & Machinery | Furniture & Fittings | Assets under construc- tion | Total |
|--|--------------|------------------|-----------------------------------|----------------------------------|-------------------------------------|--|----------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £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 | – | 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 |

Property, plant and equipment 2008–09

| NOTES 1.3, 9 | Land | Buildings | Information Technology | Plant & Machinery | Furniture & Fittings | Assets under construc- tion | Total |
|--|--------------|---------------|---------------------------|----------------------|-------------------------|--------------------------------------|----------------|
| Cost or valuation | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| At 1 April 2008 | 1,564 | 81,246 | 30,750 | 47,168 | 8,137 | 8,619 | 177,484 |
| Additions | – | 3,547 | 2,068 | 14 | 611 | 18,443 | 24,683 |
| Disposals | – | (4,871) | (1,198) | (25) | (260) | – | (6,354) |
| Impairments | – | – | – | – | – | (2,164) | (2,164) |
| Reclassifications | – | – | 232 | – | – | 31 | 263 |
| Revaluations | (46) | (2,341) | (692) | 1,981 | 305 | – | (793) |
| Transfers | – | 411 | 4,224 | – | 14 | (7,265) | (2,616) |
| At 31 March 2009 | 1,518 | 77,992 | 35,384 | 49,138 | 8,807 | 17,664 | 190,503 |
| Depreciation | | | | | | | |
| At 1 April 2008 | – | 30,482 | 13,864 | 18,202 | 3,377 | – | 65,925 |
| Charged in year | – | 9,081 | 5,659 | 9,798 | 860 | – | 25,398 |
| Disposals | – | (4,871) | (1,162) | (21) | (260) | – | (6,314) |
| Revaluations | – | (749) | (257) | 764 | 113 | – | (129) |
| At 31 March 2009 | – | 33,943 | 18,104 | 28,743 | 4,090 | – | 84,880 |
| Net book value at 31 March 2009 | 1,518 | 44,049 | 17,280 | 20,395 | 4,717 | 17,664 | 105,623 |
| Net book value at 1 April 2008 | 1,564 | 50,764 | 16,886 | 28,966 | 4,760 | 8,619 | 111,559 |
| Asset financing: | | | | | | | |
| Owned | 1,518 | 44,049 | 17,280 | 20,395 | 4,717 | 17,664 | 105,623 |
| On–balance sheet PFI contracts | – | – | – | – | – | – | – |
| Net book value at 31 March 2009 | 1,518 | 44,049 | 17,280 | 20,395 | 4,717 | 17,664 | 105,623 |

Asset additions in year included: £42m– National Identity Assurance System (NIAS); £43m – Transforming Customer Experience programme (TCE); £9m– Next Generation Passports (NGP); £12m – for Public Key Infrastructure (PKI) and Critical Workers Identity Card (CWIC) and £4m on buildings refurbishments. Further details are provided in the Management Commentary.

Buildings refurbishments suffered a net revaluation downwards by £8.2m after applying a revaluation index of 85% which is linked to housing sector movements. Furthermore, in March 2010, the property in Southport was professionally valued by DTZ, an external valuer, qualified to undertake these valuations. The valuations were prepared in accordance with the appropriate sections of the Practice Statements (PS) and the United Kingdom Practice Statements (UKPS) contained within the RICS Appraisal and Valuation Standards. Land and buildings were valued separately in accordance with IAS16, being revalued downwards to £1.2m and £3.6m respectively.

Information technology assets, after a net revaluation increase of £5.4m, was the other major revaluation movement in year.

IPS reviews the useful economic lives of all of its material assets each year and the following revisions have been made: Epassport production lines have now been revised to be consistent with the expiry of the contract, subject to a suitable transition period to the new supplier at a cost of £3.9m; ten Interview Offices were identified for closure and the lives of the assets were impaired to nil value at a cost of £1.2m.

