



Home Office

**Identity &
Passport Service**

Annual Report and Accounts 2012-2013

Identity and Passport Service

Annual Report and Accounts 2012-2013

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Government Resources and Accounts Act 2000

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CEO Foreword



I took up my post as interim Chief Executive in April 2013, when Sarah Rapson became interim Director General of UK Visas and Immigration for a six month period. She retains her formal position of Registrar General for England and Wales.

The Identity and Passport Service (IPS) is one organisation that carries out two vital functions: we provide passport services to UK nationals and we oversee civil registration in England and Wales. As an executive agency of the Home Office, we have an important role to play in supporting the Home Office's priorities, including public protection, reducing the impact and likelihood of identity crime and preventing terrorism. We are very proud of our reputation for customer service standards and integrity.

We are the government organisation trusted to provide passport services and to keep accurate and secure records of births, deaths, marriages and civil partnerships. This year we maintained that trust through issuing **5.4m** UK passports, handling notifications of **1.6m** birth, death and marriage registrations and producing **1.3m** key life event certificates for our customers.

It is the quality and integrity of the judgments made by our people that underpin the trust that the public has in us. This year, we launched our 'Trusted Operator' vision and five year aims for our staff, which are designed to improve the already highly capable, expert and professional skills and knowledge of our workforce.

There have been significant achievements this year. For the first time ever, we have reduced the passport fee for the majority of our customers, while maintaining high levels of customer service and security. The fee has gone down by £5, a direct result of the efficiency measures we have taken since 2010, which saw a reduction in costs by £80m, decreased the space we occupy by nearly 30% and reduced our headcount by 20%.

We continued to transfer responsibility for processing passport applications from British nationals overseas, in partnership with the Foreign and Commonwealth Office. In December 2012 we received our first applications directly from our customers overseas. This process will be complete in 2014 when IPS will be providing passport services for approximately 350,000 additional customers worldwide annually.

This year, we have also had some major system changes, including delivery of a new local passport printing facility, which was rolled out to all IPS customer service centres. This has enabled us to issue the latest security enhanced passport to all UK passport applicants. We have also worked on a new passport application management system, which will include a new online channel enabling customers to pay for and track their applications online.

On civil registration, we have worked with the former UK Border Agency (now UK Visas and Immigration and Immigration Enforcement) and local authorities to combat the problem of 'sham' marriages/civil partnerships being used to attempt to evade immigration controls. In addition, we provided substantial support for the Marriage (Same Sex Couples) Bill. Once passed, this will mean significant changes to our systems and processes.

Over the next financial year, we will deliver what we have promised in our Business Plan:

- deliver efficient and effective passport and civil registration services to our customers while maintaining integrity and security;
- improve customer service, integrity and resilience;
- prepare ourselves for future years;
- demonstrate improved value for money; and
- ensure all our people have the skills, knowledge and capability to do their jobs well.

On 13 May 2013 we became Her Majesty's Passport Office and continue as an executive agency of the Home Office. Civil registration is still very much a part of Her Majesty's Passport Office and will continue to operate as the General Register Office which remains a strong and respected name amongst our customers.

It is an honour for the organisation to have such a prestigious name, which reflects our position as Crown Servants, exercising the Royal Prerogative. It provides recognition of our status as a 'Trusted Operator' and that we deliver an excellent public service as a Home Office agency.



Paul Pugh
Interim Chief Executive

26 June 2013

Management commentary

The Identity and Passport Service (IPS) is an executive agency of the Home Office. The General Register Office (GRO) for England and Wales has been part of the Agency for the last five years. We also took responsibility from the Foreign and Commonwealth Office (FCO) for UK passports issued overseas in April 2011.

In 2012-13 we had eight Key Performance Indicators (KPIs), covering operational delivery, customer service, fraud detection and value for money. The KPIs include four that monitor how we deliver our products against agreed service standards. We achieved three out of four of our service standard KPIs. Our public promise to deliver straightforward applications to our customers in 99% of cases within 15 days was met, however we did not achieve the internal KPI to issue 99.5% of straightforward passport applications within ten days; our success rate was 84.5%.

The 2012 Staff Survey results show that we are making good progress on how we engage with our staff compared to similar organisations. Our scores for engaging staff are higher than last year, increasing by 5% to 55%, and we also achieved a better overall response rate from staff. Our 2012 Staff Survey results show that we achieved the highest year on year increase in engagement scores of all operational agencies and departments with 2,500+ staff across government, and the 3rd highest overall score.

Last September we reduced the passport fee for the majority of our customers by £5. We are primarily funded through the fees we charge, and our prices are set to recover our costs, in line with HM Treasury guidance. Since 2010-11 we have made £80 million (20%) efficiency savings by reducing staff, operating from fewer offices, improving our contracts with suppliers and removing consultants from the organisation. Our efficiency savings meant we were able to reduce the fees we charge for passports and still cover our costs. In 2011-12 the average unit cost for passports was £64.68; this year, the figure has fallen to £59.40.

We made an overall surplus this year of £72.9m (2011-12 surplus of £41.0m) on a turnover of £453.8m. A number of project delays and difficulties in recruiting staff to fill vacancies quickly, have contributed to significant, one off, underspends in the current year.

During 2012, the Information Commissioner's Office carried out an audit of data protection in IPS. It assessed the effectiveness of how we look after information with specific reference to management of personal data and data sharing, amongst other areas of guidance and good practice. The findings of the report were very positive and indicate high assurance, reflecting the efforts of staff in protecting our customers' personal information.

We start 2013 in a strong position. Our five principles remain consistent with last year and guide the way we deliver our core purpose:

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

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

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

Cost – we will deliver demonstrable value for fee-payers and reduce our burden on the taxpayer;

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

Principal activities

The Agency's activities during 2012-13 were to provide civil registration services for England and Wales and passport services for British nationals in both the UK and overseas. Note 2 to the Accounts on page 54 provides a breakdown of income and expenditure by these individual segments.

In September 2011, the programme to repatriate the printing of overseas passports was completed and IPS is now responsible for the printing and delivery of all UK passports worldwide. The remaining phases of the programme see the Agency take responsibility for all overseas passport applications, offering the same high levels of service to all its customers across the globe.

Business and future developments

The scale of the operations over the past year is summarised by the following key figures:

- ~ **5.4 million** passport applications were processed;
- ~ **275,000** identity authentication interviews were conducted;
- ~ **1.6 million** notifications of birth, death and marriage registrations were received;
- ~ **1.3 million** birth, death and marriage certificates were produced and more than **40,000** pieces of casework were dealt with; and
- ~ **6.2 million** Passport Validation Service enquiries were processed.

Performance

IPS met its financial aims during 2012-13; in particular, it was self-funded on both its £400m passport operation and its £20m certificate services operation. The Statement of Comprehensive Net Expenditure on page 41 reports an overall surplus of £72.9m (2011-12 surplus of £41.0m).

The Agency remains on course to meet its Spending Review targets, which is to be self-funded on core operations and has implemented plans to reduce administrative costs by 33% by the end of the four-year Spending Review period in 2014-15.

We monitor business activity using the following KPIs:

| | Year end target | Year end actuals | Achieved/ Not achieved |
|---|-----------------|------------------|------------------------|
| Deliver 90% of certificates within target | 90% | 97.5% | A |
| Process 99.5% of straightforward passport applications within 10 working days (equivalent to delivering passports to customers within 15 working days) | 99.5% | 84.5% | N |
| Where additional information is required from customers, process passport applications within 29 working days | 93% | 97.5% | A |
| Premium passport applications processed within 4 hours; Fast track passport applications processed within 7 days | 99.5% | 99.8% | A |
| Achieve a customer satisfaction rating of at least 90% | 90% | 88% | N |
| Achieve a minimum standard of 53% on the staff engagement index | 53% | 55% | A |
| Demonstrate year on year reductions in unit costs | | | |
| – Unit costs for passports * | £64.45 | £59.40 | A |
| – Unit costs for certificates * | £10.82 | £10.50 | A |
| Increase the amount of passport fraud detected | 8,696 | 9,112 | A |

* data cleansed, correcting a misallocation of depreciation charges.

In 2012-13 we met six of our eight KPIs. In partnership with our suppliers we were able to ensure that the vast majority (99%) of our customers received their passport in line with our published advice to allow three weeks for delivery. We experienced delays in processing passport applications within our internal 10 day target in the busy summer period of 2012 and saw a lowering of customer satisfaction during this period.

We are disappointed not to achieve all our KPIs, but are using the lessons learned from 2012-13 to improve performance in 2013-14.

Despite demand running 3% below plan, both unit cost targets have been met due to a combination of the activity to reduce costs and some delay in spend.

9,112 fraudulent passport applications were detected and deterred during the year, a further year on year improvement in the passport fraud detection rate.

The results for the 2012 Staff Survey showed that the staff engagement index score was up by 5% from last year to 55% and has exceeded the minimum score set for our KPI. The overall response rate was also up by 10% to 65%. The results throughout the survey are helping to shape improvements that will help us achieve high performance by inspiring our people (see People and Engagement sections below).

Non current assets

During the year, we made capital investment in our modernisation programmes of £13m and £6m on our estates; details of non current assets are contained within notes 7 and 8 to the Accounts.

Funding

- Passport fee receipts continue to fund passport related activity;
- Civil registration certificate and statutory registrar services are funded by a combination of fees and Home Office funding; and
- The Home Office funds capital expenditure.

The costs of central corporate services are allocated to those different activities through a cost allocation process, which ensures the integrity of the separate funding streams.

Note 2 to the Accounts on page 54 provides an analysis of these funding streams.

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

Key supply arrangements

Computer Services Corporation (CSC), our key IT supplier, has continued testing of the new Application Management System (AMS), which is to replace Passport Application Support System as the core system for receipt and examination of passport applications. AMS is designed to be easier to use and enable cases to be examined more efficiently.

De La Rue, our key passport supplier under a 10 year contract with an estimated value of £400m, produced 4.7 million passports this year.

During the period, other key supply contracts were agreed:

- in July, agreement was reached for Post Office Limited to continue to provide the passport application Check & Send service to our UK passport customers; the existing Check & Send service arrangements have been in place since January 1996 and some 55% of UK passport applications received by us annually come via this service;
- in August, a new contract was signed with DX Secure for the provision of secure delivery services; DX Secure have supplied us with these services since they were first introduced in 2004. The new contract retains all of the services previously provided by DX Secure; however it has been developed to meet our additional requirements and those of the wider Home Office; and
- in August, Q-Nomy were awarded the contract to supply the new Appointment and Customer Flow Management solution to support our public counters. The new contract provides a modern, flexible and future-proofed solution to replace the previous Qmatic system that our Customer Service Centres have used for the past 11 years.

Corporate governance

These accounts include a Governance Statement, which is supported by the work carried out by the Internal Audit service, as well as other internal and external reviews that cover our business controls.

The Internal Audit service is provided by the Home Office Internal Audit Unit under a shared service model, with a Service Level Agreement in place for the delivery of the service. Our Audit Committee meets quarterly to oversee all audit and assurance work.

Our external auditor is the Comptroller and Auditor General, who is appointed under statute, reporting to Parliament and is supported by the National Audit Office (NAO). The NAO charge us notional fees of £185k (2011-12: £195k) for the audit carried out on this Annual Report and Accounts.

The Accounting Officer believes that our auditors are aware of all relevant audit information. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that our auditors are aware of that information. "Relevant audit information" means information needed by our auditor in connection with preparing the audit report.

Full details of the Board for the 2012-13 financial year is included within the Remuneration Report.

Pension scheme

Comprehensive details of the various pension schemes available to our employees are contained within the Remuneration Report and note 3 to the Accounts.

Value for money

We are committed to maximising the value for money delivered to our customers whilst delivering excellent customer service and safeguarding the security and integrity of our products.

We contribute to the overall Home Office value for money plan. Examples of recent value for money improvements delivered include:

- removing over-capacity from our application processing and interview networks;
- consolidating our headquarters and operational estates; and
- continuing to reduce discretionary spending on consultants, travel and subsistence and banking costs.

These efficiencies have been delivered whilst maintaining high standards of customer service.

Basis for preparing the Accounts

In line with all government departments and agencies, we are required to produce accounts in accordance with the 2012-13 Government Financial Reporting Manual (FReM) issued by HM Treasury, which applies International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector.

Resource accounting and budgeting

The Home Office resource accounts for 2012-13 will consolidate the IPS accounts.

Payment performance

We monitor our performance in line with government guidance on prompt payment, and aim to pay all invoices promptly in line with contractually agreed terms. In 2012-13, we paid 60% of all invoices within 10 days (2011-12: 52%).

People

Our people principle 'we value the contribution of all our people, treat them with respect and will support them through change' has continued to recognise the importance that we place in building a responsive, flexible and highly capable workforce. Throughout 2012-13 we have challenged and stretched our people to learn new skills, to work flexibly and at optimum levels throughout the year as we delivered passport and civil registration services efficiently, effectively, at pace and in response to customer demand.

Staff numbers

Following two years of organisational restructure 2012 was, in terms of employee numbers, a year of stability as we redressed employee attrition of 5%. This percentage excludes staff who moved to roles within the Home Office and the wider Civil Service, thus actual attrition was considerably higher. There was significant recruitment activity through the autumn to prepare for the 2013 operational peak months and the planned processing of overseas passport applications and this meant that the workforce increased to 3,279 by March 2013. This figure includes our unpaid staff, for example those on career breaks.

The recruitment cycle enabled 566 people to move into new roles within the Agency with approximately a third of these new roles filled through internal moves.

During 2013-14, recruitment will be mainly to compensate for staff turnover and to increase the flexibility of our workforce by maximising the use of our estate as we deliver services efficiently and in response to seasonal demand.

In 2012-13 our average days lost to sickness absence improved to 7.81 days. Although this means we did not meet our target of 7 days, we have invested in actively promoting best practice interventions and support available across the Agency, such as the benefits of wellbeing and resilience support. Toolkits have been designed to support line managers improve their understanding of policies and procedures, to increase consistency of application, and to enhance their capability and confidence.

With the transition of HR Advisory and Complex casework to the Ministry of Justice (MOJ) Shared Service Centre in spring 2013, managing attendance will remain a people management priority through 2013-14. Our focus to up-skill managers will continue as we work to maximise the contribution of all staff and minimise absence across the organisation.

Supporting change

Our vision to 2017, which was launched in 2012, described a more dynamic and flexible organisation aligned to demand. The vision made clear that there will be no major restructuring within our seven passport customer service centres, four passport application processing centres and the GRO in Southport.

Throughout 2012-13 we continued to support those employees impacted by the restructuring in 2011-12. We began the year with 63 staff in redeployment and by 31 March 2013 we had reduced this number to 25. By working proactively with employees and business areas to identify redeployment opportunities and to minimise future compulsory redundancies, we have successfully redeployed 19 staff – 18 within the Agency and the wider Home Office. Two employees left under voluntary redundancy terms and 14 left on grounds of compulsory redundancy.

In 2013-14 we will use our People Plan framework, we will support actions to develop our organisational capability, enabling the changes needed to support our vision.

Engagement

Employee engagement is vital to ensure that our people are motivated to improve skills and personal development. The 2012 staff survey enabled our people to tell us about the things we were doing well and also those areas that we should improve upon. The engagement index which measures employees' desire, dedication and pride in an organisation increased and we surpassed the target that we had set out to achieve. Our people told us that in all but one area we had made improvements and, most significantly, in the positive responses to questions on resources and workload we were recognised as a Civil Service high performer. Through 2013-14 we are keen to build upon these positive indicators and inspire everyone to improve their individual and collective performance, taking pride in their achievements and working together to make the Agency a great place to work.

