



Annual Report and Accounts

for the year ended 31 March 2008

Front cover images of Identity and Passport Service staff

The staff included on the front cover are from offices in Ipswich, Dover, Liverpool, London, Peterborough, Durham, Belfast, Newport and Glasgow and are listed below.

Andy Brimacombe

Philip Chung

Kellie Cliffe

Luke Copeland

Alan Davidson

Yvonne Dick

Nicola Dodsworth

Sandra Donnelly

Michelle Ferris

Phil Gregory

Jean-Marie Harzo

David Martin

Nichola McRae

Olufolake Okunubi

Melanie Sayer

Suzy Silk

Maxine Smellie

Graham Thompson

Abdul Torofder

Walter Tutin

Identity and Passport Service

Annual Report and Accounts

2007–08

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

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to be printed 26 June 2008.**

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Chief Executive's message

I am delighted to introduce the 2007–08 Annual Report and Accounts for the Identity and Passport Service (IPS). This is the second year of business for IPS, which was formed on 1 April 2006 merging the activities of the United Kingdom Passport Service (UKPS) and the Identity Cards team from the Home Office.

We have focused during the year on our objective of continuing to deliver an excellent service to 5.9 million passport customers while preparing to deliver the National Identity Scheme (NIS). These objectives combine into our overall Home Office strategic objective to **safeguard identity and the privileges of citizenship**.

Highlights of the year

During the year there have been many successes, just a few of which are outlined below:

- establishment of a new senior management team and management board structure;
- the issuing of 5.9 million passports with all customer service targets achieved, including 97% customer satisfaction;
- full roll-out of the Interview Office Network (ION) for first time adult customers, with over 87,000 interviews carried out during the set-up year;
- publication of the NIS Delivery Plan in March 2008;
- expansion of our resources focused on data integrity and assurance;
- a successful civil servant recruitment campaign bringing in specialised skills to support the delivery of the NIS;

- expansion of our Passport Validation Service (PVS), with 44 new private and public sector customers.

The year finished with the integration of GRO into IPS on 1st April 2008.

All of these successes have been made possible by the high level of professionalism, commitment and skills of our staff. We are continuing to invest in further recruitment programmes as well as training and development opportunities for our own staff to ensure that we have the right skills and capabilities to deliver the NIS and passport operations.

National Identity Scheme

The publication of the NIS Delivery Plan on 6 March 2008 was a significant milestone, as this establishes a clear framework for the delivery of the first identity cards to UK citizens during 2009. The Government's commitment to the NIS now clearly sets the forward agenda for IPS, and in response we are organising ourselves to deliver effectively.

The plan sets out the journey to introduce identity cards in the UK, starting later this year with the UK Border Agency issuing compulsory cards for foreign nationals working and studying in the UK. In the second half of 2009 we will begin to issue identity cards for critical workers in sensitive roles or locations, starting with airport workers. In 2010 we will issue identity cards on a voluntary basis

to young people and from 2011/12 we will start to enrol UK citizens in high volumes, offering a choice of identity card, passport or both.

The NIS will require significant engagement with both public and private sector partners to ensure its delivery, and a programme of stakeholder consultation is well under way.

Meeting tomorrow's challenges

IPS is committed to managing all of its activities in line with three key measures: customer service, public protection and value for money. In considering the future of our application and enrolment process, we are looking at how to improve our performance against all three measures. The combination of re-tendering our core technology contracts, introducing fingerprint collection as part of the application process and rolling out identity cards represents an opportunity to rethink our arrangements, and to ensure that they are as convenient and efficient as possible and cost-effectively support our public protection obligations. We have put forward proposals to restructure operations at our Glasgow office, which are likely to displace some staff during 2008, but at the same time we are strengthening our corporate presence in Glasgow through increasing our fraud investigation capability.

We have also taken some difficult decisions to close down activities that are not central to our core objectives, including the cancellation of the second generation Electronic Passport Application (EPA2) project. More details on these issues are contained within the accounts.

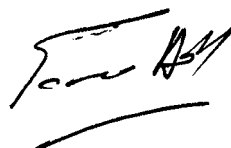
Accounts

The accounts for IPS provide full details of activities and their financial impact in the year, separating clearly those that have been funded by the passport fee and those funded by central Home Office funds for the set-up of the NIS. In delivering the performance highlighted in this report, IPS made a passport surplus of £12 million against a planned breakeven and spent £61.7 million of Home Office funds, the detail of which is set out in accounts note 2. We continued to develop an increased asset base as we completed the fit-out of the network of interview offices. This capital investment is funded by the Home Office, which approves detailed business cases for any large investment projects.

A passport fee increase was necessary in October 2007, due to a Foreign and Commonwealth Office requirement to recover additional costs of providing non-fee bearing consular services overseas.

The year ahead

IPS has put in place a challenging programme of activity for the next 12 months as the countdown to the delivery of the first identity cards is now fast approaching. However, we will not lose focus on continuing to provide excellent customer service in our passport operations, delivering efficient GRO operations and maintaining our strong public reputation.



James Hall
Chief Executive
Identity and Passport Service
17 June 2008

A portrait of a woman with dark hair, wearing a light-colored blazer and a necklace, holding a white mug. The background is a soft, out-of-focus indoor setting.

Having joined IPS in 2004, Istafiah is an integral part of the Chief Information Officer and Commercial Directorate, which is responsible for delivering the National Identity Scheme infrastructure. Working in communications, she is well aware that good communication is essential to success, and relishes being part of a massive change programme offering plenty of challenges and opportunities.

Istafiah Is'harc

Business performance

Key performance indicators

Performance area	Target	Result															
<p>Annual demand variance</p> <table border="1"> <caption>Annual demand variance data</caption> <thead> <tr> <th>Year</th> <th>Variance</th> </tr> </thead> <tbody> <tr> <td>2004-05</td> <td>-1.0%</td> </tr> <tr> <td>2005-06</td> <td>-4.0%</td> </tr> <tr> <td>2006-07</td> <td>-7.0%</td> </tr> <tr> <td>2007-08</td> <td>1.0%</td> </tr> </tbody> </table>	Year	Variance	2004-05	-1.0%	2005-06	-4.0%	2006-07	-7.0%	2007-08	1.0%	<p>Annual demand variance To achieve an annual variance between actual and forecast demand of +/- 5 per cent. Forecast demand was 5.84 million.</p>	<p>Met: Performance finished inside the threshold at 1.04 per cent above the forecast level. Actual demand was 5.90 million.</p>					
Year	Variance																
2004-05	-1.0%																
2005-06	-4.0%																
2006-07	-7.0%																
2007-08	1.0%																
<p>Turnaround of online, postal and partner applications within 10 days</p> <table border="1"> <caption>Turnaround of online, postal and partner applications within 10 days data</caption> <thead> <tr> <th>Year</th> <th>Actual</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>2004-05</td> <td>98.1%</td> <td>99.5%</td> </tr> <tr> <td>2005-06</td> <td>99.5%</td> <td>99.5%</td> </tr> <tr> <td>2006-07</td> <td>99.6%</td> <td>99.5%</td> </tr> <tr> <td>2007-08</td> <td>99.9%</td> <td>99.5%</td> </tr> </tbody> </table>	Year	Actual	Target	2004-05	98.1%	99.5%	2005-06	99.5%	99.5%	2006-07	99.6%	99.5%	2007-08	99.9%	99.5%	<p>Turnaround To ensure that 99.5 per cent of straightforward online, postal and partner applications are turned around within 10 working days.</p>	<p>Exceeded: 99.9 per cent of straightforward online, postal and partner applications were turned around within 10 working days.</p>
Year	Actual	Target															
2004-05	98.1%	99.5%															
2005-06	99.5%	99.5%															
2006-07	99.6%	99.5%															
2007-08	99.9%	99.5%															
<p>Turnaround of ION cases within 15 elapsed working days</p> <table border="1"> <caption>Turnaround of ION cases within 15 elapsed working days data</caption> <thead> <tr> <th>Year</th> <th>Actual</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>2007-08</td> <td>100.0%</td> <td>99.5%</td> </tr> </tbody> </table>	Year	Actual	Target	2007-08	100.0%	99.5%	<p>Turnaround of Interview Office Network (ION) customers To process and despatch passports to 99.5 per cent of first time adult customers invited for interview within 15 elapsed working days of their submitting straightforward, properly completed applications.</p>	<p>Exceeded: Since the ION went live in July 2007, all first time adult applications have been turned around within 15 days.</p>									
Year	Actual	Target															
2007-08	100.0%	99.5%															
<p>PVS new customers</p> <table border="1"> <caption>PVS new customers data</caption> <thead> <tr> <th>Year</th> <th>Actual</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>2007-08</td> <td>44</td> <td>40</td> </tr> </tbody> </table>	Year	Actual	Target	2007-08	44	40	<p>Passport Validation Service (PVS) customers To increase our existing PVS customer base by 40 new customers by March 2008.</p>	<p>Exceeded: By the end of March 2008, 44 additional customers had signed up for the PVS.</p>									
Year	Actual	Target															
2007-08	44	40															

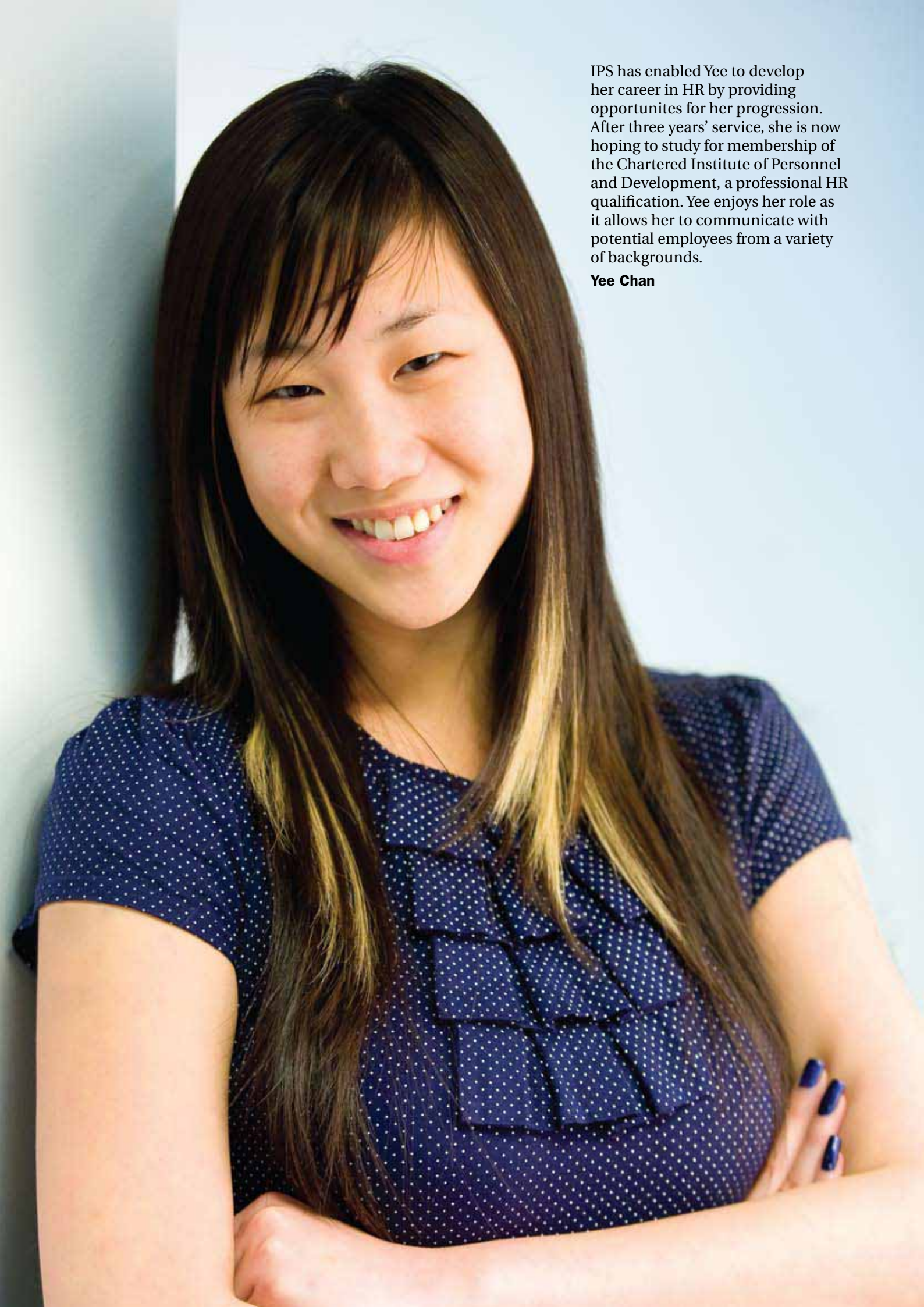
	Performance area	Target	Result															
OPERATIONAL	<p>Customer satisfaction</p> <table border="1"> <caption>Customer satisfaction data</caption> <thead> <tr> <th>Year</th> <th>Actual (%)</th> <th>Target (%)</th> </tr> </thead> <tbody> <tr> <td>2004-05</td> <td>97.0</td> <td>95.0</td> </tr> <tr> <td>2005-06</td> <td>97.0</td> <td>95.0</td> </tr> <tr> <td>2006-07</td> <td>97.5</td> <td>95.0</td> </tr> <tr> <td>2007-08</td> <td>97.0</td> <td>95.0</td> </tr> </tbody> </table>	Year	Actual (%)	Target (%)	2004-05	97.0	95.0	2005-06	97.0	95.0	2006-07	97.5	95.0	2007-08	97.0	95.0	<p>Customer satisfaction To ensure a customer satisfaction rating of 95 per cent.</p>	<p>Exceeded: 97 per cent of all customers surveyed were either 'satisfied' or 'very satisfied' with our service.</p>
	Year	Actual (%)	Target (%)															
2004-05	97.0	95.0																
2005-06	97.0	95.0																
2006-07	97.5	95.0																
2007-08	97.0	95.0																
<p>Application fraud</p> <table border="1"> <caption>Application fraud data</caption> <thead> <tr> <th>Year</th> <th>Actual (%)</th> <th>Target (%)</th> </tr> </thead> <tbody> <tr> <td>2007-08</td> <td>0.09</td> <td>0.15</td> </tr> </tbody> </table>	Year	Actual (%)	Target (%)	2007-08	0.09	0.15	<p>Application fraud To reduce our level of undetected application fraud below 0.15 per cent of passport applications.</p>	<p>Exceeded: The estimated actual level of undetected application fraud is 0.09 per cent.</p>										
Year	Actual (%)	Target (%)																
2007-08	0.09	0.15																
FINANCIAL	<p>Passport unit cost</p> <table border="1"> <caption>Passport unit cost data</caption> <thead> <tr> <th>Year</th> <th>Actual (£)</th> <th>Target (£)</th> </tr> </thead> <tbody> <tr> <td>2004-05</td> <td>29.5</td> <td>30.0</td> </tr> <tr> <td>2005-06</td> <td>33.0</td> <td>34.0</td> </tr> <tr> <td>2006-07</td> <td>55.0</td> <td>56.5</td> </tr> <tr> <td>2007-08</td> <td>55.7</td> <td>56.5</td> </tr> </tbody> </table>	Year	Actual (£)	Target (£)	2004-05	29.5	30.0	2005-06	33.0	34.0	2006-07	55.0	56.5	2007-08	55.7	56.5	<p>Passport unit cost To achieve a budgeted unit cost target (based on internal cost excluding external charges such as the Foreign Commonwealth Office (FCO) premium) of £56.51 per passport.</p>	<p>Exceeded: The actual unit cost per passport was £55.69, 82p lower than the target.</p>
	Year	Actual (£)	Target (£)															
	2004-05	29.5	30.0															
2005-06	33.0	34.0																
2006-07	55.0	56.5																
2007-08	55.7	56.5																
<p>Surplus/deficit after FCO costs</p> <table border="1"> <caption>Surplus/deficit after FCO costs data</caption> <thead> <tr> <th>Year</th> <th>Actual (£m)</th> <th>Target (£m)</th> </tr> </thead> <tbody> <tr> <td>2004-05</td> <td>25</td> <td>18</td> </tr> <tr> <td>2005-06</td> <td>18</td> <td>12</td> </tr> <tr> <td>2006-07</td> <td>1</td> <td>-12</td> </tr> <tr> <td>2007-08</td> <td>12</td> <td>-</td> </tr> </tbody> </table>	Year	Actual (£m)	Target (£m)	2004-05	25	18	2005-06	18	12	2006-07	1	-12	2007-08	12	-	<p>Surplus/deficit To achieve a passport-related cost surplus/deficit of breakeven after FCO costs.</p>	<p>Not met: The passport-related surplus at year end was £12 million despite lower demand. This is a result of savings against staff and direct costs, mainly related to the slower-than-anticipated roll-out of the ION.</p>	
Year	Actual (£m)	Target (£m)																
2004-05	25	18																
2005-06	18	12																
2006-07	1	-12																
2007-08	12	-																
<p>Home Office funding</p> <table border="1"> <caption>Home Office funding data</caption> <thead> <tr> <th>Year</th> <th>Actual (£m)</th> <th>Target (£m)</th> </tr> </thead> <tbody> <tr> <td>2006-07</td> <td>30</td> <td>55</td> </tr> <tr> <td>2007-08</td> <td>62</td> <td>80</td> </tr> </tbody> </table>	Year	Actual (£m)	Target (£m)	2006-07	30	55	2007-08	62	80	<p>Funding To ensure that Home Office funding does not exceed £79.9m.</p>	<p>Met: The level of Home Office funding required was £61.7 million.</p>							
Year	Actual (£m)	Target (£m)																
2006-07	30	55																
2007-08	62	80																