Note 7 Intangible assets 2009–10

2009–10 Note 1.2

| | Information Technology | Websites Development | Software Licenses | Total |
|--|-----------------------------------|---------------------------------|------------------------------|---------------|
| | £000 | £000 | £000 | £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 |
| 2008–09 | Information Technology | Websites | Software | Total |
| | £000 | £000 | £000 | £000 |
| Cost or valuation | | | | |
| At 1 April 2008 | 55,834 | 387 | 2,419 | 58,640 |
| Additions | – | – | 153 | 153 |
| Disposals | – | – | (36) | (36) |
| Transfers | 2,074 | – | 542 | 2,616 |
| Reclassifications | (263) | – | – | (263) |
| Revaluation | – | – | – | – |
| At 31 March 2009 | 57,645 | 387 | 3,078 | 61,110 |

Note 7 Intangible assets

| | Information Technology £000 | Websites £000 | Software £000 | Total £000 |
|--|-----------------------------------|------------------|------------------|---------------|
| Amortisation | | | | |
| At 1 April 2008 | 14,648 | 228 | 1,076 | 15,952 |
| Charged in year | 7,950 | 59 | 420 | 8,429 |
| Disposals | – | – | (36) | (36) |
| Revaluation | – | – | – | – |
| Reclassifications | – | – | – | – |
| At 31 March 2009 | 22,598 | 287 | 1,460 | 24,345 |
| Net book value at 31 March 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.

Web Sites Includes web site development costs where the web site contributes an economic or service benefit to IPS in accordance with IAS 38.

Intangible assets were revalued for the first time in 2009-10. The net movement was less than £100k after accounting for other adjustments.

Note 8 Financial Instruments

As the cash requirements of IPS are met through fees and funding from the Home Office, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. 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 little credit, liquidity or market risk.

IPS holds £375k of short term staff loans and advances which are held at fair value valuation. This value is reviewed each year.

IPS has a pooled banking arrangement which views its commercial banks as one account. As permitted under IAS 39 a financial asset and a financial liability are offset and the net amount presented in the statement of the financial position. Refer also to note 1.22.

Note 9 Impairments

Assets, primarily refurbishments, associated with the closure of the 10 ION offices were impaired to nil value at a cost of £1.2m. Globe House refurbishments on the 5th and 6th floors were also impaired to nil value (costing £400k) prior to the arrival and refurbishment by the new tenants. In addition two discontinued projects' assets, Biographical Information Gathering System (BIGS) and Blackberry Project, were impaired to nil value at a cost of £280k.

Note 10 Inventories

| | NOTES | 2009–10 £000 | 2008–09 £000 | 2007–08 £000 |
|---------------------------------|-------|-----------------|-----------------|-----------------|
| Passport and certificate stocks | 1.5 | 3,336 | 5,891 | 5,219 |
| Work in progress | | 493 | 754 | 939 |
| Total inventories | | 3,829 | 6,645 | 6,158 |

Note 11 Trade receivables and other current assets

| a) Trade receivables and other current assets | NOTES | 2009–10 £'000 | 2008–09 £'000 | 2007–08 £'000 |
|---|-------|-------------------------|------------------|------------------|
| Amounts falling due within one year: | | | | |
| Trade receivables | | 112 | 108 | 167 |
| Deposits and advances | | 375 | 319 | 305 |
| Partnership receivables | 21 | 4,776 | 3,916 | 3,897 |
| HM Government receivables | 21 | 1,686 | 4,740 | 312 |
| HMRC | 21 | 14,074 | 6,347 | 5,362 |
| Prepayments and accrued income | | 9,046 | 6,535 | 4,251 |
| Total trade receivables and other current assets | | 30,069 | 21,965 | 14,294 |

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

b) Intra-Government balances

| | 2009–10 £000 | 2008–09 £000 | 2007–08 £000 |
|---|------------------------|-----------------|-----------------|
| Current | | | |
| Balances with other central government bodies | 26,027 | 14,052 | 10,566 |
| Balances with Local Authorities | 242 | 199 | 1 |
| Balances with NHS Trusts | – | – | – |
| Balances with public corporations and trading funds | 1 | 7 | – |
| Subtotal: intra-government balances | 26,270 | 14,258 | 10,567 |
| Balances with bodies external to government | 3,799 | 7,707 | 3,727 |
| Total at 31 March | 30,069 | 21,965 | 14,294 |

IPS has no non-current asset intra government balances.

