



ANNUAL REPORT AND ACCOUNTS 2008-09

Home Office

**Identity &
Passport Service**

IDENTITY AND PASSPORT SERVICE

ANNUAL REPORT AND ACCOUNTS 2008-09

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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 with Royal Assent for the Identity Cards Bill on 30 March 2006, merging the existing functions of the United Kingdom Passport Service (UKPS) and the Identity Cards team within the Home Office. On 1 April 2008 IPS took over responsibility for the work of the General Register Office (GRO) from the Office for National Statistics (ONS), and the Chief Executive was appointed Registrar General for England and Wales.

PRINCIPAL ACTIVITIES

The function of IPS during 2008-09 was to provide passport services for British nationals in the UK, to put in place the framework for the National Identity Service (NIS) and to provide vital event certificates and the other services of GRO. Three funding streams are available to IPS: passport services are funded by passport fees, development of the NIS is funded by central Home Office funds and GRO activities are funded by a combination of certificate fees and central funds for services where a fee is not chargeable. These activities are reported separately within these accounts.

For the year ended 31 March 2009 passport service elements made a deficit of £4.9m after Home Office funding; this deficit has arisen due to a significant downturn in passport demand which began during the summer of 2008 at the same time that the economic downturn began to impact on the UK economy as a whole. Passport demand for the year was 5.25m passports against a plan of 5.6m resulting in a shortfall in passport income of £32.4m. This was partly offset by avoided variable costs, a policy of not automatically replacing staff in the operation who left and reduced expenditure on interview interpreters and interview office security, among other measures. However, due to incurring additional one-off costs such as Glasgow redundancy and early retirement and the impairment of Biographic Information Gathering System (BIGS) assets, this deficit was unavoidable.

NIS development – including for second biometric passports, with facial images and fingerprints, identity cards, other improvements and the necessary underlying technology and operational processes has incurred expenditure of £85.1m against a budget of £86.5m. This underspend arose because the planned budget contingency was not used in full.

GRO broke even in the year by utilising £6.6m of central funds for non-fee bearing services. Demand for GRO services was also impacted by the economic downturn, with demand of 2.03 million certificates issued against a plan of 2.2m. This shortfall was offset by lower than expected integration costs in the year, plus lower than anticipated expenditure on the digitisation project, the contract of which had expired during the year without the project having been completed. This is covered in more detail later in this report.

BASIS FOR PREPARING THE ACCOUNTS

IPS is required to produce accounts that conform with the accounting principles and disclosure requirements of the *Financial Reporting Manual* (FReM), and in accordance with Section 3 of Managing Public Money.

BUSINESS AND FUTURE DEVELOPMENTS

IPS has its own separate strategic objective within the Home Office, which is “safeguarding identity and the privileges of citizenship”. This reflects the importance of the IPS objectives to continue to deliver excellent customer service in producing highly secure passports and vital event certificates while delivering the requirements of the NIS.

In delivering our business, the main highlights of the year were:

- 5.23 million passports were issued. We exceeded all our customer service targets and achieved a 99% customer satisfaction rating and the award of the Customer Service Excellence standard.
- 2.03 million vital event certificates were issued. We exceeded our service level targets in year.
- Over 48,000 personal cases relating to civil registration matters were dealt with.
- We exceeded our counter-fraud target with an estimated 0.08% undetected fraud rate – the lowest estimated level since targets began.
- We launched the Video Interview Service (VIS) for first-time adult applicants who live in the remotest communities of the UK.
- We closely supported the introduction of identity cards for foreign nationals by the UK Border Agency (UKBA).
- We collaborated more closely with other government departments, agencies and non-departmental public bodies such as UKBA, the Department for Work and Pensions (DWP), the Security

Industry Authority (SIA) and the Rural Payments Agency (RPA) to deliver interview and other related services making use of IPS spare capacity.

- We introduced new schemes for our people, including a new leadership programme and the Talent Scheme.
- We delivered an overall surplus of £551k, after Home Office funding of £98.1m, despite a falling demand for certificate and passport services.

In addition, during the year we have largely integrated the work of GRO from the Office of National Statistics (ONS). We have also made progress on the future integration of the passport-issuing business with the Foreign and Commonwealth Office (FCO) and have now signed a memorandum of understanding setting out the principles of these integration activities.

Regarding developments with the NIS, we have signed a contract with a strategic supplier to deliver the first identity cards as part of the Early Propositions programme, including to airside workers at Manchester and London City airports and early interest groups. This will be rolled out in the second half of 2009. We have also introduced a strategic supplier framework for

the delivery of all components of the NIS and have signed contracts for Application and Enrolment (A&E), National Biometric Information System (NBIS) and Passport Design and Production (PDP).

The Home Secretary recently announced the next steps in the implementation of the NIS, which will see the rollout accelerated to include a wider population in the North West of England, the removal of any compulsion from the scheme, and exploration of options to offer free cards to pensioners aged 75 and over. Based on current analysis this announcement has no impact on the existing programme contained within the Annual Report and Accounts.

IPS faces an exciting and challenging future but one that will have to deliver against a backdrop of economic uncertainty, which means that efficiency and value for money will remain key drivers to everything undertaken in 2009-10 and beyond.

FIXED ASSETS

During the year IPS made significant capital investment primarily in preparation for the launch of the Critical Workers Identity Card (CWIC) in 2009. Capital expenditure in the year amounted to £24.7m.

During the year IPS impaired the value of its software developments still under construction by £2.2m. This relates to the decision not to fully implement some aspects of its passport application systems upgrade and Digitisation Programme given the impending transition to a new supplier and new systems. Further investment in fully implementing these systems would not result in a complete return on investment in terms of additional benefits to IPS. Further information is contained in note 11 to these accounts.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Good progress has been made in the first two stages on the implementation of International Financial Reporting Standards (IFRS) and IPS is on track to deliver shadow set of IFRS accounts in September 2009 and a full set of IFRS accounts for the March 2010 year end.

FUNDING

Passport-related activity is funded by passport receipts, supplemented by Home Office funding. GRO services are funded by a combination of certificate fees and Home Office funding, while NIS development and capital expenditure are funded by the Home Office. Where central

services, particularly those from headquarters, have been incurred on more than one IPS activity, 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 HM Paymaster General.

PASSPORT FEES

IPS has continued to reduce costs in 2009-10 to bridge the budget gap created by the fall in passport demand. Despite further savings being generated, IPS has reluctantly had to take action to increase passport fees. This is to ensure that it meets its obligation to generate sufficient passport income to fully meet passport costs. A passport fee increase was announced on 7 July 2009 which will increase passport fees with effect from 3 September 2009.

OUTSOURCING

Contracts were awarded in July 1997 to Siemens Business Services (now Siemens IT Solutions and Services Limited) and The Stationery Office (TSO; now 3M Security Printing & Systems Limited). Services from both organisations commenced in 1998 and were anticipated to operate for 10 years. A one-year extension to the Siemens contract was awarded in 2008 to ensure continuity of service as

work progresses within the A&E programme to identify successor arrangements to the existing passport production systems.

IPS is replacing and upgrading its contracts for processing passport applications, which are due to expire in 2009 and 2010. Computer Sciences Ltd (CSC) has been awarded a £385m contract to upgrade the IPS A&E system. The contract with CSC was signed on 22 April 2009 and will last for ten years.

De La Rue has been awarded a £400m contract to design and produce the new second biometric passport. The contract with De La Rue was signed on 2 July 2009 and will last for ten years.

IPS is creating a new, secure database for storing facial and fingerprint images. IBM has been awarded a £260m contract to create this secure database for storing biometric images. The contract was signed with IBM on 1st May 2009 and will last for ten years.

CONCESSIONARY PASSPORTS

In May 2004 the Home Secretary announced a scheme to issue free passports to all those citizens born on or before 2 September 1929 in recognition of their contribution to the war

efforts. As this subsidisation is government policy, the scheme is centrally funded by the Home Office.

During the year 82,034 (2007-08 109,665) customers benefited from the scheme. In 2007-08 this initiative was funded via notional income of £7.5m which was included in turnover. During 2008-09 the Home Office made a contribution of £5.0m to fund some of the costs of this initiative. This contribution formed part of the Home Office's funding for the year.

Notes 2, 3 and 15a provide further details on the funding arrangements for the War Veterans initiative.

CORPORATE GOVERNANCE

These accounts incorporate a statement on the IPS system of internal controls. It is in line with the requirements of the Turnbull Report on Corporate Governance as set out in the FReM.

In line with public sector best practice, all IPS senior management are subject to a bi-annual review which mandates the disclosure of all related parties. These requirements are extensive and include a review of all other employment (paid or unpaid), significant shareholdings,

relationships with current or potential suppliers, spouse or partner, relative, other family interests, business associate or close personal friends. It applies to relationships with individuals but also to corporate entities. Where such relationships exist, appropriate segregation is mandated to avoid any possibility of a conflict of interest.

This work and the associated policy and procedures of Government assure IPS that all of its business is conducted in a fair and transparent manner consistent with the high standards set by Government.

