



Annual Report and Accounts

For the year ended 31 March 2007



Identity and Passport Service

Annual Report and Accounts 2006–07

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

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“

I just wanted to say thank you for the speedy and professional service that I received in order to change my passport from my maiden name to my married name. I used the Check & Send service at the post office in Moorgate, London just a week ago, and within a few days I had my original documents back and on Saturday, my new passport.

”

Terri Westwood, Kent

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“

I have recently gone through the passport renewal procedures via your 'online' process, which I must say was simplicity itself.

I am now in safe receipt of the passport thanks to the extremely courteous and helpful staff in both your Newport and Liverpool offices, who enabled me to receive the passport at my place of work. In this day of 'Customer Complaints' I felt it only right to express my grateful thanks to your staff for all their help.

”

Stephen Rowe, Anglesey

Chief Executive's Message



The Identity and Passport Service (IPS) was created on 1 April 2006 after the Identity Cards Act was given Royal Assent on 30 March 2006. I am delighted to introduce our first Annual Report and Accounts.

IPS merged the activities of the United Kingdom Passport Service (UKPS) and the Identity Cards team from the Home Office, and is an Executive Agency of the Home Office.

I was appointed as Chief Executive in October last year, taking over from Alan Barnish, who led the Agency on an interim basis from April 2006. I would like to thank Alan for his key role in getting IPS successfully established. Leading IPS at this time of change is both exciting and a privilege. Last year we issued over six million passports to award-winning customer service standards; we introduced biometric passports; we developed our identity checking service; and we laid out our action plan for the National Identity Scheme (NIS). More recently we have started interviewing adult customers who are applying for their first passport.

Highlights of the year

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

- Issued 6.2 million passports.
- Exceeded all customer service targets.
- Created additional appointments to see 2.1 per cent more customers in person than was originally planned.
- Published the *Strategic Action Plan for the National Identity Scheme* in December 2006.

- Recruited a strengthened senior management structure as set out on pages 13–15.
- Introduced biometric passports and issued over 4.8 million in the year.
- Completed the necessary work to introduce identity interviews for all first time adult passport customers in local interview offices, starting on a small scale in May 2007.
- Launched the Passport Validation Service (PVS) with public and private sector customers, including the introduction of a call centre facility.
- Strengthened the checking of passport applications through the Personal Identity Process (PIP) in all regional offices.
- Highly commended for Operational Delivery in the Westminster and Whitehall Civil Service Awards.

Our strategic objectives were set out in our *Business Plan* published in April 2007. At its core is our commitment to delivering enhanced public protection by reducing fraud and increasing the integrity of the biometric passport, while still delivering effective customer service and value for money. The next section of this report outlines in detail the performance achieved against the full set of key performance indicators (KPIs) we set for ourselves with Ministers at the start of the year.



Accounts

This report provides the first set of accounts for IPS. These accounts provide full details of the activity in the year, separating clearly the activities 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 deficit of £2.1 million on passport services – much reduced from the planned deficit of £15 million – and spent £30.9 million of Home Office funds on the set-up of the NIS.

Further details on our accounts can be found in the management commentary on pages 17–20.

Passport fees

Passport fees are reviewed on an annual basis taking into account planned changes to passport services such as the introduction of biometric passports and identity interviews for adult customers applying for a passport for the first time, together with likely changes in demand. They must also include any changes associated with consular charges levied by the Foreign and Commonwealth Office (FCO) which IPS collects on their behalf.

IPS increased its fees in November. This was the second stage of a two-year fee arrangement to fund the implementation of biometric passports and the introduction of the Interview Office Network to help confirm the identity of adult customers applying for their first passport. There will be a further increase this coming October to reflect the increased costs of FCO customer services. I am extremely conscious of the significant increases in passport fees in recent years brought about by the need to combat increasing levels of identity fraud. While we continue to explore ways to enhance security and provide high levels of customer service, this will always be done in the most cost-effective and efficient way to minimise future fee impacts on our customers. Additionally, we have introduced a fee advice line that has reduced incorrect fees received by over 60 per cent.

Identity fraud

IPS also leads on the Government's efforts to combat identity fraud. We co-ordinate policy interests on this issue and chair the Identity Fraud Steering Committee, a grouping of chief

executives or their equivalents from public and private sector organisations, which seeks to co-ordinate existing activity and identify new initiatives to reduce identity crime and increase our understanding of the issue.

The passport remains a key document for citizens to prove their identity and as such it continues to be the target for increasingly sophisticated fraudulent activity. While the examining process and biometric passports are key tools to help combat fraud, we continue to explore avenues to close fraud activity.

On 20 March we announced to Parliament the introduction of interviews for first time adult passport customers in the context of our estimate that 0.15 per cent of total applications may be fraudulent, and that by far the greatest number of these fraudulent applications are made by customers applying for a passport for the first time. There has been a great deal of activity during 2006–07 to deliver this large project which includes the establishment of 69 interview offices throughout the United Kingdom supplemented by alternative arrangements for the remotest communities. The interviews will slow down the application process for first time customers but they are a key weapon in our armoury to combat the identity fraudsters. The first identity interviews started in May and the phased roll-out is expected to be complete by the end of the year.

The interview network is not the only tool we are introducing to combat identity fraud and we have constructed a comprehensive counter fraud strategy, including examiner training, regular sample checks, strengthening of examination processes and developing plans to link to other government databases.

IPS has also continued to develop the Passport Validation Service (PVS) which enables customer organisations to confirm the validity of passport documents used to verify identity.

National Identity Scheme

IPS has been tasked with the delivery of the National Identity Scheme (NIS). A major step forward in meeting this challenge was the publication of the *Strategic Action Plan for the NIS* in December 2006. This plan explains the framework that IPS will work within to deliver the NIS and how we will build upon existing IPS systems and infrastructure including the Interview Office Network and biometric technology to deliver identity cards to UK citizens from 2009–10 and identity services thereafter.

The plan also sets out how we will work with public and private sector partners to use existing systems and infrastructure to deliver identity

services in the most cost-effective and efficient manner possible for our customers. We have been working on trial partnerships to test how we can work together to deliver these enhanced joint services during the year and we plan to launch the first of these with the Criminal Records Bureau later in the year.

The *Strategic Action Plan for the NIS* also makes clear how we are working together with our delivery partners including the Border and Immigration Agency (BIA) and UKvisas.

We will update the *Strategic Action Plan for the NIS* periodically as the scheme implementation progresses.

Key supplier relationships

We continue to enjoy positive and fruitful relationships with our key suppliers. A collaborative approach with Siemens IT Solutions and Services Limited (Siemens) and 3M Security Printing & Systems Limited (3M SP&SL) led to the successful introduction of the biometric passport. Throughout the year Siemens also delivered the front end process within the parameters of the Service Level Agreement (SLA) and 3M SP&SL produced passports to the SLA agreed for the period when moving from digital to biometric passports. The number of passports lost during the delivery process has decreased by 30 per cent as a direct result of working jointly with our secure delivery providers Secure Mail Services. This year, IPS hit the telephone answering KPI through working in partnership with our contact centre provider Teleperformance. Both the contact centre and secure delivery contracts are currently being retendered.

Delivery partnerships

The relationship with our key delivery partners within government – BIA, UKvisas, FCO and DWP – continues to be both positive and productive. All of these organisations are critical to the successful delivery of the NIS and are members of the NIS Programme Board.