Note 12 Cash and cash equivalents

| | NOTES | 2009–10 £000 | 2008–09 £000 | 2007–08 £000 |
|---|-------|------------------------|-----------------|-----------------|
| Balance at 1 April | 8 | 19,091 | 52,035 | 20,174 |
| Net change in cash and cash equivalent balances | 8 | 30,278 | (32,944) | 31,861 |
| Balance at 31 March 2010 | | 49,369 | 19,091 | 52,035 |

The following balances at 31 March were held at

| | | | | |
|-----------------------------------|---|----------------|---------|----------|
| Office of HM Paymaster General | 8 | 25,172 | 5,044 | 39,640 |
| Commercial banks and cash in hand | 8 | 30,807 | 17,407 | 23,596 |
| Bank overdraft | 8 | (6,610) | (3,360) | (11,201) |
| Balance at 31 March 2010 | | 49,369 | 19,091 | 52,035 |

Note 13 Trade payables and other current liabilities

| a) amounts falling due within one year | NOTES | 2009–10 £000 | 2008–09 £000 | 2007–08 £000 |
|---|--------------|-------------------------|-----------------|-----------------|
| Trade payables | | 1,897 | 6,280 | 6,340 |
| Payables due to other government departments * | 21 | 6,373 | 6,116 | 24,304 |
| Payables due to Home Office consolidated fund | 21 | 48,909 | 18,794 | 50,981 |
| Accruals and deferred income | 1.12 | 93,520 | 57,565 | 52,993 |
| Total trade payables and other current liabilities | | 150,699 | 88,755 | 134,618 |
| | | | | |
| b) amounts falling due after more than one year: | | 2009–10 £000 | 2008–09 £000 | 2007–08 £000 |
| Other payables, accruals and lease incentives | 1.4, 1.22, 8 | 7,367 | 7,346 | 7,324 |
| Total amounts due after more than one year | | 7,367 | 7,346 | 7,324 |
| | | | | |
| c) Intra–Government balances | | 2009–10 £000 | 2008–09 £000 | 2007–08 £000 |
| Current | | | | |
| Balances with other central government bodies | | 63,211 | 32,138 | 72,285 |
| Balances with Local Authorities | | 1 | 9 | 9 |
| Balances with NHS Trusts | | – | – | – |
| Balances with public corporations and trading funds | | 1,970 | 158 | 158 |
| Subtotal: intra–government balances | | 65,182 | 32,305 | 72,452 |
| | | | | |
| Balances with bodies external to government | | 85,517 | 56,450 | 62,166 |
| Total at 31 March | | 150,699 | 88,755 | 134,618 |
| | | | | |
| Non Current | | | | |
| Balances with bodies external to government | | 7,367 | 7,346 | 7,324 |
| Total at 31 March | | 7,367 | 7,346 | 7,324 |

IPS has no non–current liability intra–government balances.

Note 14 Provisions for liabilities and charges

| 2009–10 | NOTES | Legal Costs | Dilapid- ation costs | Early departure costs | Other costs | Total |
|--------------------------------------|-------|------------------------|-------------------------------------|--------------------------------------|------------------------|--------------|
| | | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2009 | | 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 | 1.16 | 505 | 4,213 | 1,352 | 1,774 | 7,844 |

Analysis of expected timing of cashflows

| | | | | | |
|--|------------|--------------|--------------|--------------|--------------|
| 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 |

| 2008–09 | NOTES | Legal Costs | Dilapid- ation costs | Early departure costs | Other costs | Total |
|--------------------------------------|-------|------------------------|-------------------------------------|--------------------------------------|------------------------|--------------|
| | | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2008 | | 199 | 3,702 | 94 | 1,293 | 5,288 |
| Provided in the year | | 182 | 309 | 666 | – | 1,157 |
| Provisions not required written back | | (199) | (87) | (39) | – | (325) |
| Provisions utilised in the year | | – | – | – | – | – |
| Balance at 31 March 2009 | 1.16 | 182 | 3,924 | 721 | 1,293 | 6,120 |

Analysis of expected timing of cashflows

| | | | | | |
|--|------------|--------------|------------|--------------|--------------|
| In the remainder of the spending review period | 182 | 660 | 304 | – | 1,146 |
| Between 2011 and 2016 | – | 1,404 | 409 | 1,293 | 3,106 |
| Between 2017 and 2027 | – | 1,860 | 8 | – | 1,868 |
| Total of flows | 182 | 3,924 | 721 | 1,293 | 6,120 |

Accounts for the year ended 31 March 2010

Legal costs HR

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. During 2009–10 IPS has relinquished the use of Unit 31 at Orton and the provision has been adjusted accordingly.