The one area where our people told us we needed to improve was in the area of reasonable pay for the work that they do. We recognise that public sector pay freezes have constrained how we recognise and reward our people. However, the staff survey told us this was a major issue when compared with the rest of the Civil Service. In 2013 we will reflect on what both our people and our business need, and in doing so we will consider how we can make a better connection between performance, retention and reward. To ensure that our people have modern terms and conditions that are equitable and fair across the Civil Service, we will contribute to the work of Civil Service Reform and implement measured and consistent change which is both fair and reasonable for everyone.

Through our engagement groups, and through local engagement action planning, we will continue to encourage our people to put forward ideas and to find solutions that will make a difference and that will improve the way they feel about working for the Agency.

In responding to the results of the 2012 Staff Engagement Survey, we will continue to develop and to raise the level of engagement as we aim to be the top performing operational agency with over 2,500 people in the 2013 Civil Service Staff Survey.

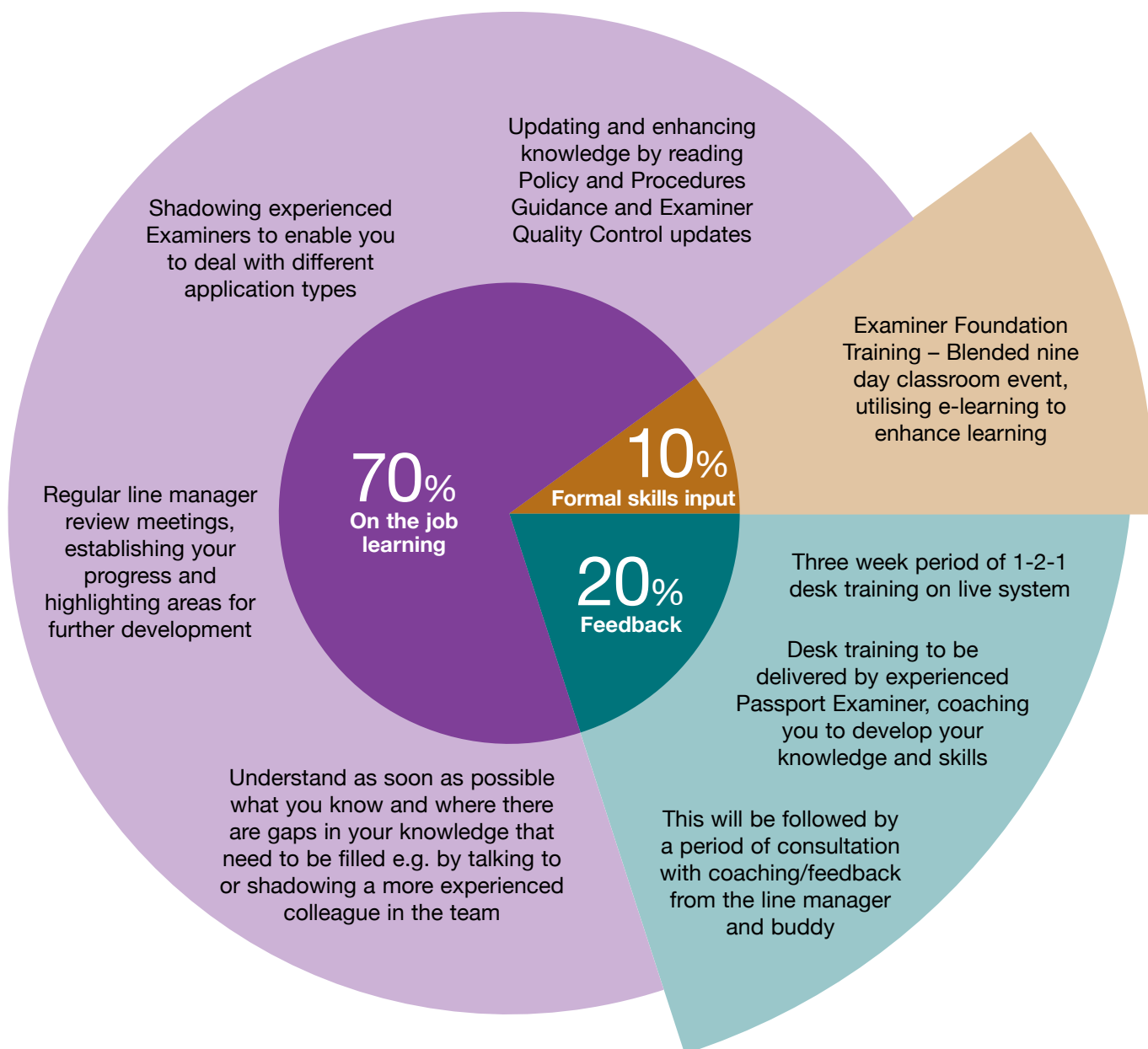
Staff development

We are strongly committed to providing development opportunities for all of our people. These opportunities are made available in many different ways and across the entire spectrum of workplace learning. A new learning model provides a balanced approach where:

- 70% of learning is provided on the job;
- 20% through coaching and feedback; and
- 10% through classroom based training courses or e-learning.

The diagram below describes the learning approach for a new passport examiner starting in the Agency to get up to speed quickly.

I'm a new Passport Examiner in the Identity and Passport Service, how can I quickly get up to speed?



Technical training relevant to passport and certificate production is provided by the Agency's Learning & Development team (L&D). Other more generic training is provided by Civil Service Learning (CSL) – such as management or professional training. The onus on taking advantage of these opportunities is with the individual but line managers also assist by suggesting areas where their staff can develop.

In 2012-13, we provided training events for 1,970 delegates and enabled 3,442 people to complete online learning modules either through Discover (an online training tool) or through CSL, designed to increase understanding and to raise skills. As at 31 March 2013 some 3,332 staff, representing 90% of our staff, were registered with CSL.

CSL has now developed an extensive range of products as part of the common curriculum to provide learning activities that are shared across government. Our staff have access to this common learning, which can be completed flexibly, at the convenience of staff and in accordance with the needs of the business. In January 2013, we joined with the rest of the Home Office to launch a management training programme under the banner Home Office Management Development Programme (MDP).

Whilst the MDP is aimed at Executive Officer staff and above, the re-launch of the Operational Development diplomas in January was primarily aimed at Passport Officer grades as a development opportunity to gain an accredited qualification. The idea behind the Operational Delivery profession is to create a series of standards and qualifications that are portable across the public sector to increase movement and opportunities for all staff.

In 2013-14, we will:

- train staff to operate AMS (the new passport application processing system) and the new online channel;
- continue the roll out of the training to support the delivery of the application process for overseas passports into our operations during 2013-14;
- design and deliver training for all projects that require this, such as the next generation contact centre or fraud awareness;
- work with Home Office and CSL colleagues to promote the Operational Delivery profession across the Agency; and
- continue to use the L&D Strategy Group to promote the best use of L&D budgets and development opportunities.

Investing in Talent

By investing in, and providing opportunities for our high potential people, we encourage, stretch and develop them so that they make the best possible contribution and help to build our organisational capability.

In 2012-13, five of our people up to Higher Executive Officer grade undertook an ambitious programme of development which included a two month placement to provide them with new skills, and further their knowledge of the work we do across the Agency.

In 2013 we launched a new and refreshed talent management scheme across the Home Office to create greater opportunities for our people both in terms of postings as well as development opportunities. Our talented people up to Senior Executive Officer grade who are identified as our future leaders will, over a three year period, take up challenging and stretching one year placements designed to enrich their experience and to help deliver key Home Office priorities.

Equality and Diversity

We are committed to promoting and achieving equality, fairness and respect in engaging with the diverse society that we represent.

The Equality and Diversity Strategic Centre in the Home Office provides expert advice and a strategic steer on our legal requirements and duties under the Equality Act (2010) and in support of our diversity commitments in the Agency's Equality and Diversity Action Plan, which follows the five objectives of the Home Office Diversity Strategy 2012-13:

1. Managers at all levels demonstrate effective leadership on equality and diversity.
2. Potential of under-represented groups developed to create a representative workforce at all levels.
3. An inclusive working environment where staff respect and value each other's diversity.
4. Effective Home Office implementation of statutory obligations on equality and diversity.
5. Services delivered in a way that promote equality and respect diversity.

During 2012-13 we supported the goals of the Home Office Diversity Strategy through the delivery of our Equality and Diversity Action Plan. Our Senior Leaders played a prominent role through their active sponsorship of equality groups and staff support networks that represent the interests of people and encourage staff to speak out about discrimination – see the below table.

| Senior Leader | Name of Group | Demographic |
|------------------|---------------------------------------|--|
| Paul Pugh | The Network | Representing black and minority ethnic (BME) staff |
| Susan Caldwell | Home Office Women (HOW) | Representing women |
| Simon Black | Home Office Disability Support (HODS) | Representing disabled staff |
| Alastair Bridges | SPECTRUM | Representing gay, lesbian, bi-sexual and transsexual staff |
| Shane Bryans | a:gender | Representing transsexual, transgender and intersex staff |
| Ian Martin | Carers | Representing staff with carer responsibilities |

Following a number of benchmark audits we are now close to obtaining the Action on Hearing Loss 'Louder than Words' charter mark, with accreditation in Northern Ireland, civil registration, Scotland, Eastern and Central, North East, HQ and the South East. We are committed to being inclusive, understanding and caring in this field, so that all of our customers can effectively engage with us, and we will be seeking to extend this recognition throughout the Agency in 2013.

In 2013-14, we will be part of a review of the Home Office Diversity Strategy, sharing our experiences and our plans, and working together to refresh and to develop joint aims and activities that will help to build upon the good progress made during 2012-13.

Investors in People

We have continued to invest in all of our people and we measure ourselves against the recognised Investors in People (IIP) standard. Throughout 2012-13, we have improved the way we lead and how we manage the performance of all our people by introducing fair and consistent standards that enable a culture of continual improvement at all levels. Individual performance and development have been guided by a new core competency framework, which recognises that **how** we deliver is as important as **what** we deliver.

In setting ourselves the target of achieving Silver IIP recognition in 2013 we have raised the bar for the development of our people. In 2013-14, we will be working hard to maintain and to improve the skills, capabilities and the opportunities for our people as we build upon our aspiration to achieve Gold IIP recognition by 2015.

Health and safety

We are committed to maintaining the standards required by the Health and Safety at Work Act 1974 and European Union regulations relating to the health and safety of our employees, contractors and members of the public.

In April 2012, a comprehensive annual health and safety report was submitted to the Executive Committee to reflect on the past year's performance. The report advised the committee of actions planned for 2012, all of which were met. Efforts to reduce injuries to staff are ongoing.

We continue to promote and manage health, safety and wellbeing activities through a number of channels including:

- the appointment of competent safety advisers in each geographical area;
- targeted accredited face to face safety training for staff including the Institution of Occupational Safety and Health's Managing Safety, Fire Warden, Manual Handling; and
- an annual event for safety advisers to continue their professional development within the organisation.

The HQ health and safety team continue to provide advice and guidance in more complex matters.

In November 2012, a two year programme of audit to the British Standard OHSAS 18001 was completed across the Agency. Although we are not seeking accreditation, the process provided useful information on where to focus future resources.

The Staff Wellbeing programme has continued to grow; during 2012 staff had access to a mobile health kiosk, online health checks, regular wellbeing newsletters and a programme of resilience training that has seen 591 staff attend. We provide free eyesight testing for all staff, it is encouraging that to date 514 staff have taken up the service.

We entered the Royal Society for the Prevention of Accidents (ROSPA) Health and Safety awards for the first time in November 2012 in order to benchmark against other organisations. We were awarded the ROSPA Gold award, which is the highest level of achievement.

Corporate and community issues

We want to be an active member of the communities in which we operate. For example, staff can apply for special leave with pay of up to five working days a year to work outside the Agency as a volunteer on a corporate social responsibility activity. More days are available for example for staff who undertake community work as a special constable, a magistrate or a school governor.

Working with the trade union

We consider that building a good working relationship with the trade unions is important, particularly during a time of significant Civil Service wide change. We continue to brief the Public and Commercial Services Union to ensure that it is kept fully informed of prospective national and local changes.

The environment

We are committed to achieving the Sustainable Development objectives of the Government 'Green Agenda' and complying with relevant environmental legislation. We have taken steps to rationalise our estates' carbon footprint and implemented programmes to improve sustainable performance. Such measures include the move to secure telephony, which helps reduce business travel, and the rationalisation of IT and printer provisions, which helps reduce energy, use of paper and consumables. More details can be found in the Sustainability report on pages 74 to 82.

In summary, we have responded well to the challenges we have been presented with this year and I believe we are in a strong position for the year ahead.

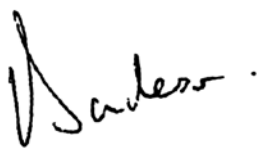


Paul Pugh
Interim Chief Executive

26 June 2013

Accounts direction given by the Treasury in accordance with Section 7 (2) of the Government Resources and Accounts Act 2000

1. This direction applies to executive agencies, including the Identity and Passport Service.
2. The direction requires executive agencies to prepare accounts for the year ended 31 March 2013 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) issued by HM Treasury, which is in force for 2012-13.
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 2013 and of the income and expenditure (or, as appropriate, net resource outturn), changes in taxpayers' equity and cash flows of the Agency for the financial year then ended; and
 - (b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.



Karen Sanderson

Deputy Director, Government Financial Reporting
Her Majesty's Treasury

17 December 2012

Statement of the Identity and Passport Service Accounting Officer's responsibilities

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

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

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

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

The Accounting Officer of the Home Office has designated the Interim Chief Executive of IPS as the Accounting Officer for the Agency.

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

Annual Governance Statement

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the Identity and Passport Service (IPS) policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in 'Managing Public Money' by the Home Office Accounting Officer.

Within the reporting period, we successfully provided an effective service throughout a challenging period, which tested our ability to maintain service levels and the integrity of our issuance processes, with resources used more flexibly than in previous years. Our planning and budgeting activities consistently seek to provide the most cost efficient service we can deliver without compromising our service to the public. In doing so we have been able to reduce the passport fee. In summer 2012 we experienced delays in examining passports within our 10 day internal target, which affected customer satisfaction. The KPI score is calculated using scores from three surveys with the survey taking place during our peak period given additional weighting as it represents a greater proportion of our customers. Although the two most recent surveys showed that we achieved record high levels (93% scores in both surveys) of customer satisfaction, these were not sufficient to achieve an overall score of 90%. We will apply the lessons learnt for the future planning for peak passport demand and the management information and processes we need in support of that planning.

The Identity and Passport Service Governance framework

Within the reporting period, we implemented and reinforced a number of changes to ensure that decision making and delivery in the Agency are supported by strong systems, processes, controls and data. In particular, we have:

- implemented a new Data Sharing Framework supported by robust Memoranda of Understanding;
- increased the number of checks we undertake on third parties to whom we allow access to our data to ensure our data is being used appropriately;
- initiated a quarterly detailed analysis of specific risks, at executive level, to support our monthly risk review and assessment processes; and
- improved the monitoring and reporting of service incidents for our operational IT systems.

In making informed decisions and managing the risks to the delivery of passports and civil registration services, I am supported and advised by the Steering Board. The Steering Board sets the strategic direction of the Agency. It met on eight occasions between April 2012 and March 2013 with full attendance by all of the Agency's board members with the exception of one meeting where one person was unable to attend. It is chaired by and includes the Non-Executive Directors and representatives from the Home Office. It approves the Business Plan and strategic proposals for change. The Board also reviews finance, performance and risk at the strategic level.