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 Annual Report and Accounts, IPS paid notional fees to NAO of £225,000.

So far as the Accounting Officer is aware, there is no relevant audit information of which the entity's auditors are not aware.

Full details of the Board in place for the 2008-09 financial year are included within the Remuneration Report.

PENSION SCHEME

Comprehensive details of the various pension schemes available to IPS employees are contained within the Remuneration Report and note 8d to the annual accounts.

VALUE FOR MONEY

IPS is committed to maximising the value for money delivered to its customers while delivering excellent customer service and ensuring the highest degree of security and integrity. A detailed operational value-for-money plan is in place to drive efficiencies in the way we deliver our services within the funding we have available. The existing infrastructure we have in place will be the foundation for the NIS and as such needs to be continuously improving our processes to make them as efficient as possible to ensure that future services and products deliver excellent value for money. This is particularly important in the current economic climate, and activities undertaken include the removal of postal examination in the Glasgow regional office, with a reduction of around 100 posts; the process of not automatically replacing operational staff who leave; the closure of two interview offices, in Redruth and Omagh, where a more efficient solution is now available using

other offices or the VIS; and a continued programme to replace expensive, non-permanent staff with permanent civil servants wherever possible.

RESOURCE ACCOUNTING AND BUDGETING

The Home Office is preparing resource accounts for 2008-09, which will consolidate IPS accounts.

PAYMENT PERFORMANCE

IPS overall payments performance for the year was 97.1% of all invoices paid within 30 days against a target of 97%.

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 seven regional offices, 68 interview offices, GRO in Southport and headquarters 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.

We are scaling up the breadth and depth of capabilities required to deliver the NIS and to manage what is an increasingly complex

organisation. Although it can only happen gradually, we are committed to this process. We believe that it can be more cost-effective and gives the best possible opportunity to tap into the pool of talent we have distributed across the organisation.

This pool of talent is vital to our ongoing success and in August 2008 we launched a talent management scheme called TalentID to create a pipeline of talent. The scheme is aimed at Executive Officer and Senior Executive Officer staff who 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. The first programme is under way and we will be selecting a second high-potential group during 2009.

Our leaders play a key role in delivering the IPS mission. The IPS leadership vision is the focus for our suite of leadership development programmes and in 2009 we will be concentrating on embedding the leadership behaviours we wish to encourage into the performance of all managers.

Our focus is to continue to develop our internal capability and, to measure our success against this goal, we have set ourselves a target that 50% of vacant posts are filled via internal promotion.

STAFF NUMBERS

Permanent staff numbers have increased by 15 on average during the 2008-09 financial year, mainly due to permanent recruitment within the CIO & Commercial and Integrity and Security Directorates, the appointment of previous casual GRO staff to permanent contracts, offset by a reduction in staff numbers due to the Glasgow restructure, and non replacement of leavers within the operation.

Non-permanent staffing has reduced by 205 on average during 2008-09 financial year, mainly due to reduction of contractor numbers by 72, who have mostly been replaced by permanent staff and the appointment of GRO staff to permanent contracts.

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. These are included within 'other costs' in note 7 to the accounts.

EMPLOYMENT OF DISABLED PEOPLE

IPS employs 286 staff who disclosed that they have a disability (6.07% of total average staff numbers). In 2006, IPS published its Disability Equality Scheme document, in accordance with the Disability Discrimination Act 2005. An Equality Manager is responsible for overseeing the action plan associated with the scheme.

HEALTH AND SAFETY

IPS is committed to maintaining the standards required by the Health and Safety at Work Act 1974 and other UK and European regulations relating to the health and safety of its employees and the public. A healthcare screening and a flu vaccination programme exist for all staff. During the year we have appointed a senior manager with direct 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.

It actively participates in a variety of charitable and

community related projects throughout its Regional and Interview Office network including:

- Participation in local Education and Business partnerships.
- Staff volunteers undertaking community work.
- Fund raising activities for local and national charities.
- Regular engagement with local schools and colleges.

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 signed in 2002. We have had a number of challenging issues this year, most notably the examiner quality assurance rollout and Glasgow restructuring. We remain committed to finding solutions to these challenges which achieve business requirements and PCS objectives as far as possible.



James Hall

Chief Executive and Registrar General
Identity and Passport Service

8 July 2009

STATEMENT OF IPS ACCOUNTING OFFICER AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under Section 7(2) of the Government Resources and Accounts Act 2000 HM Treasury has directed IPS 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 affairs of IPS at the year-end and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts IPS is required to comply with the requirements of the FReM and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the 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 IPS as the Accounting Officer.

The relevant responsibilities of the Accounting Officer, including responsibility for the propriety and regularity of the public finances, the keeping of proper records and the safeguarding of assets, are set out in the Accounting Officer Memorandum issued by HM Treasury and published in *Government Accounting*.

ANNUAL STATEMENT ON INTERNAL CONTROL

SCOPE OF RESPONSIBILITY

As Accounting Officer, I have responsibility for maintaining a sound system of internal control. This supports the achievement of IPS policies, aims and objectives while safeguarding the public funds and Agency assets for which I am responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

IPS is an Executive Agency of the Home Office. As Accounting Officer I am fully accountable for the running, management and performance of IPS.

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 provide only reasonable and not absolute assurance of effectiveness;
- is based on a continuing process designed to identify the threats to the achievement of IPS objectives, to evaluate the likelihood and consequences of those risks crystallising and to manage them efficiently and effectively in line with the Agency's tolerance for risk; and

- meets HM Treasury guidance and has been in place in IPS for the year ended 31 March 2009 and up to the date of approval of the Annual Report and Accounts.

CAPACITY TO HANDLE RISK

A central component of the way in which the Agency gives leadership and direction to the risk management process is its risk management strategy. This strategy and its supporting policies and practices reflect appropriate elements of the Home Office risk management process and are subject to regular review.

The Management Board and Executive Directors give leadership to the Agency's risk management process. All managers are accountable for the management and mitigation of risks within their areas of responsibility.

Risk management policy, framework and standards documents provide guidance to staff. We seek to learn from best practice by reviewing internal lessons learned and by benchmarking with other parts of the Home Office, external government departments and private sector organisations. The Agency corporate risk function leads in the

dissemination of best practice and my Assistant Director of Risk, Resilience and Safety undertakes a range of activities to continually raise risk awareness and train staff to manage risk appropriately.

My objective is to continue to develop and improve the management of risk and develop a culture of considered and informed management throughout the organisation.

THE RISK AND CONTROL FRAMEWORK

IPS operates in a high risk environment in terms of our public profile especially in light of our stretching strategic objectives, including responsibility for delivery of the National Identity Service. There are high rewards in achieving these objectives; however, they also expose IPS to significant reputational and public protection risks. We therefore balance our considered approach to risk taking with effective and practical control measures to increase the likelihood of our success.

IPS has an established approach to identifying, evaluating and controlling risk, including:

- 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 risks;

- A monthly Scheme Management Board, designed to bring an effective and co-ordinated cross government approach to the governance of and management of risk within National Identity Service delivery.
- annual declarations from Directors to provide assurance on the effectiveness of risk management and the operation of key business controls in each directorate;
- an Audit Committee that meets at least four times a year, chaired by a Non-Executive Director and including two other Non-Executive Directors;
- regular reports by internal audit covering management and control of the Agency's main risks and key business processes;
- a Data Governance Committee of the Management Board to oversee the Agency's approach to data security and information governance;
- a developing system to record and monitor risks to objectives at operational, programme and corporate levels, using a corporate risk management tool;

- a Risk Management working group of senior managers that reviews significant risks and the effectiveness of risk management practices;
- dedicated counter-fraud and security teams, responsible for investigating all issues relating to passport fraud and security;
- a programme of health checks and rehearsals of business continuity plans; and
- a resilience group of senior managers to oversee business continuity planning.

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 described within the risk and control framework section of this statement.

I have been advised on the implications of the results of my review by the Management Board, the Audit Committee, the Head of Risk, the Risk Management Committee, and internal and external audit.

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 2008-09, there is not a material immediate or direct risk arising from the management of risk either to the ‘business as usual’ delivery of passport services, to the progression of the NIS, or to the delivery of GRO services. Some examples of good practice in the management of risk in these areas were identified and the prevailing assignment assurance offered was ‘moderate’. However, a number of cases of unsatisfactory control and failure to apply good risk management principles were found, which arose largely in the administrative systems and processes that support IPS business activities and in current data governance systems rather than in the direct business delivery systems. The Head of Internal Audit is content that management response to these issues has been good and that action plans are in place or being developed to resolve the related risk and control issues.”*

As Accounting Officer I am content that this ‘moderate’ level of assurance whilst indicating that some improvement should be made, the overall risk exposure of the audited area is acceptable.

SIGNIFICANT RISKS AND INTERNAL CONTROL ISSUES

IPS also endeavours to meet these challenges by ensuring that it has the right skills and resources in place with a focus on effective delivery of change.