FCO was a fundamental part of the successful biometric passport project in 2006 and is continuing to work with us on the project to include fingerprints in passports from 2009. DWP is collaborating with us to enable its Customer Information System (CIS) database to be used as the NIS biographic store and we are working closely with BIA and UKvisas on the delivery of the biometric matching and storage capability that they will share with IPS.

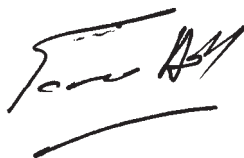
Management Board

We have now introduced a new management structure to reflect our new wider role and we have been successful in strengthening our management team with key permanent appointments. I would like to welcome all new staff to IPS and to thank all of those who have made a contribution.

People

Everything highlighted above has only been possible through the hard work and commitment of the staff employed by IPS. Passport delivery, whether it be as part of UKPS or IPS, has long been recognised as a leading light in public sector customer service. It is a major credit to our staff that excellent levels of customer service continue to be maintained in a period of increasing change. In addition we have managed to achieve Investor in People accreditation in our first year which we will continue to build upon.

I recognise, though, that there remains much to do. We were unable to agree a pay remit with our staff and this resulted in industrial action. We continue to work with the Home Office and HM Treasury to develop reward strategies that will be acceptable to our staff without further disruption to our customers or our business.



James Hall
Chief Executive
Identity and Passport Service
17 July 2007

“

I wish to compliment you on the service. My wife and I posted our renewals and received the passports five days later. I find that level of return excellent. Well done.

”

Philip Dyson, Leeds

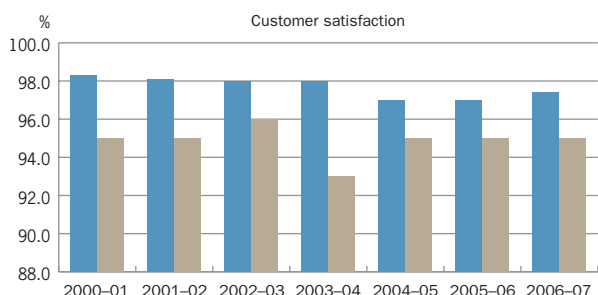


Business performance

The first year of the Identity and Passport Service (IPS) has been a successful one. As outlined in this section we have bettered all of our customer service targets this year and achieved a high customer satisfaction rating.

We have, however, missed some of our targets: for example, demand was lower than expected. In addition we will be working hard in the coming year to address the higher than planned levels of sickness absence.

Performance

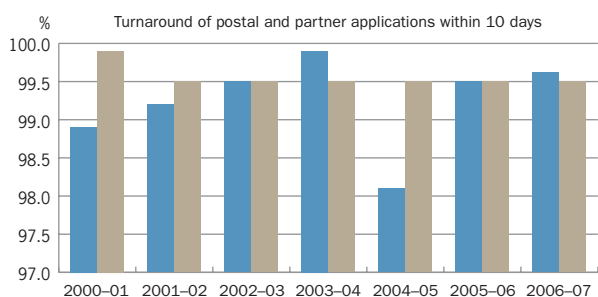


Target

Customer satisfaction
To ensure a customer satisfaction rating of 95 per cent.

Result

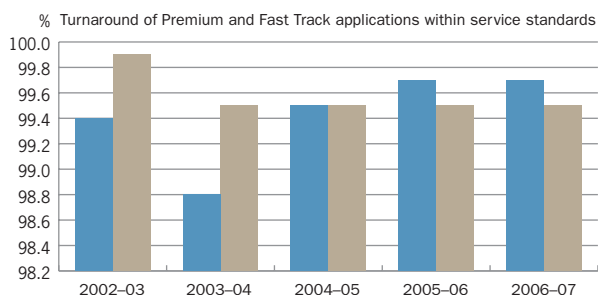
Exceeded: 97.4 per cent of all customers surveyed were either 'satisfied' or 'very satisfied' with our service.



Turnaround

To ensure that 99.5 per cent of straightforward online, partner and postal applications are turned around within 10 working days.

Exceeded: 99.62 per cent of straightforward online, partner and postal applications were turned around within 10 working days against demand of 6.3 million passports. This is a significant achievement given the change to the passport printing processes this year.



Turnaround

To ensure that 99.5 per cent of Premium and Fast Track applications are turned around within service standards.

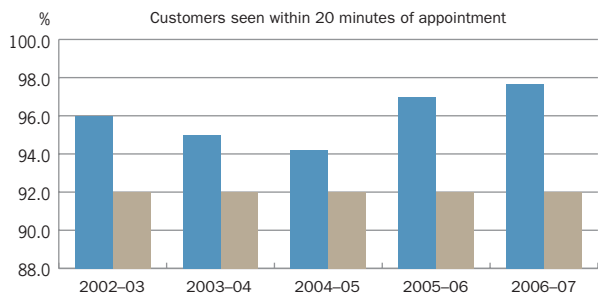
Exceeded: 99.7 per cent of Fast Track and Premium service applications were processed within service standards. This is a significant achievement due to the roll-out of the new, more complex biometric passport.

■ Actual ■ Target

Performance

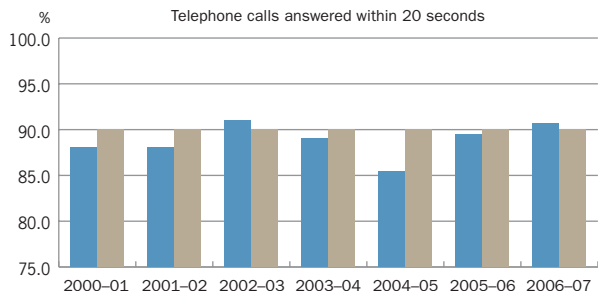
Target

Result



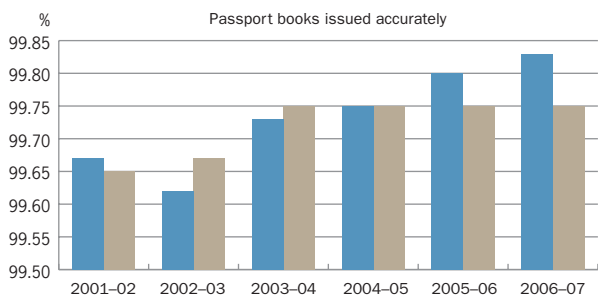
Appointment times
To ensure that 92 per cent of customers are seen within 20 minutes of their appointment time.

Exceeded: 97.67 per cent of customers who applied personally were seen within 20 minutes of their appointment time. Additionally we saw 2.1 per cent more customers than planned over the year.



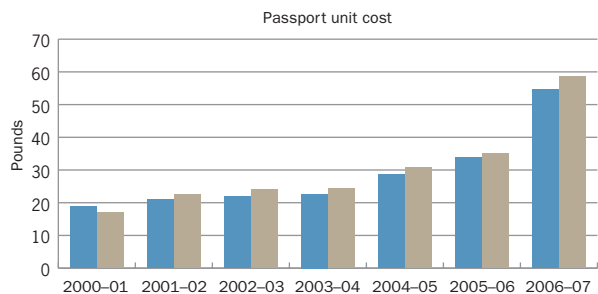
Telephone calls
To ensure that 90 per cent of telephone calls are answered within 20 seconds.

Exceeded: The number of telephone calls answered within 20 seconds was 90.71 per cent. Total calls handled were 4.1 million, actual calls answered within target were 3.8 million.