The Executive Committee meets monthly to oversee operational performance and make key management decisions. The Committee reviews operational performance across the Agency, using a comprehensive performance report that provides accurate operational, financial and commercial data measured against published performance targets and contractual arrangements.

The Steering Board is also supported by the Audit Committee, which meets quarterly. The Committee is comprised of our three Non-Executive Directors and is attended by key personnel dealing with finance, risk and internal audit. The Committee reviews risk management, finance and internal controls providing assurance that the Agency is working with appropriate and proportionate controls in place. The Audit Committee is informed by a series of internal and external audits which are commissioned taking account of the risks faced by the Agency. This work informs the level of assurance that I am able to report to the Home Office and to the public about the effectiveness with which the funds delegated to us are being used.

We report monthly to the Home Office on the progress we have made and on any additional activity necessary to ensure the services we provide are cost effective and efficient. Our Senior Information Risk Owner attends the Home Office Risk Committee, and provides updates on risks managed by the Agency.

To manage risks to a practical and cost effective level, we maintain a flexible and scalable risk process, which covers all business areas and is linked to the delivery of our purpose and principles. This includes monitoring and managing risks with clear ownership, timely management of data and appropriate governance. The changes the Agency implemented this year and the significant further challenges we face require the management of some inherently high risks:

- the delivery of a new passport application management system and re-hosting of the certificate issuing systems; and
- the full repatriation of overseas applications.

Our management of these risks is based on the application of a clear framework in all functions aligned to the Home Office risk management policy. Over the reporting period, we have successfully managed down a number of risks and reduced our overall exposure.

Within the reporting period, the Steering Board has commissioned and reviewed a range of reports to ensure that we are fully engaged with the wider Home Office policy initiatives and can effectively manage our IT and infrastructure change programme. Specifically the Board have reviewed and approved a range of risk-based interventions, and responses to any peaks in passport demand and provided direction for our strategic approach to Civil Registration, customer engagement and Data Validation services.

The requirements of the Corporate Governance Code of Conduct in relation to the role of a nominations committee are discharged by the Executive Committee and moderated by a Non-Executive Director. The Home Office's Nomination and Governance Committee's remit also extends to IPS. As part of the annual review of the Board's effectiveness, the views of all members have been gathered and where necessary changes have been made to ensure that our Governance Framework complies with standards set out in the Central Government Departments Code of Good Practice.

Key issues

Throughout this operationally stretching period, we maintained our customer service targets. Within the reporting period, we failed to meet our internal (but published) target of achieving a 10 day turnaround for passport applications and have drawn up an extensive lessons learned plan that is being actioned to manage the risk over the coming peak period.

We had planned the launch of a limited pilot of the Application Management System (AMS) in Belfast on 10 December. This approach was one of a number of assurance activities designed to prove that AMS worked in the live environment however; having reviewed our readiness to proceed we decided that more value would be achieved by focusing our teams on completing the remaining testing activity and on readying ourselves for the full rollout of AMS at an appropriate time in 2013.

Policy development

We maintain a set of operational policies to provide guidance for staff on implementing priorities. We consult across the Agency and with other stakeholders to ensure that these policies are legal, practicable and represent the best use of our resources. An example from the past year is the new Data Sharing Framework that has been developed to ensure we have robust processes in place for managing the collection, storage, access and where appropriate sharing of the data.

Operational performance and people management

We use performance indicators that set out our priorities on cost, operational performance, customer service and countering fraud. Our business planning process helps ensure that resources are deployed in the most cost effective way to deliver an efficient and high quality service; our plan is published so that all staff are aware of our plans and targets. Progress against our targets is monitored and reported on a monthly basis.

The deployment and management of our people is focussed on aligning resources with delivery of our purpose and principles.

We have an established passport forecasting model and a set of capacity plans that are kept up to date. This helps ensure that operational capacity is matched to levels of customer demand and takes account of the impact of any changes being planned to our systems and processes. We continue to work on developing overseas passport and certificate services demand models.

Our contract management framework enables effective monitoring of our suppliers to ensure that they deliver to agreed contractual service levels. We have improved our programme of continuous improvement with key suppliers to ensure we are able to meet our operational needs.

Financial management

Within the reporting period we have continued to manage our finances effectively, through monthly reviews with each Executive Director and reporting to the Executive Committee, the Steering Board and the centre of the Department. We have generated a surplus on our domestic passport account, mainly as a result of delays in the change programme and recruitment plans; we have tracked the surplus carefully through a detailed monthly variance analysis and to address this going forward we are strengthening our monthly processes, factoring the various aspects of demand into the forecast, to avoid a recurrence of large month-on-month changes. We have

also reallocated some capital funding to change initiatives. As a result, our monthly Home Office compliance ratings are showing an improving trend. The financial framework is actively monitored both internally and independently by Internal and External Audit to provide assurances that it is robust and well managed.

Managing the risk of financial loss

Managing Risk of Financial Loss is a cross-government initiative to encourage departments to embed a systematic approach to assessing the risk of financial loss arising from the operation of financial processes. Within the reporting period we have conducted a full review of our financial processes assessing the controls we have in place to provide an assurance that they are robust enough to reduce the risk of loss to an acceptable level, having concluded this review we are confident that the controls we have are adequate to address this. We will continue to embed and review in this manner as we introduce new processes or make changes to our existing financial mechanisms and progress activity to gain assurance that our partner controls, including those operated on our behalf by shared service arrangements, are as robust.

IT and systems security

Our processes and systems are developed and implemented in line with Government standards and accredited on an annual basis. The integrity of the systems we manage are paramount in maintaining the trusted and secure relationship we have with our customers. We ensure that only those persons that need access to our information and are entitled to this access have it and use it to facilitate the delivery of products and services to our customers. We work closely with our partners and service providers to ensure that the standards we set are maintained and that the systems and services they provide are reliable, enabling us to deliver to our agreed standards.

Data sharing

We share data with a range of public and private sector organisations to support crime prevention and a tightly defined set of other objectives and facilitate access to services where identity needs to be established. Over the reporting period, we have carried out a substantial review of all our existing data sharing arrangements and implemented a number of additional control mechanisms to ensure we protect and use the data we manage on behalf of the Home Office and the public. An independent audit of this framework was completed by the Information Commissioner in November which concluded that the data-sharing framework, its supporting processes and the level of understanding of roles and responsibilities provide high assurance.

Programmes and projects

We have a range of change programmes underway to improve the effectiveness with which we deliver our purpose. Within the reporting period, key programme activity has included:

- successfully delivering the replacement of our Local Passport Printing Service in all of our offices;
- successful repatriation of the handling and examination of all applications previously processed by the Düsseldorf Regional Passport Processing Centre. We repatriated applications processed by Madrid in April 2013;

- work on the development of a new passport application management system. A major programme review of the Passport Application Support System Replacement Release project gave an assessment of 'amber' commenting specifically that based on the commitment of our key IT supplier Computer Services Corporation, together with the robust nature of the contractual arrangements and the soft landing approach to implementation, successful delivery will be achieved;
- successful delivery of a Data Analytics Capability now in active use by our Counter Fraud teams; and
- successful re-tender of our Secure Delivery contract.

Change programmes are delivered by dedicated teams who work to agreed project management standards, to ensure that we design and implement changes having taken a balanced view of the risks and of technical and business challenges.

Information assurance

Within the reporting period, we have confirmed that we continue to perform well against the requirements of the cross-government Information Assurance Maturity Model (IAMM). We have met the central Home Office target of level 3 maturity against the IAMM. Key actions that have helped us achieve this are:

- implementation of secure telecoms and fax facilities across the Agency to reduce the risk of accidental data loss;
- holding regular training for Information Asset Owners (IAO);
- ensuring all staff in IPS have undertaken an appropriate level of training and awareness depending on the information they manage;
- progress towards implementation of a more robust knowledge management framework; and
- ensuring that Passport Validation Service data sharing arrangements are covered by formal Memoranda of Understanding that set out clearly the data protection responsibilities of organisations with whom we share our data.

Resilience

The wellbeing of our people is fundamental to achieving our purpose and principles. We have a team of health and safety professionals who provide advice and support, ensuring that all of our locations are safe places to work and that where we share locations, we work with our partners to ensure high standards.

We have in place contingency plans to deal with risks to business continuity, which cover our core functions, operational areas and suppliers. In the event of a major incident, they would help us to recover our systems, processes and get our people back into critical roles as quickly as possible. These plans have been tested and updated based on our experience of managing during the Olympic period and contending with significant flooding at our Durham Application Processing Centre. The planning and implementation of these plans was not conducted in isolation: we actively worked with other parts of the Home Office and our suppliers to ensure that we maintained and supported an effective level of service throughout the period.

Risk management

The risk team conduct regular reviews with the senior management of each function to help ensure that key risks are captured, mitigations are in place and progress is monitored, with risks escalated or retired as appropriate. This functional process feeds into monthly reviews by the Executive Committee of our top risks and a quarterly in depth review of specific risk areas. The Audit Committee also regularly review our management of risks and risk policy to provide assurance on the adequacy of our processes and controls.

Summary statement

Our internal audit function carries out a programme of work focused on the key risks facing the organisation and the governance arrangements in place to manage the Agency. They make recommendations to enhance or improve the management of risk, control and governance.

Our Internal Audit Team has completed a series of assignments in year. Attention has been focused on giving advice regarding our major projects and assessing our data security practises and procedures. The Head of Internal Audit has provided 'moderate' assurance on our internal control systems for 2012-13.

The auditor's judgement is that 'strengths in the control, risk and information management systems in place outweigh weaknesses. Although there is a need for improvement in specific areas, systems generally operate effectively'. Their overall view is of 'an organisation which is solidly managing, monitoring and driving forward an ambitious programme of strategic change and continuous improvement against a backdrop of Government reform'.

My own review of the governance arrangements, taking into account the internal audit opinion, is that the Boards and Committees have the relevant information to provide sound advice and make informed decisions. The challenges and risks that we have faced over the reporting period have tested our risk management, assurance and control frameworks and their effectiveness has been a critical success factor in our ability to deliver against our KPI's during this period; but the year has also shown where we can make further improvements to our controls and assurance mechanisms. In my opinion, I am able to provide:

Moderate assurance based on strengths in the control, governance, risk and information management systems in place outweighing any identified weaknesses.



Paul Pugh
Interim Chief Executive

26 June 2013

Statement on Data Security and Integrity

The Identity and Passport Service's (IPS) core purpose is to provide accurate and secure records of key events and trusted passport services. In delivering this purpose the Agency holds personal data about citizens. It also holds other sensitive and important data, including on commercial and operational performance. Ensuring the integrity and security of this data, in the ways that it is held and used, is a top priority and critical to our success. This approach is underpinned by the rights of the individual to privacy, securing benefits for society as a whole and improving transparency.

Areas of activity

Over the past year the Agency has maintained its strengthened information security position, including through implementing a detailed assurance plan in all of our area offices, training all our staff in information security and reviewing our current data sharing arrangements. We achieved continued accreditation against the government-wide Information Assurance Maturity Model, attaining the required level 3. Through an ongoing programme of accreditation of IT systems, we have ensured that our systems and processes meet government standards for the storage and handling of personal and other data. The Information Assurance and Security teams work with a number of external advisors, including CESG (the Government's National Technical Authority for Information Assurance), the Information Commissioner's Office and the Centre for the Protection of National Infrastructure.

The Agency works closely with law enforcement agencies to enhance current arrangements under which it is notified when the courts or the police impose travel or passport restrictions on an individual. It is looking at ways to minimise the risk of such individuals obtaining access to passport services when restrictions are in place but have not been notified to the Agency. This work will continue into the next reporting year and options for better methods of communication between IPS and law enforcement agencies will be examined.

Over the reporting period, the Agency has completed a review of its existing data sharing arrangements with the public and private sectors and introduced a data protection framework for staff as well as publicly setting out on our website the data sharing principles and customer procedures. These measures have increased our transparency and enhanced the control mechanisms applied to protect the personal data held by us. The Information Commissioner completed a consensual audit in December 2012 and concluded that "the arrangements for data protection compliance with regard to governance and controls provided a high assurance that processes and procedures are in place and being adhered to".

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

Personal data incidents

The IPS Board take very seriously the loss of any personal data. Through regular reporting and strong security and assurance programmes it has continued its efforts to prevent any data losses and swiftly follow up the small number that occur. During the year there have been no losses which required reporting to the Information Commissioner's Office.

Remuneration Report

In accordance with the Financial Reporting Manual (FReM) we have prepared a Remuneration Report for the period 1 April 2012 – 31 March 2013. The objective of the Remuneration Report is to fully disclose information about our Senior staff in accordance with the Companies Act 1985 as interpreted for the public sector. Senior staff are defined as members of the Identity and Passport Service (IPS) Executive Committee and its non-executive directors. (See below under ‘The Board’ for further details).

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

Remuneration policy

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

As interim Chief Executive, I am a senior civil servant and my salary is set by the Home Office in consultation with the Cabinet Office. This also applies to Sarah Rapson, the Chief Executive up to 16 April 2013. The remaining executive directors have their remuneration determined by a process consistent with Home Office and Cabinet Office rules.

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

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

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

Remuneration committee

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

Service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

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

During 2012-13 we made no salary or compensation payments to past senior managers for loss of office.

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

The Board

We operate a Governance Framework that outlines the processes by which the organisation is managed. The most senior body is the Steering Board which advises and supports the interim Chief Executive on setting the strategy and direction of the Agency.

The Steering Board approves the annual and longer-term business plans, conducts quarterly reviews of overall performance, and considers the impact of cross-government change initiatives upon IPS. The Steering Board approves strategic proposals that will enhance the performance of IPS. Once a strategic proposal has been agreed upon, the Board will delegate implementation to the Executive Committee.

The Executive Committee comprises myself as interim Chief Executive, all executive directors with at least one non-executive board member. It is this senior leadership team who are regarded as the main decision makers in IPS, and they operated as such throughout 2012-13 (with Sarah Rapson as Chief Executive).

Non-executive members

Independent non-executive members of the IPS Steering Board are recruited through fair and open competition. All non-executive members of the board are appointed by the Permanent Secretary. Both Dame Janet Finch and Anne Tutt were issued new contracts during the year.

| Non-Executive Director | Start Date | End Date |
|------------------------|------------------|------------------|
| Dame Janet Finch | 29 November 2007 | 31 December 2013 |
| Anne Tutt | 29 November 2007 | 31 December 2013 |
| Eric Gregory | 1 July 2011 | 30 June 2014 |

Salary and benefits in kind

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

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

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**).

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year.

Pensions payable under **classic, premium, classic plus** and **nuvos** are increased annually in line with changes in the Consumer Prices Index (CPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with a significant employer contribution (**partnership** pension account).

Employee contributions are salary related and range between:

- 1.5% to 3.9% of pensionable earnings for **classic** and
- 3.5% to 5.9% for **premium, classic plus** and **nuvos**.

Increases to employee contributions will apply from 1 April 2013.

Benefits in **classic** accrue at the rate of 1/80 of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60 of final pensionable earnings for each year of service.

Unlike **classic**, there is no automatic lump sum.

Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**.

In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic, premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website www.civilservice.gov.uk/my-civil-service/pensions/index.aspx

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (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 figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 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 that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period. Where the individual was not in post for the full year, the CETV at 31 March 2012 represents the value as at their start date and the CETV at 31 March 2013 represents the value as at their end date.