	Performance area	Target	Result															
HUMAN RESOURCES	<p>Staff sickness absence</p> <table border="1"> <caption>Staff sickness absence</caption> <thead> <tr> <th>Year</th> <th>Actual</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>2004-05</td> <td>11.5</td> <td>10.5</td> </tr> <tr> <td>2005-06</td> <td>10.5</td> <td>10</td> </tr> <tr> <td>2006-07</td> <td>10</td> <td>9.5</td> </tr> <tr> <td>2007-08</td> <td>11.5</td> <td>9.5</td> </tr> </tbody> </table>	Year	Actual	Target	2004-05	11.5	10.5	2005-06	10.5	10	2006-07	10	9.5	2007-08	11.5	9.5	<p>Staff absence To ensure that the average annual staff sickness absence rate does not exceed 9.5 days per (full time equivalent) member of staff.</p>	<p>Not met: The actual rate was 11.5 days per person for the year.</p>
	Year	Actual	Target															
2004-05	11.5	10.5																
2005-06	10.5	10																
2006-07	10	9.5																
2007-08	11.5	9.5																
<p>Staff development</p> <table border="1"> <caption>Staff development</caption> <thead> <tr> <th>Year</th> <th>Actual</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>2004-05</td> <td>4%</td> <td>4.5%</td> </tr> <tr> <td>2005-06</td> <td>8.8%</td> <td>4.5%</td> </tr> <tr> <td>2006-07</td> <td>6.5%</td> <td>6.5%</td> </tr> <tr> <td>2007-08</td> <td>6.8%</td> <td>6.5%</td> </tr> </tbody> </table>	Year	Actual	Target	2004-05	4%	4.5%	2005-06	8.8%	4.5%	2006-07	6.5%	6.5%	2007-08	6.8%	6.5%	<p>Staff development To invest 6.5 per cent of salary costs in training and development.</p>	<p>Exceeded: The percentage of salary costs invested in learning and development was 6.8 per cent.</p>	
Year	Actual	Target																
2004-05	4%	4.5%																
2005-06	8.8%	4.5%																
2006-07	6.5%	6.5%																
2007-08	6.8%	6.5%																

Additional performance indicators

	Performance area	Target	Result															
OPERATIONAL	<p>Turnaround of premium and fast-track applications within service standards</p> <table border="1"> <caption>Turnaround of premium and fast-track applications</caption> <thead> <tr> <th>Year</th> <th>Actual</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>2004-05</td> <td>99.5%</td> <td>99.5%</td> </tr> <tr> <td>2005-06</td> <td>99.7%</td> <td>99.5%</td> </tr> <tr> <td>2006-07</td> <td>99.7%</td> <td>99.5%</td> </tr> <tr> <td>2007-08</td> <td>99.9%</td> <td>99.5%</td> </tr> </tbody> </table>	Year	Actual	Target	2004-05	99.5%	99.5%	2005-06	99.7%	99.5%	2006-07	99.7%	99.5%	2007-08	99.9%	99.5%	<p>Turnaround To ensure that 99.5 per cent of premium and fast-track applications are turned around within service standards.</p>	<p>Exceeded: 99.9 per cent of premium and fast-track service applications were processed within service standards.</p>
	Year	Actual	Target															
	2004-05	99.5%	99.5%															
2005-06	99.7%	99.5%																
2006-07	99.7%	99.5%																
2007-08	99.9%	99.5%																
<p>Customers seen within 20 minutes of appointment time</p> <table border="1"> <caption>Customers seen within 20 minutes of appointment time</caption> <thead> <tr> <th>Year</th> <th>Actual</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>2004-05</td> <td>94%</td> <td>92%</td> </tr> <tr> <td>2005-06</td> <td>97%</td> <td>92%</td> </tr> <tr> <td>2006-07</td> <td>97.5%</td> <td>92%</td> </tr> <tr> <td>2007-08</td> <td>99%</td> <td>92%</td> </tr> </tbody> </table>	Year	Actual	Target	2004-05	94%	92%	2005-06	97%	92%	2006-07	97.5%	92%	2007-08	99%	92%	<p>Appointment times To ensure that 92 per cent of customers are seen within 20 minutes of their appointment time.</p>	<p>Exceeded: 99 per cent of customers who applied in person were seen within 20 minutes of their appointment time. The total number of customers seen was more than 600,000.</p>	
Year	Actual	Target																
2004-05	94%	92%																
2005-06	97%	92%																
2006-07	97.5%	92%																
2007-08	99%	92%																
<p>Telephone calls answered within 20 seconds</p> <table border="1"> <caption>Telephone calls answered within 20 seconds</caption> <thead> <tr> <th>Year</th> <th>Actual</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>2004-05</td> <td>85%</td> <td>90%</td> </tr> <tr> <td>2005-06</td> <td>89%</td> <td>90%</td> </tr> <tr> <td>2006-07</td> <td>90.5%</td> <td>90%</td> </tr> <tr> <td>2007-08</td> <td>90.1%</td> <td>90%</td> </tr> </tbody> </table>	Year	Actual	Target	2004-05	85%	90%	2005-06	89%	90%	2006-07	90.5%	90%	2007-08	90.1%	90%	<p>Telephone calls To ensure that 90.0 per cent of telephone calls are answered within 20 seconds.</p>	<p>Exceeded: The number of telephone calls answered within 20 seconds was 90.1 per cent. The total number of calls handled was in excess of 3.7 million.</p>	
Year	Actual	Target																
2004-05	85%	90%																
2005-06	89%	90%																
2006-07	90.5%	90%																
2007-08	90.1%	90%																

	Performance area	Target	Result															
FINANCIAL	<p>Passport books issued accurately</p> <table border="1"> <caption>Passport books issued accurately</caption> <thead> <tr> <th>Year</th> <th>Actual (%)</th> <th>Target (%)</th> </tr> </thead> <tbody> <tr> <td>2004-05</td> <td>99.75</td> <td>99.75</td> </tr> <tr> <td>2005-06</td> <td>99.80</td> <td>99.75</td> </tr> <tr> <td>2006-07</td> <td>99.83</td> <td>99.75</td> </tr> <tr> <td>2007-08</td> <td>99.84</td> <td>99.75</td> </tr> </tbody> </table>	Year	Actual (%)	Target (%)	2004-05	99.75	99.75	2005-06	99.80	99.75	2006-07	99.83	99.75	2007-08	99.84	99.75	<p>Passport errors To achieve an accuracy rate of 99.75 per cent or more on passport books issued.</p>	<p>Exceeded: The accuracy rate of passports issued was 99.84 per cent. This is an improvement of 0.01 percentage points on last year's performance.</p>
	Year	Actual (%)	Target (%)															
2004-05	99.75	99.75																
2005-06	99.80	99.75																
2006-07	99.83	99.75																
2007-08	99.84	99.75																
<p>Invoice payment within 30 days</p> <table border="1"> <caption>Invoice payment within 30 days</caption> <thead> <tr> <th>Year</th> <th>Actual (%)</th> <th>Target (%)</th> </tr> </thead> <tbody> <tr> <td>2004-05</td> <td>97.0</td> <td>97.0</td> </tr> <tr> <td>2005-06</td> <td>97.0</td> <td>97.0</td> </tr> <tr> <td>2006-07</td> <td>97.0</td> <td>97.0</td> </tr> <tr> <td>2007-08</td> <td>98.0</td> <td>97.0</td> </tr> </tbody> </table>	Year	Actual (%)	Target (%)	2004-05	97.0	97.0	2005-06	97.0	97.0	2006-07	97.0	97.0	2007-08	98.0	97.0	<p>Invoice payment To ensure that 97 per cent of invoices are paid within 30 days of receipt.</p>	<p>Exceeded: 98 per cent of the 18,171 invoices received by the Identity and Passport Service (IPS) were paid within 30 days. This target has been met or exceeded in each of the past four years.</p>	
Year	Actual (%)	Target (%)																
2004-05	97.0	97.0																
2005-06	97.0	97.0																
2006-07	97.0	97.0																
2007-08	98.0	97.0																
HUMAN RESOURCES	<p>Employment targets (SEO)</p> <table border="1"> <caption>Employment targets (SEO)</caption> <thead> <tr> <th>Year</th> <th>Actual (%)</th> <th>Target (%)</th> </tr> </thead> <tbody> <tr> <td>2004-05</td> <td>8.0</td> <td>4.0</td> </tr> <tr> <td>2005-06</td> <td>14.0</td> <td>4.0</td> </tr> <tr> <td>2006-07</td> <td>10.0</td> <td>4.0</td> </tr> <tr> <td>2007-08</td> <td>11.1</td> <td>11.0</td> </tr> </tbody> </table>	Year	Actual (%)	Target (%)	2004-05	8.0	4.0	2005-06	14.0	4.0	2006-07	10.0	4.0	2007-08	11.1	11.0	<p>Employment figures To achieve the black and minority ethnic (BME) employment target of at least 11.0 per cent at senior executive officer (SEO) level.</p>	<p>Exceeded: BME employees now account for 11.1 per cent of IPS staff at SEO level.</p>
	Year	Actual (%)	Target (%)															
2004-05	8.0	4.0																
2005-06	14.0	4.0																
2006-07	10.0	4.0																
2007-08	11.1	11.0																
<p>Employment targets (HEO)</p> <table border="1"> <caption>Employment targets (HEO)</caption> <thead> <tr> <th>Year</th> <th>Actual (%)</th> <th>Target (%)</th> </tr> </thead> <tbody> <tr> <td>2004-05</td> <td>8.5</td> <td>11.0</td> </tr> <tr> <td>2005-06</td> <td>9.0</td> <td>11.0</td> </tr> <tr> <td>2006-07</td> <td>12.0</td> <td>11.0</td> </tr> <tr> <td>2007-08</td> <td>13.0</td> <td>11.0</td> </tr> </tbody> </table>	Year	Actual (%)	Target (%)	2004-05	8.5	11.0	2005-06	9.0	11.0	2006-07	12.0	11.0	2007-08	13.0	11.0	<p>Employment figures To achieve the BME employment target of at least 11 per cent at higher executive officer (HEO) level.</p>	<p>Exceeded: BME employees now account for 13 per cent of IPS staff at HEO level. This is an improvement on last year's performance of 12 per cent.</p>	
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IPS has enabled Yee to develop her career in HR by providing opportunities for her progression. After three years' service, she is now hoping to study for membership of the Chartered Institute of Personnel and Development, a professional HR qualification. Yee enjoys her role as it allows her to communicate with potential employees from a variety of backgrounds.