Risk and control issues in the year have been as follows:

- We successfully integrated GRO into the IPS business, ahead of schedule and without operational disruption.
 - We handled the withdrawal by Siemens from a contract to deliver the Digitisation of Vital Events (DoVE) project for GRO and the subsequent work to justify and create a replacement project to complete the digitisation of registration documents.
 - Operations in the Glasgow regional office were restructured.
 - We successfully maintained high levels of customer service, even during periods of disruption caused by industrial action, adverse weather and systems issues.
 - During 2008-09 IPS impaired the value of its software developments still under construction by £2.2m. This relates to the decision to not fully implement some aspects of its passport application system upgrade given the impending transition to a new supplier and new systems. Further investment in fully implementing these systems would not result in a complete return on investment in terms of additional benefits to IPS.
 - We introduced further measures to enhance the security of the UK passport document, including actions in response to incidents of theft during delivery of passports to customers.
 - Significant progress was made in major procurements concerning the delivery of future passport and identity card capabilities and the taking over of current passport service contracts.
 - Significant progress was made in the programme of work to deliver the first identity cards for UK citizens during 2009 and to support the introduction of identity cards for foreign nationals, which went live in November 2008.
- A number of control developments have been introduced during the year, including a number which address new issues as well as those reported in the previous year:
- While we have always taken the issue very seriously, we have continued to review our approach to data security and information risk, including establishing a Data Governance Committee to the Management Board. A separate statement on data security and information risk is included in the Annual Report.
 - Further work is planned in 2009-10 to review the Agency's approach to knowledge management. I am confident that delivery of the agreed work programme will provide significantly enhanced control.
 - We developed structures to ensure a smooth transition to new suppliers on the expiry of current contracts and to prepare for the introduction of new services and products.
 - Portable assets: considerable work has been undertaken to improve control over portable assets such as mobile telephones and laptops. I am confident that delivery of the agreed continuing work programme will provide satisfactory control.
 - The Agency's Declarations of Interests policy and supporting processes have been refreshed to ensure

propriety on procurement activities.

- We appointed a new Head of Health and Safety to enhance the Agency's activities in this area.
- The Audit Committee regularly reviews risks and controls in key business areas.
- There has been further development of an in-house internal audit service which will strengthen audit capacity. This will be supported by partnership arrangements with appropriate external providers to give access to the highly specialised skills which will be needed to audit much of the high-risk future work to be undertaken by IPS.
- We have made progress in developing transitional arrangements to new International Financial Reporting Standards.

Our system and process development activity has received considerable attention, including Home Office oversight, internal audit and Office of Government Commerce (OGC) Gateway reviews of specific projects. In addition, refined internal programme assurance processes have been developed to ensure that key project and programme controls are in place and are operating consistently.

We seek to continuously improve our processes and controls, aligning planning, resourcing and other management activity to mitigate our key risks. Action plans to address identified issues and to continuously improve the system of internal control will be progressed in the year.



James Hall
Chief Executive and Registrar
General
Identity and Passport Service

8 July 2009

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. This year, IPS has been cited in a citizen survey as the most trusted government organisation to hold personal details. I intend to build on this to further enhance the trust in IPS and our reputation for public protection.

There were no 'protected personal data' incidents that required reporting to the Information Commissioner's Office (ICO) in 2008-09.

INTEGRITY AND SECURITY

The security team within IPS works closely with external advisers, including CESG (the Government's National Technical Authority for Information Assurance), the Office for Security and Counter-Terrorism, the Information Commissioner's

Office (ICO) and the Centre for the Protection of National Infrastructure, to ensure that security controls are both practical and cost-effective.

AREAS OF ACTIVITY

IPS continues to take the development of citizen trust very seriously. IPS has continued to consult on the measures that can be taken to increase trust and has made a number of changes to the proposed NIS design to address them. In addition, IPS particularly understands the relationship between trust and privacy and has put in place measures to ensure that privacy impacts are understood and reduced early in a project's lifecycle.

IPS works as part of the wider Home Office, which includes UKBA, and with colleagues at FCO to ensure the timely delivery of travel documents and the ability to conduct robust checks at borders with minimal inconvenience to the traveller.

IPS has undertaken innovative work in relation to data classification and assessing the impact of loss. This has been applied to all new systems and ensures that sufficient safeguards are built into the systems from day one. IPS has been working with the

Office for Security and Counter-Terrorism to articulate and further develop the contribution IPS plays in the UK's counter-terrorism strategy.

I have put in place a Data Governance Committee, chaired by a Non-Executive Director, to add to the overall governance of data-related issues.

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 about action to safeguard information, and the results of that action, 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.

TABLE 1: SUMMARY OF OTHER PROTECTED PERSONAL DATA INCIDENTS IN 2008-09

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	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises.	0
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises.	0
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents.	0
IV	Unauthorised disclosure.	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

TABLE 2: YEAR ON YEAR TOTAL NUMBER OF PROTECTED PERSONAL DATA INCIDENTS PRIOR TO 2008-09

Total number of protected personal data incidents formally reported to the ICO, by category number.

	I	II	III	IV	V	Total
2007-08	0	0	0	1	0	1
2006-07	0	0	0	1	0	1
2005-06	0	0	0	0	0	0
2004-05	0	0	0	0	0	0

Total number of other protected personal data incidents, by category number.

	I	II	III	IV	V	Total
2007-08	0	0	0	0	0	0
2006-07	0	0	0	0	0	0
2005-06	0	0	0	0	0	0
2004-05	0	0	0	0	0	0



James Hall
 Chief Executive and Registrar General
 Identity and Passport Service

8 July 2009

REMUNERATION REPORT FOR PERIOD ENDED 31 MARCH 2009

In accordance with the FReM IPS has prepared a Remuneration Report for the financial year 2008-09. 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 the 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 8 to the annual accounts.

CIVIL SERVICE CONTRACTS

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

Unless otherwise stated below, the officials covered by this report hold appointments that 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 2008-09 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 tables on pages 20 to 22 give details of all individuals who have acted as members 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 2009 IS SET OUT BELOW IN BANDS OF £5,000

Senior staff name	Job title	Salary 2008-09 £'000 ¹
James Hall ²	Chief Executive Officer and Registrar General	205-210
David Buckley	Executive Director, General Register Office (Deputy Registrar General)	85-90
Jane Carwardine	Executive Director, Human Resources	120-125
Bill Crothers	Executive Director, Chief Information Officer and Commercial	160-165
Katie Davis	Executive Director, Strategy	145-150
Vince Gaskell	Executive Director, New Service Implementation (New role commenced on 12 January 2009)	20-25 (annualised salary 120-125)
Duncan Hine	Executive Director, Integrity and Security	125-130
Isabel Hunt	Executive Director, Marketing and Communications (Start date April 2008 Replaced Andrew Dent)	120-125
Mark McLaughlin ³	Executive Director, Finance and Performance	130-135
Sarah Rapson	Executive Director, Operations and Service Planning and Delivery	105-110
Sarah Blackburn ⁴	Non-Executive Director	40-45
Janet Finch ⁴	Non-Executive Director	15-20
Alan Hughes ⁵	Non-Executive Director	50-55
Anne Tutt ⁴	Non-Executive Director	20-25
Linda Walton ⁴	Non-Executive Director	20-25

Notes

¹ Salaries include London weighting, performance bonuses and excess fares (IPS contribution to travel where an employee has transferred into a post in a different location).

² James Hall received allowances to cover home-to-work travel of £10,500 during the period, which is included within remuneration above. IPS meets the tax liability for this.

³ Mark McLaughlin's £216k real increase in CETV is due to transfer from a local government scheme and normal contributions in year.

⁴ These Non-Executive Directors are contracted to work for 20 days at a set remuneration of £750 per day for IPS Management Board duties. Any remuneration over and above this is due to extra duties carried out by the Non-Executive Directors at the request of IPS.

Salary 2007-08 £'000	Real increase in pension at age 60 and related lump sum (£'000)	Total accrued pension at age 60 at 31 March 2009 and related lump sum (£'000)	Cash Equivalent Transfer Value (CETV) at 31 March 2008 (nearest £'000)	CETV at 31 March 2009 (nearest £'000)	Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £'000)
205–210 ⁶	n/a	n/a	n/a	n/a	n/a
55–60 (annualised salary 70–75)	0–5 plus 0–5 lump sum	20–25 plus 0–5 lump sum	225	265	22
115–120	0–5 plus 0–5 lump sum	0–5 plus 0–5 lump sum	23	45	17
125–130 (annualised salary 130–135)	n/a	n/a	n/a	n/a	n/a
105–110 (annualised salary 130–135)	0–5 plus 0–5 lump sum	0–5 plus 0–5 lump sum	19	44	20
n/a	0–5 plus 0–5 lump sum	50–55 plus 160–165 lump sum	1,181	1,177	12
85–90 (annualised salary 105–110)	0–5 plus 0–5 lump sum	0–5 plus 0–5 lump sum	22	57	29
n/a	0–5 plus 0–5 lump sum	0–5 plus 0–5 lump sum	0	27	23
100–105 (annualised salary 130–135)	45–50 plus 0–5 lump sum	45–50 plus 0–5 lump sum	19	634	216
90–95	0–5 plus 0–5 lump sum	5–10 plus 0–5 lump sum	59	91	14
10–15	n/a	n/a	n/a	n/a	n/a
0–5	n/a	n/a	n/a	n/a	n/a
60–65	n/a	n/a	n/a	n/a	n/a
5–10	n/a	n/a	n/a	n/a	n/a
30–35	n/a	n/a	n/a	n/a	n/a

⁵ Alan Hughes is contracted to work 20 days at a set remuneration of £1,000 per day for IPS Management Board duties. Any remuneration over and above this is due to extra duties carried out at the request of IPS and in his role as Chair of the NIS Independent Assurance Panel.