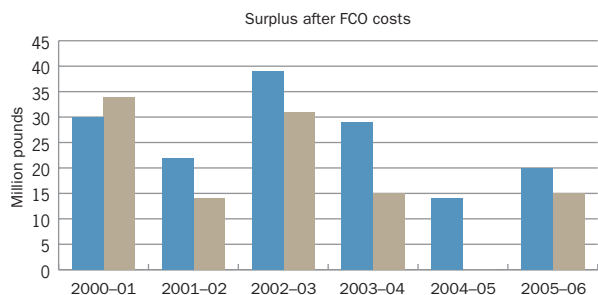
Passport errors
To achieve an accuracy rate of 99.75 per cent or more on passports issued.

Exceeded: The accuracy rate of passports issued was 99.83 per cent. This is an improvement on last year's performance by 0.03 per cent.



Unit cost
To achieve a budgeted unit cost target (based on internal cost excluding external charges, e.g. FCO premium) of £58.32 per passport.

Exceeded: The actual unit cost per passport was £54.64, which represents a favourable variance of £3.68 (6.31 per cent).



Surplus/deficit
To achieve a passport deficit of £15 million after FCO costs.

Met: Passport deficit at year end was £2.1 million against a targeted deficit of £15 million, largely due to slippage in the Interview Office Network and change of fixed assets depreciation policy (as set out in note 1 to the accounts).



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.

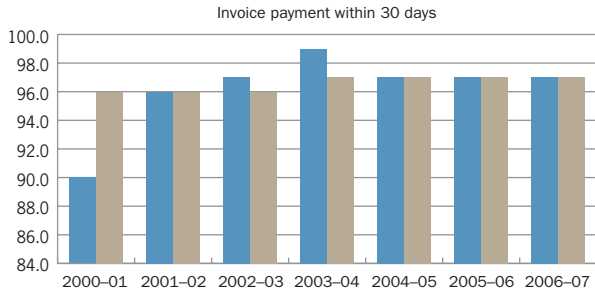
Not met: Target for sick rate not met. The actual performance was 10.07 days per person per annum. IPS has an action plan in place to address this.

Actual Target

Performance

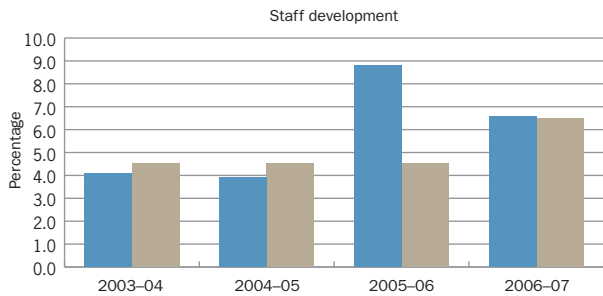
Target

Result



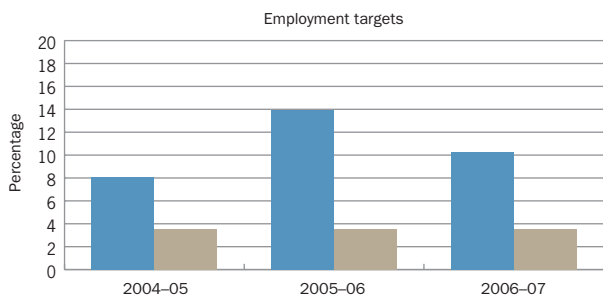
Invoice payment
To ensure 97 per cent of invoices are paid within 30 days of receipt.

Met: Achieved the target of 97 per cent of all invoices received being paid within 30 days.



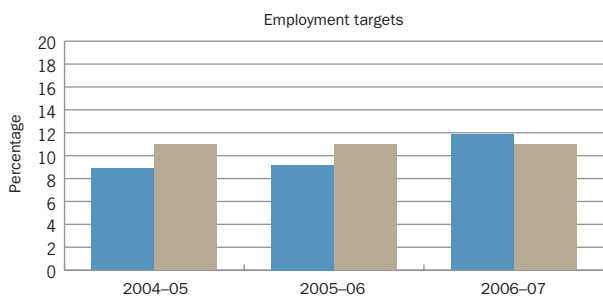
Staff development
To invest 6.5 per cent of salary cost in training and development.

Exceeded: The percentage of salary costs invested in training and development was 6.59 per cent.



Employment figures
To achieve black and minority ethnic (BME) employment targets of at least 3.5 per cent for Senior Executive Officer (SEO) and Grade 7 combined.

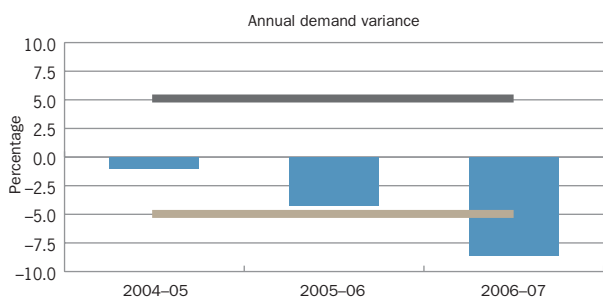
Exceeded: Achieved a BME percentage of 10.24 per cent.



Employment figures
To achieve BME employment targets of at least 11 per cent for Higher Executive Officer (HEO) level.

Exceeded: Achieved a BME percentage of 11.85 per cent.

Actual Target



Annual demand variance
To achieve an annual variance between actual and forecast demand of no more than +/-5 per cent.

Not met: Target for annual variance not met. Performance finished outside threshold of +/-5 per cent tolerance at -8.55 per cent.

We are currently conducting customer research to enable us to understand the gap in passport renewal applications.

Variance +5% -5%



“

I just wanted to say how impressed I was at the quick turnaround of my daughter's passport renewal. My husband dropped it off at the Liverpool office and we got it back just a week later. We were very pleased with this service. Thank you.

”

Liz Hall, Liverpool

IPS Senior Management Team



James Hall
Chief Executive

James joined IPS as Chief Executive in October 2006. He has overall responsibility for the strategy, management and operations of IPS, including the successful introduction of the National Identity Scheme. James is also a member of the Home Office Board.

Prior to joining IPS, James worked for Accenture and its predecessor organisations. During his 30 years with the firm he specialised in information technology and the management of large programmes of business and technology change. He held a variety of roles, including six years as the Managing Partner for Accenture in the UK.

Executive Directors (in alphabetical order)



David Buckley
**Covering for Sarah Rapson, Executive Director, Operations
(on maternity leave)**

David joined IPS (then UKPS) in October 2004 as Regional Manager of the Durham office. He has since been appointed Director of Regional Operations. His previous experience includes 11 years in a senior operational management role in local government and roles in logistics management in the agricultural and electrical goods distribution industries.

David was appointed a Justice of the Peace in 2001.



Jane Carwardine
Executive Director, Human Resources

Jane is an experienced HR professional, with over 20 years' experience, including the last 10 at HR Director level.

Jane has worked in a range of organisations, including Coca Cola Enterprises Ltd, Thorn UK, the Law Society, Alliance and Leicester Building Society and Marks and Spencer. She has particular experience of employee engagement, organisational development and change, and employee relations.



Katherine Courtney
Executive Director, Business Development and Marketing

Katherine joined IPS in April 2006 from the Home Office, where she was Director of the Identity Cards Programme from September 2003.