The actuarial factors used to calculate CETVs were changed in 2012-13. The CETVs at 31 March 2012 and 31 March 2013 have both been calculated using the new factors, for consistency. The CETV at 31 March 2012 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

1. Salaries and pension analysis for each member of the Senior Management Team, as at 31 March 2013, is set out below. (Audited)

| Senior Staff Name | Notes | Job Title | 2012-13 | | 2011-12 | | Real increase / (decrease) in pension at age 60 and related lump sum (£'000) | Total accrued pension at age 60 at 31 March 2013 and related lump sum (£'000) | Cash Equivalent Transfer Value (CETV) at 31 March 2012 (£'000) | CETV at 31 March 2013 (£'000) | Real increase/ (decrease) in CETV after adjustment for inflation and changes in market investment factors (£'000) |
|---------------------------|-------|--|----------------------------------|---------------------------|----------------------|---------------------------|---|--|---|----------------------------------|--|
| | | | Salary (£'000) *1 | Bonus Payments (£'000) | Salary (£'000) *1 | Bonus Payments (£'000) | | | | | |
| Sarah Rapson | 2 | Chief Executive until 16 April 2013 and Registrar General for England & Wales | 110-115 | 5-10 | 110-115 | 0 | 2.5 – 5.0 Lump sum 0 – 2.5 | 20 – 25 Lump sum 0 – 5 | 226 | 274 | 16 |
| Paul Pugh | 2 | Appointed interim Chief Executive on 16 April 2013 Executive Director, Operations Seconded to the Mayor's Office for Policing and Crime 16 July 2012 to 19 October 2012 (3 months) | 75-80 (Annualised 100-105) | 0 (Annualised 0) | 95-100 | 0 | 0 – 2.5 Lump sum 0 – 2.5 | 40 – 45 Lump sum 75 – 80 | 717 | 757 | 7 |
| Alastair Bridges | | Executive Director, Finance and Corporate Services | 85-90 | 0 | 85-90 | 0 | 0 – 2.5 Lump sum 0 – 2.5 | 25 – 30 Lump sum 75 – 80 | 402 | 431 | 5 |
| Susan Caldwell | | Executive Director, Corporate Strategy Left IPS in May 2013 | 80-85 | 0 | 90-95 | 0 | 0 – 2.5 Lump sum 0 – 2.5 | 5 – 10 Lump sum 0 – 5 | 60 | 62 | 12 |
| Jane Carwardine | | Executive Director, Human Resources | 110-115 | 0 | 110-115 | 0 | 0 – 2.5 Lump sum 0 – 2.5 | 10 – 15 Lump sum 0 – 5 | 128 | 166 | 24 |
| Deborah Chittenden | 3 | Executive Director, Organisational Transformation | 95-100 | 0-5 | 95-100 | 0 | n/a | n/a | n/a | n/a | n/a |

| Senior Staff Name | Notes | Job Title | 2012-13 | | 2011-12 | | Real increase / (decrease) in pension at age 60 and related lump sum (£'000) | Total accrued pension at age 60 at 31 March 2013 and related lump sum (£'000) | Cash Equivalent Transfer Value (CETV) at 31 March 2012 (£'000) | CETV at 31 March 2013 (£'000) | Real increase/ (decrease) in CETV after adjustment for inflation and changes in market investment factors (£'000) |
|-------------------|-------|--|-----------------------------|---------------------------|-----------------------------|---------------------------|---|--|---|----------------------------------|--|
| | | | Salary (£'000) *1 | Bonus Payments (£'000) | Salary (£'000) *1 | Bonus Payments (£'000) | | | | | |
| Ian Forster | | Executive Director, Commercial Employed by the Home Office from 1 October 2010 but remains a member of the IPS Executive Committee | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Ian Martin | 4 | Acting Executive Director, Operations Covering Paul Pugh's secondment to the Mayor's Office for Policing and Crime 16 July 2012 to 19 October 2012 (3 months) | 15-20 (Annualised 65-70) | 0 (Annualised 0-5) | n/a | n/a | 0 – 2.5 Lump sum 0 – 2.5 | 20 – 25 Lump sum 65 – 70 | 341 | 347 | 3 |
| Dame Janet Finch | 6 | Non-Executive Director | 15-20 | n/a | 15-20 | n/a | n/a | n/a | n/a | n/a | n/a |
| Eric Gregory | 6 | Non-Executive Director | 15-20 | n/a | 10-15 (Annualised 15-20) | n/a | n/a | n/a | n/a | n/a | n/a |
| Anne Tutt | 5, 6 | Non-Executive Director | 20-25 | n/a | 25-30 | n/a | n/a | n/a | n/a | n/a | n/a |

* Notes

- Salary includes, where applicable, excess fares, London weighting and gross taxable allowances.
- On 16 April 2013, Sarah Rapson was appointed as the interim Director General of the new UK Visas and Immigration Service and Paul Pugh took over as interim IPS Chief Executive. Sarah has retained her formal position as Registrar General for England & Wales.
- Deborah Chittenden is a member of a Partnership pension scheme and the total employer and employee contributions, paid by IPS to the scheme on her behalf, amounted to £19.3k (2011-12 £19.3k).
- The bonus paid to Ian Martin was in respect of his normal role in the business and not in respect to his time as Acting Executive Director Operations.
- Anne Tutt is a Non-Executive Director and is also Chair of the Audit Committee and represents IPS on the Home Office Audit Committee.
- Salary includes benefits in kind to the nearest £100: Dame Janet Finch (£4,300); Eric Gregory (£1,700) and Anne Tutt (£2,300).

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

| | 2012-13 | 2011-12 | Percentage change |
|---|----------|----------|-------------------|
| The mid-point banded remuneration of the highest-paid director in IPS | £112,500 | £112,500 | No change |
| The median remuneration of the workforce | £19,030 | £21,228* | - 10.4% |
| Ratio | 5.9 | 5.3* | |

* 2011-12 data has been restated to correct an error in the data.

Total remuneration includes salary, and where applicable non-consolidated performance-related pay, benefits in kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

The median remuneration has been calculated from March workforce numbers for both years.

The table above shows that the ratio of median to highest paid remuneration has increased by 0.6. This is because of the 10.4% decrease in the median remuneration of the workforce, most of which is due to changes in the grade profile in the Agency, where an increase in more junior grades has reduced the median value by £2,198 year on year.



Paul Pugh
Interim Chief Executive

26 June 2013

Executive Committee



Paul Pugh

Interim Chief Executive from 16 April 2013, formerly Executive Director, Operations

Paul joined the Identity and Passport Service in November 2010. As Executive Director, Operations, he was responsible for the delivery of all operations (passports and certificates). He took up the post of interim Chief Executive on 16 April 2013.

From mid July to mid October 2012, Paul's role in Operations was covered by Ian Martin, Director of Operations, while Paul took up a post on secondment as the interim Chief Executive of the Mayor of London's Office for Policing and Crime.

Before joining the Identity and Passport Service, Paul was the Regional Director of the Government Office for the East of England. He has held senior Civil Service posts in the Home Office since 1995, with spells outside the Department as Chief Executive of the Central Police Training Authority, HR Director at Great Ormond Street Hospital NHS Trust, and Executive Director of Organisational Development at the North West London Strategic Health Authority.



Sarah Rapson

Chief Executive until 16 April 2013 and Registrar General for England and Wales

Sarah became Chief Executive in July 2010 and Registrar General for England and Wales in November 2010. On 16 April 2013, she took up post as interim Director General of UK Visas and Immigration for a six month period. She retains her formal position of Registrar General for England and Wales.

In her time as Chief Executive, Sarah oversaw the dismantling of the National Identity Scheme, repatriated the printing of overseas passports and introduced savings which led to the first ever reduction of the passport fee. Sarah joined the Identity and Passport Service in March 2005 as Operations Director and in 2008 was appointed Executive Director of Service Planning and Delivery. Sarah has a background in the financial services industry and holds an MBA from the London Business School.



Alastair Bridges
Executive Director, Finance and Corporate Services

Alastair joined the Identity and Passport Service as Executive Director of Finance and Performance in June 2009. In 2010 he took on a broader role as Executive Director of Finance and Corporate Services, responsible for helping the Identity and Passport Service deliver its priorities in a way that is safe, secure, affordable and provides value for money, with our risks understood and well managed. He is also Honorary Treasurer of a mid-sized national charity. Previously, Alastair worked in the Crime and Policing Group of the Home Office, on young people and drugs issues and then as group Finance Director with responsibility for ensuring affordability and value for money from policing, crime and drugs budgets. He is qualified with CIPFA as an accountant.



Susan Caldwell
Executive Director, Corporate Strategy

Susan joined the Identity and Passport Service in 2009. She holds responsibility for strategy development; planning and performance; customer, channel and product development and policy. She is an experienced corporate strategy and marketing professional who has held senior roles in both retail financial services and consulting sectors, both in the UK and overseas. She holds an MBA.

Susan left the Identity and Passport Service in May 2013 for a role with the Foreign and Commonwealth Office as their Head of Strategy and Network Department for Consular Service.



Jane Carwardine
Executive Director, HR & Organisational Development

Jane joined the Identity and Passport Service in 2007. An experienced HR professional with over 20 years experience, including the last 15 at Director level. Jane has worked in a range of organisations including The Law Society, Coca Cola Enterprises and Marks & Spencer. She has particular experience of employee engagement, organisational development and change and employee relations.



Deborah Chittenden
Executive Director, Organisational Transformation

Deborah joined the Identity and Passport Service in 2007 as a Programme Director. She is responsible for the delivery of all change projects within the Agency. Prior to joining the Identity and Passport Service, Deborah was a partner in a global management consultancy firm and she has extensive experience specialising in the delivery of large scale complex systems integration and organisational change programmes across the financial and utilities sectors.



Ian Forster

Executive Director, Commercial

Ian joined the Identity and Passport Service in 2000 after 17 years in financial services and was instrumental in establishing the Agency's Commercial Directorate. He is responsible for commercial policy, procurement and management of the Identity and Passport Service strategic suppliers. In 2010 Ian became a member of the Home Office Commercial Senior Leadership Team, leading on department wide commercial policy and shared service initiatives whilst continuing to direct the Identity and Passport Service Commercial operations. For the first six months of this reporting period Ian was Acting Home Office Group Commercial Director.

Non-Executive Directors

Dame Janet Finch



Janet has been a Non-Executive Director since November 2007 and is also a member of the Audit Committee. Janet has a background in Universities and is a social scientist. She was awarded a CBE in 1999 and a DBE in 2008 for services to social science and higher education. Following her retirement from her full-time position as Vice-Chancellor of Keele University, she has concentrated on a portfolio of non-executive roles in the public and private sectors.

Anne Tutt



Anne has been a Non-Executive Director since November 2007. She has been the Chair of the Audit Committee since 1 January 2010, and represents the Identity and Passport Service at the Home Office Audit Committee. Anne has been an executive member of many private sector boards for over 25 years, mainly as Finance Director in different sectors including manufacturing and banking. Since August 2006 she has had a portfolio of non-executive directorships and financial consultancy roles across the public, private and social enterprise sectors.

Eric Gregory



Eric joined the Identity and Passport Service as a Non-Executive Director in July 2011 and is also a member of the Audit Committee. He worked for the John Lewis Partnership for 25 years, where he was a Board Director for 7 years, holding all 3 principal IT Director roles before becoming Personnel Director. He is currently Non-Executive Director for the Cabinet Office Electoral Registration Transformation Programme, an Independent Adviser to the Welsh National Assembly Commission and, from January 2013, Non-Executive Director for the Legal Aid Agency. He was previously Non-Executive Director for CPS London, Chairman of the Consumer Goods Forum IT Board, and a member of the e-skills Businesses Board for 6 years.

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

I certify that I have audited the financial statements of the Identity and Passport Service for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; 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 Accounting Officer and Auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Identity and Passport Service's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Identity and Passport Service; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my certificate. I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

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

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Identity and Passport Service's affairs as at 31 March 2013 and of the net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act; and
- the information given in the sections of the Annual Report entitled as follows: Chief Executive's Foreword; Management Commentary; Executive Committee; and Sustainability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse

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

28 June 2013

Accounts for the year ended 31 March 2013

Statement of comprehensive net expenditure

For the period ended 31 March 2013

| | Notes | 2012-13 | | | 2011-12 |
|---|---------|----------------------|----------------------|------------------|-----------------|
| | | Staff costs £'000 | Other costs £'000 | Income £'000 | £'000 |
| Administration costs | | | | | |
| Staff costs | 3 | 23,997 | - | - | 25,163 |
| Other administrative costs | 4 | - | 20,807 | - | 21,924 |
| Operating income | 6, 1.14 | - | - | (44,208) | (43,346) |
| Programme costs | | | | | |
| Staff costs | 3 | 71,930 | - | - | 75,811 |
| Programme costs | 5 | - | 269,026 | - | 280,897 |
| Income | 6, 1.14 | - | - | (409,553) | (400,855) |
| Total | | 95,927 | 289,833 | (453,761) | (40,406) |
| Net operating (surplus)/deficit for the year | | - | - | (68,001) | (40,406) |

Other comprehensive expenditure

| | Notes | 2012-13 £'000 | 2011-12 £'000 |
|--|-------|------------------|------------------|
| Net (gain)/loss on revaluation of property plant and equipment | 7 | (2,139) | (857) |
| Net (gain)/loss on revaluation of intangibles | 8 | (2,781) | 262 |
| Total other comprehensive expenditure | | (4,920) | (595) |
| Total (surplus)/deficit for the year | | (72,921) | (41,001) |

The notes on pages 45 to 73 form part of these accounts.

Statement of financial position

As at 31 March 2013

| | Notes | 2012-13 £'000 | 2011-12 £'000 |
|--|---------------|------------------|------------------|
| Assets | | | |
| Non current assets | | | |
| Property, plant and equipment | 1.2, 7 | 87,819 | 98,726 |
| Intangible assets | 1.3, 8 | 74,016 | 57,340 |
| Total non current assets | | 161,835 | 156,066 |
| Current assets | | | |
| Inventories and work in progress | 1.9, 1.10, 11 | 3,479 | 3,304 |
| Trade and other receivables | 12 | 33,841 | 32,690 |
| Cash and cash equivalents | 9, 13 | 2 | 110 |
| Total current assets | | 37,322 | 36,104 |
| Total assets | | 199,157 | 192,170 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 14 | (74,578) | (73,601) |
| Provisions | 1.21, 15 | (6,106) | (4,789) |
| Total current liabilities | | (80,684) | (78,390) |
| Total assets less current liabilities | | 118,473 | 113,780 |
| Non current liabilities | | | |
| Other payables | 14a, 14b | (6,920) | (6,727) |
| Provisions | 1.21, 15 | (5,650) | (7,234) |
| Total non current liabilities | | (12,570) | (13,961) |
| Net assets | | 105,903 | 99,819 |
| Taxpayers' equity | | | |
| | 1.26 | | |
| General fund | | 95,889 | 94,313 |
| Revaluation reserve | 1.27 | 10,014 | 5,506 |
| Total taxpayers' equity | | 105,903 | 99,819 |

The notes on pages 45 to 73 form part of these accounts.