Yee Chan

IPS senior management team



James Hall – Chief Executive

James has been the Chief Executive of the Identity and Passport Service (IPS) since October 2006 and assumed the additional responsibility of Registrar General for England and Wales in May 2008. He has overall responsibility for the strategy, management and operations of IPS, including the General Register Office (GRO), and for the successful introduction of the National Identity Scheme (NIS). James is a member of the Home Office Board.



David Buckley – Executive Director, General Register Office

David has been with IPS since October 2004, joining as Regional Manager of the Durham office. He has recently taken up the role of Deputy Registrar General for England and Wales as well as GRO Executive Director, joining the Board permanently. He will lead the transition team as GRO moves under the IPS umbrella. David is a Justice of the Peace sitting in Yorkshire.



Jane Carwardine – Executive Director, Human Resources

Jane is an HR professional with over 20 years' experience, including the last 10 at director level. She has worked in a range of organisations including the Law Society, Coca-Cola Enterprises and Marks and Spencer. Jane has particular experience of employee engagement, organisational development and change and employee relations.



Bill Crothers – Executive Director, Chief Information Officer and Commercial

Bill joined IPS in April 2007 as the Commercial Executive Director. In January 2008, the Chief Information Officer (CIO) Directorate merged with Commercial, expanding his role to Executive Director, CIO and Commercial. In his role as CIO, Bill has overall responsibility for the operation of the technology that supports the current IPS business, and for managing the programme to deliver the NIS. For Commercial he has responsibility for managing the procurement exercise to select new strategic suppliers, developing effective relationships with our current and future suppliers and ensuring that we have the appropriate policies and procedures in place. For both directorates, he has a high focus on growing sustainable Civil Service capability.



Katie Davis – Executive Director, Strategy

Katie joined IPS as the Executive Director of Strategy in June 2007 from the Cabinet Office, where she was the Director of the Government IT Profession. In that role she worked as part of the Delivery and Transformation Group (formerly the e-Government Unit) to increase the capacity and capability of government to deliver large-scale IT-enabled change. Katie's role is to set out and support the strategic direction of IPS and define our operational policies.



Bernard Herdan CB – Executive Director, Service Planning and Delivery

Bernard has been Executive Director of Service Planning and Delivery at IPS since 1 April 2006. He has held board-level positions in the UK public and private sectors for the past 24 years, preceded by 11 years in senior management roles at the European Space Agency in the Netherlands. He has also held private sector non-executive director positions in the UK and USA and is currently Non-Executive Deputy Chairman of the Board at Bedford Hospital NHS Trust. Bernard has overall responsibility for the delivery of IPS services to customers, as well as for the planning of future evolution in the operational business model and corresponding changes to the workforce and the customer offerings.



Dr Duncan Hine – Executive Director, Integrity and Security

Duncan joined IPS in mid-2007 from QinetiQ plc. Prior to this he was the Group Chief Technical Officer of the Post Office in the UK. Duncan was the senior Non-Executive Director of Northgate plc for seven years, and combines his role at IPS with a number of other activities including directorships in the health and security industries, leading a European blue chip innovation network, and a visiting professorship at York University. Duncan has overall accountability for security and counter fraud for IPS and manages the co-ordination of risk and integrity for the passport service and the NIS.



Isabel Hunt – Executive Director, Business Development and Marketing

Isabel joined IPS as the Executive Director for Business Development and Marketing in April 2008. Prior to this she worked at Royal Mail for nine years in a range of marketing, business development and project management roles, including a period on the International Board as Commercial Director. Most recently she led a team managing Royal Mail's sales and marketing channels (the Post Office, the internet, Tesco etc). Before joining Royal Mail, Isabel worked in both the private and not-for profit sectors, and completed an MBA at Cranfield Business School and a postgraduate diploma in Marketing.



Mark McLaughlin – Executive Director, Finance and Performance

Mark joined IPS in June 2007, having previously been the finance and resources director for several local authorities. Mark manages our financial strategy and finance operations, which also include estates and facilities management. He has led a series of public-private partnerships in IT services and regeneration.



Sarah Rapson – Executive Director, Operations

Sarah has been with IPS since March 2005 and works closely with Bernard Herdan. She is responsible for the delivery of the passport operation through the regional offices, interview offices and partners. Her previous experience is in financial services, designing and managing distribution networks.



Sarah Blackburn – Non-Executive Director

Sarah has been a Non-Executive Director of IPS since September 2005 and is Chair of the Audit Committee. In that capacity she represents IPS in the Home Office Audit Committee. She is also Chair of the Data Governance Committee. Sarah is a chartered accountant who has been director of assurance and risk management in several FTSE 100 companies. She is now a director of the Institute of Internal Auditors (UK and Ireland) and an independent consultant.



Professor Janet Finch CBE – Non-Executive Director

Janet joined the Board with a particular remit to support the work of GRO and its work within IPS. She was formerly a Non-Executive Director of the Office for National Statistics with particular interest in the work of GRO. She is the Chair of the GRO Committee. Janet has been Vice-Chancellor of Keele University since 1995 and is a sociologist by background. She was awarded a CBE in 1999 for services to social science.



Alan Hughes – Non-Executive Director

Alan's background includes extensive experience of running highly successful retail and commercial finance businesses in marketing and banking. He chairs the NIS Independent Assurance Panel at IPS and is a board member of other organisations. Alan is a visiting lecturer at Warwick University and an advisor and speaker on leadership, marketing and customer service. He is a believer in the need for probity, integrity and respect in dealings with all stakeholders in any business, with the additional importance of trust founded on accountability and transparency in financial and public services.




Anne Tutt – Non-Executive Director

Anne joined IPS in September 2006 as the independent member of the Audit Committee, and became a Non-Executive Director in January 2008. She is still a member of the Audit Committee and Chair of the Service Delivery Committee. Anne has been an executive member of many private sector boards for over 20 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 third sectors.



Linda Walton – Non-Executive Director

Linda spent most of her career in financial services, latterly as operations director of a major credit card company and the director accountable for all the group's major outsourcing deals. Since 1994 she has combined her private sector activities with the public sector, holding non-executive positions since that date. Now freelance, she enjoys a portfolio career based around consultancy, coaching and training in which her work with IPS plays an important part, as does her position as Vice Chair of a housing association.

A professional portrait of Yunus Qamar, a man with dark hair and glasses, wearing a white dress shirt and a blue patterned tie. He is smiling slightly and looking towards the camera. The background is a dark blue wall with some green foliage on the right side. The text is positioned on the left side of the image.

Since joining IPS as an Admin Officer in 1998, Yunus has been given the opportunity and support to work in most areas of the business and progress through the grades. “The result is an increase in my experience, my skillset and my commitment to the IPS vision ‘to be the trusted provider of identity services,’” he says.

Yunus Qamar

Management commentary

History and background

The Identity and Passport Service (IPS), an Executive Agency of the Home Office, came into existence on 1 April 2006 with Royal Assent for the Identity Cards Bill on 30 March 2006 merging the functions of the United Kingdom Passport Service (UKPS) and the Identity Cards team within the Home Office.

Principal activities

The function of IPS during 2007–08 was to provide passport services for British nationals in the UK and to put in place the framework for the National Identity Scheme (NIS). Two funding streams are available to IPS: passport services are funded by passport fees and the NIS is funded by central Home Office funds. These activities are reported separately within these accounts.

Performance against key targets is described within the Annual Report. For the year ended 31 March 2008 the passport service elements made a surplus of £12 million against a plan to break even. This surplus was partly generated by our decision not to automatically replace operational staff who chose to leave during the year, so improving the match between capacity and demand. It was also partly caused by the delay in rolling out the Interview Office Network (ION); this was planned to be completed by October 2007 but, owing to additional system testing and some difficulties securing offices, concluded in June 2008. The NIS incurred expenditure of £62 million in the year, against a budget of £80 million. This variance was largely the result of differing increases in resources that had been previously estimated.

Basis for preparing the accounts

IPS and all other government agencies are required to produce accounts to conform with the accounting principles and disclosure requirements of the *Financial Reporting Manual* (FReM), in respect of 2007–08 and future years, in accordance with Chapter 3 of *Managing Public Money*.

IPS uses the Companies Act [1985] Schedule 4 format 1.

Business and future developments

IPS for the first time has its own separate strategic objective within the Home Office, which is to **safeguard identity and the privileges of citizenship**. This reflects the importance of the twin objectives of IPS, to continue to provide excellent customer service in producing highly secure passports and delivering the requirements of the NIS. In delivering passport services, the main highlights of the year have been:

- exceeding all customer service targets in delivering 5.9 million passports;
- successfully rolling out the network of 68 high street interview offices as a key deterrent against fraud, and conducting over 87,000 interviews in the start-up year;
- strengthening our fraud intelligence, deterrence and data integrity resources;
- strengthening links with the UK Border Agency and the Department for Work and Pensions on enhanced identity checks;

- rolling out new examiner quality standards supported by robust performance management information; and
- completing Executive Director recruitment and adding two further Non-Executive Directors.

In addition, during the year we agreed to take over responsibility for the General Register Office (GRO) from the Office for National Statistics (ONS). This transfer took effect from 1 April 2008.

On developments with the NIS, it was particularly pleasing that the Home Secretary launched the NIS Delivery Plan on 6 March 2008, setting out a clear commitment to delivery of the NIS.

This represents an exciting and challenging future for IPS and will also mean significant change from the way we do business today. As a first step in this process, we are currently consulting trade unions on proposals to restructure the activity of the Glasgow regional office, in order to remove postal examination and redistribute it to other regional offices. A public counter operation and an enhanced central fraud intelligence section would remain in Glasgow. This would be likely to result in excess staffing within Glasgow.

IPS will be making further restructuring proposals during the current year, with the intent that these proposals will be implemented gradually over the next few years.

Fixed assets

During the year IPS made significant capital investment, primarily in the fit-out and the IT systems to deliver the Authentication by Interview (AbI) service. Total capital expenditure in the year amounted to £27 million.

Opening the ION took longer than planned, but we are now at the full complement of 68 offices seeing significant volumes of first time adult customers. As agreed during 2006–07, a methodology has been established to identify the period between each office becoming ready for operational use and significant numbers of interviews taking place, with associated costs during that period being categorised as fruitless payments (see note 25 to the accounts).

The Management Board decided on 6 March 2008 to cancel the project designed to significantly upgrade the existing electronic passport application system, known as EPA2, and instead to revert to a more limited programme of enhancements to the existing EPA system.

This decision was reached by IPS after considering many commercial and technical factors. In particular, any further investment in EPA2 would have had a limited period in which to deliver the

expected benefits, given the current retendering of the contract to support operational systems from October 2009. Any transitional support and maintenance arrangements would have been likely to increase costs to IPS considerably until any new supplier was able to support the electronic channel.

IPS management considered it a more appropriate solution to undertake any major developments to the electronic channel within the terms of a new longer-term contractual arrangement, thus delivering the maximum time period for the benefits of any investment to be realised.

A full review of all costs incurred to the date of cancellation was undertaken and, where hardware and software were suitable for re-use, costs were retained. The total write-down of EPA2 assets since the project commenced in 2005 is £10.8 million, comprising £5.5 million in 2006–07 and £5.3 million in 2007–08.

Funding

Passport fee receipts continue to fund passport-related activity, with NIS development and capital expenditure funded by the Home Office. Where central services, particularly those from HQ, have been incurred on both areas of IPS's work, a cost allocation process is in place to ensure the integrity of the two separate funding streams.

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

Outsourcing

Contracts were awarded in July 1997 to Siemens Business Services (now Siemens IT Solutions and Services Limited) and The Stationery Office (TSO; now 3M Security Printing & Systems Limited). Services from both organisations commenced in 1998 and were anticipated to operate for 10 years. A one-year extension to the Siemens contract was awarded during the year to ensure continuity of service as work progresses within the Application and Enrolment programme to identify successor arrangements to the existing passport production systems.

Concessionary passports

In May 2004 the Home Secretary announced a scheme to issue free passports to all citizens born on or before 2 September 1929, in recognition of the sacrifices made by World War II veterans and civilians. As this subsidy was Government policy, the scheme is centrally funded by the Home Office. During the year 110,000 customers benefited from the scheme, at a cost of £7.5 million. The Home

Office funding for this scheme has been recorded under 'turnover from continuing activities' and will continue to be recorded in this way for the life of the scheme.

Fee review

The UK passport fee comprises two elements: the costs of producing passports for UK citizens and an element for the non-fee bearing consular services provided by Foreign and Commonwealth Office (FCO) staff overseas. In October 2007 the FCO element was increased by £6 on adult fees, £1 on child fees and £8 on jumbo fees (for 48-page passports).

Corporate governance

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

The content of the statement is supported by the work carried out by the IPS internal audit service, as well as other internal and external reviews which cover IPS business controls. The IPS Audit Committee met quarterly to oversee all audit and assurance work, and was supported by a Risk Management Committee which also met regularly throughout the year. The Annual statement on data integrity and security details this.

The IPS external auditor is the Comptroller and Auditor General (supported by the National Audit Office (NAO)), appointed under statute and reporting to Parliament. For the statutory audit carried out on this report and accounts, IPS paid notional fees to NAO of £175,000.

Full details of the Board in place for the 2007–08 financial year are included within the Remuneration Report, and profiles of the existing Board members are included on pages 13 to 15 of the Annual Report.