⁶ 2007-08 remuneration bandings have been restated to reflect the gross amount of the travel allowance.

SALARIES AND PENSION ANALYSIS

FOR SENIOR MANAGERS OF THE IPS MANAGEMENT BOARD WHO LEFT DURING 2008-09 IS SET OUT BELOW, IN BANDS OF £5,000

Senior staff name	Job title	Salary 2008-09 (£000)	Salary 2007-08 (£000)	Real increase in pension at age 60 and related lump sum (£000)	Total accrued pension at age 60 at 31 March 2009 and related lump sum (£000)	CETV at 31 March 2008 (nearest £000)	CETV at 31 March 2009 (nearest £000)	Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £000)
Bernard Herdan ¹	Executive Director, Service Planning and Delivery (Resigned September 2008)	85-90	160-165 ²	0-5 plus 0-5 lump sum	25-30 plus 75-80 lump sum	601	628	13

Notes ¹ Bernard Herdan received an allowance to cover home-to-work travel of £1,000, which is included within remuneration above. IPS meets the tax liability for this.

² 2007-08 remuneration bandings have been restated to reflect the gross amount of the travel allowance.

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 pensions can be found at www.civilservice.gov.uk/pensions.

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 and 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 2008-09 (£nil 2007-08) for senior managers.



James Hall
Chief Executive and Registrar General
Identity and Passport Service

8 July 2009

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 Identity and Passport Service for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Account and Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement 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 AGENCY, THE CHIEF EXECUTIVE AND REGISTRAR GENERAL AND AUDITOR

The Agency and Chief Executive and Registrar General, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information, which comprises the Management Commentary and Statement of Data Security and Integrity, included in the Annual Report, is consistent with the financial statements. I also report whether 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.

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my

audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the unaudited part of the Remuneration report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

BASIS OF AUDIT OPINIONS

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit

includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive and Registrar General in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that 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. In forming my opinion

I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

OPINIONS

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2009, and of the net deficit, total recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information, which comprises the Management Commentary and Statement of Data Security and Integrity, included within the Annual Report, is consistent with the financial statements.

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.

REPORT

I have no observations to make on these financial statements.

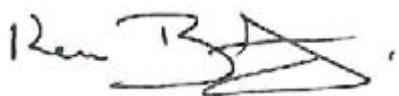
Amyas C E Morse

Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS
14 July 2009

The maintenance and integrity of the Identity and Passport Service's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

ACCOUNTS DIRECTION GIVEN BY HM TREASURY IN ACCORDANCE WITH SECTION 7(2) OF THE GOVERNMENT RESOURCES AND ACCOUNTS ACT 2000

1. This direction applies to the Identity and Passport Service.
2. These executive agencies shall prepare accounts for the year ending 31 March 2009 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by HM Treasury (“the FReM”) which is in force for 2008-09.
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 2009 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.
4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with the Treasury.



Ken Beeton

Director, Financial Management and Reporting,
Her Majesty's Treasury
18 December 2008

ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2009

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2009

Identity and Passport Service Income and Expenditure Account for the year ended 31 March 2009

	Notes	2008-09 £000	2007-08 £000 [Restated]
Turnover from continuing activities	1.8, 3	366,289	391,672
Cost of sales	5	(166,115)	(169,728)
Gross surplus		200,174	221,944
Distribution costs	6	(17,661)	(17,755)
Administrative expenses	7	(221,882)	(212,288)
		(239,543)	(230,043)
		(39,369)	(8,099)
Other operating income	1.11, 4	4,623	6,429
Operating (deficit)	9	(34,746)	(1,670)
Loss on disposal of fixed assets		(40)	(45)
Cost of capital	10	(4,067)	(2,659)
(Deficit) on ordinary activities		(38,853)	(4,374)
Non-retainable element of the passport fee for consular protection	23	(58,727)	(51,326)
(Deficit) after deducting non-retainable element of the passport fee		(97,580)	(55,700)

Statement of total recognised gains and losses for year ended 31 March 2009

		2008-09 £000	2007-09 £000 [Restated]
(Deficit) on ordinary activities		(38,853)	(4,374)
Non-retainable element of the passport fee for consular protection	23	(58,727)	(51,326)
Unrealised (deficit)/surplus on the revaluation of assets	15b	(138)	10,478
(Deficit) recognised for the period		(97,718)	(45,222)

The notes on pages 31-51 form part of the financial statements.

Identity and Passport Service Balance Sheet as at 31 March 2009

	Notes	2008-09 £000	2007-08 £000 [Restated]
Fixed assets			
Intangible assets	1.2, 11a	1,815	1,343
Tangible assets	1.3, 11b	136,035	147,115
		137,850	148,458
Current assets			
Stocks	1.5	5,891	5,219
Work in progress	1.6	754	939
Debtors	12, 26	26,965	17,823
Cash at bank and in hand	1.9, 17, 24	22,451	63,236
		56,061	87,217
Creditors (amounts falling due within one year)	13a, 26	(88,219)	(142,460)
Net current liabilities		(32,158)	(55,243)
Total assets less current liabilities		105,692	93,215
Creditors (amounts falling due after more than one year)	13b, 26	(3,200)	(3,489)
Provisions for liabilities and charges	1.15, 14	(6,120)	(5,288)
		96,372	84,438
Taxpayer's equity			
General fund	15a	88,248	71,060
Revaluation reserve	15b	8,124	13,261
Government grant reserve	1.13, 15c	-	117
		96,372	84,438



James Hall
Chief Executive and Registrar General
Identity and Passport Service

8 July 2009

The notes on pages 31-51 form part of the financial statements.

Identity and Passport Service Cash Flow Statement for the year ended 31 March 2009

	Notes	2008-09 £000	2007-08 £000 [Restated]
Net cash (outflow)/inflow from operating activities		(16,779)	42,007
Capital expenditure and financial investment		(15,396)	(35,796)
Payments of amounts due to the consolidated fund		(50,981)	(27,878)
Net cash flow from financing		50,212	53,528
(Decrease)/increase in cash in the year	17	(32,944)	31,861
Reconciliation of operating cost to operating cash inflows			
Operating (deficit)		(34,746)	(1,670)
Adjust for non-cash transactions	16a	35,628	36,355
Adjust for movements in working capital other than cash and provisions	16b	(18,493)	7,219
Adjust for movements in provisions	14, 16b	832	103
Net cash (outflow)/inflow from operating activities		(16,779)	42,007
Analysis of capital expenditure and financial investment			
Tangible fixed asset additions		(15,203)	(35,345)
Intangible fixed asset additions		(153)	(406)
Loss on disposal of fixed assets		(40)	(45)
Net cash outflow from investment activities		(15,396)	(35,796)
Payments of amounts due to the consolidated fund			
CFER payment to Home Office	23	(50,981)	(27,878)
Net CFER to Home Office		(50,981)	(27,878)
Analysis of financing			
Cash received from Home Office	1.9, 15a	124,130	88,260
Cash collected and paid over to Home Office in respect of FCO		(73,918)	(34,732)
Net cash funding from Home Office		50,212	53,528

The notes on pages 31-51 form part of the financial statements.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2009

1. Statement of accounting policies

The accounts have been prepared under the direction issued by HM Treasury (HMT) under Government Resource Accounts Act (GRAA) section 7(2) and meet the accounting and disclosure requirements of the Financial Reporting Manual (FReM), Managing Public Money, the Companies Act 1985 and the Accounting Standards issued or adopted by the Accounting Standards Board so far as these requirements are relevant.

1.1 Accounting convention

The accounts are prepared using the historic cost convention, modified by the inclusion of fixed assets at current cost.

1.2 Intangible assets

Intangible assets comprise:

Software licences – Intangible assets comprise of software licences covering a period in excess of one year. These are capitalised at cost.

Software licenses are amortised over the expected useful life over which the service potential or other economic benefit will be delivered.

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

Software licenses which are renewed annually are charged directly to revenue.