Paul Pugh
Accounting Officer

26 June 2013

Statement of cash flows

For the period ended 31 March 2013

| | Notes | 2012-13 £'000 | 2011-12 £'000 |
|---|----------------|------------------|------------------|
| Cash flows from operating activities | | | |
| Net operating surplus/(cost) as per SOCNE | | 68,001 | 40,406 |
| (Increase)/Decrease in trade and other receivables | 12 | (1,151) | 555 |
| (Increase)/Decrease in inventories and work in progress | 1.9, 1.10, 11 | (175) | 2,116 |
| Increase/(Decrease) in trade payables | | 1,263 | (62,334) |
| Adjustments for non-cash transactions | | 19,196 | 32,795 |
| Utilisation of provisions | 15 | (940) | (3,600) |
| Net cash inflow from operating activities | | 86,194 | 9,938 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 1.2, 7, 14 | (1,736) | (1,987) |
| Purchase of intangible assets | 1.3, 8 | (17,560) | (5,882) |
| Net cash outflow from investing activities | | (19,296) | (7,869) |
| Cash flows from financing activities | | | |
| Funding (to)/from Home Office | 1.12, 1.13, 22 | (67,006) | (60,277) |
| Net cash inflows from financing activities | | (67,006) | (60,277) |
| Net increase/(decrease) in cash and cash equivalents in the period | | (108) | (58,208) |
| Cash and cash equivalents at the beginning of the period | 1.13, 1.25, 13 | 110 | 58,318 |
| Cash and cash equivalents at the end of the period | 1.13, 1.25, 13 | 2 | 110 |
| Net increase/(decrease) in cash and cash equivalents in the period | | (108) | (58,208) |

The notes on pages 45 to 73 form part of these accounts.

Statement of changes in taxpayers' equity

For the period ended 31 March 2013

| | Notes 1.26, 1.27, 1.29 | General Fund £'000 | Revaluation Reserve £'000 | Total Reserves £'000 |
|--|----------------------------------|--------------------------|---------------------------------|----------------------------|
| Balance at 31 March 2011 | | 115,090 | 5,014 | 120,104 |
| Funding (to)/from Home Office | 1.12, 1.13, 22 | (60,277) | - | (60,277) |
| Net increase on revaluation of non current assets | 1.2, 1.3, 1.6, 7, 8 | - | 595 | 595 |
| Non-cash charges – auditor's remuneration | 4 | 195 | - | 195 |
| Non-cash charges – payroll services | 4, 5, 22 | 325 | - | 325 |
| Realised revaluation reserve to general fund | 1.2, 1.3, 1.26, 1.27, 7, 8 | 103 | (103) | - |
| Other – in year adjustments | | (1,529) | - | (1,529) |
| Net operating cost for the year excluding non retainable element of passport fee for consular protection | | 104,646 | - | 104,646 |
| Non retainable element of passport fee for consular protection | 22 | (64,240) | - | (64,240) |
| Balance at 31 March 2012 | | 94,313 | 5,506 | 99,819 |
| Funding (to)/from Home Office | 1.12, 1.13, 22 | (67,006) | - | (67,006) |
| Net increase on revaluation of non current assets | 1.2, 1.3, 1.27, 7, 8 | - | 4,920 | 4,920 |
| Non-cash charges – auditor's remuneration | 4 | 185 | - | 185 |
| Other – in year adjustments* | | (279) | 279 | - |
| Realised revaluation reserve to general fund | 1.2, 1.3, 1.27, 7, 8 | 675 | (691) | (16) |
| Net operating cost for the year excluding non retainable element of passport fee for consular protection | | 135,468 | - | 135,468 |
| Non retainable element of passport fee for consular protection | 22 | (67,467) | - | (67,467) |
| Balance at 31 March 2013 | | 95,889 | 10,014 | 105,903 |

* Historical stock written off in the year

The notes on pages 45 to 73 form part of these accounts.

Notes to the Accounts

1.0. Statement of accounting policies

These financial statements have been prepared in accordance with the 2012-13 Government Financial Reporting Manual (FReM) issued by HM Treasury (HMT). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

New standards

IFRS9 – Financial Instruments was issued in November 2009 and will become effective from January 2015. This IFRS has three phases. Phase 1 addresses classification and measurement issues. Phase 2 addresses impairments – in particular how impairments of financial assets should be calculated and recorded. Phase 3 addresses hedge accounting. IAS 39 previously contained guidance on hedge accounting – this will be updated with more detailed guidance and principles on hedge accounting, including guidance on accounting for certain hedging relationships. There are likely to be elements of the final proposals that will require further review by HM Treasury and the other relevant authorities before due process and consultation. However, this due process cannot commence until a final IFRS has been issued. IPS will apply the new standard in line with the FReM advice. Until this advice is received, the impact of applying this standard is not known.

1.1. Accounting convention

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

1.2. Property, plant and equipment

Property, plant and equipment is recognised initially at cost and thereafter carried at fair value less depreciation and impairment charged subsequent to the date of revaluation.

Cost comprises the cash price paid to acquire the asset and includes any costs directly attributable to making the asset capable of operating as intended. The capitalisation threshold for expenditure on property, plant and equipment is £5,000.

Individual assets costing less than £5,000 bought as a group are capitalised where the total cost of the group exceeds £5,000.

a) Land

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

b) Buildings

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

c) Information technology

Includes computer hardware and telecommunications equipment with an initial cost of £5,000 or more.

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

d) Plant, machinery and motor vehicles

Includes the machinery and associated enabling infrastructure which forms the production line used to produce passports. Also included are those motor vehicles owned by IPS.

e) Furniture and fittings

Furniture and fittings are capitalised at cost.

f) Assets under construction

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

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

1.3. Intangible assets

a) Information technology and websites development

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

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

b) Software licences

All IPS licences covering a period in excess of one year are capitalised at cost.

1.4. Depreciation

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

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

| | |
|--|--|
| Buildings | up to 60 years or life of lease |
| Improvements to leasehold buildings | duration of lease or anticipated useful life |
| Information technology | 2 to 15 years |
| Plant, machinery and motor vehicles | 2 to 15 years |
| Furniture and fittings | 3 to 10 years |

Expenditure on development of a product or service is capitalised if it meets the criteria specified in the 2012-13 FReM, which has been adapted from IAS 38 Intangible Assets to take account of the considerations relevant for not-for-profit entities.

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

1.5. Amortisation

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

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

Database assets are amortised over the expected useful life over which the benefits envisaged will be delivered. The estimated useful economic lives are as follows, subject to the annual review:

| | |
|-------------------------------|---------------|
| Information technology | 3 to 15 years |
| Software licences | 3 to 8 years |

1.6. Revaluation

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

Assets under construction are not revalued until they become operational.

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

1.7. Non current assets impairments

The carrying values of property, plant and equipment and intangible assets are reviewed annually for impairment. If events or changes in circumstances indicate the carrying value may not be recoverable, the assets are written down to their recoverable amount.

1.8. Leases

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

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

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

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

1.9. Inventories

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

1.10. Work in progress

a) Passports

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

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

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

b) Civil registration services

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

1.11. Income

Turnover from continuing activities represents:

a) Passport fees

All passport activities are governed by the Consular Fees Act 1980 and considered to be one single class of business. Passport fees include an element relating to Consular Protection Services provided by the Foreign and Commonwealth Office (FCO) worldwide, which is non-retainable. See also 1.13 below.

b) Certificate fees

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

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

1.12. Funding and Consolidated Fund Extra Receipts (CFERs)

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

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

The non-retainable element of Consular protection fees collected by IPS is remitted to HMT via the HO as a CFER on a monthly basis. That element of the passport fee is reported by IPS as both income and when remitted as a CFER, as expenditure in these Accounts.

Any overall surplus arising in a financial year is remitted to the HO as a CFER, taking into account HO funding for the capital programme and for HO support for non fee funded activities.

1.13. Bank

During 2011-12, the Agency transferred its banking processes from NatWest to the Government Banking Service (GBS) within the HO, but at 31 March 2012 some NatWest accounts remained open to allow completion of any outstanding customer transactions. These accounts have now been closed and the closing balances swept into the HO GBS account.

Income received by IPS is banked into the HO GBS bank account on a daily basis. The income/receivable is recognised in IPS Accounts, and the cash is recognised in the HO books. The movement between the two entities is through the reserves, and is reflected in the Accounts as Funding from HO in the Statement of Changes in Taxpayers' Equity.

The main cash outgoings of IPS are 'real time' funded through the HO GBS. For this reason the IPS element of the GBS is taken to be zero at any given time as effectively IPS is financed in full when required.

1.14. Programme and administration

Expenditure is classified as administration or as programme in accordance with the definition set out in the Consolidated Budgeting Guidance 2012-13. Administration costs reflect the costs of running IPS. Income is analysed and offset against administrative costs only to the extent allowed for in the administration cost-control regime, with the remainder reported against programme costs. Programme costs relate to the cost of providing front line services to our customers.

1.15. Other operating income

Other income relates to the operating activities of IPS. This includes receipts in respect of: the Passport Validation Service (PVS), charges for services provided to UKBA and charges for use of IPS facilities and other minor services.

1.16. Deferred income

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

1.17. Pension costs

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

As an alternative, members may opt to join a defined contribution scheme. In respect of these, IPS recognises the contributions payable for the year.

1.18. Voluntary exit and early release schemes

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

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

1.19. Segmental reporting

The net operating cost reported in the Statement of Comprehensive Net Expenditure includes income and costs associated with passport, certificate and statutory activities.

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

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

1.20. Allocation of corporate costs to operating segments

IPS undertakes passport, certificate and statutory activities. Where costs are shared between these activities they are classified as either:

a) Programme overheads

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

b) Strategic overheads

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

c) General overheads

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

1.21. Provisions

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

1.22. Contingent liabilities

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

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

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

1.23. Contingent assets

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

1.24. Value added tax

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

Where output tax is charged on other operating income, the amounts are stated net of VAT. With the move to the wider HO shared service arrangements, IPS no longer accounts for VAT separately as these transactions are now managed under a wider VAT group basis.

1.25. Financial instruments

IPS complies with IAS 32 Financial Instruments – Disclosure and Presentation, IAS 39 – Financial Instruments – Measurement, Recognition and Derecognition, IFRS 7 Financial Instruments – Disclosure as interpreted by the FReM. All relevant disclosures are made in note 9.

1.26. Taxpayers' equity

This represents the Agency's total assets less liabilities.

1.27. Revaluation reserve

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

1.28. Critical accounting judgements and key sources of estimating uncertainty

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

There are no critical accounting judgments that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

1.29. Machinery of government changes

On 1 April 2011, responsibility for issuing British passports overseas transferred from the FCO to IPS. IPS now manages the setting of fees, policy and counter-fraud measures for British passports issued overseas. The application handling, printing and delivery process is being gradually integrated into IPS operations from the FCO.

Note 2 – Fees and charges

Business segments 2012-13

| | Notes | Passports | | Civil registration services | | Total £'000 |
|--|-----------------------|------------------|-------------------|-----------------------------|-----------------------|------------------|
| | | UK £'000 | Overseas £'000 | Statutory £'000 | Certificates £'000 | |
| Passport income | 1.11 | (384,405) | (49,405) | - | - | (433,810) |
| Registration services income | 1.11 | - | - | (1,077) | (14,690) | (15,767) |
| Other income | 1.15 | (4,184) | - | - | - | (4,184) |
| Total income | | (388,589) | (49,405) | (1,077) | (14,690) | (453,761) |
| Cost of sales | | 212,197 | 47,205 | 6,574 | 6,774 | 272,750 |
| Other expenditure | | 36,896 | 1,098 | 2,863 | 1,941 | 42,798 |
| Impairments | | 2,226 | - | - | - | 2,226 |
| Loss on disposal of non current assets | 1.2,1.3, 5 | 519 | - | - | - | 519 |
| Consular protection fees | 22 | 62,636 | 4,831 | - | - | 67,467 |
| Total expenditure | | 314,474 | 53,134 | 9,437 | 8,715 | 385,760 |
| Operating (surplus)/deficit | | (74,115) | 3,729 | 8,360 | (5,975) | (68,001) |
| Other Information | | | | | | |
| Non current asset additions | 1.2, 1.3, 7, 8 | 17,695 | 36 | 362 | 1,110 | 19,203 |
| Total NBV of asset base | 1.2, 1.3, 7, 8 | 145,305 | 960 | 4,399 | 11,171 | 161,835 |

IPS complies with IFRS 8 and provides an analysis of the types of services for which it charges a fee, which is set out above. Fees are agreed annually with HM Treasury in line with the fees and charges principle.

Passports

Passport activities include all services relating to the issuing of passports, where the financial objective of this activity is to break even in year. A fee is charged for all passports except for those issued under the 'veterans initiative' (free passports for those born on or before 2 September 1929).

During 2012-13 **37,308** (2011-12: 46,484) passports were issued free of charge under the veterans initiative.

Civil registration services

Includes all services relating to the issuing of copies of certificates for births, deaths and marriages. In addition central HO funding is provided for support functions to maintain the registers of all key life events and for 2012-13 this amounts to £7m, however as note 1.12, this Home Office funding is taken into account and offset against the CFER transfer. The financial objective is to break even after central HO funding for non fee bearing activities.

Business segments 2011-12

| | Notes | Passports | | Civil registration services | | Total £'000 |
|------------------------------------|----------------|------------------|-------------------|-----------------------------|-----------------------|------------------|
| | | UK £'000 | Overseas £'000 | Statutory £'000 | Certificates £'000 | |
| Passport income | 1.11 | (374,700) | (47,114) | - | - | (421,814) |
| Registration service income | 1.11 | - | - | (1,112) | (15,827) | (16,939) |
| Other income | 1.15 | (5,440) | - | - | (8) | (5,448) |
| Total income | | (380,140) | (47,114) | (1,112) | (15,835) | (444,201) |
| Cost of sales | | 229,606 | 41,690 | 7,131 | 14,041 | 292,468 |
| Other expenditure | | 44,566 | 344 | 989 | 1,188 | 47,087 |
| Consular protection fees | 22 | 59,840 | 4,400 | - | - | 64,240 |
| Total expenditure | | 334,012 | 46,434 | 8,120 | 15,229 | 403,795 |
| Operating (surplus)/deficit | | (46,128) | (680) | 7,008 | (606) | (40,406) |
| Other Information | | | | | | |
| Non current asset additions | 1.2, 1.3, 7, 8 | 23,228 | - | 58 | 148 | 23,434 |
| Total NBV of asset base | 1.2, 1.3, 7, 8 | 138,397 | 1,486 | 4,531 | 11,652 | 156,066 |

The allocations to business segments for 2011-12 have been re-presented to reflect more accurately the operational processes. The overall totals remain as previously reported.