Pension scheme

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

Value for money

IPS is committed to maximising the value for money delivered to its customers while delivering excellent customer service and ensuring the highest degree of security and integrity. A detailed operational value for money plan is in place to drive efficiencies in the way we deliver our services within the funding we have available. The existing infrastructure we have in place will be the building

blocks for the NIS, and we need to be continuously improving our processes to be as efficient as possible and to ensure that future services and products deliver excellent value for money. The restructuring programme forms part of this.

Resource accounting and budgeting

The Home Office is preparing Resource Accounts for 2007–08 which will consolidate IPS accounts.

Payment performance

The IPS payment performance for the year was 98.1 per cent of all invoices paid within 30 days, against a target of 97 per cent.

Unlocking staff potential

IPS is proud of its Investors in People (IiP) status. We are also proud of the opportunities that IPS offers its staff to develop and the number of internal IPS staff who have built successful careers within the organisation; 194 members of staff were promoted internally during the year. We had a corporate target of investing 6 per cent of payroll in training of our people, which we met during the year. A comprehensive leadership programme is in place to ensure that our people are led effectively. This year we held our third Celebrating Success Awards ceremony for staff, recognising and rewarding the achievements of colleagues throughout IPS. A comprehensive Diversity and Equality Plan is in place, and a full staff survey was conducted during the year which will enable us to focus on key areas in further improving the engagement of our employees.

Disappointingly, staff sickness levels continue above our target performance levels. We continue to focus efforts on managing down this sickness level and are currently reviewing our policies to ensure we adequately guard against unjustified absence.

Employment of disabled people

IPS employed 221 staff who disclosed that they had a disability (6 per cent of total average staff numbers). In 2006, IPS published a Disability Equality Scheme in accordance with the Disability Discrimination Act 2005. There is an Equality Manager who is responsible for overseeing the action plan associated with the scheme; they have attended one Management Board meeting during the reporting year.

Health and safety

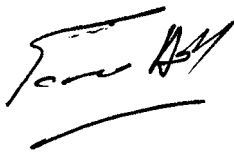
IPS is committed to maintaining the standards required by the Health and Safety at Work Act 1974 and other UK and European regulations relating to the health and safety of its employees and the public. A healthcare screening and flu vaccination programme exists for all staff.

Corporate and community issues

IPS is committed to its employees, its customers, the environment and, in the wider context, the community at large.

Partnership agreement with the trade union

IPS values its relationship with the Public and Commercial Services Union (PCS) and continues to build on the formal partnership agreement signed in 2002. We have had a number of challenging issues this year, most notably on pay, examiner quality assurance roll-out and Glasgow restructuring; we remain committed to finding solutions to these which achieve business requirements and PCS objectives as far as possible.



James Hall
Chief Executive
Identity and Passport Service
17 June 2008



Matthew McCabe, Samina Chodary and Nick McClelland from the Media and Public Affairs Team, working on the NIS programme

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

Within Managing Public Money, HM Treasury has directed the Identity and Passport Service (IPS) to prepare a statement of accounts for each financial year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of IPS at the year end and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, IPS is required to comply with the requirements of the 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 financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that IPS will continue in operation.

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

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

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

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 the entity's auditors are aware of that information.

Lindsey used to work on a regional public counter and was recently promoted to Interview Officer. A double amputee, she is part of the Home Office Disability Review Panel, ensuring that disabled staff have a voice within the organisation. Reflecting on her responsibilities, she says: "The job is certainly varied and presents new challenges on an almost daily basis."

Lindsey Marriott



Annual statement on internal control

Scope of responsibility

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

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

The purpose of the system of internal control

The system of internal control:

- is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore provide only reasonable and not absolute assurance of effectiveness;
- is based on a continuing process designed to identify the threats to the achievement of IPS objectives, to evaluate the likelihood and consequences of those risks crystallising, and to manage them efficiently and effectively in line with the Agency's tolerance for risk; and
- meets HM Treasury guidance and has been in place in IPS for the year ended 31 March 2008 and up to the date of approval of the Annual Report and Accounts.

Capacity to handle risk

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

Home Office risk management process and are subject to regular review.

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

Our risk management policy, framework and guidance documents provide guidance to staff. We seek to learn from best practice by reviewing internal lessons learned and by benchmarking with other parts of the Home Office, external government departments and private sector organisations. The Agency corporate risk function leads in the dissemination of best practice, and my Head of Risk, Resilience and Standards Compliance undertakes a range of activities to continually raise risk awareness and train staff to manage risk appropriately.

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

The risk and control framework

IPS operates in a high-risk environment in terms of our public profile – especially in light of our stretching strategic objectives, which include responsibility for delivery of the National Identity Scheme (NIS). There are high rewards from achieving these objectives but this entails taking considered and informed risks, bringing a particular exposure to significant reputational and public protection risks. We therefore balance our considered approach to risk-taking with an appetite for ensuring that there are effective and practical control measures in place to increase the likelihood of our success.

We assess our risk exposure in a number of key areas in line with our objectives, core activities and values. This enables us to be clear about our current risk profile and decide where action is needed to reduce this. It also establishes the parameters within which IPS managers have freedom to take and accept risks to the delivery of their personal objectives.

IPS has an established approach to identify, evaluate and control risk, including:

- a monthly Management Board meeting, attended by Non-Executive Directors, with a standing item on significant risks and security breaches;
- an active programme of facilitated Control Risk Self Assessment workshops across the Agency, which are used to evaluate risks, assess appropriate risk handling strategies, focus action on key risks to business objectives and improve risk management capabilities;
- annual declarations from Executive Directors to provide assurance on the effectiveness of risk management and the operation of key business controls in each directorate;
- an Audit Committee which meets at least four times a year, chaired by a Non-Executive Director and including two other Non-Executive Directors – business includes regular reviews of risks and controls in key business areas;
- regular reports by internal audit covering management and control of the Agency's main risks and key business processes;
- a developing system to record and monitor risks to objectives at operational, programme and corporate levels, using a corporate risk management tool;
- a Risk Management Committee of senior managers which reviews significant risks and the effectiveness of risk management practices;
- dedicated Counter Fraud and Security Teams, responsible for investigating all issues relating to passport fraud and security;
- a programme of health checks and rehearsals of business continuity plans; and
- a Resilience Group of senior managers overseeing business continuity planning.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work described within the risk and control framework section of this statement.

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

The Head of Internal Audit provides me with an overall opinion on risk, control and governance, based on the work conducted by the internal audit function. The summary of the opinion this year, in which the internal audit function has been transitioning from an outsourced to an in-house function, is that a generally adequate framework of control is in place to provide reasonable assurance of achievement of objectives and management of risk. That framework includes aspects of excellence as well as aspects in which ongoing attention to control improvement is required. Ongoing executive commitment to improvement of control in turn offers assurance that this will be achieved.

Significant risks and internal control issues

IPS operates in a high-risk environment as a result of its responsibilities for maintaining critical existing public services and delivering an innovative and technically challenging programme in the NIS. We balance these high risks by adopting a considered and informed approach to the management of risks and employing rigorous control frameworks.

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

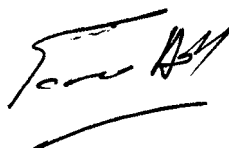
Risk and control issues in the year have been:

- dissolution of the Interim Operational Development Project, to maintain system stability and ensure value for money in changes made ahead of the renewal of existing contractual arrangements;
- an associated decision to cancel the second generation Electronic Passport Application (EPA2) project; and
- systems disruption caused by a system upgrade, although customer service levels were fully maintained throughout.


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

- Cross-Agency governance structures have been established for the delivery of the NIS.
- While data security and information risk have always been taken very seriously, we have reviewed our approach to these issues. This includes taking steps to establish a data governance subcommittee of the Management Board, which will operate in the new financial year. A separate statement on data security and information risk is included in the Annual Report.
- IPS has strengthened its development and risk management capacity for the delivery of projects. In particular it has changed the manner in which it delivers projects, now making better use of the private sector to transfer delivery risk. It has also aligned its commercial and project strategies where possible to ensure that any investment has the maximum time over which to deliver benefit. In December 2007, IPS merged the roles of Commercial Director and Chief Information Officer to further reinforce these improvements.
- An Executive Director of NIS Integrity and Security has been appointed.
- A permanent Head of Internal Audit has been appointed and initial steps taken in the development of an in-house service which will strengthen audit capacity. This will be supported by partnership arrangements with appropriate external providers to give access to the highly specialised skills that will be needed to audit much of the high-risk future work to be undertaken by IPS.
- Agreement has been reached to roll out the corporate risk tool to all business areas.

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



James Hall
Chief Executive
Identity and Passport Service
17 June 2008

A man with dark hair, wearing a dark blue suit jacket over a light blue checkered shirt, is smiling and looking towards a woman. The woman, seen from the back, has dark hair and is wearing a grey jacket. They are sitting at a wooden desk in an office setting. A computer monitor is visible behind the woman. The background shows a window with light-colored blinds.

Being promoted within IPS has given Omar the opportunity to study for the Prince2 qualification and advanced computer courses. "IPS has a well-developed training department which can arrange a variety of training courses tailor made for each individual," he says.

Omar Iqbal

Statement on Data Integrity and Security

Data security

The Identity and Passport Service (IPS) as the delivery organisation for the National Identity Scheme (NIS) and I as Chief Executive of IPS have a clear responsibility to protect the personal information that is held and used. My aim is to ensure that this information is used for the benefit of the individual and the UK as a whole in a way that fully recognises the rights of the individual to privacy.

The security and integrity of information held by IPS is fundamental to our success, and I have a clear goal of building on our proven track record to further enhance the trust in IPS and our reputation for public protection.

IPS is the first government agency to appoint a board-level Executive Director of Integrity and Security. Dr Duncan Hine and his team work right across IPS to ensure that security and privacy are embedded in programmes and projects from the outset.

Combating fraud

Countering fraud is a constant challenge for both our people and our systems. The duty to detect fraud and reject invalid applications for a UK passport is something we take very seriously. This is an area where we continue to improve performance while balancing the cost of providing products and services.

As a result of our successes in this area we know that fraudulent applications represent a very small proportion of the total number of applications we receive. Nevertheless, they remain a concern and IPS is committed to developing new ways of detecting and investigating fraud and to developing better and more accurate ways of recording and reporting what we have found.

One result of this continuous improvement is that we are able to report more information this year on our success in deterring and detecting fraud. We have also successfully introduced interviews for first-time adult customers and improved checks to establish a person's identity, in order to prevent people without legitimate right from obtaining a passport, and also to act as a deterrent.

Areas of activity

Integrity and security cover a number of areas which together underpin the delivery of IPS products and identity services.

IPS works as part of the wider Home Office, including the UK Border Agency, and with colleagues at the Foreign and Commonwealth Office to ensure the timely delivery of travel documents and the ability to conduct robust checks at the border with minimal inconvenience to the traveller.

Ensuring that our products are protected against counterfeit and forgery is just one area where IPS is a world leader. We have successfully introduced a chip to the passport which contains signed information, allowing the authenticity of the document to be established by border control.

Countering fraud is always a challenge and one where IPS is continuing to improve, while balancing this against the cost of providing products and services.

We have successfully introduced interviews for first time adult customers and improved checks to establish a person's identity, in order to prevent people without a legitimate right from obtaining a passport.

We have also introduced much stronger security requirements within IPS and with our suppliers, including the ability to link every action to a responsible individual and detect unauthorised activity.

This permits more effective enforcement of civil and criminal penalties now available to us under the Identity Cards Act 2006.

Enhancing trust

Integrity and security underpin our effort to assure the public that IPS and the NIS bring benefit to national security and to each individual citizen in their ability to quickly and easily prove their identity.

Integrity of the information held on the National Identity Register will ensure that identity theft is much harder and restitution of identity is far easier. It will provide a central repository from which accurate and timely information can be checked under the control of the citizen.

My Board and I take the protection of information, in particular personal information, very seriously

and intend to ensure that we continue our efforts to provide a secure and transparent service to the public.

Personal data incidents

In accordance with the Government's commitment to enhanced transparency with Parliament and the public about action to safeguard information and the results of that action, all departments and agencies now cover information assurance issues in their annual reports. This information for IPS is provided in this section.

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

Table 1: Summary of protected personal data incidents formally reported to the Information Commissioner's Office in 2007-08

Date of incident	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
June 2007	A parent was able to discover the existence of a child's passport application by using the online application progress checking service, possibly without entitlement.	Passport application	1	The parent concerned contacted IPS. The ICO was informed.
Further action on information risk	<p>Following advice from the ICO, we now require enquirers to provide the passport application's unique reference number.</p> <p>IPS will continue to monitor and assess its information risks in the light of the events noted above to identify and address any weaknesses and ensure continuous improvement of its systems.</p> <p>Planned steps for the coming year involve managing a range of interlinked, change-related work items to help IPS senior management reduce the number and impact of security incidents within their respective directorates. This work includes:</p> <ul style="list-style-type: none"> • increasing clarity and reducing uncertainty through improved security communications and training; • formalising and communicating security responsibilities effectively (see above); • improving incident reporting and incident management information; and • improving processes collaboratively to reduce opportunities for risks to manifest. 			

Table 2: Summary of other protected personal data incidents in 2007–08

Incidents deemed by the Data Controller (the officer who has full responsibility for IPS data, and who reports to the Executive Director of Integrity and Security) not to fall within the criteria for reporting to the ICO but recorded centrally within the Agency are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures.