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. The provision also includes £664k attributable to the Home Office 2009–10 Early Departure Scheme. The Home Office meets the first year costs (2009–10) and IPS will meet the liability thereafter.

In December 2009 IPS confirmed the decision to close ten Interview Offices at the remotest or most under utilised locations. The offices were closed on 3 April and a provision of £82k has been recognised as the expected redundancy costs.

Other Costs

IPS recognises that it has an obligation to securely decommission its passport printing equipment at the end of its life. Costs have been estimated at £1,293k for which a full provision has been made in accordance with IAS16 which will be utilised once the equipment is disposed. This is anticipated in 2010–11.

Ten interview offices were closed to the public on 3 April but IPS remain liable for the lease and accommodation costs until the end of the contractual term. A provision of £481k has been raised to meet this obligation.

Note 15 Capital commitments

| | NOTES | 2009–10 £000 | 2008–09 £000 | 2007–08 £000 |
|--|-------|-----------------|-----------------|-----------------|
| Contracted capital commitments at 31 March not otherwise included in these accounts. | | | | |
| Property, plant and machinery | | 175,768 | 3,900 | 6,200 |
| Total capital commitments | | 175,768 | 3,900 | 6,200 |

Contracts included in the capital commitments figure include IBM (NBIS programme), CSC (TCE programme), and De La Rue (NGP programme). Further details are provided in the management commentary.

The Home Secretary's announcement on 27 May 2010 confirmed the commitment to scrap identity cards and the national identity register and to halt the next generation of biometric passports. The financial impact of this agreement upon the total value of the capital commitments disclosed above is subject to commercial negotiation and is therefore uncertain.

The Belfast relocation project has an outstanding capital commitment of £827k.

Note 16 Commitments under leases

| | NOTES | 2009–10 £000 | 2008–09 £000 | 2007–08 £000 |
|--|---------|-----------------|-----------------|-----------------|
| Total future minimum lease payments under operating leases are given in the table below for each of the following periods. | | | | |
| Buildings | | | | |
| Not later than one year | 1.4, 5b | 16,569 | 16,868 | 16,328 |
| Later than one year and not later than five years | 1.4, 5b | 41,664 | 34,725 | 33,781 |
| Later than five years | 1.4, 5b | 30,776 | 40,166 | 46,252 |
| Total | | 89,009 | 91,759 | 96,361 |
| Facilities management | | | | |
| Not later than one year | 1.4, 5b | 4,653 | 3,684 | 4,077 |
| Later than one year and not later than five years | 1.4, 5b | 8,757 | 7,104 | 6,563 |
| Later than five years | 1.4, 5b | 1,332 | 1,916 | 6,571 |
| Total | | 14,742 | 12,704 | 17,211 |
| Other: | | | | |
| Not later than one year | 1.4, 5b | 162 | 162 | – |
| Later than one year and not later than five years | 1.4, 5b | 162 | 324 | – |
| Later than five years | 1.4, 5b | – | – | – |
| Total | | 324 | 486 | – |

On 4th February 2010 IPS signed an agreement to lease its new office in Belfast. This office is currently undergoing fit out works with occupation planned for early 2010–2011. The lease commitment of £3.3m for 10 years has been recognised in these accounts. IPS are also entering into a MOTO arrangement with the Home Office. IPS will sublet the 5th and 6th floors of Globe House to the Home Office who in turn will sublet space in the 2MS building. The arrangement is expected to be revenue neutral once the terms are finalised.

The lease commitments exclude the rental obligations for the 10 ION offices identified for closure in 2009–10. A provision of £481k was recognised to meet the obligations. Further details are contained in Note 14.