Note 3 – Staff numbers and related costs

a) Staff costs

| | Notes | Permanent staff | | Non permanent staff | | Total all staff | |
|---------------------------------|-------|------------------|------------------|---------------------|------------------|------------------|------------------|
| | | 2012-13 £'000 | 2011-12 £'000 | 2012-13 £'000 | 2011-12 £'000 | 2012-13 £'000 | 2011-12 £'000 |
| Wages and salaries | | 76,395 | 76,864 | 915 | 897 | 77,310 | 77,761 |
| Social security costs | | 4,983 | 5,059 | - | - | 4,983 | 5,059 |
| Other pension costs | 1.17 | 12,729 | 13,355 | - | - | 12,729 | 13,355 |
| Early exit costs | 1.18 | 905 | 4,799 | - | - | 905 | 4,799 |
| Total gross salary costs | | 95,012 | 100,077 | 915 | 897 | 95,927 | 100,974 |

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

For 2012-13, employers' contributions of £12.6m were payable to the PCSPS (2011-12: £13.2m) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the costs of the benefits accruing during 2012-13 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 £86.7k (2011-12: £102.9k) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-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 £5.42k (2011-12: £6.66k), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Three people (2011-12: 4) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £1.9k (2011-12: £7.3k).

b) Average number of persons employed

| | 2012-13 | 2011-12 |
|--------------------------------|--------------|--------------|
| Permanently employed staff | 3,145 | 3,312 |
| Non permanently employed staff | 6 | 9 |
| Total staff numbers | 3,151 | 3,321 |

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

| Exit package cost band | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | |
|--------------------------------------|-----------------------------------|-----------|-----------------------------------|------------|--|------------|
| | 2012-13 | 2011-12 | 2012-13 | 2011-12 | 2012-13 | 2011-12 |
| <£10,000 | 1 | 24 | - | 20 | 1 | 44 |
| £10,000 – £25,000 | 12 | 9 | - | 85 | 12 | 94 |
| £25,000 – £50,000 | 1 | 2 | - | 78 | 1 | 80 |
| £50,000 – £100,000 | - | - | - | 10 | - | 10 |
| £100,000 – £150,000 | - | - | 1 | 2 | 1 | 2 |
| £250,000 – £300,000 | - | - | 1 | - | 1 | - |
| Total number of exit packages | 14 | 35 | 2 | 195 | 16 | 230 |

| | 2012-13 £'000 | 2011-12 £'000 |
|---|------------------|------------------|
| Total resource cost of exit packages | 606 | 5,556 |

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

Note 4 – Other administrative costs

| | Notes 1.14 | 2012-13 £'000 | 2011-12 £'000 |
|---|---------------|------------------|------------------|
| IT and other service charges | | 6,556 | 7,059 |
| Professional fees | | 4,598 | 3,969 |
| Staff training, travel and subsistence | | 2,278 | 2,387 |
| Accommodation, facilities management and staff services | | 3,733 | 4,097 |
| Other costs | | 736 | 548 |
| Media and IT | | 334 | 356 |
| Distribution costs | | 89 | 50 |
| Publications, stationery and printing | | 56 | 143 |
| Non cash costs | | | |
| Home Office payroll services | | - | 325 |
| Auditor's remuneration and expenses* | | 185 | 195 |
| (Profit)/loss on disposal of non-current assets | | - | 227 |
| Depreciation of property, plant and equipment | 1.4, 7 | 381 | 686 |
| Amortisation of intangible assets | 1.5, 8 | 1,861 | 1,882 |
| Total | | 20,807 | 21,924 |

IPS have re-categorised 2011-12 expenditure on telecoms charges, contracted out consultancy, staff healthcare & uniforms and market research, surveys and public conference to align with HO disclosure.

* The external auditors received no remuneration for non audit work (2011-12: £nil).

Prior to 2012-13, costs associated with payroll services were a non-cash charge identified separately in the Statement of changes in taxpayer's equity. They are now included in Professional fees following the first full year recharge by the HO which relates to the on-boarding of the Adelphi Services for Finance and Procurement.

Note 5 – Programme costs

| | Notes 1.14 | 2012-13 £'000 | 2011-12 £'000 |
|---|---------------|------------------|------------------|
| Consular protection fees | | 67,467 | 64,240 |
| Passport outsourcing service charges | | 57,337 | 55,943 |
| Publications, stationery and printing | | 27,053 | 26,500 |
| Accommodation, facilities management and staff services | | 24,198 | 25,441 |
| Distribution costs | | 21,782 | 21,529 |
| IT and other service charges | | 24,306 | 28,055 |
| Passport stationery | | 12,229 | 15,555 |
| Call centre charges | | 10,747 | 8,432 |
| Application forms | | 2,618 | 2,260 |
| Staff training, travel and subsistence | | 1,720 | 1,489 |
| General Register Office payments | | - | 801 |
| Other costs | | 1,369 | 691 |
| Professional fees | | 884 | 1,346 |
| Media and IT | | 45 | 23 |
| Non cash costs | | | |
| (Profit)/loss on disposal of non-current assets | | 519 | 287 |
| Depreciation of property, plant and equipment | 1.4, 7 | 9,610 | 10,776 |
| Amortisation of intangible assets | 1.5, 8 | 3,741 | 12,786 |
| Impairments | 1.7, 7, 8,10 | 2,226 | - |
| Provisions movements | 1.21, 15 | 558 | 4,662 |
| Passport inventory written off | | 617 | 81 |
| Total | | 269,026 | 280,897 |

IPS have re-categorised 2011-12 expenditure on Telecoms charges, Staff healthcare & uniforms and Market research, survey & public conferences to align with Home Office disclosure and added a new item, Passport inventory written off.

Note 6 – Income

| | Notes 1.11, 1.15 | 2012-13 £'000 | 2011-12 £'000 |
|---|---------------------|------------------|------------------|
| Passport income | | | |
| UK passport income | | 384,405 | 374,700 |
| Overseas passport income | | 49,405 | 47,114 |
| Total passport income | | 433,810 | 421,814 |
| Registration services income | | | |
| Certificate services | | 14,690 | 15,011 |
| Consolidated payments | | - | 816 |
| Services provided to other government departments | | 1,077 | 1,112 |
| Total registration services income | | 15,767 | 16,939 |
| Other income | | | |
| Passport validation service | | 583 | 489 |
| Services provided to other government departments | | - | (576) |
| Rental income | | 1,167 | 1,241 |
| Secure mail services fee receipts | | 2,154 | 2,207 |
| Other income | | 280 | 2,087 |
| Total other income | | 4,184 | 5,448 |
| Total income | | 453,761 | 444,201 |

This represents income by type – for segmental analysis refer to Note 2.

Process data quickly fees are now reported with UK passport income with adjustment made to prior year disclosure.

In the annual report for 2011-12, other income was reported separately for passport (£2,079k) and certificate income (£8k). In the comparative information above, these have been combined so as to be consistent with the presentation of income for 2012-13.

Note 7 – Property, plant and equipment 2012-2013

| | Notes 1.2, 1.4, 1.6, 1.7, 10 | Land £'000 | Buildings £'000 | IT Equipment £'000 | Plant, Machinery & Motor Vehicles £'000 | Furniture & Fittings £'000 | Assets under Con- struction £'000 | Total £'000 |
|--|---------------------------------------|---------------|--------------------|--------------------------|---|----------------------------------|---|----------------|
| Cost or valuation | | | | | | | | |
| At 1 April 2012 | | 1,295 | 54,812 | 50,152 | 7,505 | 9,492 | 41,831 | 165,087 |
| Additions | | - | 622 | 416 | - | 99 | 506 | 1,643 |
| Disposals | | - | (1,020) | (45) | (27) | (7) | - | (1,099) |
| Impairments | | - | (585) | (6,374) | (20) | (1,820) | (165) | (8,964) |
| Reclassifications | | - | 740 | 5,223 | 26 | (57) | (5,267) | 665 |
| Revaluations | | - | - | 3,616 | 125 | 97 | - | 3,838 |
| At 31 March 2013 | | 1,295 | 54,569 | 52,988 | 7,609 | 7,804 | 36,905 | 161,170 |
| Depreciation | | | | | | | | |
| At 1 April 2012 | | - | 33,039 | 25,878 | 1,248 | 6,196 | - | 66,361 |
| Charged in year | | - | 3,479 | 5,149 | 758 | 606 | - | 9,992 |
| Disposals | | - | (507) | (42) | (27) | (5) | - | (581) |
| Impairments | | - | (345) | (5,521) | (8) | (924) | - | (6,798) |
| Reclassifications | | - | - | 2,478 | 200 | - | - | 2,678 |
| Revaluations | | - | - | 1,597 | 36 | 66 | - | 1,699 |
| At 31 March 2013 | | - | 35,666 | 29,539 | 2,207 | 5,939 | - | 73,351 |
| Net book value at 31 March 2013 | | 1,295 | 18,903 | 23,449 | 5,402 | 1,865 | 36,905 | 87,819 |
| Net book value at 1 April 2012 | | 1,295 | 21,773 | 24,274 | 6,257 | 3,296 | 41,831 | 98,726 |
| Asset financing | | | | | | | | |
| Owned | | 1,295 | 18,903 | 23,449 | 5,402 | 1,865 | 36,905 | 87,819 |
| Net book value at 31 March 2013 | | 1,295 | 18,903 | 23,449 | 5,402 | 1,865 | 36,905 | 87,819 |

The allocation of cost between IT equipment and intangible IT is assessed when the asset is brought into use. In some cases, this allocation may differ from the provisional assessment made at the time milestone payments are made for assets under construction, with the result that reclassifications do not necessarily balance within intangible assets, and property, plant and equipment individually, only when taking non current assets in total.

IPS reviews the useful economic lives of its material assets each year.

Impairments – See Notes 10 and 21

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

Note 7 Property, plant and equipment (continued)

2011-12

| | Notes 1.2, 1.4, 1.6, 1.7 | Land £'000 | Buildings £'000 | IT Equipment £'000 | Plant, Machinery & Motor Vehicles £'000 | Furniture & Fittings £'000 | Assets under Con- struction £'000 | Total £'000 |
|--|--------------------------------|---------------|--------------------|--------------------------|---|----------------------------------|---|----------------|
| Cost or valuation | | | | | | | | |
| At 1 April 2011 | | 1,251 | 67,889 | 50,121 | 7,233 | 9,449 | 26,401 | 162,344 |
| Additions | | - | 774 | 924 | 72 | 191 | 15,591 | 17,552 |
| Disposals | | - | (15,429) | (698) | (14) | (254) | (6) | (16,401) |
| Revaluations | | 44 | 1,435 | (207) | 214 | 106 | - | 1,592 |
| Reclassifications | | - | 143 | 12 | - | - | (155) | - |
| At 31 March 2012 | | 1,295 | 54,812 | 50,152 | 7,505 | 9,492 | 41,831 | 165,087 |
| Depreciation | | | | | | | | |
| At 1 April 2011 | | - | 41,450 | 22,591 | 585 | 5,620 | - | 70,246 |
| Charged in year | | - | 6,115 | 3,934 | 638 | 758 | - | 11,445 |
| Disposals | | - | (15,238) | (569) | (14) | (244) | - | (16,065) |
| Revaluations | | - | 712 | (78) | 39 | 62 | - | 735 |
| At 31 March 2012 | | - | 33,039 | 25,878 | 1,248 | 6,196 | - | 66,361 |
| Net book value at 31 March 2012 | | 1,295 | 21,773 | 24,274 | 6,257 | 3,296 | 41,831 | 98,726 |
| Net book value at 1 April 2011 | | 1,251 | 26,439 | 27,530 | 6,648 | 3,829 | 26,401 | 92,098 |
| Asset financing | | | | | | | | |
| Owned | | 1,295 | 21,773 | 24,274 | 6,257 | 3,296 | 41,831 | 98,726 |
| Net book value at 31 March 2012 | | 1,295 | 21,773 | 24,274 | 6,257 | 3,296 | 41,831 | 98,726 |

Note 8 – Intangible assets

2012-13

| | Notes 1.3, 1.5, 1.6, 1.7, 10 | Information Technology £'000 | Software Licences £'000 | Assets Under Construction £'000 | Total £'000 |
|--|------------------------------------|------------------------------------|-------------------------------|---------------------------------------|----------------|
| Cost or valuation | | | | | |
| At 1 April 2012 | | 71,165 | 3,104 | 33,491 | 107,760 |
| Additions | | 947 | 2,489 | 14,124 | 17,560 |
| Impairments | | (41) | (327) | (39) | (407) |
| Reclassifications | | 5,200 | 690 | (6,555) | (665) |
| Revaluations | | 6,620 | 96 | - | 6,716 |
| At 31 March 2013 | | 83,891 | 6,052 | 41,021 | 130,964 |
| Amortisation | | | | | |
| At 1 April 2012 | | 47,586 | 2,834 | - | 50,420 |
| Charged in year | | 5,202 | 400 | - | 5,602 |
| Impairments | | (27) | (304) | - | (331) |
| Reclassifications | | (3,007) | 329 | - | (2,678) |
| Revaluations | | 3,862 | 73 | - | 3,935 |
| At 31 March 2013 | | 53,616 | 3,332 | - | 56,948 |
| Net book value at 31 March 2013 | | 30,275 | 2,720 | 41,021 | 74,016 |
| Net book value at 1 April 2012 | | 23,579 | 270 | 33,491 | 57,340 |
| Asset financing | | | | | |
| Owned | | 30,275 | 2,720 | 41,021 | 74,016 |
| Net book value at 31 March 2013 | | 30,275 | 2,720 | 41,021 | 74,016 |

Intangible assets comprise:

Information Technology

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

Software Licences

Licences to operate externally developed software for a period in excess of one year.

IPS reviews the useful economic lives of all of its material assets each year.

Note 8 – Intangible assets (continued)

2011-12

| | Notes 1.3, 1.5, 1.6, 1.7 | Information Technology £'000 | Software Licences £'000 | Assets Under Construction * £'000 | Total £'000 |
|--|--------------------------------|------------------------------------|-------------------------------|---|----------------|
| Cost or valuation | | | | | |
| At 1 April 2011 | | 72,785 | 3,251 | 34,370 | 110,406 |
| Additions | | 1,240 | - | 4,642 | 5,882 |
| Disposals | | (7,932) | (146) | (93) | (8,171) |
| Reclassifications | | 5,232 | 196 | (5,428) | - |
| Revaluations | | (160) | (197) | - | (357) |
| At 31 March 2012 | | 71,165 | 3,104 | 33,491 | 107,760 |
| Amortisation | | | | | |
| At 1 April 2011 | | 39,558 | 2,546 | - | 42,104 |
| Charged in year | | 15,949 | 441 | - | 16,390 |
| Disposals | | (7,916) | (63) | - | (7,979) |
| Reclassifications | | 7 | (7) | - | - |
| Revaluations | | (12) | (83) | - | (95) |
| At 31 March 2012 | | 47,586 | 2,834 | - | 50,420 |
| Net book value at 31 March 2012 | | 23,579 | 270 | 33,491 | 57,340 |
| Net book value at 1 April 2011 | | 33,227 | 705 | 34,370 | 68,302 |
| Asset financing | | | | | |
| Owned | | 23,579 | 270 | 33,491 | 57,340 |
| Net book value at 31 March 2012 | | 23,579 | 270 | 33,491 | 57,340 |

Note 9 – Financial Instruments

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

Liquidity Risk

The Agency's net revenue resource requirement is financed by HO funding, as is its capital expenditure. It is therefore not exposed to significant liquidity risks and the Agency has no need to maintain commercial borrowing facilities.

Interest Rate Risk

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

Currency Risk

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

Credit Risk

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

| Total book value | Notes 1.25 | 2012-13 £'000 | 2011-12 £'000 |
|------------------------------|---------------|------------------|------------------|
| Financial assets | | | |
| Cash | 13 | 2 | 110 |
| Trade and other receivables | 12a, 12b | 31,430 | 32,690 |
| Financial liabilities | | | |
| Trade and other payables | 14a, 14b | (71,316) | (67,839) |
| Total | | (39,884) | (35,039) |

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

Note 10 – Impairments

| IPS has incurred the following impairments during the financial year | Notes | 2012-13 £'000 | 2011-12 £'000 |
|--|-----------|------------------|------------------|
| Charged to the Statement of comprehensive net expenditure | 1.7, 5 | 2,226 | - |
| Charged to revaluation reserve | | 16 | - |
| Total impairments | 21 | 2,242 | - |

Impairments include the cost of adopting a higher capitalisation threshold, see note 21 for details.