1.3 Tangible fixed assets

a) Plant, machinery and vehicles

Plant, machinery and vehicles include motor cars and the passport production lines. Assets over a value of £500 are capitalised.

b) Furniture and fittings

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

c) Buildings and leasehold refurbishment

Property includes freehold and leasehold buildings owned by IPS. This is capitalised at cost and revalued annually. It also includes capital costs associated with refurbishment of IPS regional and ION network.

All refurbishment on IPS leased offices is capitalised at cost.

d) Telecoms

All telecommunications equipment over £750 is capitalised at cost.

e) Electrical equipment

All electrical equipment with a value over £500 is capitalised at cost.

f) Development

Expenditure on development in connection with a product or service, which is to be supplied on a full cost recovery basis, is capitalised at cost if it meets the criteria specified in Accounting Standards and the FReM. Where staff directly contribute to the development of an asset their costs are also capitalised.

Development expenditure is capitalised when incurred on projects that will improve our services to the public. The expenditure is capitalised as tangible fixed assets.

Expenditure, which does not meet the criteria for capitalisation, is written off to the Income and Expenditure Account in the year in which it is incurred.

g) Research

IPS expenditure on Research is written off to the Income and Expenditure Account in the year which it is incurred, in accordance with SSAP13.

h) 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 costs is transferred to the appropriate category of fixed assets and depreciation is charged.

i) Revaluation

IPS is required to disclose assets in the Balance Sheet at current cost. IPS policy is to revalue all of its tangible fixed assets in use, by applying appropriate indices compiled for each class of operational asset.

Assets under construction are not revalued until they become operational (excluding assets representing dilapidations liabilities)

j) Depreciation

Depreciation is charged on all tangible fixed assets 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	not depreciated
Freehold buildings	25 years
Refurbishment	Over the remaining period of the lease
Plant, machinery and vehicles	5 years
Furniture and fittings	10 years
Telecoms	5 years
Electrical equipment	5 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 equivalents are charged to the Income and Expenditure Account on a straight line basis over the term of the lease. IPS has no finance leases.

1.5 Stocks

Stocks are valued at the lower of current replacement cost and net realisable value and comprise blank biometric passports, blank certificates and associated consumables.

1.6 Work in progress

Passports services

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

Certificates services

Work in Progress is valued based on the stage which the application has reached in the overall 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 WIP

1.7 Notional costs

In accordance with the FReM a notional cost at the appropriate rate is included for:

The cost of capital, a charge included in operating costs reflecting the cost of capital utilised by the agency. The charge is calculated at the real rate set by HMT (currently 3.5 %) on the average carrying amount of all assets less liabilities, except for amounts due from, or due to be surrendered to, the Consolidated Fund.

Amounts are also included for central Home Office costs for Payroll and National Audit Office audit fees.

1.8 Turnover from continuing activities

Turnover from continuing activities represents

- **Passports fees** – All passport activities are governed by the Consular Fees Act 1980 and considered to be one single class of business.
- **Certificate fees** – GRO fees are collected in accordance with the Births & Deaths Registration Act 1953, section 30(2c) and are classed as 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. In addition, 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

IPS participates in the Principal Civil Service Pension Scheme. This is accounted for as a statutory defined benefit scheme. IPS is required to pay an employer's contribution, which is currently between 17.1% and 25.5% 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 or certificate has been received but where the passport processing has not yet been fully completed.

Lease incentive income received is 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 Income and Expenditure Account over the life of the asset.

1.14 Segmental reporting

The overall surplus/(deficit) reported in the IPS Income and Expenditure Account 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 Identity Service.

1.15 Provisions

IPS accounts for any provisions in accordance with FRS 12. The Agency provides for legal or

constructive obligations, which are of uncertain timing, or arise at the Balance Sheet date on the basis of the best estimate of the expenditure required to settle the obligation.

1.16 Contingent liabilities

IPS has disclosed any contingent liabilities in accordance with FRS 12. 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 FRS 12, the Agency discloses for parliamentary reporting and accountability purposes, certain contingent liabilities where the likelihood of a transfer of economic benefit is remote.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted.

Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

1.17 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 FRS 12.

1.18 Value Added Tax

Where goods and services are subject to VAT and this 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.

1.19 Estimating techniques

IPS undertakes passport, GRO and Home Office funded activities (which includes the National Identity Service). Where costs are shared between these activities they are classified as either:

1. 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.
2. 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.
3. 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.

1.20 Financial Instruments

IPS complies with FRS 25 Financial Instruments – Disclosure and Presentation, FRS 26 – Financial Instruments – Measurement, Recognition and Derecognition, and FRS 29 Financial Instruments – Disclosure, as interpreted by the FreM. All relevant disclosures are made in note 24.

1.21 Foreign currency transaction

IPS makes a small number of payments to overseas suppliers in currencies not denominated in GBP. Such payments are converted to GBP on the day of payment at the prevailing daily spot rate.

1.22 Machinery of Government Change – 2007-08 Restatement

IPS has accounted for the transfer of GRO activities from ONS in accordance with FRS 6. Income and Expenditure, Balance Sheet, Cash Flow and all associated notes have been restated and the impact included within general fund. The effect is set out below.

	2007- 08 Original £000	Impact of changes £000	2007- 08 Restated £000
Surplus/(Deficit)	(49,719)	(5,981)	(55,700)
Fixed Assets			
Intangible Assets	380	963	1,343
Tangible Assets	124,597	22,518	147,115
	<u>124,977</u>	<u>23,481</u>	<u>148,458</u>
Stocks	5,222	(3)	5,219
WIP	939	–	939
Debtors	17,191	632	17,823
Cash	63,236	0	63,236
	<u>86,588</u>	<u>629</u>	<u>87,217</u>
Creditors less than one year	(139,239)	(3,221)	(142,460)
Net current liabilities	<u>(52,651)</u>	<u>(2,592)</u>	<u>(55,243)</u>
Assets less current liabilities	72,326	20,889	93,215
Creditors greater than one year	(3,489)	–	(3,489)
Provisions	(5,148)	(140)	(5,288)
	<u>63,689</u>	<u>20,749</u>	<u>84,438</u>
Taxpayers Equity			
General Fund	51,748	19,312	71,060
Revaluation Reserve			
Government Grant	11,824	1,437	13,261
Reserve	117	–	117
	<u>63,689</u>	<u>20,749</u>	<u>84,438</u>

2 Segmental reporting (Note 1.14)

	Passports ⁽²⁾	General Register Office ⁽³⁾	Home Office funded activities ⁽⁴⁾	Total	Passports	General Register Office [Restated]	Home Office funded activities	Total [Restated]
	2008-09 £000	2008-09 £000	2008-09 £000	2008-09 £000	2007-08 £000	2007-08 £000	2007-08 £000	2007-08 £000
Income and Funding								
Turnover from continuing activities	349,555	16,734	–	366,289	375,681	15,991	–	391,672
Other operating income	2,159	1,999	465	4,623	4,104	1,732	593	6,429
Expenditure								
Cost of sales	(156,455)	(9,660)	–	(166,115)	(159,027)	(10,701)	–	(169,728)
Distribution costs	(16,844)	(817)	–	(17,661)	(17,158)	(597)	–	(17,755)
Administrative expenses	(126,341)	(14,207)	(81,334)	(221,882)	(137,997)	(12,128)	(62,163)	(212,288)
Cost of capital	(3,228)	(676)	(163)	(4,067)	(2,280)	(285)	(94)	(2,659)
Loss/(profit) on disposal of fixed assets	(40)	–	–	(40)	(45)	–	–	(45)
Non retainable element of passport fee for consular protection	(58,727)	–	–	(58,727)	(51,326)	–	–	(51,326)
Total operating cost of segment	(361,635)	(25,360)	(81,497)	(468,492)	(367,833)	(23,711)	(62,257)	(453,801)
Surplus/(deficit) before Home Office Funding	(9,921)	(6,627)	(81,032)	(97,580)	11,952	(5,988)	(61,664)	(55,700)
Home Office funding ⁽⁴⁾	5,000	6,627	86,504	98,131	–	5,988	79,900	85,888
Surplus/(deficit) after Home Office Funding	(4,921)	–	5,472	551	11,952	–	18,236	30,188

1. IPS receives central Home Office funding of £98.1m (2007-08: £85.9m [restated]) to support non fee funded activities of Passport and GRO activities and revenue expenditure associated with the National Identity Service. Included within the 2008-09 Home Office funding is £5.0m to fund some of the costs of the War Veterans Initiative (note 1.5a). In 2007-08 notional income of £7.5m was provided by the Home Office and was included within turnover (note 3).
2. Passport income and expenditure, which includes projects such as ePassports and the Interview Office Network (ION), have been included within the Passport segment, including a share of overheads.
3. GRO income and expenditure includes all fee receipts generated from the provision of certificate services and their associated costs. In addition centrally funded costs associated with the statutory function of maintenance and integrity of register records.
4. NIS income and expenditure incurred by IPS is combined under Home Office funded activities segment. Costs incurred by other Government Departments are not included within these figures.
5. Where possible, overhead allocation is made directly or by use of estimating techniques as described in note 1.19.
6. The segmental information is not required under SSAP 25.
7. There were no discontinued operations to report.