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	–
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	–
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	–
IV	Unauthorised disclosure	–
V	Other	–

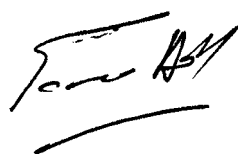
Table 3: Year-on-year total number of protected personal data incidents prior to 2007–08

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

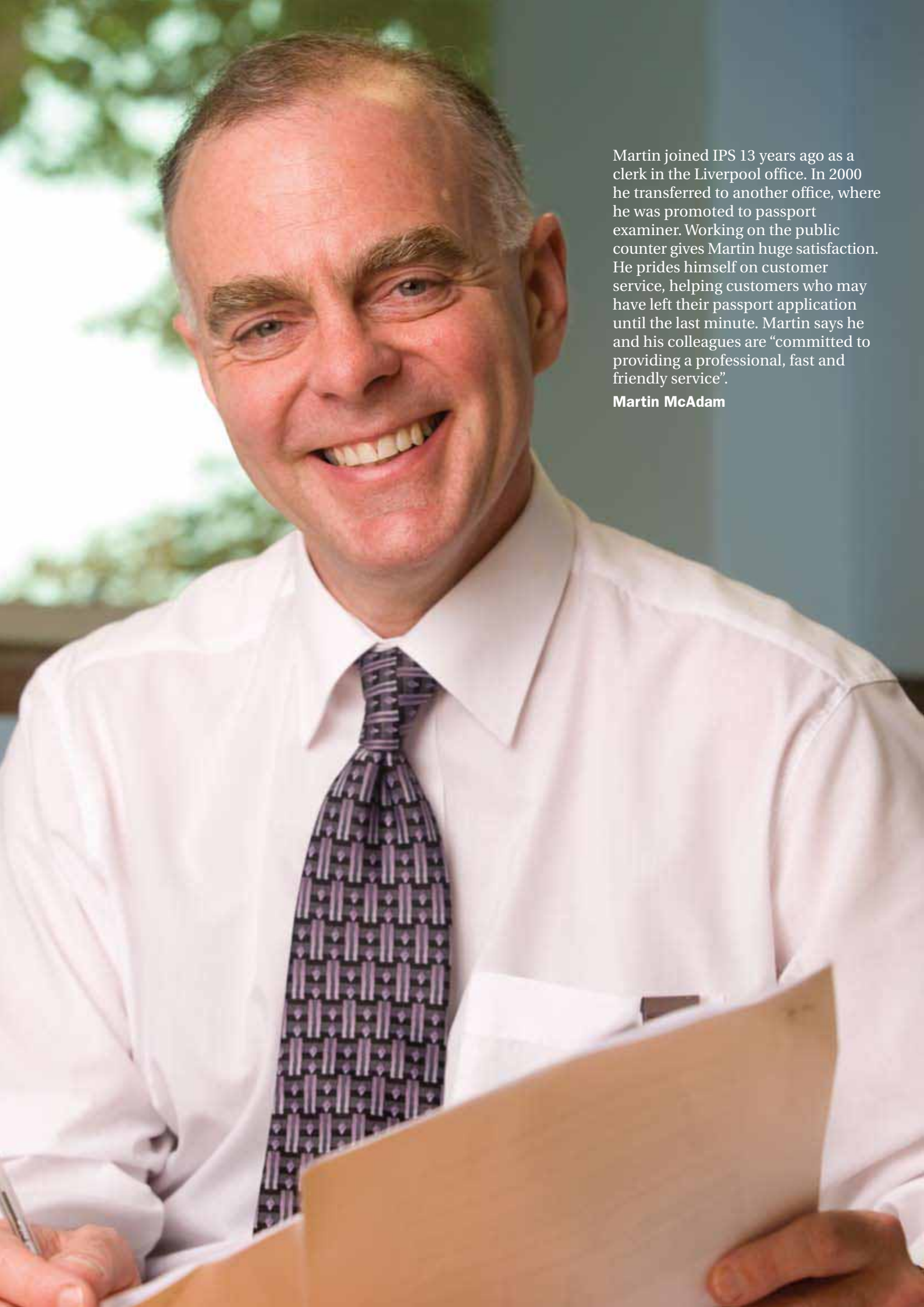
	I	II	III	IV	V	Total
2006–07	–	–	–	1	–	1
2005–06	–	–	–	–	–	–
2004–05	–	–	–	–	–	–

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

	I	II	III	IV	V	Total
2006–07	–	–	–	–	–	–
2005–06	–	–	–	–	–	–
2004–05	–	–	–	–	–	–



James Hall
Chief Executive
Identity and Passport Service
17 June 2008



Martin joined IPS 13 years ago as a clerk in the Liverpool office. In 2000 he transferred to another office, where he was promoted to passport examiner. Working on the public counter gives Martin huge satisfaction. He prides himself on customer service, helping customers who may have left their passport application until the last minute. Martin says he and his colleagues are “committed to providing a professional, fast and friendly service”.

Martin McAdam

Remuneration Report

Year ended 31 March 2008

In accordance with the *Financial Reporting Manual* (FReM), IPS has prepared a Remuneration Report for 2007–08. The objective of the Remuneration Report is to fully disclose information about IPS senior staff in accordance with the Companies Act 1985 as interpreted for the public sector. Senior staff are defined as members of the Management Board of IPS and its Non-Executive Directors.

Further details on other staff, including costs, can be found in note 8 to the annual accounts.

Service contracts

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

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

During 2007–08 IPS made no salary or compensation payments to past senior managers for loss of office and had no senior staff on fixed-term contracts.

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

Salary and benefits in kind

The tables overleaf give details of all individuals who have acted as members of the Management Board during the course of the year. Salary includes gross salary, performance pay or bonuses, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances and any other allowance to the extent that it is subject to UK taxation. All of the entries in the Salaries and Pensions tables overleaf are subject to audit.

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument.

Salaries and pension analysis

for each senior manager of the IPS Management Board
for year ended 31 March 2008, in bands of £5,000

Senior staff name	Job title	Salary 2007–08 (£'000) ¹
James Hall ²	Chief Executive (start date October 2006)	195–200
David Buckley	Executive Director, General Register Office (new post February 2008) (also acted as Director of Operations to cover maternity leave July 2007–January 2008 – shown within salary)	55–60 (Annualised salary 70–75)
Jane Carwardine	Executive Director, Human Resources (start date February 2007)	115–120
Bill Crothers	Executive Director, Commercial and Chief Information Officer (start date April 2007, replacing Nigel Shaw) (new CIO responsibilities taken over from Annette Vernon, who resigned in December 2007)	125–130 (Annualised salary 130–135)
Katie Davis	Executive Director, Strategy (start date June 2007, replacing Stephen Harrison)	105–110 (Annualised salary 130–135)
Andrew Dent	Executive Director, Business Development and Marketing (Acting) (start date October 2007, temporarily replacing Katherine Courtney)	45–50 (Annualised salary 85–90)
Bernard Herdan ³	Executive Director, Service Planning and Delivery	150–155
Duncan Hine	Executive Director, Integrity and Security (new post June 2007)	85–90 (Annualised salary 105–110)
Mark McLaughlin	Executive Director, Finance and Performance (start date June 2007, replacing Simon Rice)	100–105 (Annualised salary 130–135)
Sarah Rapson	Executive Director, Operations (maternity leave July 2007–January 2008 covered by David Buckley)	90–95
Sarah Blackburn ⁴	Non-Executive Director	10–15
Janet Finch ⁵	Non-Executive Director (start date January 2008)	0–5
Alan Hughes ⁶	Non-Executive Director	60–65
Anne Tutt ⁷	Non-Executive Director (start date September 2006)	5–10
Linda Walton ⁸	Non-Executive Director	30–35

1. Salaries include London weighting, performance bonuses and excess fares.

2. James Hall receives an annual home to work allowance of £11,000 which is included within remuneration above. IPS meets the tax liability on his behalf.

3. Bernard Herdan receives an annual home to work allowance of £10,000 which is included within remuneration above. IPS meets the tax liability on his behalf.

4. Sarah Blackburn is a Non-Executive Director of the IPS Management Board and Chair of the IPS Audit Committee. She

also represents IPS in the Home Office Audit Committee. She is Chair of the Data Governance Committee since May 2008.

5. Janet Finch is a Non-Executive Director of the IPS Management Board and Chair of the GRO committee since May 2008.

6. Alan Hughes is a Non-Executive Member of the IPS Management Board and Audit Committee. In addition he is the Chair of the Independent Assurance Panel of the NIS, a Non-Executive Member of the NIS Scheme Management Board and an Office of Government Commerce Executive Support Director. The disclosed salary is inclusive of VAT.

Salary 2006–07 (£'000) ¹	Real increase in pension at age 60 and related lump sum (£'000)	Total accrued pension at age 60 at 31 March 2008 and related lump sum (£'000)	Cash Equivalent Transfer Value (CETV) at 31 March 2007 (nearest £'000)	CETV at 31 March 2008 (nearest £'000)	Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £'000)
85–90 (Annualised salary 175–180)	n/a	n/a	n/a	n/a	n/a
n/a	0–5 plus 0–5 lump sum	15–20 plus 0–5 lump sum	227	238	4
10–15 (Annualised salary 100–105)	0–5 plus 0–5 lump sum	0–5 plus 0–5 lump sum	3	26	19
n/a	n/a	n/a	n/a	n/a	n/a
n/a	0–5 plus 0–5 lump sum	0–5 plus 0–5 lump sum	0	21	18
n/a	0–5 plus 5–10 lump sum	20–25 plus 60–65 lump sum	241	330	47
140–145	0–5 plus 0–5 lump sum	25–30 plus 75–80 lump sum	553	659	35
n/a	0–5 plus 0–5 lump sum	0–5 plus 0–5 lump sum	0	24	21
n/a	0–5 plus 0–5 lump sum	0–5 plus 0–5 lump sum	0	21	18
80–85	0–5 plus 0–5 lump sum	5–10 plus 0–5 lump sum	34	67	15
5–10	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a
(Restated) 65–70	n/a	n/a	n/a	n/a	n/a
0–5	n/a	n/a	n/a	n/a	n/a
25–30	n/a	n/a	n/a	n/a	n/a

7. Anne Tutt joined IPS in September 2006 as the independent member of the Audit Committee and became a Non-Executive Director in January 2008. She is also a member of the IPS Audit Committee and Chair of the Service Delivery Committee since May 2008.

8. Linda Walton is a Non-Executive Director of the IPS Management Board. In addition she has been Chair of the Investment Committee since May 2008, provides support to

the Interview Office Network programme, and evaluates the Celebrating Success contributions and is chair of the judging panel. She also provides advice to HR on Senior Civil Servant remuneration and recruitment activity.

9. Non-Executive Directors' salary includes home to work travel. IPS pays the tax liability on their behalf.

Salaries and pension analysis

for senior managers of the IPS Management Board who have left during 2007–08, in bands of £5,000

Senior staff name	Job title	Salary 2007–08 (£'000)	Salary 2006–07 (£'000)	Real increase in pension at age 60 and related lump sum (£'000)	Total accrued pension at age 60 at 31 March 2008 and related lump sum (£'000)	CETV at 31 March 2007 (nearest £'000)	CETV at 31 March 2008 (nearest £'000)	Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £'000)
Katherine Courtney	Executive Director, Business Development and Marketing (resigned in September 2007; replaced by Andrew Dent for the remainder of the year)	65–70	120–125	n/a	n/a	n/a	n/a	n/a
Stephen Harrison	Executive Director, Strategy (Acting) (resigned from post June 2007; replaced by Katie Davis)	30–35	15–20 (Annualised 70–75)	n/a	n/a	n/a	n/a	n/a
Simon Rice	Executive Director, Finance and Performance (Acting) (resigned from post June 2007; replaced by Mark McLaughlin)	25–30	35–40 (Annualised 65–70)	n/a	n/a	n/a	n/a	n/a
Nigel Shaw ¹	Executive Director, Commercial (Interim) (resigned from post April 2007; replaced by Bill Crothers)	10–15	150–155	n/a	n/a	n/a	n/a	n/a
Annette Vernon	Executive Director, National Identity Scheme Programme Delivery and Chief Information Officer (resigned December 2007; duties taken over by Bill Crothers)	120–125	130–135	n/a	n/a	n/a	n/a	n/a

1. Interim member of staff provided by third party agency.

Civil Service pensions

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

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.

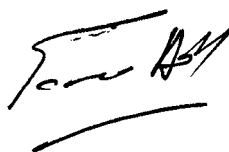
The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries. These 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 drawn.

Real increase in CETV

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

IPS has made no payment to a partnership pension plan during 2007–08 (nil 2006–07) for senior managers.



James Hall
Chief Executive
Identity and Passport Service
17 June 2008

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 2008 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Account and Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Agency, the Chief Executive and auditor

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

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

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

Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

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

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

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and

judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2008, and of the net deficit, recognised total gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information, which comprises the Management Commentary and the Statement on Data Integrity and Security included within the Annual Report is consistent with the financial statements.

Opinion on regularity

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

Report

I have no observations to make on these financial statements.

T J Burr

Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS
23 June 2008

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

Accounts Direction

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

1. This direction applies to those executive agencies listed in the attached appendix.
2. These executive agencies shall prepare accounts for the year ended 31 March 2008 in compliance with the accounting principles and disclosure requirements of the edition of the *Government Financial Reporting Manual* issued by HM Treasury (“the FreM”) which is in force for 2007–08.
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 2008 and of the income and expenditure (or as appropriate, net resource outturn), total recognised gains and losses (or, as appropriate, recognised gains and losses), and cash flows of the agency for the financial year then ended; and
 - (b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with the Treasury.