Note 11 – Inventories and work in progress

| | Notes | 2012-13 £'000 | 2011-12 £'000 |
|---|-------|------------------|------------------|
| Passport and certificate inventories | 1.9 | 1,940 | 2,194 |
| Work in progress | 1.10 | 1,539 | 1,110 |
| Total inventories and work in progress | | 3,479 | 3,304 |

Note 12 – Trade receivables and other current assets

a) Trade receivables and other current assets

| | Notes | 2012-13 £'000 | 2011-12 £'000 |
|---|-------|------------------|------------------|
| Current | | | |
| Trade receivables | | 15,747 | 22,296 |
| Deposits and advances | | 216 | 257 |
| Prepayments and accrued income | | 17,878 | 10,137 |
| Total trade receivables and other current assets | | 33,841 | 32,690 |

There were no trade receivables and other current assets due after more than one year.

b) Intra-government balances

| | Notes | 2012-13 £'000 | 2011-12 £'000 |
|---|-------|------------------|------------------|
| Current | | | |
| Balances with other central government bodies | | 15,234 | 13,651 |
| Balances with Local Authorities | | 18 | 107 |
| Balances with NHS Trusts | | 374 | 139 |
| Balances with public corporations and trading funds | | 11,332 | 16,138 |
| Subtotal: intra-government balances | | 26,958 | 30,035 |
| Balances with bodies external to government | | 6,883 | 2,655 |
| Total at 31 March 2013 | | 33,841 | 32,690 |

IPS has no non current asset intra-government balances.

Note 13 – Cash and cash equivalents

| | Notes 1.13, 9 | 2012-13 £'000 | 2011-12 £'000 |
|---|------------------|------------------|------------------|
| Balance at 1 April 2012 | | 110 | 58,318 |
| Net change in cash and cash equivalent balances | | (108) | (58,208) |
| Balance at 31 March 2013 | | 2 | 110 |
| The balances were held at: | | | |
| Commercial banks and cash in hand | | 2 | 110 |
| Balance at 31 March 2013 | | 2 | 110 |

During the year, IPS closed its Natwest account and the balance above represents float maintained within the areas.

Note 14 – Trade payables and other current liabilities

a) Trade payables and other current liabilities

| | Notes | 2012-13 £'000 | 2011-12 £'000 |
|---|-------|------------------|------------------|
| Current | | | |
| Trade payables | | 2,902 | 1,608 |
| Accruals and deferred income | 1.16 | 45,173 | 45,397 |
| Capital accruals | | 26,503 | 26,596 |
| Total trade payables and other current liabilities | | 74,578 | 73,601 |
| Non current | | | |
| Other payables, accruals and lease incentives | | 6,920 | 6,727 |

b) Intra-government balances

| | 2012-13 £'000 | 2011-12 £'000 |
|---|------------------|------------------|
| Current | | |
| Balances with other central government bodies | 3,656 | 2,741 |
| Balances with Local Authorities | 252 | 137 |
| Balances with public corporations and trading funds | 217 | 608 |
| Subtotal: intra-government balances | 4,125 | 3,486 |
| Balances with bodies external to government | 70,453 | 70,115 |
| Total at 31 March 2013 | 74,578 | 73,601 |
| Non current | | |
| Balances with bodies external to government | 6,920 | 6,727 |
| Total at 31 March 2013 | 6,920 | 6,727 |

IPS has no non current liability intra-government balances.

Note 15 – Provisions for liabilities and charges 2012-13

| | Notes 1.21 | Legal costs £'000 | Dilapida- tion costs £'000 | Early departure costs £'000 | Other costs £'000 | Total £'000 |
|---|---------------|-------------------------|----------------------------------|--------------------------------------|-------------------------|----------------|
| Balance at 1 April 2012 | | 862 | 4,556 | 3,488 | 3,117 | 12,023 |
| Provided in the year | | 69 | 2,489 | 1,855 | - | 4,413 |
| Provisions not required written back | | (716) | - | - | (3,117) | (3,833) |
| Provisions utilised in the year | | (114) | - | (826) | - | (940) |
| Unwinding discount | | - | 62 | 31 | - | 93 |
| Balance at 31 March 2013 | | 101 | 7,107 | 4,548 | - | 11,756 |

Analysis of expected timing of discounted flows

| | | | | | | |
|--|--|------------|--------------|--------------|----------|---------------|
| Not later than one year | | 101 | 3,527 | 2,478 | - | 6,106 |
| Later than one year and not later than five years | | - | - | 1,945 | - | 1,945 |
| Later than five years | | - | 3,580 | 125 | - | 3,705 |
| Total of flows | | 101 | 7,107 | 4,548 | - | 11,756 |

Legal costs

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

Dilapidation costs

IPS makes provision to cover its obligations for reinstatement of its leasehold buildings to their original state before its occupation. A full Dilapidations Survey of IPS occupied offices was undertaken during the 2010-11 financial year by DTZ Limited. IPS provides in full for this obligation when it becomes binding and utilises the provision as costs are incurred. The provision has been discounted to present value using the real discount rate prescribed by HM Treasury.

£1,627k has been provided for exit costs in relation to the decommissioning and dilapidations works for the Regional Passport Processing Centres overseas.

Early departure costs

IPS meets the additional costs of benefits beyond the PCSPS in respect of employees who retire early. IPS provides in full for this obligation when it becomes binding and utilises the provision each year as costs are incurred. The provision has been discounted to present value using the real discount rate prescribed by HM Treasury.

In addition, £1.8m has been provided for severance payments to locally employed FCO staff as a result of the programme to close the Regional Passport Processing Centres overseas, scheduled for completion by March 2014.

Other costs

Provisions not required and written back included £2.4m in relation to a supplier commercial discussion concluded in the year and, £700k regarding the VAT status of a contractual agreement now reported as contingent liability, see note 20.

Note 15 – Provisions for liabilities and charges (continued)

2011-12

| | Notes 1.21 | Legal Costs £'000 | Dilapidation costs £'000 | Early departure costs £'000 | Other costs £'000 | Total £'000 |
|---|---------------|-------------------------|--------------------------------|--------------------------------------|-------------------------|----------------|
| Balance at 1 April 2011 | | 247 | 3,175 | 4,222 | 2,538 | 10,182 |
| Provided in the year | | 848 | 1,565 | 170 | 3,117 | 5,700 |
| Provisions not required written back | | (33) | (11) | (106) | (370) | (520) |
| Provisions utilised in the year | | (200) | (278) | (954) | (2,168) | (3,600) |
| Unwinding discount | | - | 105 | 156 | - | 261 |
| Balance at 31 March 2012 | | 862 | 4,556 | 3,488 | 3,117 | 12,023 |

Analysis of expected timing of cash flows

| | | | | | | |
|--|--|------------|--------------|--------------|--------------|---------------|
| Not later than one year | | 862 | - | 810 | 3,117 | 4,789 |
| Later than one year and not later than five years | | - | 1,825 | 2,355 | - | 4,180 |
| Later than five years | | - | 2,731 | 323 | - | 3,054 |
| Total of flows | | 862 | 4,556 | 3,488 | 3,117 | 12,023 |

Note 16 – Capital commitments

| Contracted capital commitments at 31 March 2013 not otherwise included in these accounts | Notes | 2012-13 £'000 | 2011-12 £'000 |
|---|-------|------------------|------------------|
| Property, plant and equipment | | | |
| Not later than one year | | 67 | 2,156 |
| Later than one year and not later than five years | | 4,159 | 4,159 |
| Later than five years | | - | - |
| Total property, plant and equipment capital commitments | | 4,226 | 6,315 |
| Intangible assets | | | |
| Not later than one year | | 234 | 5,524 |
| Later than one year and not later than five years | | 473 | 125 |
| Later than five years | | - | - |
| Total intangible asset commitments | | 707 | 5,649 |
| Total capital commitments | | | |
| Not later than one year | | 301 | 7,680 |
| Later than one year and not later than five years | | 4,632 | 4,284 |
| Later than five years | | - | - |
| Total capital commitments | | 4,933 | 11,964 |

Note 17 – Commitments under leases

| Total future minimum lease payments under operating leases are given in the table below for each of the following periods | Notes 1.8, 4, 5 | 2012-13 £'000 | 2011-12 £'000 |
|---|--------------------|------------------|------------------|
| Buildings | | | |
| Not later than one year | | 14,606 | 15,089 |
| Later than one year and not later than five years | | 29,508 | 36,371 |
| Later than five years | | 16,472 | 17,687 |
| Total commitments under leases | | 60,586 | 69,147 |

Facilities management costs are not included as IPS is not contractually committed in the event of breaking a lease.

Note 18 – Commitments under PFI contracts

There were no commitments under PFI contracts at 31 March 2013 (2011-12: £Nil).

Note 19 – Other financial commitments

| | Notes | 2012-13 £'000 | 2011-12 £'000 |
|---|-------|------------------|------------------|
| Not later than one year | | 74,183 | 84,394 |
| Later than one year and not later than five years | | 259,947 | 267,358 |
| Later than five years | | 77,539 | 151,339 |
| Total other financial commitments | | 411,669 | 503,091 |

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

Note 20 – Contingent liabilities

As a consequence of operational changes made during the past two years, certain contracts with suppliers were renegotiated. Advice received has indicated that in some instances, this may have resulted in a change of the VAT status of these supplies that could lead to input tax of up to £700k becoming irrecoverable.

Note 21 – Losses and special payments

Cases over £250k

| | 2012-13 £'000 | 2011-12 £'000 |
|--|------------------|------------------|
| Non cash losses | | |
| Capitalisation of assets less than £5k | | |
| A decision was taken to align IPS non current asset capitalisation thresholds with the £5,000 limit used by HO. This resulted in a reduction of asset values by impairments of £1,257k, realised on buildings, IT, equipment and machinery, furniture and fittings, software licences and assets under construction, whilst £16k had been recognised as a downward movement on the revaluation reserve. £1,241k was recognised as a loss in the Statement of Comprehensive Net Expenditure. (12,296 Assets). | 1,257 | - |
| Impairment of assets (Loss) | 1,257 | - |
| Passport inventory written off | | |
| On the introduction of the new style passport books, which incorporated enhanced security features and allowed production cost savings, the residual stock of the outgoing design of passport was rendered obsolete. The cost of writing off this stock was £569k. In addition, £279k residual balance in respect of an incorrect inventory control account migrated from our previous accounting system, now identified as an error, has been written off to general fund. | 848 | - |
| Passport inventory (Loss) | 848 | - |
| Halt of second biometric programmes | | |
| The government decision in 2010 to halt work on the fingerprint biometric passport meant that the benefit to IPS of two programmes – the National Identity Assurance Service and Public Key Infrastructure Shared Service (PKISS) ended, and the programmes and associated assets were transferred to UKBA. | - | 800 |
| Impairment of PKISS assets (Loss) | - | 800 |
| Losses and special payments over £250k | 2,105 | 800 |

Cases under £250k

| | Number of cases | | |
|--|-----------------|--------------|--------------|
| Compensation to public and staff (Loss) | 1,944 | 289 | 93 |
| Waiving of contractual entitlements (Loss) | 601 | 43 | 116 |
| Losses and special payments under £250k | 2,545 | 332 | 209 |
| Total of Losses and special payments | | 2,437 | 1,009 |

Note 22 – Related-party transactions

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

- a) Amounts paid to the HO during 2012-13 included £67.5m (2011-12: £71.5m) from passport sales, which was remitted to HM Treasury for FCO provided Consular Services.
- b) Accommodation costs – IPS has entered into an arrangement with HO. IPS has sublet the 5th and 6th floors of Globe House (its London Customer Services Centre) to HO who, in turn, have sublet part of 2 Marsham Street, the HO headquarters building to IPS.
- c) During 2012-13 the HO funding arrangements to IPS covered capital expenditure and £7m towards the non-fee funded civil registration statutory services. IPS generates its own cash resources.

FCO is regarded as a related party. The UK passport fee includes an element to recover the cost incurred by FCO for providing consular protection abroad; this element of the passport fee is remitted through the HO to HM Treasury. IPS collects £15.62 per adult standard passport, £4.28 per child passport and £23.18 per jumbo passport (for passports issued both in the UK and overseas). The total collected during the year for consular protection abroad was £67.5m (2011-12: £64.2m). The total paid over to the HO during the period was £67.5m (2011-12: £71.5m).

Payroll services are provided by the Ministry of Justice.

Other government departments and agencies with which IPS transacted in the normal course of business during the year include the HM Revenue & Customs, Driver and Vehicle Licensing Agency, Department for Work and Pensions, Office for National Statistics, Department for Education, Department for Health, Department for Transport, Cabinet Office, HM Prison Service, Treasury Solicitors and Environment Agency.

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

All related party transactions are conducted on an arm's length basis.

Note 23 – Events after the Reporting Period

On 16 April 2013, Sarah Rapson was appointed as the interim Director General of the new UK Visas and Immigration Service and Paul Pugh took over as interim Chief Executive of IPS. Sarah has retained her formal position of Registrar General for England and Wales.

On 13 May 2013, the Identity & Passport Service was renamed 'Her Majesty's Passport Office'.

Susan Caldwell resigned as an Executive Director of the Agency on 23 May 2013.

No other events were required to be mentioned in this report. The Chief Executive duly authorised the issue of these financial statements on the same date that the Comptroller and Auditor General signed off the accounts.

Sustainability Report (Unaudited)

Introduction

This is the second Sustainability Report produced by the Identity and Passport Service (IPS) in accordance with the Government Financial Reporting Manual, which requires all central government bodies that produce Annual Report and Accounts to include a discrete section of sustainability information and related costs.

This report forms part of the Home Office (HO) consolidated report in the HO Annual Report and Accounts.

Sustainability means making the necessary decisions now to realise the government vision of stimulating economic growth and tackling the deficit, maximising wellbeing and protecting and enhancing our environment, without negatively impacting on the ability of future generations to do the same.

Our report focuses on the environmental challenges that most affect our estate, official travel and supply chain. This includes the environmental impact of our energy and water use, travel, waste generation and recycling together with the costs associated with each of these.

A priority for us is to reduce our carbon dioxide emissions. Improving sustainability performance is closely linked to our efforts to achieve greater value for money and efficiency.

Greening Government Commitments (GGC)

The GGC commenced on 1 April 2011: it requires departments to take action to significantly reduce their impact on the environment by 2015 (compared to a 2009-10 baseline). These commitments can be found here: <http://sd.defra.gov.uk/gov/green-government/>.

We are making good overall progress against the GGC.

Highlights

In the last 12 months:

- We reduced CO₂ emissions from buildings by reduction of consumption, by streamlining our supply chain to work with environmentally friendly approved suppliers and by using green energy supplies wherever possible.
- Through staged refurbishments at Globe House (our London customer service centre) and Smedley Hydro (our civil registration services offices in Southport) we have introduced low powered, passive infrared lighting systems together with low volume, waterless sanitation systems.
- We have continued to work with HO colleagues to improve the understanding of our performance. We have improved the quality of our data capture methods and also through audit have improved the quality of data reported. In some areas, this has resulted in re-presenting comparative data for earlier years.

Examples of our sustainability initiatives are:

- At Globe House, lift system controls have been replaced to deliver future power savings.
- An area office in Wales was relocated at the end of the reporting period to a smaller footprint, more energy efficient building. Internal fit-out design incorporated energy/water savings systems that will significantly reduce energy consumption in the next reporting period.
- We embedded closed loop paper purchase and waste paper recovery.
- We continue to support the cross-government Green ICT (Information and communication technology) Strategy. In the past year we have removed 50% of printers from across our estate. Replacement printers have default configurations for condensed/doubled sided printing with improved power management.
- We actively promoted Earth Hour, Climate Week and other action on climate change events.