Note 17 Commitments under PFI contracts

There were no commitments under PFI contracts at 31 March (31 March 2009 £Nil)

Note 18 Other financial commitments

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 below. The financial impact of the Home Secretary's announcement on 27 May is uncertain. Further details are provided in Note 15 and the management commentary.

| | NOTES | 2009–10 | 2008–09 | 2007–08 |
|--|--------|----------------|---------|---------|
| | | £000 | £000 | £000 |
| Not later than one year | 1.22,8 | 89,445 | 98,097 | 111,713 |
| Later than one year and not later than five year | 1.22,8 | 390,757 | 44,226 | 134,839 |
| Later than five years | 1.22,8 | 268,558 | – | – |
| Total other financial commitments | | 748,760 | 142,323 | 246,552 |

Note 19 Contingent liabilities

TUPE

IPS has signed contracts in 2009-10 some of which see the transfer of existing outsourced functions to new suppliers. These contracts have been reviewed by external legal advisors to ensure that any provisions or contingent liabilities should be disclosed. The result of this work has concluded that IPS does have several obligations under these contracts but that they are contingent upon further events triggering such obligations.

Home Secretary's Announcement- 27 May 2010

IPS has considered the impact of the Home Secretary's announcement on 27 May, confirming the commitment to scrap Identity Cards and the National Identity Register and to halt the next generation of biometric passports. One off costs have been estimated at £7.5m which include contract termination penalties, staff restructuring and the closure of the Identity Commissioners Office. There may be other associated one off closure costs. The cost implications of terminating or amending other contracts impacted by the announcement are currently a matter of commercial negotiation with suppliers, to protect the taxpayer's interests. It is therefore not possible to provide a breakdown of the costs of cancelling those contracts at this time.

Note 20 Losses and special payments

IPS procured a leasing arrangement on 68 offices nationwide as part of the Interview Office Network (ION), to provide interview facilities to deter fraudulent passport applications from first time adult passport applicants. After a change in priorities, a decision was made to rationalise the ION estate and 10 ION offices were subsequently closed on 3 April 2010. The outstanding 6 months lease commitment of £481k and the associated assets, primarily refurbishments, have been impaired to nil value at a cost of £1,220k. The total cost of £1.7m has been recognised as a constructive loss.

There were no individual losses over £250k in 2009–10 or 2008–09 to report.

Note 21 Related-party transactions

The Home Office (HO) is regarded as a related party. Material transactions between the HO and the Agency which occurred during the year are as follows:

- a) Amounts paid to the HO during the period April 2009 to March 2010 included £58.9m for the non-retainable element of the passport fee, (£73.9m paid over in 2008–09), which is remitted to HM Treasury for FCO.
- b) IPS payroll service is provided by the HO Pay and Pensions Service, resulting in transactions of £115.1m (2008–09: £112.6m)
- c) Net accommodation costs paid by the HO during the year amounted to £1m (2008–09: £0.7m).
- d) HO provided £173.5m in 2009–10 to fund capital expenditure, operational deficits, HO funded activities and non-fee-funded activities of passports, Identity Cards and GRO (2008–09: £124.1m). 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 2009–10 £18.7m has been surrendered to the HO (2008–09 £51m).

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 £59m (2008-09: £58.7m). IPS remit these fees through the Home Office to HM Treasury. The total paid over to Home Office during the financial year was £58.5m and the amount outstanding owed to the Home Office as at the balance sheet date is £6.6m (2008-09 £73.9m and £6.1m respectively).

UKBA is regarded as a related party. During the period IPS provided casework support to UKBA through its Liverpool Regional Office and 5 Interview Offices. IPS received payment for these activities of £720k (2008–09: 319k). IPS have also provided support by delivering interviews for registration of foreign nationals and received income of £389k. UKBA have contributed capital costs of £18.7m towards the development of the National Information Assurance Service and are also liable for £2.7m resource cost. UKBA have also been recharged £800k for the use of the Public Key Infrastructure when producing foreign nationals' identity cards.