3 Turnover from continuing activities

	2008-09	2007-08 [Restated]
	£000	£000
Standard passport services (note 1.8)	349,555	368,150
Contribution to war veterans from Home Office*	–	7,531
Certification and other related fees (note 1.8)	16,734	15,991
	366,289	391,672

* All activities are governed by the Consular Fees Act 1980 and considered to be one single class of business. During the financial year 2008-09, 82,034 (109,665 2007-08) passports were issued under the War Veterans Initiative ('Free Passports for those born on or before 02/09/29'). During 2008-09 the Home Office made a contribution of £5.0m to fund some of the costs of this Initiative (note 15a). In 2007-08 notional income of £7.5m was provided by the Home Office and was included within turnover.

4 Other operating income

	2008-09	2007-08 [Restated]
	£000	£000
Consolidated payments (note 1.11)	1,837	1,652
Passport Validation income (note 1.11)	420	357
Services provided to other government departments (note 1.11, 23)*	361	–
Government grant transfer (note 1.11, 1.13,15c)	117	299
Rental income (note 1.11)	285	285
Grant income from European Union**	310	–
FCO income for use of passport equipment	–	3,086
Other operating income (note 1.11)	1,293	750
	4,623	6,429

* IPS has provided staff support to United Kingdom Border Agency (UKBA) during the year and has received income of £319k 2008-09 (2007-08: £nil) for these services. IPS has also received income from Department of Work and Pensions (DWP) to fund staff training 2008-09 (2007-08: £nil) in preparation for future interview work.

** European Union grant income of £310k is included within other operating income. This grant is to fund a pan-European initiative to develop "Secure Identities Across Borders". IPS receives funding as a consortium member of the initiative and has agreed to match the level of funding provided by the European Commission.

5 Cost of sales

	2008-09	2007-08 [Restated]
	£000	£000
Outsourcing service charges*	78,390	84,894
Staff (note 8a, b & c)	69,419	67,766
Call centre charges	10,091	9,504
Passport stationery	4,249	3,517
Application forms	3,149	3,292
Bank charges	817	755
	166,115	169,728

* Outsourcing service charges include payments to Siemens IT Solutions and Services Limited for initial receipt, cashiering and data capturing of applications and to 3M SP&SL for manufacturing, personalisation and issue of passports.

6 Distribution costs

	2008-09	2007-08 [Restated]
	£000	£000
Postal charges	2,687	2,579
Secure delivery	14,974	15,176
	17,661	17,755

7 Administrative expenditure

	2008-09 £000	2008-09 £000	2007-08 [Restated] £000
Permanent Staff (note 8a, b, c)		53,341	50,702
Accommodation		29,610	27,417
Telecoms charges		2,337	3,391
Publications, stationery and printing		2,567	5,085
IT running costs		20,559	14,716
Temporary staff and contractors (note 8a, b, c)		18,109	36,196
Contracted Out Consultancy		40,463	15,951
Other Contracted Out Services		1,990	3,287
Legal and Professional Services		7,929	4,203
Market Research, Surveys and Public Conferences		3,636	1,717
Staff Healthcare and Uniforms		926	979
General Register Office Payments to local authorities		1,851	1,910
Other Costs		1,987	2,446
Non cash costs			
Home Office payroll services (note 1.7)	338		369
External audit fees (note 1.7)	225		175
Depreciation (note 11b)	32,354		34,930
Amortisation of fixed assets (note 11a)	224		312
Diminution of assets (note 11a)	440		3,132
Impairment of fixed assets (note 11b)	2,164		5,267
Increase in provisions (note 14)	832		103
		36,577	44,288
		221,882	212,288

8 Staff numbers and related costs

As required by the FReM, details of senior staff salaries and pensions have been included in the Remuneration Report.

8a Staff costs^{*, **}

	2008-09 £000	2007-08 £000	2008-09 £000	2007-08 £000	2008-09 £000	2007-08 £000
	Permanently employed^{***}	Permanently employed ^{***}	Others^{****}	Others ^{****}	Total	Total
		[Restated]		[Restated]		[Restated]
Salaries	90,367	78,346	21,778	47,030	112,145	125,376
Earnings-related National Insurance	5,831	5,228	193	453	6,024	5,681
Superannuation	15,485	13,429	480	1,168	15,965	14,597
Other staff costs	6,532	8,289	203	721	6,735	9,010
Total costs	118,215	105,292	22,654	49,372	140,869	154,664
8b Staff numbers	3,952	3,937	126	331	4,078	4,268

* Staff costs include £98.3m (2007-08: £101.3m [restated]) for passport related activities, £28.6m (2007-08: £39.3m [restated]) for Home Office funded activities and £14.0m for General Register Office related activities (2007-08: £14.1m [restated]).

** During the year IPS restructured its operations at Glasgow. Specifically, this means that the processing of postal applications has now ceased at Glasgow and fraud investigation capability at the office has been strengthened. Costs of £2.6m, which include redundancy, early retirement and payments in lieu of notice for staff who have not worked their full notice period, are included above.

***** Permanently employed**

Staff with permanent (UK) employment contracts with IPS, including those on outward secondment or loan to another organisation.

****** Others**

Other staff engaged on the objectives of the IPS, including short-term contract staff, agency, temporary staff and inward secondments where the entity is paying the whole or the majority of their costs.

8c These costs have been included in the Income and Expenditure Account as follows:

	2008-09 £000	2007-08 [restated] £000
Cost of sales (note 5)	69,419	67,766
Administrative expenditure (note 7)	71,450	86,898
	140,869	154,664

8d Pension costs (note 1.10)

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

For 2008-09 employers' contributions of £16m were payable to the PCSPS (2007-08: £14.6m) at one of four rates in the range 17.1% to 25.5% (2007-08: 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. From 2009-10, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of benefits accruing during 2008-09 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account: a stakeholder pension with an employer contribution. Employers' contributions of £16m (classic £9.9m, premium £4.9m and nuvos £1.2m) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are aged related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £127k, 0.8% of pensionable pay, were payable to PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill-health retirement of these employees.

(i) Classic scheme

Benefits accrue at the rate of 1/80th of pensionable pay for each year of reckonable service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. On the death of a member with two or more years' qualifying service, pensions are payable to the widow(er) normally at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay (to the member's nominee) and also provides a service enhancement on computing the widow(er)'s pension. The enhancement depends on length of reckonable service and cannot exceed 10 years. Since December 2005, pensions are available for partners of members of the classic scheme who are in registered civil partnerships. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

(ii) Premium scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of reckonable service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure, the tables assume maximum commutation.

Members pay contributions of 3.5% of pensionable earnings. On the death of a member with two or more years' qualifying service, pensions are payable to the widow(er) or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump sum benefit of three times pensionable earnings (to the member's nominee(s)) and also provides a service enhancement on computing the widow(er)'s or eligible partner's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

(iii) Classic plus scheme

This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic. Pensions payable under classic, premium and classic plus are increased in line with the Retail Prices Index.

(iv) Partnership pension account

This is a defined contribution pension and is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% of pensionable earnings (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill-health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum. The death in service lump sum benefit is three times pensionable earnings, payable to the nominated beneficiaries.

9 Operating (deficit)

The (deficit) for the period is shown after charging:

	2008-09	2007-08
	£000	[Restated] £000
Hire of equipment	1,492	2,197
Bad debts	83	408
Amortisation of intangible fixed assets (note 7 and 11a)	224	312
Depreciation of tangible fixed assets (note 7 and 11b)	32,354	34,930
Operating lease costs:		
Buildings	11,534	11,374
Equipment	162	–
External audit fees*	225	175

* In addition to their standard audit fee IPS external auditors have received £20k for work associated with the transition to International Financial Reporting Standards and £5k for work associated with the implementation of new financial instruments Financial Reporting Standards.

10 Cost of capital

A notional interest on capital charge is made, calculated in accordance with HM Treasury guidelines at a rate of 3.5%.