Katherine's earlier career was in the private sector, leading major service and infrastructure development initiatives for a number of international technology-based start-up ventures, including heading up strategic development projects for Cable and Wireless plc.



Bill Crothers
Executive Director, Commercial

Bill joined IPS in April 2007 and has overall responsibility for all commercial matters within the department.

After qualifying as a chartered accountant with KPMG in 1985, Bill's career was in consulting, working on large-scale change projects – notably with various UK utilities as they moved from the public to the private sector. Bill has been a member of the UK Geographic Council for many years, and most recently he was responsible for a Resources Operating Unit across the UK and Northern Europe in the energy, utilities and natural resources sectors.



Katie Davis
Executive Director, Strategy

Katie joined IPS in June 2007 from the Cabinet Office, where she was the Director of the Government IT Profession. In this role, she worked as part of the Delivery and Transformation Group (formerly e-Government Unit) to increase the capacity and capability of government to deliver large-scale IT-enabled change. She had responsibility for formalising the IT Profession across central and local government, with the aim of providing IT professionals with the opportunity to reach the highest levels of public service. She also had responsibility for managing the Delivery and Transformation Group's role in mission-critical projects.



Bernard Herdan
Executive Director, Service Planning and Delivery

Bernard has been Executive Director of Service Planning and Delivery at IPS since 1 April 2006, having been appointed Chief Executive of the UK Passport Agency in September 1999. He previously held senior positions at the Driving Standards Agency, Met Office, Defence Technology Enterprises Ltd, BIS-Mackintosh and European Space Agency. He has also held various Non-executive Director positions in the UK and US.

He was appointed Companion of the Order of the Bath in the 2007 New Year's Honours List.



Mark McLaughlin
Executive Director, Finance and Performance

Mark joined IPS in June 2007. An accountant, he has been the Finance and Resources Director of three local authorities, most recently the London Borough of Enfield, where he pioneered the use of liability-driven investment in UK public sector pension funds to help continue Enfield's record as the fund with the lowest contribution rate and highest performance.

Mark has also led a series of public-private partnerships in construction, school provision, IT services and regeneration.



Sarah Rapson
Executive Director, Operations

Sarah joined IPS (then UKPS) in March 2005. She is responsible for the delivery of the passport operation through regional offices, interview offices, partners and the Passport Validation Service.

Sarah's prior experience is in financial services, designing and managing distribution networks and implementing global client services for Woolwich, Barclays and American Express.



Annette Vernon
Executive Director, NIS Programme Delivery and Chief Information Officer

Annette joined IPS from the Department for Constitutional Affairs (DCA) in June 2006 to take up her current role as Chief Information Officer. She has over 20 years' experience in public sector IT-based change, the majority being in the Department for Work and Pensions, including a secondment to the Australian Department of Social Security.

Annette was awarded a CBE in 2004 for her work in justice, and more recently she won the 2005 Women and Technology Award in the Public/Non-Profit category (this is the first time these awards have been made).

Non-executive Directors



Sarah Blackburn
Non-executive Director

Sarah qualified as a chartered accountant with KPMG. She has been Director of Audit and Risk Assurance in several FTSE 100 companies. She is now Managing Director of the Wayside Network Limited.

Sarah is a Healthcare Commissioner and chairs the Healthcare Commission's Audit Committee; a Director of the Institute of Internal Auditors and chairs its Professional Development Committee; and a former member of the Internal Auditing Committee of the Institute of Chartered Accountants in England and Wales.



Alan Hughes
Non-executive Director

Alan is a non-executive member of both the National Identity Scheme Programme Board and IPS Management Board. In addition he is a member of the IPS Audit Committee and chairs the National Identity Scheme Independent Assurance Panel.

Alan's background includes extensive experience of running highly successful retail and commercial finance businesses, of marketing and of banking. He was Chief Executive of First Direct from 1999 to 2004.



Linda Walton
Non-executive Director

Linda is a freelance consultant with a background in financial services, operations, outsourcing and supplier management.

She has held executive and board level positions in banking and the credit card industry, and has held public sector non-executive positions since 1994.

Independent member



Anne Tutt
Independent member of the IPS Audit Committee

Anne has been an independent member of the IPS Audit Committee since September 2006. She is a chartered accountant with more than 20 years' experience of operating as Finance Director/Managing Director in diverse businesses, from multinational groups to management buyouts.

Anne's current portfolio includes a senior finance position within the charity sector and a specialist financial advisory role.



May I take the opportunity to congratulate the staff who processed my passport renewal.

I completed the online application and the following week the renewed passport had arrived with no errors, along with my old passport. The whole process only took 10 days and presented no problems to me as the applicant.

Well done to everyone involved for providing an efficient service that is a credit to you all.



Dennis Kell, Newport



Management commentary

History and background

The Identity and Passport Service (IPS) came into existence on 1 April 2006 following the granting of Royal Assent for the Identity Cards Bill on 30 March 2006. The new Executive Agency of the Home Office merged the existing functions of the United Kingdom Passport Service (UKPS) and the Identity Cards team within the Home Office.

Principal activities

The function of IPS during 2006–07 was to provide passport services for British nationals in the United Kingdom and to put in place the framework for the National Identity Scheme (NIS). Two funding streams are available to IPS for these separate functions; passport services are funded by passport fees and the NIS is funded by central Home Office funds. These activities are reported separately within the accounts.

Performance against key targets is described within the Annual Report. For the year ended 31 March 2007 the passport service elements made a deficit of £2.1 million against an anticipated and planned deficit of £15 million. This deficit was the second part of the two-year fee arrangement with HM Treasury to implement biometric passports and the Interview Office Network. The NIS incurred expenditure of £30.9 million in the year against an initial budget of £55 million. At the mid-year position this financial plan was revised due to the shift in emphasis to utilising existing public and private sector infrastructure to deliver the NIS, thus reducing planned procurement activity within the year. With the publication of the *Strategic Action Plan for the NIS* in December 2006, activity has ramped up in the final quarter causing the mid-year expenditure assessment to be exceeded.

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* (FRoM), in respect of 2006–07 and future years, in accordance with section 7(2) of the Government Resources and Accounts Act 2000.

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

Business and future developments

Delivery of change

Significant enhancements to the passport issuing process have taken place during the year, primarily so that IPS can effectively combat increasingly complex and sophisticated identity and document fraud while continuing to provide a high-quality service to the public. IPS continues to develop its change management processes. A business change function is embedded into the operation and works with projects to ensure that the business is ready for changes to be implemented and that projects have delivered a useable product. Examples of change that were successfully introduced into the operation during 2006–07 were:

- the introduction of the biometric passport which went live in production in the Regional Office Printing Equipment (ROPE) rooms on 6 March 2006 and was fully rolled out by October 2006
- the full roll-out to all offices of the Personal Identity Process (PIP) whereby public and private sector databases are used as additional identity evidence for first time adult passport customers

- significant preparation for the introduction of the Interview Office Network (ION), including customer experience testing, securing and furnishing around two-thirds of the network, recruiting and training around 100 staff and rigorous testing of the IT systems to support the network
- introduction of the Passport Validation Service (PVS) call centre for private sector customers
- facial recognition systems.

Additionally, significant activity has taken place during the year to put in place the framework under which the NIS will be delivered. This culminated in the publication of the *Strategic Action Plan for the NIS* in December 2006, a document which we will keep up to date as we continue to develop the delivery of the NIS to keep customers and stakeholders engaged throughout this significant change programme.