DWP is regarded as a related party. During the period IPS has delivered national insurance authentication interviews to DWP customers. IPS has received payment of £1.3m for staff training and interviews delivered (2008–09: £42k). IPS has also transacted with DWP for services to the value of £2.9m in relation to the Biographic Identity project.

Post Office Limited (POL) collected passport fees during the period amounting to £179.7m (2008–09 £174.5m). There was £4.8m outstanding POL debtors balance at the end of the period (2008–09: £3.9m).

IPS is entering into a one year MOTO arrangement with Home Office. IPS will sublet the 5th and 6th floors of Globe House to Home Office who in turn will sublet part of 2 Marsham Street to IPS. The arrangement is expected to be revenue neutral.

Other government departments and agencies with which IPS transacted in the normal course of business during the year include the Ministry of Justice, Her Majesty's Revenue and Customs and the Driver and Vehicle Licensing Agency

Board Members and key senior management staff are subject to a standard annual interests review. It is confirmed that they have not undertaken any material transactions with IPS during the financial year.

Note 22 Subsequent events

The Home Secretary's announcement on 27 May 2010 confirmed the commitment, published in the coalition agreement on 20 May, to scrap Identity Cards and the National Identity Register and halt the next generation of biometric passports. All cards will be cancelled one month after the Identity Documents Bill receives Royal Assent. On cancellation, operational identity card assets will be impaired to nil value at an estimated cost of £15m based on valuations at 31 March 2010. There will also be additional one-off costs which include early contract termination, staff restructuring and closure of the Identity Commissioners Office, estimated at £7.5m. The net estimated exchequer savings from cancelling Identity Cards and the National Identity Register are estimated at £86m over a four year period. The cost implications of terminating or amending other contracts impacted by the announcement are currently a matter of commercial negotiation with suppliers, to protect the taxpayer's interests. It is therefore not possible to provide a breakdown of these costs at this time.

On 2 June the Chief Executive, James Hall, announced his resignation, effective 15 July 2010.

These financial statements were authorised for issue on the same date that the Comptroller and Auditor General signed his Certificate.

Executive Board Members



JAMES HALL

Chief Executive and Registrar General

James has been the Chief Executive of IPS since October 2006 and assumed the additional responsibility of Registrar General for England and Wales in May 2008. He has overall responsibility for the strategy, management and operations of IPS, including GRO. James is a member of the Home Office Board.



ALASTAIR BRIDGES

Executive Director, Finance and Performance

Alastair joined the IPS as Executive Director of Finance and Performance in June 2009. Alastair is responsible for Finance Management and our Estates. Before that he 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.



DAVID BUCKLEY

Executive Director, GRO and Deputy Registrar General for England and Wales

David has been with IPS since October 2004 joining as Regional Manager of the Durham office, having previously worked in Local Government and the Private Sector. He is responsible for the work of the General Register Office and has led its integration into IPS. In addition to his work with IPS, David is a Magistrate.



JANE CARWARDINE

Executive Director, HR and Organisational Development

Jane is an experienced HR professional with over twenty years experience including the last ten 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.



DR DUNCAN HINE

Executive Director, Integrity and Security

Duncan joined IPS in mid 2007, prior to this he was the managing director of the security division of QinetiQ PLC, joining from Generics AG where he was a key part of the team that listed the company on the London Exchange. Prior to this he was the Group CTO of The Post Office in the UK. Duncan has overall accountability for security and counter fraud for IPS and manages the co-ordination of risk and integrity for the passport service.



ISABEL HUNT

Executive Director, Communications and Marketing

Isabel Hunt joined IPS as Executive Director for Communications and Marketing in April 2008 and is responsible for all internal and external communications, marketing, branding, stakeholder engagement and business development activities. Before joining IPS, Isabel worked for Royal Mail Group in senior marketing, commercial and business development roles for nearly 10 years. She has an MBA from Cranfield Business School, and a post-graduate diploma in Marketing.



SARAH RAPSON

Executive Director, Service Planning and Delivery

Sarah joined IPS in March 2005. She is responsible for the delivery of the passport operation and the development and implementation of the future operations model. Her previous experience was in financial services, designing and managing distribution networks and leading global customer service delivery programmes. Sarah has an MBA from London Business School.