Summary of our reported performance

| Area | Metric | 2012-13 | 2011-12 | 2010-11 | 2009-10 |
|---|---|------------|------------|------------|------------|
| Total (Greenhouse gases) GHG | Amount (tonnes CO ₂ e) | 6,338 | 6,028 | 6,170 | 6,072 |
| Net GHG (GHG less accredited carbon offsets) | Amount (tonnes CO ₂ e) | 5,082 | 5,542 | 5,685 | 6,072 |
| Building energy | Amount (tonnes CO ₂ e) | 5,548 | 5,327 | 5,303 | 5,548 |
| | Amount (kWh) | 13,549,813 | 12,442,210 | 12,784,006 | 12,363,318 |
| | Expenditure (£k) | 1,117 | 1,125 | 1,030 | 977 |
| All travel | Amount (tonnes CO ₂ e) | 790 | 701 | 868 | 891 |
| | Amount (km) | 6,629 | 6,107 | 8,128 | 8,379 |
| | Expenditure (£k) (excludes Gas Contribution Offset Funding) | 1,507 | 1,501 | 2,316 | 2,314 |
| Office waste | Amount (tonnes) | 720 | 833 | 505 | 358 |
| | Expenditure (£k) | 104 | 121 | 73 | 50 |
| | Total recycled (tonnes) | 672 | 779 | 469 | 309 |
| Water consumption | Expenditure (£k) | 34 | 34 | 39 | 26 |

About our data

1. Both volume and quality of data reported have shown improvement and where prior data is not available estimations are provided for consistency. Quality improvement has been achieved through improved financial control, internal collection of data, regular audit and improved supplier capability.
2. For energy and water use, this report covers all locations occupied by IPS* where we pay for utilities directly.

* Note where IPS cedes space to other government departments via a memorandum of terms of occupation arrangement, the utility data is reported but we do not directly have influence on how the space is occupied. Similarly, in such buildings it is difficult to accurately report the number of FTE occupiers (e.g. training suites which consume utilities but which have few, if any, staff associated).

3. Travel data includes travel by all our staff regardless of their location.
4. The following assumptions and estimates apply:

| Gas | Full Year Data |
|-----------------------------------|--|
| All travel | Audited metrics for the 11 months to 28 February 2013 have been extrapolated for period 12 |
| Carbon Reduction Commitment (CRC) | Estimated at £90k based on the actual 2011-12 quota cost of £86k |

5. The reporting of normalised data has been omitted for the following reasons:
 - a significant number of occupants within the IPS estate are third party contractors. We have no contractual means of establishing the average contractor occupancies, although we have requested suppliers to provide data for future reports; and
 - one property is not of standard office function, size or density of occupation – it is a secure production facility where the nature of the operation is such that it requires large volumes of utilities despite it having a small number of occupants. Data incorporated from this one property significantly skews overall performance; future reports should consider how best to normalise the impact this one building has against the reported estate.

Other requirements

Supply chain impacts and Government Buying Standards

We require our suppliers to demonstrate a strong commitment to supporting the delivery of GGC and to wider sustainability ambitions. We do this by encouraging the incorporation of sustainable practices into our contracts for the provision of goods and services and by working closely with suppliers, measuring their sustainability and corporate social responsibility (CSR) performance through the “CAESER” (<https://nqc.com/>) online self-assessment tool.

We are also contributing to the key role that the HO is playing in developing a cross-government strategy for CSR (and Information Assurance), which will report supply chain (outsourced) emissions from key government suppliers. This exercise is being led by the Government Procurement Service.

Paper

We source all paper through the HO's closed loop procurement delivered by Banner Business Services. Restricted waste paper is recycled via a specialist contractor where waste paper is recycled via onsite facility management arrangements.

Information and communication technology

We have improved the efficiency of IT through continued work on IT-rightsizing, flexible working and rationalising our IT arrangements; for all of which sustainability is a key driver. This year has seen preparation for rationalisation of one of our key data centres, benefits of which will be delivered in the next reporting period.

Sustainable construction

In the reporting period we fitted out a replacement area office in Newport, South Wales and relocated to the new premises in April 2013. The new office is located in an existing, though previously vacant, grade A property that has a Building Research Establishment Environmental Assessment Method (BREEAM) performance rating of 'very good'. We invested in the design of the fit-out to ensure operational and accessibility solutions did not degrade the BREEAM rating. The theoretical energy performance certificate (EPC) shows that we will make considerable savings in power and water consumption in the next period when compared to the metrics associated with our previous building. During fit-out, the appointed contractor reported Waste Resources Action Plan (WRAP) disposals of 28.86 tonnes of which 27.28 tonnes (91%) was recycled.

A significant programme of refurbishment was also undertaken at Globe House. The appointed contractor for these works reported WRAP disposals of 62.82 tonnes, of which 60.21 tonnes (95.9%) was recycled.

Procurement of food and catering services

We have a sourced catering service at Smedley Hydro, where our contract with the supplier contains a requirement upon them to demonstrate sustainable sourcing of ingredients.

CRC Energy Efficiency Scheme

We actively participate, as part of the HO, in the CRC Energy Efficiency Scheme.

Carbon footprinting

We support HM Treasury guidance in extending reporting beyond the minimum requirements.

Mainstreaming sustainable development

We work to HM Treasury guidance on sustainable development, which includes whole life policy appraisals as well as considerations of economic, social and environmental impacts.

This year, both IPS and HO business plans contain a commitment to this agenda.

Biodiversity and natural environment

Biodiversity is not material for IPS estate and we do not undertake data collection on this aspect of sustainability.

People

We supported Earth Hour and Climate Week; we have sustainability champions based in each area network who are responsible, via their local committees, for a range of sustainability and community based support.

The introduction of the Public Services (Social Values) Act 2012 has reinforced the IPS commitment to consider social and environmental issues when impact assessing the effect of proposed changes in how we deliver our services. The Act served to embed best practice within our Commercial teams as well as that already existing within Corporate Strategy.

Rural Proofing/Action on Climate Change

Consideration is given to the accessibility of rural communities to our services. This was demonstrated in how we determined the location of our customer service network and the processing services we provide across the UK, which include the provision of video interview facilities and deployment of flexible interviewing teams. We are working with the Post Office on enhancing the use of passport 'Check & Send' services, which enables local communities to use parts of the Post Office network to access passport services. This flexible approach has reduced the number of journeys made by passport applicants by enabling services to be accessed locally rather than having to travel to regional centres. This approach has also reduced the IPS requirement for estate capacity, making better use of office accommodation owned or occupied by local authorities or central government departments.

IPS is also looking at ways in which it can improve the method of contact with its customers and how to reduce the use of paper communication by encouraging greater use of the internet and customers getting one-stop information and advice through the use of GOV.UK. We are working towards providing a full online channel which negates the need for a paper trail.

We have also recently introduced text messages to customers rather than sending communications through the post. This not only provides value for money and saves energy, but provides increased customer confidence in our reputation through faster, more effective communication. It also saves our customers having to come into our offices to check the status of their application.

As an organisation, IPS in conjunction with the Foreign and Commonwealth Office (FCO) is centralising the global passport operation carried out at consular offices around the world into the UK. This will achieve significant economies of scale by centralising document production in the UK, via a small number of key UK locations, rather than at over 100 FCO centres around the world.

Our governance and standards

Progress against sustainability commitments is monitored by the HO Sustainable Development Team with data being provided to the HO Sustainability Implementation Group of which IPS is a member. The Group reports to the Estates and Sustainability Board chaired by the Director General, Financial and Corporate Services Group, which meets at least quarterly and ensures that necessary action is taken to meet the commitments.

Detailed performance data year by year

| Carbon Dioxide emissions | | 2012-13 | 2011-12 | 2010-11 | 2009-10 |
|---------------------------------|--|---------|---------|---------|---------|
| Non-Financial Indicators | Gross emissions for scopes 1 & 2 (tonnes) | 5,548 | 5,327 | 5,303 | 5,180 |
| | Gross emissions scope 3 business travel (tonnes) | 790 | 701 | 868 | 891 |
| | Total emissions (tonnes) | 6,338 | 6,028 | 6,170 | 6,072 |
| | CRC Registration and Licence Expenditure (£k) | - | - | - | - |
| Financial Indicators | Expenditure on accredited offsets (e.g. GCOF) (£k) | - | 3.4 | 1.5 | 1.5 |
| | Expenditure on official business travel (£k) | 1,507 | 1,501 | 2,316 | 2,314 |

Performance commentary

Expenditure on official business travel increased due to costs associated with the delivery of the overseas passport repatriation programme, which when complete will produce significant travel savings to both overseas passport applicants and how the service is delivered.

A further factor is due to improved reporting of domestic air travel linked to an improvement in travel procurement reporting: flights between London, Glasgow and Belfast are serviced by 'low cost' airlines. Previously data for such flights was not wholly reported because the travel was self purchased by staff and reclaimed via expenses. Our expenses system did not record the number, distance and costs of such flights. Via our new travel provider such flights can now be booked online, allowing the capture and reporting of this data for the first time.

Targets

IPS is on target to meet its GGC, which require us to reduce:

- greenhouse gas emissions from a 2009-10 baseline; and
- business-related transport, including cutting domestic business travel flights by 20% by 2015 from a 2009-10 baseline.

Controllable impacts commentary

Over 90% of our reported carbon dioxide emissions are from the use of buildings.

| Managing energy use from buildings | | | 2012-13 | 2011-12 | 2010-11 | 2009-10 |
|------------------------------------|-------------------------------|----------------------------|------------|------------|------------|------------|
| Non-Financial Indicators | Energy Consumption (kWh) | Electricity: Non-Renewable | 7,209,232 | 6,973,283 | 6,253,788 | 5,931,519 |
| | | Electricity: Renewable | 1,856,105 | 1,959,704 | 1,981,136 | 2,135,556 |
| | | Gas | 4,484,476 | 3,489,223 | 4,549,142 | 4,296,242 |
| | | Other (Oil) | - | - | - | - |
| | | Total kWh | 13,549,813 | 12,422,210 | 12,784,066 | 12,363,318 |
| Financial Indicators | Total Energy Expenditure (£k) | 1,117 | 1,125 | 1,030 | 977 | |

Performance commentary

As reported in 2011-12, the impact of closing 54 offices yet condensing staff and services to existing buildings in a full reporting period has contributed to the apparent increase in energy consumption despite better controls being in place.

We are using our offices more efficiently by increasing occupancy rates, operating them for longer hours and additional days. Additional staff now use the offices to deliver services linked to the repatriated overseas passport application processing. Whilst costs have increased due to the higher occupancy rates, the increase is minimal compared to the energy savings delivered through FCO closing 8 consular processing centres overseas.

The full benefits arising from this rationalisation of estates will be reported in 2013-14, when we expect to see a decrease in energy and water consumption.

Energy expenditure is impacted by the above inflation increase in wholesale energy prices.

Controllable impacts commentary

Further investment in energy saving technology (e.g. passive infrared sensor lighting, energy efficient pumps) is being implemented.

Ongoing staff communications highlight the importance of personal responsibility in driving down energy usage.

Description of terms, scope and data quality

We only report energy use in buildings where we are directly billed and responsible for the payment.

For electricity we have reported on 8 sites in 2010-11 and 2011-12 and 7 sites in both 2009-10 and 2012-13.

For gas we have reported on 4 sites in all years.

| Managing water use | | | 2012-13 | 2011-12 | 2010-11 | 2009-10 |
|--------------------------|-------------------------------------|------------|---------|---------|---------|---------|
| Non-Financial Indicators | Water Consumption (m ³) | | 16,616 | 18,295 | 9,253 | 16,724 |
| | | Abstracted | - | - | - | - |
| Financial Indicators | Invoiced Water Supply Costs (£k) | | 34 | 34 | 39 | 26 |

Performance commentary

All offices are now serviced via mains fed wholesome water supplies.

Refurbishment works at Globe House and Smedley Hydro have deployed a range of water efficient systems.

Targets

From 1 April 2011, new targets (GGC) require us to reduce water consumption from a 2009-10 baseline, and report on office water use against best practice benchmarks.

- a. $\geq 6\text{m}^3$ water consumption per FTE poor practice
- b. 4m^3 to 6m^3 per FTE good practice
- c. $\leq 4\text{m}^3$ per FTE best practice
- d. % offices meeting best/good/poor practice benchmark.

Controllable impacts commentary

Water use is almost exclusively from washrooms and for drinking. Water disposal costs for surface drainage are notably higher at our production sites owing to the large roof expanse.

Description of terms, scope and data quality

We only report water use in buildings where we are directly billed and responsible for the payment. We have reported on 3 sites in 2009-10 and 4 sites in subsequent years.

| Managing office waste | | | 2012-13 | 2011-12 | 2010-11 | 2009-10 |
|---------------------------------|--------------------------|--------------------------|---------|---------|---------|---------|
| Non-Financial Indicators | Total waste (tonnes) | | 720 | 833 | 505 | 358 |
| | Non hazardous waste | Landfill (tonnes) | 48 | 54 | 37 | 49 |
| | | Reused/Recycled (tonnes) | 672 | 779 | 469 | 309 |
| Financial Indicators | Total disposal cost (£k) | | 104 | 121 | 73 | 50 |
| | Landfill (£k) | | 4 | 4 | 3 | 4 |
| | Reused/Recycled (£k) | | 100 | 117 | 70 | 46 |

Performance commentary

The increase in the number of sites reporting explains the uplift in waste data.

Targets

From 1 April 2011, new targets (GGC) require us to reduce the amount of waste we generate by 25% from a 2009-10 baseline, cut paper use by 10% in 2011-12 and ensure that redundant ICT equipment is re-used (within government, the public sector or wider society) or responsibly recycled.

Controllable impacts commentary

The main impacts for us are from office waste and the construction or refurbishment work to our buildings.

Office waste includes shredded and un-shredded paper, dry mixed recycling, food waste and packaging. Strategies are being implemented to reduce waste and increase recycling.

The IPS has no reported hazardous waste disposal.

Description of terms, scope and data quality

We only report our waste use in buildings where we receive data from a waste management company.

We have reported on 2 sites in 2009-10, 4 sites in 2010-11 and 8 sites in both 2011-12 and 2012-13.

Glossary

| | |
|--------|---|
| AMS | Application Management System |
| BME | Black and Minority Ethnic |
| BREEAM | Building Research Establishment Environmental Assessment Method |
| CESG | The Government national technical authority for Information Assurance |
| CETV | Cash Equivalent Transfer Value |
| CFER | Consolidated Fund Extra Receipt |
| CPI | Consumer Prices Index |
| CSC | Computer Services Corporation |
| CSL | Civil Service Learning |
| CSR | Corporate Social Responsibility |
| EPC | Energy Performance Certificate |
| FCO | Foreign and Commonwealth Office |
| FReM | Financial Reporting Manual |
| GBS | Government Banking Service |
| GDP | Gross Domestic Product |
| GGC | Greening Government Commitments |
| GHG | Greenhouse Gases |
| GRO | General Register Office |
| HMT | Her Majesty's Treasury |
| HO | Home Office |
| HODS | Home Office Disability Support |
| HOW | Home Office Women |
| HQ | Head Quarters |
| IAO | Information Asset Owners |
| IAS | International Accounting Standard |
| ICT | Information, Communications and Technology |
| IFRS | International Financial Reporting Standards |
| iiP | Investors in People |
| IOSH | Institution of Occupational Safety and Health |
| IPS | Identity and Passport Service |
| KPIs | Key Performance Indicators |
| L&D | Learning & Development |
| MDP | Management Development Programme |
| MOJ | Ministry of Justice |
| NAO | National Audit Office |
| OHSAS | Occupational Health and Safety Assessment Specification |
| PCSPS | Principal Civil Service Pension Scheme |
| PKISS | Public Key Infrastructure Shared Service |
| PUBSEC | Public Sector |
| PVS | Passport Validation Service |
| ROSPA | Royal Society for the Prevention of Accidents |
| SCS | Senior Civil Servants |
| SOCNE | Statement of Comprehensive Net Expenditure |
| TSO | The Stationery Office |
| UKBA | UK Border Agency |
| VAT | Value Added Tax |
| WIP | Work in progress |
| WRAP | Waste Resources Action Plan |

Contact

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