	2008-09	2007-08
	£000	[Restated] £000
Cost of capital (note 1.7)	4,067	2,659
	4,067	2,659

11 Fixed assets**11a Intangible fixed assets (note 1.2)**

	Intangible assets [Restated] £000
Cost or valuation	
At 1 April 2008	2,419
Additions	153
Diminution	–
Disposals	(36)
Transfer of assets into use	543
	<hr/>
At 31 March 2009	3,079
	<hr/>
Depreciation	
At 1 April 2008	1,076
Charge for year	224
On disposals	(36)
Backlog depreciation	–
	<hr/>
At 31 March 2009	1,264
	<hr/>
Net book value 31 March 2009	1,815
	<hr/>
Net book value 31 March 2008	1,343
	<hr/>

11b Tangible fixed assets (note 1.3)

	Plant vehicles and machinery	Furniture and fittings	Electrical equipment	Telecoms equipment	Property and leasehold refurbishment***	Software development	Assets under construction	Total
	[Restated]	[Restated]	[Restated]	[Restated]	[Restated]	[Restated]	[Restated]	[Restated]
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At 1 April 2008	47,168	8,137	17,078	2,332	82,810	60,061	9,080	226,666
Additions*	14	611	2,011	58	3,547	–	18,443	24,684
Revaluation	1,981	305	(709)	17	(2,387)	–	–	(793)
Impairments**	–	–	–	–	–	–	(2,164)	(2,164)
Disposals	(25)	(260)	(1,196)	(1)	(4,871)	–	–	(6,353)
Transfer of assets into use	–	14	1,402	–	409	4,897	(7,265)	(543)
Reclassification of asset type	–	–	232	–	–	(263)	31	–
At 31 March 2009	49,138	8,807	18,818	2,406	79,508	64,695	18,125	241,497
Depreciation								
At 1 April 2008	18,202	3,377	8,403	1,561	30,482	17,526	–	79,551
On disposals	(21)	(260)	(1,160)	(1)	(4,871)	–	–	(6,313)
Charge for year	9,798	860	2,888	285	9,081	9,442	–	32,354
Backlog depreciation	764	113	(269)	11	(749)	–	–	(130)
At 31 March 2009	28,743	4,090	9,862	1,856	33,943	26,968	–	105,462
Net book value 31 March 2009	20,395	4,717	8,956	550	45,565	37,727	18,125	136,035
Net book value 31 March 2008	28,966	4,760	8,675	771	52,328	42,535	9,080	147,115
Asset financing								
Owned	20,395	4,717	8,956	550	45,565	37,727	18,125	136,035
Finance leased	–	–	–	–	–	–	–	–
On balance sheet PFI contracts	–	–	–	–	–	–	–	–
Net book value 31 March 2009	20,395	4,717	8,956	550	45,565	37,727	18,125	136,035

* Capital additions for 2008-09 were £24.7m. This comprised expenditure on the Critical Workers Identity Card (CWIC) £12.4m, improvements to the passport administration and associated systems £7m, refurbishment projects £3.5m and other minor projects £1.8m.

** During 2008-09 IPS impaired the value of its software developments still under construction by £2.2m. This relates to the decision to not fully implement some aspects of its Passport Applications Systems and Digitisation of Vital Events Programme given the impending transition to a new supplier and upgraded systems.

*** Property and leasehold improvements include the freehold land and buildings associated with the General Register Office Cost; Land £1.5m and buildings £4.8m. The property at Southport was professionally valued as at 1st April 2005 by Debenham Tie Leung, 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. Since this valuation appropriate ONS indices have been used to revalue this group of assets in accordance with IPS fixed asset policy. The Accounting Officer is not aware of any material change to this valuation. The property will be externally revalued in 2010. The remaining £73.2m relates to leasehold property improvements in the IPS Regional and Interview network.

12 Debtors

	2008-09 £000	2007-08 [Restated] £000
Trade debtors	41	63
Other debtors	11,154	5,778
Staff debtors	319	305
Prepayments and accrued income	11,535	7,780
Partnership debtors (note 23)	3,916	3,897
	26,965	17,823

13 Creditors**13a Amounts falling due within one year**

	2008-09 £000	2007-08 [Restated] £000
Trade creditors	6,280	6,340
Foreign and Commonwealth Office	6,096	21,287
Other creditors	18	3,017
Deferred income (note 1.12)	6,539	10,791
Accruals	47,132	38,843
Amounts due to Home Office general cash account	18,794	50,981
Bank overdraft	3,360	11,201
	88,219	142,460

13b Amounts falling due after one year

	2008-09 £000	2007-08 £000
Lease incentives*	3,200	3,489
	3,200	3,489

* This represents the deferred income arising from a lease incentive received on the re-leasing of Globe House, London and an amount received from the landlord in respect of the Liverpool office.

14 Provisions for liabilities and charges

	Legal costs HR	Dilapidation costs	Early retirement costs	Disposal costs	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2008	199	3,702	94	1,293	5,288
Utilised	–	–	–	–	–
Written back	(200)	(87)	(39)	–	(326)
Arising in the year	183	309	666	–	1,158
Balance at 31 March 2009	182	3,924	721	1,293	6,120

Legal costs HR

Provisions have been made for various legal claims against IPS including those transferred to IPS from the ONS. 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. During the year the provision was increased by £183k to cover such claims. This increase was offset by removal of a provisions £140k and £60k for which IPS no longer retains any obligation.

Dilapidation costs

IPS makes provision to cover its obligations for reinstatement of its leasehold buildings to their original state before its occupation. During the year IPS adjusted its previous estimates of dilapidations resulting in a reduction of £87k and increased the provision on its remaining buildings by £309k.

Early retirement 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. IPS has released £39k of this provision to meet the in-year obligations and has increased the provision by £666k to cover costs associated with new retirees as a result of the Glasgow restructure and for the Home Office early retirement scheme.

Disposal 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 FRS 15.

15 Reconciliation of movements in government funds

15a General fund

	2008-09	2007-08
	£000	[Restated] £000
Balance at 1 April	71,060	91,172
(Deficit) on operating activities	(38,853)	(4,374)
Non-retainable element of the passport fee for consular protection	(58,727)	(51,326)
Home Office contribution for war veterans passports (note 3, 23)*	–	(7,531)
Transfer from revaluation reserve (note 15b)	4,802	2,637
Non-cash cost (note 1.7, 7)	563	544
Receipts from Consolidated Fund (note 23d, 23e)*	124,130	88,260
CFER movement	(18,794)	(50,981)
Cost of capital (note 1.7, 10)	4,067	2,659
Balance at 31 March	88,248	71,060

* During 2008-09 IPS drew down funding from the Home Office of £124.1m (2007-08 £88.3m [restated]). This was used to fund £26.0m (2007-08 £2.4m [restated]) of capital expenditure, £5.0m (2007-08 £7.5m disclosed as notional income) to partially fund the War Veterans initiative, £6.6m to fund the non certificate activities of GRO (2007-08 £6.0m [restated]) and £86.5m (2007-08 £79.9m) to fund other Home Office related activities included the National Identity Service.

15b Revaluation reserve

	2008-09	2008-09	2007-08
	£000	£000	[Restated] £000
Balance at 1 April		13,261	5,421
Movement in year			
Fixed assets	(84)	–	11,880
Stock	(113)	–	17
Others	–	(197)	64
Backlog depreciation (unrealised)		(138)	(1,484)
Movement to general fund*		(4,802)	(2,637)
Balance at 31 March		8,124	13,261

* The transfer between the revaluation reserve and general fund relates to the adjustment required to correct the revaluation reserve for the changes in depreciation as a result of in-year revaluation and the crystallisation of any residual revaluation reserve that relates to disposed assets.

15c Government grant reserve

	2008-09	2007-08
	£000	£000
Balance at 1 April (note 1.13)	117	416
Depreciation charged to Income and Expenditure in year	(117)	(299)
Balance at 31 March	–	117

16a Non-cash transactions

	2008-09	2007-08 [Restated]
	£000	£000
Depreciation charges (note 7, 9 and 11b)	32,354	34,930
Amortisation of intangible assets (note 7, 9 and 11a)	224	312
Impairment of fixed assets (note 11b)	2,164	5,267
Notional charges (note 1.7, 7)	563	544
Diminution of assets (note 7)	440	3,132
Government grant income (note 1.13, 4 and 15c)	(117)	(299)
Concessionary passport funding from Home Office (note 3, 15a)	–	(7,531)
	35,628	36,355

16b Movements in working capital other than cash

	2008-09	2007-08 [Restated]
	£000	£000
(Increase) in stocks	(785)	(3,394)
Decrease/(increase) in work in progress	185	(566)
(Increase)/decrease in debtors	(9,142)	6,576
(Decrease)/increase in creditors	(8,751)	4,603
Increase in provisions (note 7 and note 14)	832	103
	(17,661)	7,322

17 Analysis of movements in cash balances

	2008-09	2007-08
	£000	£000
Opening balance at 1 April	52,035	20,174
IPS non-fee accounts	7,082	(2,437)
Fee accounts due to consolidated fund	(40,026)	34,298
(Decrease)/increase in cash	(32,944)	31,861
Closing balance as at 31 March	19,091	52,035
Balance at office of Paymaster General	5,044	39,640
Balance at commercial banks and cash in hand	17,407	23,596
Cash at bank and in hand	22,451	63,236
Bank overdraft	(3,360)	(11,201)
Balance as at 31 March	19,091	52,035

18 Contingent liabilities

There were no known contingent liabilities that existed at 31 March 2009 (£nil 31 March 2008).

The Public/Private Partnership agreements with Siemens IT Services and Solutions and 3M SP&SL are due for expiry within the next 12 months. These contracts contain early expiry and other clauses which, if exercised, could result in financial liabilities being incurred. IPS believes that the likelihood of these crystallising is remote but, as a possibility remains, are disclosed here for completeness.

19 Contingent assets

There were no known contingent assets that existed at 31 March 2009 (£nil 31 March 2008).