Fixed assets

During the year, IPS made significant capital investment primarily in the biometric passport and ION projects. Within the biometric passport project all the new plant and equipment required has been purchased and is owned by IPS, including a production line at our reserve facility in Manchester. Within the ION, the fit-out is being capitalised by IPS as are all the IT systems to deliver the service. Full capital expenditure in the year amounted to £55.0 million.

The ION has experienced delays during the year and we held our first identity interviews in May 2007, with a planned phased roll-out being completed towards the end of 2007. As such the capital expenditure relating to ION has been included in the accounts as 'assets under construction'. Despite this slippage, we have nevertheless secured a large proportion of the network in readiness for conducting identity interviews and as such have incurred costs relating to those offices during the year for periods before the activity became operational. These costs have been set out in more detail in note 25 to these accounts.

Additionally, difficulties have been experienced during the year with the electronic application channel, EPA2, which was implemented and withdrawn from service during the year due to poor transaction performance. The service has been rescoped and is planned for reintroduction during 2007–08 but in a different form. This has resulted in a fixed asset impairment of £5.5 million. More information on fixed assets is included within note 11 to these accounts and the *Report on Key Projects Implemented in 2006: Lessons learned*, published at the end of 2006.

Funding

Passport fee receipts continue to fund passport-related activity, while NIS development and capital expenditure are funded by the Home Office. Where central services, particularly those from HQ, have been incurred on both areas of IPS 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 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 – 3M SP&SL). Services from both organisations commenced in 1998 and were anticipated to operate for 10 years. In September 2005 a two-year extension was awarded to 3M SP&SL as part of the biometric passport negotiations. These and other key service contracts continue to deliver effectively for IPS. To ensure continuity of service and safe transition when retendering key services, IPS has awarded contract extensions while progressing the procurement of replacement capability. It is anticipated that a one-year extension of the Siemens contract will be required to allow for a robust procurement and safe transition to a successor arrangement.

Data sharing

IPS has been working increasingly closely with both the public and private sectors to combat the growing threat of passport and identity fraud while improving process efficiency and increasing the level of confidence in the passport. A number of initiatives which involved other government departments accessing passport data for identity validation purposes have been merged under the single umbrella of the PVS. Departments and agencies utilising this service include the Foreign and Commonwealth Office (FCO), the Driver and Vehicle Licensing Agency (DVLA), the Criminal Records Bureau (CRB) and the Border and Immigration Agency (BIA).

PVS has also built on a pilot in 2004–05 to develop a similar service for the private sector, confirming the validity of a passport presented as evidence of identity in order to obtain a service. This service had six customers live by the end of the last financial year, all of which were major high street banks or mortgage providers.

Additionally, significant activity has taken place to develop activity jointly, initially with public sector partners to build on the existing identity services. Our first joint activity is due to take place early in 2007–08 with the CRB, with further activity with BIA thereafter.

Concessionary passports

In May 2004 the Home Secretary announced a scheme to issue free passports for all those citizens born on or before 2 September 1929 in recognition of their contribution to the 1939–45 war effort. This scheme is centrally funded by the Home Office. During the year 127,000 customers benefited from the scheme at a cost of £7.3 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 second stage of the two-year fee arrangements agreed with HM Treasury in 2005 was implemented on 5 November 2006. These fee arrangements were put in place to facilitate delivery of the biometric passport and the ION. Fees will continue to be reviewed with departmental and HM Treasury colleagues to ensure they are appropriate as we continue to deliver passport services and the NIS scheme in the future.

Corporate governance

These accounts incorporate a statement on the IPS 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 IPS internal audit service, the contract for which was awarded to PricewaterhouseCoopers in 2003, as well as other internal and external reviews that cover IPS business controls. The IPS Audit Committee met quarterly to oversee all audit and assurance work carried out and was supported by a Risk Assurance Group that met regularly throughout the year. The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of plans, policies and objectives, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically. In order to strengthen corporate governance a Head of Internal Audit was appointed during the year, essentially managing the activities of the internal audit service.

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.

New governance arrangements have been established for IPS to reflect the nature of the new organisation. IPS governance is delivered through a Management Board comprising the Chief Executive, Executive Directors and Non-executive Directors. The Management Board meets monthly.

Full details of the Board in place for the 2006–07 financial year for IPS are included within the remuneration report, and profiles of the existing Board members are included on pages 13–15.

Pension scheme

Comprehensive details of the various pension schemes available to IPS employees are contained within the remuneration report.

Efficiency Strategy

The IPS Efficiency Strategy was developed in line with recommendations under the Gershon Review and the need to mitigate the impact of change initiatives on passport fees. The strategy includes a focus on procurement savings, productivity improvements and realising the benefits from replacing labour intensive processes. This efficiency drive will strengthen as IPS positions itself to deliver strong customer service while positioning the framework for NIS delivery. We must, of course, strike a careful balance between ensuring that the examination process continues to be sufficiently robust in authenticating identity as fraudsters become more sophisticated while being efficient in doing so.

Resource accounting and budgeting

The Home Office is preparing resource accounts for 2006–07, which will consolidate IPS accounts.

Payment performance

IPS payment performance is outlined within the Annual Report.

Unlocking staff potential

IPS applied for Investor in People status during the year. We have a corporate target for investing in training for our people which we consistently meet and did so in 2006–07. We do recognise that there are continuing challenges within the Agency which we need to support our staff through.

A comprehensive leadership programme is in place to ensure that staff are led through these challenges effectively. We held our second Celebrating Success Awards ceremony for staff which recognises and rewards the achievements of colleagues throughout IPS. Additionally, a comprehensive diversity and equality plan is in place and a full staff survey was conducted in 2007, the results of which will help us to focus on specific areas that will play a key role in further improving the engagement of our employees.

Although the Staff Sickness key performance indicator was not met in 2006–07, IPS has an action plan in place to address this.

Partnership agreement with the trade union

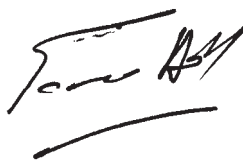
IPS values its relationship with the Public and Commercial Services Union (PCS) and continues to build on the formal partnership agreement signed in 2002. We will continue to strengthen this relationship, particularly in the climate of the recent industrial unrest within IPS and the public sector as a whole.

Employment of disabled people

IPS employed 221 members of staff who have disclosed a disability (6 per cent of total average staff numbers). In December 2006, IPS published a *Disability Equality Scheme* document, 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.

Health and safety

IPS is committed to maintaining the standards required by the Health and Safety at Work Act 1974, and other United Kingdom 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.



James Hall
Chief Executive
Identity and Passport Service
17 July 2007







“

In today's press reports one hears so many negative stories about the Civil Service. My recent experience of a passport renewal was fantastic. I posted the application on Sunday and received the replacement the following Friday – 5 days!!!! Brilliant service, well done.

”

George Prokopowicz, West Sussex

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

Under section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury has directed the Identity and Passport Service (IPS) to prepare 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
- 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, for 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 *Government Accounting*.

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



“

I have just renewed my passport on a four-hour service. I have to compliment you on the ease and indeed speed of this service. Thank you for a first class service.

”

Barrie Copeland, Derby



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 *Government Accounting*.

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 only provide reasonable and not absolute assurance of effectiveness. The system of internal control 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. The system of internal control meets HM Treasury guidance and has been in place in IPS for the year ended 31 March 2007 and up to the date of approval of the Annual Report and Accounts.