David Watkins
Head of Financial Reporting Policy Team
Her Majesty's Treasury
11 December 2007

Accounts

For the year ended 31 March 2008

Accounts for the year ended 31 March 2008

Identity and Passport Service Income and Expenditure Account for the year ended 31 March 2008

	Notes	2007–08 £'000	2006–07 £'000
Turnover from continuing activities	1.8, 3	375,681	345,606
Cost of sales	5	(159,027)	(154,419)
Gross surplus		216,654	191,187
Distribution costs	6	(17,158)	(22,342)
Administrative expenditure	7	(200,160)	(159,430)
		(217,318)	(181,772)
		(664)	9,415
Other operating income	1.12, 4	4,698	5,915
Operating surplus	9	4,034	15,330
(Loss) on disposal of fixed assets	11a, 11b	(53)	(435)
Cost of capital	10	(2,374)	(2,851)
Surplus on ordinary activities	1.10	1,607	12,044
Non-retainable element of the passport fee for consular protection	23	(51,326)	(45,072)
(Deficit) after deducting non-retainable element of the passport fee		(49,719)	(33,028)


Statement of total recognised gains and losses for year ended 31 March 2008

		2007–08 £'000	2006–07 £'000
Surplus on ordinary activities		1,607	12,044
Non-retainable element of the passport fee for consular protection	23	(51,326)	(45,072)
Unrealised surplus on the revaluation of assets	15b	9,949	2,251
Government grant additions	15c	–	338
(Deficit) recognised for the period		(39,770)	(30,439)

The notes on pages 43 to 61 form part of these accounts.

Identity and Passport Service Balance Sheet as at 31 March 2008

	Notes	2007-08 £'000	2006-07 £'000
Fixed assets			
Intangible assets	1.2, 11a	380	122
Tangible assets	1.3, 11b	124,597	129,581
		124,977	129,703
Current assets			
Stocks	1.5	5,222	1,808
Work in progress	1.6	939	373
Debtors	12, 26	17,191	23,767
Cash at bank and in hand	17	63,236	28,097
		86,588	54,045
Creditors (amounts falling due within one year)	13a, 26	(139,239)	(96,868)
Net current liabilities		(52,651)	(42,823)
Total assets less current liabilities		72,326	86,880
Creditors (amounts falling due after more than one year)	13b, 26	(3,489)	(3,778)
Provisions for liabilities and charges	1.15, 14	(5,148)	(3,752)
		63,689	79,350
Taxpayer's equity			
General fund	15a	51,748	74,422
Revaluation reserve	15b	11,824	4,512
Government grant reserve	1.14, 15c	117	416
		63,689	79,350



James Hall
Chief Executive
Identity and Passport Service
17 June 2008

The notes on pages 43 to 61 form part of these accounts.

Identity and Passport Service Cash Flow Statement for the year ended 31 March 2008

	Notes	2007–08 £'000	2006–07 £'000
Net cash inflow from operating activities		46,072	39,610
Capital expenditure and financial investment		(31,601)	(55,700)
Payments of amounts due to the consolidated fund		(27,878)	(25,667)
Net cash flow from financing		45,268	39,905
Increase/(decrease) in cash in the year	17	31,861	(1,852)
Reconciliation of operating cost to operating cash inflows			
Net operating surplus		4,034	15,330
Adjust for non-cash transactions	16a	34,719	16,390
Adjust for movements in working capital other than cash and provisions	16b	7,216	7,130
Adjust for movements in provisions	16b	103	760
		7,319	7,890
Net cash inflow from operating activities		46,072	39,610
Analysis of capital expenditure and financial investment			
Tangible fixed asset additions	11b	(31,195)	(55,677)
Intangible fixed asset additions	11a	(406)	(23)
Net cash outflow from investment activities		(31,601)	(55,700)
Payments of amounts due to the consolidated fund			
Consolidated fund extra receipts (CFER) payment	1.10, 23	(27,878)	(25,667)
Net CFER to Home Office		(27,878)	(25,667)
Analysis of financing			
Cash received from Home Office	1.9, 15a	80,000	89,770
Cash collected and paid over to Home Office in respect of Foreign and Commonwealth Office	23	(34,732)	(49,865)
Net cash funding from Home Office		45,268	39,905

The notes on pages 43 to 61 form part of these accounts.

Notes to the accounts for the year ended 31 March 2008

1 Statement of accounting policies

Without limiting the information given, the accounts have been prepared under the direction issued by HM Treasury under the Government Resource Accounts Act Section 7(2) and meet the accounting and disclosure requirements of the *Financial Reporting Manual* (FReM), *Managing Public Money*, the Companies Act 1985 and the accounting standards issued or adopted by the Accounting Standards Board so far as these requirements are relevant.

1.1 Accounting convention

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

1.2 Intangible assets

Software licences

Intangible assets comprise software licences covering a period in excess of one year. These are capitalised at cost and amortised over their useful life to a maximum of five years in accordance with Financial Reporting Standard (FRS) 10.

Software licences are revalued annually based on the Office for National Statistics (ONS) indices.

Software licences that are renewed annually are charged directly to revenue.

1.3 Tangible fixed assets

a) *Plant, machinery and vehicles*

Plant, machinery and vehicles, including assets that are used in the printing and distribution of passports. Assets over a value of £500 are capitalised at cost and written off over five years.

b) *Furniture and fittings*

Furniture and fittings are capitalised at cost and written off over 10 years. There is no lower limit of capitalisation for furniture and fittings.

c) *Refurbishment*

All refurbishment on IPS leased offices is capitalised at cost and written off over the remaining length of the lease agreements.

d) *Telecoms*

All telecommunications equipment with a value of over £750 is capitalised at cost and written off over five years.

e) *Electrical equipment*

All electrical equipment with a value over £500 is capitalised at cost and written off over five years.

f) *Development*

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

Development expenditure is capitalised when incurred on projects that will improve our services to the public. The expenditure is capitalised as tangible fixed assets and is depreciated over the expected useful life over which the benefits envisaged will be delivered, limited to a maximum of five years. There is no de minimis level set for capitalisation of development costs.

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

g) *Research*

IPS expenditure on research is written off to the Income and Expenditure Account in the year in which it is incurred, in accordance with Statement of Standard Accounting (SSAP) 13.

h) *Assets under construction*

All tangible assets being developed and not in operation at year end are capitalised as an asset under construction. Until the asset is brought into use, no depreciation is recognised; however, once the asset is brought fully into use, depreciation is charged and the asset's cost is transferred to the appropriate category of fixed assets.

i) *Revaluation*

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

Assets under construction are not revalued until they become operational.

j) Depreciation

Depreciation is charged on all tangible fixed assets in the month that the asset is acquired and brought into use. No depreciation is charged in the month of disposal. Depreciation is calculated to write off the cost or valuation of each asset evenly over its expected useful life as follows:

Plant, machinery and vehicles	5 years
Furniture and fittings	10 years
Refurbishment	Over the remaining period of the lease
Telecoms	5 years
Electrical equipment	5 years

Development is depreciated over the expected useful life over which the benefits envisaged will be delivered, limited to a maximum of 5 years.

1.4 Leases

Rental payments for land and buildings occupied by IPS on the basis of operating leases or equivalents are charged to the Income and Expenditure Account on a straight-line basis over the term of the lease. IPS has no finance leases.

Lease incentive income received is deferred over the term of the lease on a straight-line basis. This accounting treatment is in line with Urgent Issue Task Force 28.

1.5 Stocks

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

1.6 Work in progress

Work in progress is valued according to the stage that the passport application has reached in the overall process.

Applications that have been completed and are awaiting printing are valued to include all direct costs associated with the application except 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.

1.7 Notional costs

In accordance with the FReM a notional cost at the appropriate rate is included for the cost of capital, a charge included in operating costs to reflect the cost of capital utilised by the Agency. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities, except for amounts due from, or due to be surrendered to, the consolidated fund.

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

1.8 Turnover from continuing activities

Turnover from continuing activities represents the sale value of all passport services provided during the year.

All income is recognised when the passport is issued.

Income from free passports issued for all British Nationals born on or before 2 September 1929, under a policy introduced on 18 October 2004, is centrally funded by the Home Office when one of these passports is issued.

Income from this initiative is shown under turnover and the cash settlement for the service provided is deducted from the amounts paid to the Home Office.

1.9 Funding

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

IPS relies on the cash generated from the passport fee to fund its passport-related cash requirements. In addition, the Home Office provides cash to fund the capital programme and the National Identity Scheme (NIS) set-up costs.

1.10 Surplus/(deficit)

The overall surplus/(deficit) as reported in the IPS Income and Expenditure Account includes income and costs associated with passport and NIS-related activities.

For passport-related activities the surplus/(deficit) of income over expenditure generated by IPS is intended to meet the cost of the passport and non-fee bearing consular services overseas provided by the Foreign and Commonwealth Office (FCO). This non-retainable element of the passport fee for consular protection is paid to HM Treasury via the Home Office.

The notes on pages 43 to 46 form part of these accounts.

For NIS-related activities, supply funding drawn down from the Home Office is used to fund expenditure as it is incurred.

Any surplus/(deficit) remaining after the FCO contribution and the cost of providing free passports (as referred to in note 1.8 above) is surrendered to the consolidated fund, via the Home Office, on a cash basis.

1.11 Pension costs

IPS participates in the Principal Civil Service Pension Scheme. This is accounted for as a statutory defined benefit scheme. IPS is required to pay an employer's contribution, which is currently between 17.1% and 25.5% of pensionable pay depending on the grade of staff.

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

1.12 Other operating income

Other operating income is income that relates directly to the operating activities of the Agency, and represents miscellaneous receipts including income from FCO for use of equipment to print blank biometric passports, Passport Validation Service (PVS) income, and lease regearing.

1.13 Public Private Partnership contracts

IPS has accounted for Public Private Partnership contracts in accordance with the HM Treasury Taskforce Guidance Technical Note 1 Revised *How to account for PFI transactions*.

1.14 Government Grants receivable

Grants receivable are receivable contributions toward specific fixed asset expenditure as specified in the FReM.

The Government Grant reserve is credited with the amount of grant and a transfer is made from the Government Grant reserve to the Income and Expenditure Account.

On disposal of an asset financed by a Government Grant, a transfer is made from the Government Grant reserve to the Income and Expenditure Account for the profit or loss on disposal. Any balance remaining on the Government Grant reserve related to a disposal asset will be transferred to the General Fund.

1.15 Provisions

IPS accounts for any provisions in accordance with FRS 12. The Agency provides for legal or constructive obligations which are of uncertain timing or amount at the Balance Sheet date on the basis of the best estimate of the expenditure required to settle the obligation.

1.16 Contingent liabilities

IPS has disclosed any contingent liabilities in accordance with FRS 12. Any possible obligations that arise from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events (not wholly within IPS control) are disclosed.

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

These comprise:

- a) items over £250,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by departmental minute prior to the Agency entering into the arrangement; and
- b) all items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of Resource Accounts) that are required by the FReM to be noted in the Resource Accounts.

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

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

1.17 Contingent assets

Any possible assets that arise from unplanned or unexpected past events, whose existence will be confirmed only by the occurrence of one or more uncertain future events (not wholly within the control of IPS) and that give rise to the possibility of an inflow of economic benefits are disclosed, in accordance with FRS 12.

1.18 Value Added Tax

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

1.19 Estimating techniques

IPS undertakes passport and Home Office funded activities. Where costs are shared between these two activities they are classified as either:

- a) programme overheads – these directly support the delivery of IPS developments and are allocated based on a management view of the number, size and complexity of projects;
- b) strategic overheads – these are costs that directly contribute to the current and future NIS and passport strategy, and are allocated based on a management view of the strategic activities undertaken across IPS; and
- 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.

1.20 Financial Instruments

IPS complies with FRS 13 – Derivatives and other financial instruments as interpreted by the FreM. Accordingly, short-term debtors and creditors have been excluded from disclosures. All relevant disclosures are made in note 24.

2 Segmental reporting

	Home Office funded			Home Office funded		
	Passports	activities	Total	Passports	activities	Total
	2007-08	2007-08	2007-08	2006-07	2006-07	2006-07
	£'000	£'000	£'000	£'000	£'000	£'000
Income						
Turnover from continuing activities	375,681	–	375,681	345,606	–	345,606
Other operating income	4,104	594	4,698	5,915	–	5,915
Expenditure						
Cost of sales	(159,027)	–	(159,027)	(154,419)	–	(154,419)
Distribution costs	(17,158)	–	(17,158)	(22,342)	–	(22,342)
Administrative expenses	(137,997)	(62,163)	(200,160)	(128,625)	(30,805)	(159,430)
Cost of capital	(2,280)	(94)	(2,374)	(2,725)	(126)	(2,851)
Loss on disposal of fixed assets	(34)	(19)	(53)	(423)	(12)	(435)
Surplus/(deficit) on ordinary activities	63,289	(61,682)	1,607	42,987	(30,943)	12,044
Non-retainable element of passport fee for consular protection	(51,326)	–	(51,326)	(45,072)	–	(45,072)
Surplus/(deficit) after deducting non-retainable element of passport fee	11,963	(61,682)	(49,719)	(2,085)	(30,943)	(33,028)

1. There were no discontinued operations to report.
2. Passport income and expenditure which includes projects such as ePassports and has been included within the Interview Office Network segment, including a share of overheads.
3. NIS programme and PVS income and expenditure incurred by IPS are combined within the Home Office funded activities segment. Costs incurred by other government departments are not included within the NIS figures.
4. Where possible, overhead allocation is made directly or by use of estimating techniques as described in note 1.19.
5. Net IPS expenditure incurred exclusively on the NIS programme and PVS are funded directly by the Home Office.
6. The segmental information is not required under SSAP 25.

3 Turnover from continuing activities

	2007-08	2006-07
	£'000	£'000
Standard passport services ¹	375,681	345,606
	375,681	345,606

1. All activities are governed by the Consular Fees Act 1980 and considered to be one single class of business. During the financial year 2007-08, 109,665 passports were issued under the Veterans initiative ('Free passports for those born on or before 2 September 1929') resulting in revenue forgone of £7.5m (2006-07: 127,820 passports issued with revenue forgone of £7.3m).