20 Lease obligations and other financial commitments**20a IPS has annual commitments under operating leases which expire as follows:**

	2008-09	2007-08
	£000	£000
Land and buildings*		
Expiry within one year	765	1,699
Expiry between 2009-10 and 2012-13	10,524	8,282
Expiry after 31 March 2013	5,777	6,813
	17,066	16,794
Facilities management charges*		
Expiry within one year	240	688
Expiry between 2009-10 and 2012-13	3,039	2,672
Expiry after 31 March 2013	448	1,029
	3,727	4,389
Plant and machinery		
Expiry within one year	-	-
Expiry between 2009-10 and 2012-13	162	-
Expiry after 31 March 2013	-	-
	162	-
Total commitments under operating leases	20,995	21,183

Total commitments under operating leases

* Annual commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table above, analysed according to the period in which the lease expires.

IPS has now fully completed the roll-out of the Interview Office Network. This estate is being provided by making use of an estate licence to operate within specified buildings, leased by a third party. The licence complies with the provisions of SSAP13 and is accordingly included within the lease note. The contract that covers the lease of this estate has now been extended by one year. A further one-year extension is also allowed within the contract. (Notice of any further extension is not due to be served until March 2010.)

20b Other financial commitments

IPS has outsourced suppliers and has financial commitments under these contracts until the end of the contract term. Material contracts exist with Siemens IT Services and Solutions (expiry October 2009), 3M SP&SL (expiry October 2010), Secure Mail Services (expiry July 2010), Tele-performance (expiry March 2011), ATOS Origin (expiry August 2009) and Thales (expiry July 2012). Much of the financial commitment on these contracts is based on volumes of passports produced. The estimated value for these commitments is £150.1m (2007-08: £269.0m).

21 Capital commitments

IPS has contracted capital commitments of £3.9m as at 31 March 2009 (2007-08: £6.2m) including CWIC £2.5m and £1.4m for IT Solutions.

22 Euro expenditure

As at 31 March 2009, IPS had incurred no direct expenditure ensuring the Agency's computerised systems are compliant with the introduction of the euro.

23 Related parties

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

- a) Amounts paid to the Home Office during the period April 2008 to March 2009 included £73.9m for the non-retainable element of the passport fee, (£34.7m paid over in 2007-08), which is remitted to HM Treasury for FCO.
- b) IPS payroll service is provided by the Home Office Pay and Pensions Service, resulting in transactions of £112.6m (2007-08: £89.0m)
- c) Net accommodation costs paid by the Home Office during the year amounted to £0.7m (2007-08: £0.5m).
- d) Home Office provided £119.1m in 2008-09 to fund capital expenditure, Home Office funded activities and non-fee-funded activities of passports and GRO (2007-08: £88.3m [restated]). IPS also generates its own cash resources, which will be surrendered to the Home Office once IPS accounts have been approved, in accordance with government accounting policy. During 2008-09 a payment of £51m was surrendered to the Home Office (2007-08 £27.9m).
- e) In 2008-09 Home Office provided a contribution of £5m to fund the war veterans initiative ('free passports for those born on or before September 2 1929'). In 2007-08 this was accounted for as notional income of £7.5m and recorded in turnover.

Post Office Limited (POL) collected passport fees during the period amounting to £174.5m (2007-08: £180m). There was a £3.9m outstanding POL debtors balance at the end of the period (2007-08: £3.9m).

FCO is regarded as a related party. IPS collects £15.12 per adult standard passport, £3.78 per child and £22.68 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 £58.7m (2007-08: £51.3m). The total paid over to FCO during the financial year was £73.9m, £21.2m related to financial year 2007-08. The outstanding FCO creditor as at the balance sheet date is £6.1m. IPS remit these fees through the Home Office to HM Treasury.

UKBA is regarded as a related party. During the period IPS provided administrative support to UKBA through its Regional and Interview Office Network. IPS received funding for these activities of £319k.

DWP is regarded as a related party. During the period IPS has begun to deliver interviews to DWP customers related to allocation of a National Insurance number. IPS has received payment of £42k for staff training and interviews delivered.

ONS is regarded as a related party. The assets and liabilities of GRO were transferred to IPS on 1 April 2008 as disclosed within note 1. Since this transfer IPS has continued to make use of payroll and payments processing services. Amounts paid to ONS during the period were £13.0m payroll and personal expense payments, and £5.0m for payments of ONS supplier invoices.

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, key management staff and other related parties are subject to a standard annual review. It is confirmed that they have not undertaken any material transactions with IPS during the financial year.

24 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.

25 Special payments

	2008-09	2007-08
	£000	£000
Compensation to the public	74	77
Compensation to staff – personal injury*	(10)	(59)
Compensation to staff – excluding personal injury	38	2
Fruitless payments	–	249
	102	269

* Compensation to staff in 2008-09 includes the reduction of the legal provision £60k for claims that are no longer appropriate for inclusion.

26 Intra-government balances (notes 12, 13a and 13b)

	Debtors: Amounts falling due within one year £000 [Restated]	Debtors: Amounts falling due after more than one year £000 [Restated]	Creditors: Amounts falling due within one year £000 [Restated]	Creditors: Amounts falling due after more than one year £000 [Restated]
Balances with other central government bodies	14,052	–	(32,137)	–
Balances with other local authorities	199	–	(9)	–
Balances with NHS trusts	–	–	–	–
Balances with public corporations and trading funds	7	–	(158)	–
Balances with bodies external to government	12,707	–	(55,915)	(3,200)
At 31 March 2009	26,965	–	(88,219)	(3,200)
Balances with other central government bodies	10,566	–	(72,285)	–
Balances with other local authorities	1	–	(9)	–
Balances with NHS trusts	–	–	–	–
Balances with public corporations and trading funds	–	–	(158)	–
Balances with bodies external to government	7,256	–	(70,008)	(3,489)
At 31 March 2008	17,823	–	(142,460)	(3,489)

27 Post balance sheet events

On 4 April 2009 IPS signed a contract with ADARE for the production of passport application forms and associated stationery. The contract will last for four years and has an approximate value of £9.5m.

IPS is replacing and upgrading its contracts for processing passport applications, which are due to expire in 2009 and 2010. Computer Sciences Ltd (CSC) has been awarded a £385m contract to upgrade the IPS application and enrolment system. The ten year contract with CSC was signed on 22nd April 2009.

On 28 April 2009 IPS and FCO signed a Memorandum of Understanding for the integration of UK and overseas passport issuing operations. Full integration is expected by 2014–15.

IPS is creating a new, secure database for storing facial and fingerprint images. IBM has been awarded a £260m contract to create this secure database. The ten year contract was signed on 1st May 2009.

On 30 June 2009 the Home Secretary announced the next steps in the implementation of the NIS, which will see the rollout accelerated to include a wider population in the North West of England, the removal of any compulsion from the scheme, and exploration of options to offer free cards to pensioners aged 75 and over. Based on current analysis this announcement has no impact on the existing programme contained within the Annual Report and Accounts.

On 2 July 2009 IPS signed a contract with De La Rue for passport design and production. The ten year contract has an estimated value of £400m.

On 7 July 2009 a passport fee increase was announced which will increase passport fees with effect from 3 September 2009.

The accounts were authorised for issue on the same date that the Comptroller and Auditor General signed his Certificate and Report.

GLOSSARY

A&E	Application & Enrolment
BIGS	Biographic Information Gathering System
BME	Black and minority ethnic
CETV	Cash Equivalent Transfer Value
CFER	Consolidated fund extra receipts
CSC	Computer Sciences Limited
CWIC	Critical Workers Identity Card
DAO(GEN)	Dear Accounting Officer (General Correspondence)
DoVE	Digitisation of Vital Events
EPA2	Electronic Passport Application (2)
FCO	Foreign and Commonwealth Office
FReM	Financial Reporting Manual
FRS	Financial Reporting Standard
HR	Human Resources
ICO	Information Commissioners Office
liP	Investors in People
ION	Interview Office Network
IPS	Identity and Passport Service
IT	Information technology
NAO	National Audit Office
NBIS	National Biometric Information System
NHS	National Health Service
NIS	National Identity Scheme Service
OGC	Office of Government Commerce
ONS	Office of National Statistics
PCS	Public and Commercial Services Union
PCSPS	Principal Civil Service Pension Scheme
PDP	Passport Design production
PFI	Public Finance Initiative
PVS	Passport Validation Service
SIA	Security Industry Authority
SP&SL	Security Printing and Systems Limited
SSAP	Statement of Standard Accounting Practice
TSO	The Stationery Office
UKPS	UK Passport Service
VAT	Value Added Tax
VIS	Video Interview Service

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 write to:

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Allington Towers

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London SW1E 5EB

Or visit the Identity and Passport Service website: **www.ips.gov.uk**

You can also telephone the Passport Adviceline on **0300 222 0000**.

Customers calling this number will be charged at their network provider's national rate.

All media enquiries should be directed to the Home Office Press Office on **020 7035 3535**.

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