Capacity to handle risk

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

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

Risk management policy, framework and 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 Risk Services function leads in the dissemination of best practice and my Head of Risk Management undertakes a range of activities to ensure that risk awareness is raised and that staff are trained to manage risk appropriately.

My objective is to continue to develop an improving risk management and assurance culture throughout the organisation.

The risk and control framework

Risk tolerance is determined by the Management Board in the prioritisation of objectives within the corporate planning process and on a risk-by-risk basis in the case of individual strategic risks.

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

- a monthly Management Board meeting, with a standing item on significant risks
- an active programme of facilitated Control Risk Self Assessment workshops across the Agency that 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 Directors to provide assurance on the effectiveness of risk management and the operation of key business controls in each directorate
- an Audit Committee that meets at least four times a year, chaired by a Non-executive Director and including two other Non-executive Directors and one independent member
- regular reports by internal audit covering management and control of the Agency's main risks and key business processes
- a system to record and monitor risks to objectives at operational, project, programme and corporate levels. The Head of Risk Management combines these in a register of significant risks for Board consideration
- a Risk Management Committee of senior managers that reviews significant risks and the effectiveness of risk management practices
- a separate Security Team, responsible for investigating all issues relating to passport fraud and security
- business continuity plans for key business processes and systems which are regularly reviewed and rehearsed. A Resilience Group of Directors and senior managers oversees business continuity processes.

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 Management, the Risk Management Committee, and internal and external audit.

Based on the work that internal audit carried out the Head of Internal Audit's overall opinion is that, after taking into account the individual strengths and weaknesses identified, overall risk management, internal controls and governance at IPS are adequate. IPS management has responded very positively to recommendations made to strengthen controls in the areas that were reviewed and many of these are already being implemented.

Significant risks and internal control issues

IPS operates in an environment of significant change and has an increased public profile, especially in view of our responsibility for NIS delivery as it develops its methods of operation to meet the challenges of fraud prevention, public safety and technological advances. IPS 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:

- Early operational difficulties, not identified during testing, resulted in the suspension of the roll-out of a new online passport application service. We recognised these issues at an early stage and took swift action to stop the service, recovering the operational position in two weeks using a pre-identified contingency plan. We undertook a full evaluation of the reasons for the problems encountered which we published in a widely praised lessons learned document. These lessons, which we have made public, will be used in future change initiatives.
- Temporary withdrawal of other online services to address identified operational issues. Problems were rectified and services reinstated.
- The introduction of biometric passports was achieved successfully, on time and on budget, in the year. The biometric chip carries a limited manufacturer's warranty which we are currently seeking to extend as well as identifying alternative sources of supply. As there are a limited number of chip suppliers, any problems that the UK encounters in this respect are likely to be replicated on an international scale. Although there has been no indication of problems and despite their remote likelihood, we have felt it prudent to develop contingency plans should any service issues emerge.
- The internal audit review of a project to enhance the Agency's IT disaster recovery strategy confirmed that improvements are needed in these arrangements, which require development of an agreed and funded action plan, currently in progress.
- In exceptional cases and to maintain effective service to the public we have decided to provide temporary extensions to some supplier contracts to cover the period of re-procurement and transition to successor arrangements.
- To manage supplier and delivery risks we put in place a programme to secure interview office premises ahead of actual operation. Because of other delays this has led to us incurring expenditure prior to operational use of these assets. This is technically known as 'fruitless

payments' in government accounting, as disclosed in the accounts. We have made productive use of as much of the estate as possible for testing, trialling and training purposes prior to go live.

- Together with our passport production partner, we invoked a pre-planned contingency plan to ensure continuity of the centralised production of passport books during the transition to biometric passports.
- Our internal control processes detected an error in the allocation of passport application packs by one of our suppliers, which in turn resulted in our not billing another partner organisation correctly. We have taken action to recover the monies owing, as disclosed in the accounts, and are working with the supplier to ensure that this situation does not recur.

A number of control developments have been introduced during the year, including:

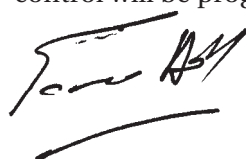
- Reorganisation of the Agency and the strengthening of the senior management structure to deal with the challenges of taking the Agency forward.
- Streamlining management and governance structures to speed communications and decision making and increase efficiency. Non-executive Directors now attend Management Board meetings.
- Publication of the *Strategic Action Plan for the NIS* to deliver the National Identity Scheme.
- Following major programme and project reorganisation activity we are now taking steps to improve the effectiveness and consistency of project risk management, which has been identified as an area requiring improvement.
- Increasing resources in both pre- and post-issue fraud management and close working with other agencies to keep pace with new sources and types of fraud, which are becoming increasingly sophisticated.
- Regular Audit Committee reviews of risks and controls in key business areas.
- Improvements in management monitoring of key controls. We have identified that the consistency, co-ordination and coverage of these activities could be developed further and we will be taking this forward in 2007–08, working with the new senior management team.
- Engaging an interim Head of Internal Audit to manage and develop the currently outsourced service and have subsequently made a

permanent appointment to build in-house capability.

- Carrying out a study to estimate the level of hitherto undetected passport fraud, the findings of which are being addressed by specific action plans. Performance improvements will be measured against a new fraud key performance indicator.
- Addressing the most significant area of fraud by developing a network of interview offices for first time adult passport customers. During 2006–07 we put in place a programme to secure interview office premises in good time ahead of actual operation, resulting in some advance expenditure as disclosed in the accounts.
- Developing a Reserve Facility to provide an improved disaster recovery capability in respect of centralised passport production.
- Establishing an Investment Forum to review all major Agency investment decisions to ensure their financial affordability and value for money.
- Defining risk management and business continuity key performance objectives for Directors and senior managers.
- The continued strengthening of pre-employment checks to enhance internal counter fraud protection.
- Implementing a new, more efficient, online procurement system.
- Establishing a programme of health checks and rehearsals of IPS business continuity plans.

Our system and process development activity has received considerable attention including Home Office oversight processes, internal audit and Office of 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.

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



James Hall
Chief Executive
Identity and Passport Service
17 July 2007



“

I think the service you provide is excellent. I filled out an online application form and just one day later, I was informed that it had been accepted and when to expect delivery of my passport. This service is so helpful. I will be recommending this to others. Thank you!

”

Kelly Smith, Lancashire

Remuneration report

Year ended 31 March 2007

In accordance with the *Financial Reporting Manual* (FReM) IPS has prepared a remuneration report for 2006–07. 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 IPS staff including costs can be found in note 8 to these accounts.

Remuneration policy

All of the current executive members of the Management Board are senior civil servants. The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably qualified people to exercise their different responsibilities
- regional/local variations in labour markets and their effects on the recruitment and retention of staff
- government policies for improving public services including the requirement on departments to meet the output targets for the delivery of departmental services

- the funds available to departments as set out in the Government's departmental expenditure limits
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found on the Office of Manpower Economics website www.ome.uk.com.

Service contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointments 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 until they reach the normal retiring age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. During 2006–07 IPS has made no salary or compensation payments to past senior managers for loss of office and has no senior staff on fixed term contracts. No provisions are made for early termination in line with Financial Reporting Standard (FRS) 12.