4 Other operating income

	2007–08 £'000	2006–07 £'000
FCO income for use of passport equipment	3,086	4,000
Passport validation income	357	312
Government Grant transfer (note 1.14, 15c)	299	300
Rental income	285	285
Other operating income	671	1,018
	4,698	5,915

5 Cost of sales

	2007–08 £'000	2006–07 £'000
Outsourcing service charges ¹	84,894	86,597
Staff (note 8)	58,130	52,751
Call centre charges	9,504	8,418
Passport stationery	3,517	3,743
Application forms	2,543	2,483
Bank charges	439	427
	159,027	154,419

1. Outsourcing service charges include payments to Siemens IT Solutions and Services Limited for the initial receipt, cashiering and data capturing of applications and to 3M Security Printing & Systems Limited (SP&SL) for the manufacturing, personalisation and issue of passports.

6 Distribution costs

	2007–08 £'000	2006–07 £'000
Postal charges	1,982	2,183
Secure delivery	15,176	19,915
Application form distribution	–	244
	17,158	22,342

7 Administrative expenditure

	2007–08	2006–07
	£'000	£'000
Staff (note 8)	82,416	62,363
Accommodation	26,247	17,129
Other costs	27,824	38,854
IT running costs	13,716	11,941
Telecoms charges	3,162	2,038
Publications, stationery and printing	4,145	2,310
Non-cash costs		
Home Office payroll services	369	351
External audit fees	175	175
Depreciation (note 11b)	33,529	16,752
Amortisation of fixed assets	112	72
Diminution of assets	3,095	1,229
Impairment of fixed assets	5,267	5,456
Increase in provisions (note 14)	103	760
	42,650	24,795
	200,160	159,430

8 Staff numbers and related costs

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

a Staff costs

	2007-08 £'000	2006-07 £'000	2007-08 £'000	2006-07 £'000	2007-08 £'000	2006-07 £'000
	Permanently employed	Permanently employed	Others	Others	Total	Total
Salaries	67,973	58,738	46,128	33,076	114,101	91,814
Earnings-related National Insurance	4,523	4,025	393	448	4,916	4,473
Superannuation	11,801	10,092	1,026	1,121	12,827	11,213
Other staff costs	8,006	6,853	696	761	8,702	7,614
Total costs ¹	92,303	79,708	48,243	35,406	140,546	115,114
b Staff numbers	3,247	2,982	476	637	3,723	3,619

1. Staff costs include £101.3m (2006-07: £100m) for passport related activities and £39.2m (2006-07: £15.1m) for Home Office Funded Activities.

Permanently employed

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

Others

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

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

	2007-08 £'000	2006-07 £'000
Cost of sales (note 5)	58,130	52,751
Administrative expenses (note 7)	82,416	62,363
	140,546	115,114

d Pension costs

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

For 2007-08, employers' contributions of £12.8m (classic £7.5m, premium £5m and Nuvos £317k) were payable to the PCSPS (2006-07: £11.2m) at one of four rates in the range 17.1% to 25.5% (2006-07: 17.1% to 25.5%) of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. From 2008-09, the salary bands will be revised but the rates will remain the same. The contribution rates are set to meet the cost of benefits accruing during 2007-08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Instead of joining the PCSPS, employees can opt to open a partnership pension account – a stakeholder pension with an employer contribution. Employers' contributions are 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.

Contributions due to the partnership pension providers at the balance sheet date were £42k. Contributions prepaid at that date were nil. In addition, employer contributions of £102k (0.8%) of pensionable pay were payable to PCSPS to cover the cost of the future provision of lump-sum benefits on death in service and ill-health retirement of these employees.

(i) Classic scheme

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

(ii) Premium scheme

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

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

(iii) Classic plus scheme

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

(iv) Partnership pension account

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

9 Operating surplus

The surplus for the period is shown after charging:

	2007-08 £'000	2006-07 £'000
Hire of equipment	2,197	2,261
Bad debts	408	467
Amortisation of intangible fixed assets (note 11a)	112	72
Depreciation of tangible fixed assets (note 11b)	33,529	16,752
Operating lease costs:		
Buildings	11,345	10,641
Equipment	-	106
External audit fees ¹	175	175
Internal audit fees ^{1, 2}	29	375

1. IPS auditors have not received any remuneration for non-audit work.

2. The current external provider of internal audit services is being replaced by internal staff. The costs associated with these staff are included in note 8.

10 Cost of capital

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

	2007-08 £'000	2006-07 £'000
Cost of capital	2,374	2,851
	2,374	2,851

11 Fixed assets

a Intangible fixed assets

The IPS intangible fixed assets comprise purchased software licences.

	Purchased software licences £'000
Cost or valuation	
At 1 April 2007	329
Additions	406
Diminution	(50)
Disposals	–
At 31 March 2008	685
Depreciation	
At 1 April 2007	207
On disposals	–
Charge for year	112
Backlog depreciation	(14)
At 31 March 2008	305
Net book value 31 March 2008	380
Net book value 31 March 2007	122

b Tangible fixed assets

	Plant vehicles and machinery	Furniture and fittings	Electrical equipment	Telecoms equipment	Refurbishment	Development	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation								
At 1 April 2007	46,020	7,405	11,276	2,161	50,133	25,601	30,165	172,761
Additions ¹	1,283	307	2,478	25	1,480	461	21,033	27,067
Revaluation	(265)	425	(610)	235	7,864	(95)	–	7,554
Impairments ²	–	–	–	–	–	–	(5,267)	(5,267)
Disposals	(8)	(1,317)	(619)	(89)	(266)	(12)	(37)	(2,348)
Transfer of assets into use	–	725	1,761	–	16,712	18,059	(37,275)	(18)
Reclassification of asset type	–	–	(86)	–	–	86	–	–
At 31 March 2008	47,030	7,545	14,200	2,332	75,923	44,100	8,619	199,749
Depreciation								
At 1 April 2007	8,789	3,562	4,783	1,506	14,060	10,480	–	43,180
Reclassification of depreciation	–	–	(86)	–	–	86	–	–
On disposals	(6)	(1,317)	(615)	(89)	(256)	(12)	–	(2,295)
Charge for year	9,406	758	2,417	155	14,359	6,434	–	33,529
Backlog depreciation	(49)	134	(210)	(13)	1,366	(490)	–	738
At 31 March 2008	18,140	3,137	6,289	1,559	29,529	16,498	–	75,152
At 31 March 2008	28,890	4,408	7,911	773	46,394	27,602	8,619	124,597
At 31 March 2007	37,231	3,843	6,493	655	36,073	15,121	30,165	129,581
Asset financing:								
Owned	28,890	4,408	7,911	773	46,394	27,602	8,619	124,597
Finance leased	–	–	–	–	–	–	–	–
On balance sheet PFI contracts	–	–	–	–	–	–	–	–
Net book value at 31 March 2008	28,890	4,408	7,911	773	46,394	27,602	8,619	124,597

1. Capital additions totalling £27.1m include the Interview Office Network (ION) premises fit-out (£11.5m), passport and associated software projects (£7.2m), additional computer equipment for ION and other replacement computer equipment (£2.5m), new passport and card design projects (£1.2m), further capitalisation of biometric assets (£1.2m) and other minor capital projects (£3.5m).

2. In accordance with its accounting policies, IPS undertakes an annual impairment review of its capital projects. This review ensures that assets recorded in the balance sheet are held at the correct value. The 2006–07 review identified that development costs associated with the project designed to significantly upgrade the existing electronic passport application system, known as EPA2, should be impaired, and the value of EPA2 assets as at 31 March 2007 was written down by £5.5m. On 6 March 2008, the Management Board decided to cancel the EPA2 project and instead revert to a more limited programme of enhancements to live systems. A full review of all costs was undertaken and, where hardware and software was suitable for re-use, costs were retained. The total write-down of EPA2 assets since the project commenced in 2005 is £10.8m, comprising £5.5m in 2006–07 and £5.3m in 2007–08.

12 Debtors

	2007–08	2006–07
	£'000	£'000
Trade debtors	63	74
Other debtors	5,671	5,762
Staff debtors	299	251
Prepayments and accrued income	7,367	14,342
Partnership debtors (note 23)	3,791	3,338
	17,191	23,767

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

	2007–08	2006–07
	£'000	£'000
Trade creditors	6,079	5,318
Other creditors ¹	23,831	8,722
Deferred income ²	10,791	7,196
Accruals	36,356	39,831
Amounts due to Home Office general cash account	50,981	27,878
Bank overdraft	11,201	7,923
	139,239	96,868

1. Included within Other creditors is £21.2m which represents the non-retainable element of the passport fee for consular protection due to the Home Office (2006–07: £4.7m). See note 23 for further FCO detail.

2. Deferred income includes fees for passports not yet issued.

13b Amounts falling due after one year

	2007–08	2006–07
	£'000	£'000
Deferred income ¹	3,489	3,778
	3,489	3,778

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

14 Provisions for liabilities and charges

	Legal costs HR	Bad debts	Dilapidation costs	Early retirement costs	Disposal costs	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2007	139	454	3,046	113	–	3,752
Amount utilised	–	(454)	(2)	–	–	(456)
Arising in the year	(80)	–	658	(19)	1,293	1,852
Balance at 31 March 2008	59	–	3,702	94	1,293	5,148

Legal costs HR

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

Bad debts

Bad debt provisions included adjustments to reflect some income received from Post Office Limited (POL) in 2006–07 that had been recognised twice owing to there being duplicate barcodes for some of the sales. Provision was made in 2006–07 for £454k of turnover to be returned to POL. During 2007–08, IPS settled this amount and agreed with POL that a further £386k of 2006–07 turnover was due to be returned to POL; this was paid during 2007–08 and included in administration costs – other costs. This matter has been subject to full audit scrutiny, which has concluded that all issues are now fully resolved.

Dilapidation

During the year IPS increased the provision for wear and tear costs of its leasehold estate by £658k and reduced its provision by £2k on a specific leasehold property where the dilapidation costs are now certain and have been settled in 2007–08.

Early retirement costs

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

Disposal costs

IPS recognises that it has an obligation to securely decommission its passport printing equipment at the end of its life. Costs have been estimated at £1,293k, for which a full provision has been made in 2007–08 in accordance with FRS 15.

15 Reconciliation of movements in government funds**a General fund**

	2007–08	2006–07
	£'000	£'000
Balance at 1 April	74,422	48,933
Surplus on operating activities	1,607	12,044
Non-retainable element of the passport fee for consular protection	(51,326)	(45,072)
Transfer from revaluation reserve	2,637	593
Non-cash cost	544	526
Home Office funding for concessionary passports	(7,529)	(7,345)
Receipts from consolidated fund	80,000	89,770
Amounts owed to Home Office	(50,981)	(27,878)
Cost of capital	2,374	2,851
Balance at 31 March	51,748	74,422

b Revaluation reserve

		2007–08	2006–07
		£'000	£'000
Balance at 1 April 2007		4,512	2,855
Movement in year	Fixed assets	11,319	2,445
	Stock	17	–
	Others	64	69
Backlog depreciation (unrealised)		(1,451)	(264)
Movement to general fund		(2,637)	(593)
Balance at 31 March 2008		11,824	4,512

The revaluation reserve represents the difference between the net book value of the fixed assets on a revalued basis and on a historic cost basis where the revalued amount is higher.

c Government grant reserve

		2007–08	2006–07
		£'000	£'000
Balance at 1 April 2007		416	2,378
Government grant addition from a prior year		–	338
Depreciation charged to income and expenditure in year		(299)	(300)
Home Office grant		–	(2,000)
Balance at 31 March 2008		117	416

A £2m Omnibase grant received from the Home Office in 2005–06 was not used by IPS. It was paid back to the Home Office in the last quarter of 2006–07.

16a Non-cash transactions

	2007–08	2006–07
	£'000	£'000
Depreciation charges (notes 7, 9 and 11b)	33,529	16,752
Amortisation of intangible assets (notes 7, 9 and 11a)	112	72
Impairment of fixed assets	5,267	5,456
Notional charges (notes 7 and 15a)	544	526
Diminution of assets (note 7)	3,095	1,229
Government grant income (notes 4 and 15c)	(299)	(300)
Concessionary passport funding from Home Office (note 3)	(7,529)	(7,345)
	34,719	16,390

16b Movements in working capital other than cash

	2007–08 £'000	2006–07 £'000
(Increase) in stocks ¹	(3,397)	(1,026)
(Increase)/decrease in work in progress	(566)	89
Decrease/(increase) in debtors	6,576	(9,477)
Increase in creditors (excluding bank overdraft)	4,603	17,544
Increase in provisions	103	760
	7,319	7,890

1. Increase in stocks excluding revaluation.

17 Analysis of movements in cash balances

	2007–08 £'000	2006–07 £'000
Opening balance at 1 April 2007	20,174	22,026
IPS non-fee accounts	(2,437)	(4,073)
Fee accounts due to consolidated fund	34,298	2,221
Increase in cash	31,861	(1,852)
Closing balance as at 31 March 2008	52,035	20,174
Balance at office of Paymaster General	39,640	23,562
Balance at commercial banks and cash in hand	23,596	4,535
Cash at bank and in hand	63,236	28,097
Bank overdraft	(11,201)	(7,923)
Balance as at 31 March 2008	52,035	20,174

18 Contingent liabilities

There were no known contingent liabilities that existed at 31 March 2008 (nil 31 March 2007).

The Public Private Partnership agreements with Siemens IT Services and Solutions and 3M SP&SL are due for expiry within the next 18 months. These contracts contain early expiry and other clauses which, if exercised, could result in financial liabilities being incurred. IPS believes that the likelihood of these crystallising is remote, but as a possibility remains, they are disclosed here for completeness.

19 Contingent assets

There were no known contingent assets that existed at 31 March 2008 (nil 31 March 2007).