BILL CROTHERS

**Executive Director,
Chief Information Officer
and Commercial**

Bill joined IPS in April 2007. In his role as CIO, he has overall responsibility for the operation of the technology which supports the current and future IPS business development of the solutions for our modernisation programme. He also has responsibility to develop effective relationships with our current and future suppliers, ensuring we have the appropriate policies and procedures in place.



KATIE DAVIS

**Executive Director,
Strategy**

Katie joined IPS as the Executive Director of Strategy in June 2007 from the Cabinet Office where she was the Director of the Government IT Profession. She has responsibility for leading the development of policy and strategy for IPS.



VINCE GASKELL

**Executive Director,
New Service Implementation**

Vince joined the Civil Service from University and has worked in the public sector since then. He has a wide ranging operational and head office background. He has sat on the Board of a number of Government Agencies including his previous role as Chief Executive of the Criminal Records Bureau [CRB] from September 2003. Vince joined IPS in February 2009 as the Director of New Service Implementation.



DAME JANET FINCH

Non-Executive Director

Janet is Vice-Chancellor of Keele University. She is also the independent Co-Chairman of the Council for Science and Technology and chairs the Trustees of the National Centre for Social Research. Janet joined the Board in January 2008 with a particular remit to support the work of the General Register Office (GRO) and its work within IPS. She is the Chair of the GRO Committee and, since 1 January 2010, a member of the Audit Committee.



ANNE TUTT

Non-Executive Director

Anne's background is as a Finance Director and she has 20 years Board-level experience as both executive and non-executive. Anne joined IPS in 2006 as an Independent Member of the Audit Committee, becoming a Board member in 2008. Until 31 December 2009 Anne was Chairman of the Service Delivery Committee. On 1 January 2010 she stepped down from that Committee, becoming Chairman of the Audit Committee and IPS's representative at the Home Office Audit Committee.



LINDA WALTON

Non-Executive Director

Linda spent the majority of her career in financial services, most recently as Operations Director. Since 1994 she has combined her private sector activities with the public sector, as a non-executive. Now freelance, she enjoys a portfolio career based around consultancy, coaching and training. Linda is Chairman of the IPS Finance Review Board. She also attends meetings of the National Identity Service Management Board and provides advice on Senior Civil Servant recruitment and remuneration.

Glossary

| | | | |
|----------|---|-------|---|
| BI | Biographic Identity | IPS | Identity and Passport Service |
| CESG | Government National Technical Authority for Information Assurance | IT | Information technology |
| CETV | Cash Equivalent Transfer Value | MOU | Memorandum of Understanding |
| CFER | Consolidated fund extra receipts | NAO | National Audit Office |
| CPNI | Centre for the Protection of National Infrastructure | NBIS | National Biometric Information System |
| CSC | Computer Sciences Limited | NINO | National Insurance Number |
| CWIC | Critical Workers Identity Card | NIS | National Identity Service |
| DAO(GEN) | Dear Accounting Officer (General Correspondence) | OGC | Office of Government Commerce |
| DoVE | Digitisation of Vital Events | ONS | Office of National Statistics |
| DWP | Department for Work and Pensions | OSCT | Office for Security and Counter-Terrorism |
| EEA | European Economic Area | PCS | Public and Commercial Services Union |
| EPA2 | Electronic Passport Application (2) | PCSPS | Principal Civil Service Pension Scheme |
| FCO | Foreign and Commonwealth Office | PFI | Public Finance Initiative |
| FReM | Financial Reporting Manual | RON | Registration Online |
| FRS | Financial Reporting Standard | SIA | Security Industry Authority |
| GRO | General Register Office | SP&SL | Security Printing and Systems Limited |
| HR | Human Resources | SSAP | Statement of Standard Accounting Practice |
| ICO | Information Commissioners Office | TSO | The Stationery Office |
| IIP | Investors in People | UKBA | UK Border Agency |
| ION | Interview Office Network | VAT | Value Added Tax |

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:

Marketing & Communications Directorate
Identity and Passport Services
2 Marsham Street
London SW1P 4DF

Or via the Identity and Passport Service website:

www.ips.gov.uk

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