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

Salary and benefits in kind

While all of the current executive members of the Management Board are permanent members of the Senior Civil Service with pay and benefits managed by the processes outlined previously, that has not been the case for the whole of the year. The table below gives details of all individuals who have acted as a member of the Management Board during the course of the year. Salary includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; and any other allowance to the extent that it is subject to UK taxation.

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

Salaries and pension analysis for each member of the IPS Management Board

for year ended 31 March 2007 in bands of £5,000

Senior staff name	Job title	Salary 2006-07 £'000
James Hall ¹	Chief Executive Officer (start date October 2006)	85-90 (Annualised salary 175-180)
Bernard Herdan ²	Executive Director, Service Planning and Delivery (new post 1 January 2007, formerly Executive Director of Service Delivery)	140-145 (Annualised salary 140-145)
Katherine Courtney	Executive Director, Business Development and Marketing (new post from 1 January 2007, formerly Executive Director Business Development and External Affairs)	120-125 (Annualised salary 120-125)
Annette Vernon	Executive Director, NIS Programme Delivery and Chief Information Officer	130-135 (Annualised salary 130-135)
Stephen Harrison	Executive Director, Strategy (Acting) (new post from 1 January 2007, formerly Director of Policy)	15-20 (Annualised salary 70-75)
Sarah Rapson	Executive Director, Operations (new post from 1 January 2007, formerly Director of Operations)	80-85 (Annualised salary 80-85)
Simon Rice	Executive Director, Finance and Performance (Acting). Start date October 2006 (new post 1 January 2007, formerly Executive Director Corporate Services – Finance)	35-40 (Annualised salary 65-70)
Nigel Shaw ³	Executive Director, Commercial (Interim, October 2006 to April 2007) (new post from 1 January 2007). Replaced by a permanent civil servant, Bill Crothers, in April 2007	150-155 (Annualised salary n/a)
Jane Carwardine	Executive Director, Human Resources (started February 2007)	10-15 (Annualised salary 100-105)
Alan Hughes ⁴	Non-executive Director (started April 2006)	50-55
Linda Walton ⁵	Non-executive Director	25-30
Sarah Blackburn ⁶	Non-executive Director (started October 2005)	5-10
Anne Tutt ⁷	Independent Audit Committee member (started September 2006)	0-5

Notes

1. James Hall received allowances to cover home to work travel of £6,000 for the period October to March 2007, which are included within remuneration above.
2. Bernard Herdan receives an annual home to work allowance of £8,000 which is included within remuneration above.
3. Interim member of staff provided by third party agency. Figures shown as salary represent fees paid to agency.
4. 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 National Identity Scheme (NIS), non-executive member of the NIS Programme Board, Office of Government Commerce Executive Support Director, and has supported the recruitment process for the IPS Chief Executive Officer.
5. Linda Walton is a non-executive member of the IPS Management Board. In addition she provides support for the Interview Office Network, evaluates the Celebrating Success contributions and is Chair of the judging panel.
6. Sarah Blackburn is Chair of the IPS Audit Committee and a non-executive member of the IPS Management Board.
7. Anne Tutt is an independent member of the IPS Audit Committee.

Salary 2005–06 £'000	Real increase in pension at age 60 and related lump sum (£'000)	Total accrued pension at age 60 at 31 March 2007 and related lump sum (£'000)	Cash Equivalent Transfer Value at 31 March 2006 (nearest £'000)	Cash Equivalent Transfer Value at 31 March 2007 (nearest £'000)	Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £'000)
n/a	n/a	n/a	n/a	n/a	n/a
140–145	0–5 plus 0–5 lump sum	20–25 plus 65–70 lump sum	503	556	27
n/a	0–5 plus 0–5 lump sum	5–10 plus 0–5 lump sum	57	79	18
n/a	5–10 plus 20–25 lump sum	35–40 plus 105–110 lump sum	368	515	100
n/a	0–5 plus 10–15 lump sum	15–20 plus 60–65 lump sum	228	248	18
70–75	0–5 plus 0–5 lump sum	0–5 plus 0–5 lump sum	14	34	9
n/a	0–5 plus 0–5 lump sum	15–20 plus 55–60 lump sum	274	294	14
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	3	2
n/a	n/a	n/a	n/a	n/a	n/a
25–30	n/a	n/a	n/a	n/a	n/a
5–10	n/a	n/a	n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a	n/a

Salaries and pension analysis

for IPS directors who have left during 2006–07 in bands of £5,000

Senior staff name	Job title	Salary 2006–07 £'000	Salary 2005–06 £'000	Real increase in pension at age 60 and related lump sum (£'000)	Total accrued pension at age 60 at 31 March 2007 and related lump sum (£'000)	Cash Equivalent Transfer Value at 31 March 2006 (nearest £'000)	Cash Equivalent Transfer Value at 31 March 2007 (nearest £'000)	Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £'000)
Alan Barnish ¹	Chief Executive (Interim, April 2006 to September 2006)	115–120	n/a	n/a	n/a	n/a	n/a	n/a
John Holden ²	Non-executive Director (resigned March 2007)	10–15	10–15	n/a	n/a	n/a	n/a	n/a
Alistair Cook	Executive Director of Corporate Services (Acting – Finance). Resigned October 2006	40–45	90–95	0–5 plus 0–5 lump sum	20–25 plus 60–65 lump sum	280	286	2
Ruth Pearson	Executive Director of Corporate Services (Acting – Human Resources). Resigned October 2006	45–50	80–85	0–5 plus 0–5 lump sum	5–10 plus 0–5 lump sum	71	80	8
Peter Smith ¹	Executive Director Commercial (Interim, April 2006 to December 2006)	140–145	n/a	n/a	n/a	n/a	n/a	n/a
Clare Warnes ¹	Executive Director Human Resources (Interim, November 2006 to February 2007) (new post 1 January 2007, formerly Executive Director Corporate Services – Human Resources)	75–80	n/a	n/a	n/a	n/a	n/a	n/a

1. Interim members of staff provided by third party agency. Figures shown as salary represent fees paid to agency.

2. John Holden was a non-executive member of the IPS Strategy Board and Audit Committee. He resigned in March 2007.

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 CETV figures, and other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Civil Service Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

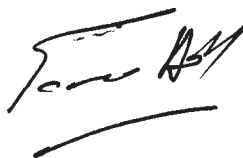
This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation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

Partnership Pension Scheme

IPS has made no payment to a Partnership Pension Scheme during 2006–07 (nil 2005–06) for senior managers.

Further information

Further detailed pension disclosures can be found in note 8 to the accounts.



James Hall
Chief Executive
Identity and Passport Service
17 July 2007



“

Just a quick note to thank you for the outstanding service provided when you processed my passport renewal last week. It was exemplary. Thank you very much. I posted my application on Monday and received my passport on Saturday – wonderful!

”

Stephen Warner, Dorset



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 2007 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Account and 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, certain information given in the Annual Report, which comprises the management commentary, 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 opinion

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 judgements 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

Audit opinion

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 2007, and of the deficit, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- the information given within the Annual Report, which comprises the management commentary, is consistent with the financial statements.

Audit 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.



John Bourn

Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria
London SW1W 9SP
18 July 2007

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.



I wanted to say how impressed I've been with the speed of service. My passport renewal was completed in just seven days from me posting the application to me receiving my passport. I'd also like to particularly commend the Secure Mail Services delivery man, who was so polite and helpful. I wish I'd got his name but I didn't. Thank you all.