20 Lease obligations and other financial commitments

a IPS has annual commitments under operating leases which expire as follows:

	2007–08 £'000	2006–07 £'000
Land and buildings¹		
Expiry within one year	1,699	557
Expiry between 2009–10 and 2012–13	8,282	5,717
Expiry after 31 March 2013	6,813	4,560
	16,794	10,834
Facilities management charges¹		
Expiry within one year	688	31
Expiry between 2009–10 and 2012–13	2,672	2,359
Expiry after 31 March 2013	1,029	283
	4,389	2,673
Plant and machinery		
Expiry within one year	–	54
Expiry between 2009–2010 and 2012–2013	–	45
Expiry after 31 March 2013	–	–
	–	99
Total commitments under operating leases	21,183	13,606

1. Lease obligations for land and buildings and facilities management charges in 2007–08 include irrecoverable VAT as required by SSAP21. Lease obligations for land and buildings and facilities management charges for 2006–07 did not include irrecoverable VAT and, if they had, the comparative figures would have been £14,004k and £3,439k respectively.

Total commitments under operating leases

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

IPS has continued to expand the Interview Office Network delivering Authentication by Interview activities. This estate is being provided making use of an estate licence to operate within specified buildings leased by a third party. The licence complies with the provisions of SSAP 13 and is accordingly included within the lease note.

b Other financial commitments

IPS has outsourced suppliers and has financial commitments under these contracts until the end of the contract term. Material contracts are with 3M SP&SL (expiry October 2010), Siemens IT Services and Solutions (expiry October 2009), Secure Mail Services (expiry July 2010), Teleperformance (expiry March 2011) and Atos Origin (expiry August 2009). Much of the financial commitment on these contracts is based on volumes of passports produced. The estimated value of these commitments is £269.0m (2006–07: £344.3m).

21 Capital commitments

IPS had contracted capital commitments of £6.2m as at 31 March 2008, including Fast Chip (£1.1m), Passport Application Support System upgrades (£4.1m) and other programme activities (£1.0m) for which no provision has been made.

22 Euro expenditure

As at 31 March 2008, IPS had incurred no direct expenditure ensuring that its computerised systems are compliant with the introduction of the euro.

23 Related parties

IPS is an Executive Agency of the Home Office and is headed by a Chief Executive who is responsible to the Secretary of State for the Home Department.

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

- a) Amounts paid to the Home Office during the period April 2007 to March 2008 included £34.7m for the non-retainable element of the passport fee (2006–07: £49.9m), which is remitted to HM Treasury for FCO. Additionally, the IPS payroll service is provided by the Home Office Pay and Pensions Service, resulting in transactions of £89.0m (2006–07: £79.0m).
- b) Net accommodation costs paid by the Home Office during the year amounted to £0.5m (2006–07: £0.67m).
- c) The Home Office provided £80.0m in 2007–08 to fund capital expenditure and Home Office funded activities (2006–07: £89.8m). IPS also generates its own cash resources which will be surrendered to the Home Office once IPS accounts have been approved, in accordance with government accounting policy. During 2007–08 a payment of £27.9m cash was surrendered to the Home Office for 2006–07 (2006–07: £25.7m for 2005–06.)

FCO is regarded as a related party. IPS collects £15.12 per adult standard passport, £3.78 per child passport and £22.68 per jumbo passport to recover the cost incurred by FCO for providing consular protection abroad. The total collected during the year was £51.3m (2006–07: £45.1m).

Other government departments and agencies with which IPS transacted in the normal course of business during the year include the Department for Work and Pensions (DWP), the Department for Constitutional Affairs (now the Ministry of Justice), HM Revenue and Customs, the Driver and Vehicle Licensing Agency and FCO. IPS paid £28.5m to the DWP and HM Revenue and Customs (2006–07: £25.4m) and received £26.9m from other agencies (2006–07: £24.7m). The total value amounted to £55.4m (2006–07: £50.1m).

POL paid over passport fees during the year amounting to £180m (2006–07: £138.6m). There was a £3.8m outstanding POL debtor's balance at 31 March 2008 (2006–07: £3.3m).

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

24 Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government agencies are financed, IPS is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. IPS has very limited powers to borrow, invest surplus funds or purchase foreign currency. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Agency in undertaking its activities.

As permitted by FRS 13 and as directed by the *Financial Reporting Manual*, short debtors and creditors have been excluded from the FRS 13 disclosures.

IPS has no borrowings and relies primarily on funding from the passport fee and Home Office for its cash requirements, and is therefore not exposed to liquidity risks as an entity. It also has no material deposits, and all material assets and liabilities are denominated in sterling, so it is not exposed to interest rate risk or currency risk. The fair value of cash is the same as the book value.

25 Special payments¹

	2007–08 £'000	2006–07 £'000
Compensation to the public	77	123
Compensation to staff – personal injury ²	(59)	7
Compensation to staff – excluding personal injury	2	10
Fruitless payments ³	249	941
	269	1,081

1. There were no individual 'special payments' payable for compensation made by IPS exceeding £100k.
2. Compensation to staff includes settlement of claims £21k and the reduction of the legal provision £80k for claims that are no longer appropriate for inclusion.
3. During 2007–08 IPS completed the Interview Office Network. In the early part of the year some offices were completed before they could be fully utilised. These payments have been classified as fruitless payments and disclosed under special payments as required by *Managing Public Money*.

26 Intra-government balances

	Debtors: Amounts falling due within one year £'000	Debtors: Amounts falling due after more than one year £'000	Creditors: Amounts falling due within one year £'000	Creditors: Amounts falling due after more than one year £'000
Balances with other central government bodies	409	–	(15,598)	–
Balances with other local authorities	342	–	(3,060)	–
Balances with NHS trusts	–	–	–	–
Balances with public corporations and trading funds	4,430	–	(68)	–
Balances with bodies external to government	12,010	–	(120,513)	(3,489)
At 31 March 2008	17,191	–	(139,239)	(3,489)
Balances with other central government bodies	7,647	–	(36,321)	–
Balances with other local authorities	198	–	(9)	–
Balances with NHS trusts	–	–	–	–
Balances with public corporations and trading funds	13,254	–	(164)	–
Balances with bodies external to government	2,668	–	(60,374)	(3,778)
At 31 March 2007	23,767	–	(96,868)	(3,778)

27 Post Balance Sheet Events

On 1 April 2008 the assets and liabilities of the General Register Office were transferred from the Office for National Statistics to IPS.

IPS accounts were authorised for issue by the Accounting Officer on 23 June 2008.

IPS has announced that it has decided to restructure operations at the Glasgow Regional Office; specifically this means that the processing of postal applications will cease at Glasgow. It is likely that there will be some surplus staff at Glasgow, which will result in redundancy costs in 2008–09.



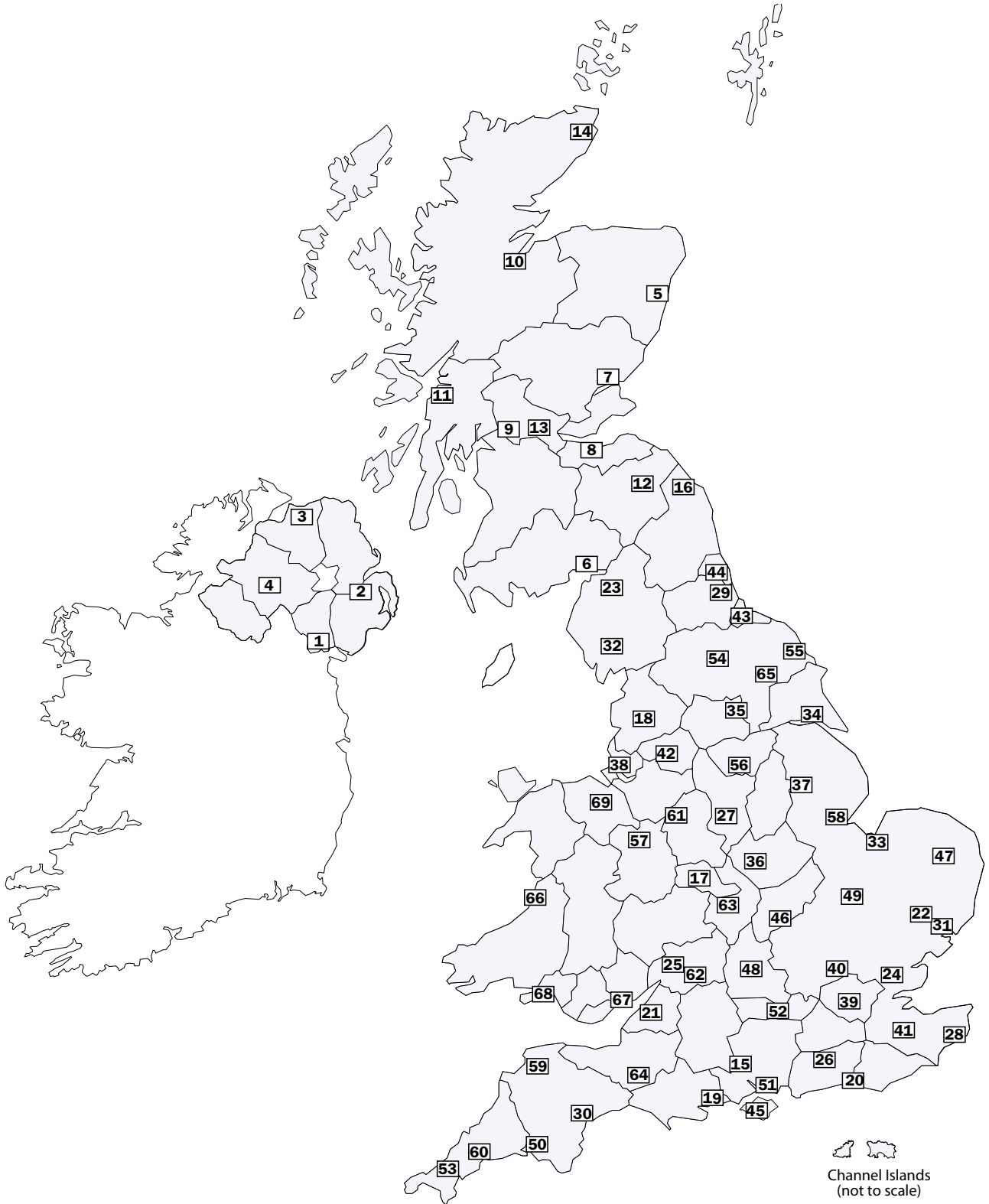
Jonathan joined IPS in 2001. He has worked his way up through the examining functions to become Production Manager. Having completed the Introductory Certificate in First Line Management, he is now on the 'Learning to Lead' programme, which will enhance his professional development so that he can progress further.

Jonathan Dalon

Glossary

AbI	Authentication by Interview
BME	Black and minority ethnic
CETV	Cash Equivalent Transfer Value
CFER	Consolidated fund extra receipts
DAO(GEN)	Dear Accounting Officer (General Correspondence)
EPA2	Electronic Passport Application (2)
FCO	Foreign and Commonwealth Office
FReM	<i>Financial Reporting Manual</i>
FRS	Financial Reporting Standard
HQ	Headquarters
HR	Human Resources
IiP	Investors in People
ION	Interview Office Network
IPS	Identity and Passport Service
IT	Information technology
NAO	National Audit Office
NHS	National Health Service
NIS	National Identity Scheme
ONS	Office for National Statistics
PCS	Public and Commercial Services Union
PCSPS	Principal Civil Service Pension Scheme
PFI	Public Finance Initiative
PVS	Passport Validation Service
SP&SL	Security Printing and Systems Limited
SSAP	Statement of Standard Accounting Practice
TSO	The Stationery Office
UKPS	UK Passport Service
VAT	Value Added Tax

IPS office location map



Map index

- Regional Office
- ◆ Area Office
- Interview Office

Since the Interview Office Network went live in July 2007, 68 Interview Offices are now open.

Northern Ireland

1	Armagh	■
2	Belfast	● ◆ ■
3	Coleraine	■
4	Omagh	■

Scotland

5	Aberdeen	■
6	Dumfries	■
7	Dundee	■
8	Edinburgh	■
9	Glasgow	● ◆ ■
10	Inverness	■
11	Oban	■
12	Selkirk	■
13	Stirling	■
14	Wick	■

England

15	Andover	■
16	Berwick on Tweed	■
17	Birmingham	■
18	Blackburn	■
19	Bournemouth	■
20	Brighton	■
21	Bristol	■
22	Bury St Edmunds	■
23	Carlisle	■
24	Chelmsford	■
25	Cheltenham	■
26	Crawley	■
27	Derby	■
28	Dover	■
29	Durham	●
30	Exeter	■
31	Ipswich	■
32	Kendal	■
33	Kings Lynn	■
34	Kingston upon Hull	■
35	Leeds	■
36	Leicester	■
37	Lincoln	■
38	Liverpool	● ◆ ■
39	London	● ◆ ■
40	Luton	■
41	Maidstone	■

England (continued)

42	Manchester	■
43	Middlesbrough	■
44	Newcastle	◆ ■
45	Newport	■
46	Northampton	■
47	Norwich	■
48	Oxford	■
49	Peterborough	● ◆ ■
50	Plymouth	■
51	Portsmouth	■
52	Reading	■
53	Redruth	■
54	Ripon	■
55	Scarborough	■
56	Sheffield	■
57	Shrewsbury	■
58	Sleaford	■
59	South Molton	■
60	St Austell	■
61	Stoke	■
62	Swindon	■
63	Warwick	■
64	Yeovil	■
65	York	■

Wales

66	Aberystwth	■
67	Newport	● ◆ ■
68	Swansea	■
69	Wrexham	■

Contact

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

Marketing & Communications Directorate
Allington Towers
19 Allington Street
London SW1E 5EB

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

You can also telephone the Passport Adviceline (24 hours a day, seven days a week) on **0870 521 0410** until 31 August 2008.

Calls are charged at national rate.

As from 1 September 2008 on **0300 222 0000** (24 hours a day, seven days a week).

Customers calling our new 03 number using either a landline or mobile phone will be charged at their network provider's national rate.

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