Sue Gilby, Birmingham

Accounts for the year ended 31 March 2007

Identity and Passport Service Income and Expenditure Account for year ended 31 March 2007

	Notes	2006-07* £'000	2005-06* £'000 Restated
Turnover from continuing activities	1.9, 3	345,606	277,732
Cost of sales	5	(154,419)	(107,313)
Gross surplus		191,187	170,419
Distribution costs	6	(22,342)	(21,703)
Administrative expenses	7	(159,430)	(110,903)
		(181,772)	(132,606)
		9,415	37,813
Other operating income	1.13, 4	5,915	3,144
Operating surplus	9	15,330	40,957
Loss on disposal of fixed assets	11a, 11b	(435)	–
Cost of capital	10	(2,851)	(1,944)
Surplus on ordinary activities	1.11	12,044	39,013
Non-retainable element of the passport fee for consular protection	23	(45,072)	(46,463)
Deficit after deducting non-retainable element of the passport fee		(33,028)	(7,450)

*IPS income and expenditure now includes current year and comparative spend associated with the NIS Programme which was previously undertaken by the Home Office.

Statement of total recognised gains and losses for year ended 31 March 2007

		2006-07* £'000	2005-06* £'000 Restated
Surplus on ordinary activities		12,044	39,013
Non-retainable element of the passport fee	23	(45,072)	(46,463)
Unrealised surplus on the revaluation of assets	11a, 11b	2,251	489
Government grant additions	15c	338	–
Losses recognised for the year		(30,439)	(6,961)

The notes on pages 41 to 57 form part of these accounts.

Accounts for the year ended 31 March 2007

Identity and Passport Service Balance Sheet as at 31 March 2007

	Notes	2006-07 £'000	2005-06 £'000 Restated*
Fixed assets			
Intangible assets	1.3, 11a	122	179
Tangible assets	1.4, 11b	129,581	94,648
		129,703	94,827
Current assets			
Stocks	1.6	1,808	782
Work in progress	1.7	373	462
Debtors	12, 26	23,767	14,290
Cash at bank and in hand	17	28,097	25,755
		54,045	41,289
Creditors (amounts falling due within one year)	13a, 26	(96,868)	(75,958)
Net current liabilities		(42,823)	(34,669)
Total assets less current liabilities		86,880	60,158
Creditors (amounts falling due after more than one year)	13b, 26	(3,778)	(3,000)
Provisions for liabilities and charges	1.16, 14	(3,752)	(2,992)
		79,350	54,166
Taxpayer's equity			
General fund	15a	74,422	48,933
Revaluation reserve	15b	4,512	2,855
Government grant reserve	1.15, 15c	416	2,378
		79,350	54,166

*Comparative assets and liabilities associated with the NIS Programme for 2005-06 have not been included as these have been paid by the Home Office.



James Hall
Chief Executive
Identity and Passport Service
17 July 2007

The notes on pages 41 to 57 form part of these accounts.

Accounts for the year ended 31 March 2007

Identity and Passport Service Cash Flow Statement for the year ended 31 March 2007

	Notes	2006-07 £'000	2005-06 £'000 Restated*
Net cash inflow from operating activities		39,610	54,666
Capital expenditure and financial investment		(55,700)	(45,924)
Payments of amounts due to the consolidated fund		(25,667)	(6,569)
Net cash flow from financing		39,905	15,915
(Decrease)/Increase in cash in the year	17	(1,852)	18,088
Reconciliation of operating cost to operating cash inflows			
Net operating surplus		15,330	40,957
Adjust for non-cash transactions	16a	16,390	4,331
Adjust for movements in working capital other than cash and provisions	16b	7,130	7,217
Adjust for movements in provisions	16b	760	2,161
Net cash inflow from operating activities		39,610	54,666
Analysis of capital expenditure and financial investment			
Tangible fixed asset additions	11b	(55,677)	(45,916)
Intangible fixed asset additions	11a	(23)	(8)
Proceeds/(Costs) on sale of fixed assets	11a, 11b	-	-
Net cash outflow from investment activities		(55,700)	(45,924)
Payments of amounts due to the consolidated fund			
Consolidated fund extra receipts (CFER) payment	1.11, 23	(25,667)	(6,569)
Net consolidated fund extra receipts to Home Office		(25,667)	(6,569)
Analysis of financing*			
Cash received from the Home Office	1.10, 15a	89,770	57,353
Cash collected and paid over to Home Office in respect of Foreign and Commonwealth Office		(49,865)	(41,438)
Net cash funding to Home Office		39,905	15,915

*Analysis of financing has been restated to include a comparative adjustment for supply funding from the Home Office for NIS activities. See note 15a.

The notes on pages 41 to 57 form part of these accounts.

Notes to the accounts

1 Statement of accounting policies

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

Royal Assent was granted on 30 March 2006 to create the Identity and Passport Service (IPS). IPS will incorporate the functions of the United Kingdom Passport Service (UKPS), and also deliver the National Identity Scheme (NIS). The accounts have accordingly been prepared on a going concern basis and no adjustments have been made to the carrying value of assets or liabilities.

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 Changes to accounting policies

Merger accounting

IPS has accounted for the transfer of NIS activities from the Home Office as a merger as permitted under FRS 6. Income and expenditure from the NIS activities of the Home Office has been included in the comparative income and expenditure account and reserves. No consideration was given or received as a result of this merger and no material assets and liabilities were transferred. The effect is set out below:

Accounting policy changes prior year restatement

	2005–06 Original £m	Impact of changes £m	2005–06 Adjusted £m
Surplus/(deficit)	20.7	(28.1)	(7.4)
General fund	48.9	0.0	48.9

Fixed asset policy

As required each year IPS has reviewed its estimating techniques and accounting policies to make sure that they are still considered valid. The outcome has led to the updating of IPS fixed asset policy as defined in sections 1.3 and 1.4. The changes made are set out below:

- To commence depreciation from the period that an asset is brought into use and stop depreciating in the month prior to its disposal. The previous estimating technique depreciated an asset for a full year in the financial year it was brought into use and no depreciation in the year of disposal.
- Broadening of the vehicles category of assets to include plant and machinery. Biometric passport production line assets have been reclassified into this category.
- Revaluation of assets has been extended to include development and intangible assets.

The effects of these policy changes on the income and expenditure account are set out below:

Accounting policy changes

	2006–07 Original £m	Impact of changes £m	2006–07 Adjusted £m
Fixed assets	(26.4)	8.1	(18.3)

1.3 Intangible assets

Software Licences

Intangible assets comprise software licences covering a period in excess of one year, which are capitalised at cost and amortised over their useful life to a maximum of five years in accordance with FRS 10. Software licences are revalued annually based on Office for National Statistics indices.

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

1.4 Tangible fixed assets

a) Plant, machinery and vehicles

Plant, machinery and vehicles 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 ten 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 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, which is to be supplied on a full cost recovery basis, is capitalised at cost if it meets the criteria specified in Accounting Standards and the FRoM.

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

Expenditure which does not meet the criteria for capitalisation is written off to the income and expenditure account in the year in which it is incurred.

Notes to the accounts

1 Statement of accounting policies (continued)

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 Practice (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 into use, depreciation is charged and the asset is transferred to the appropriate category of fixed asset.

i) Revaluation

IPS is required to disclose fixed assets in the balance sheet at current cost. IPS policy is to revalue all of its tangible fixed assets that are in use, by applying appropriate indices compiled by the Office for National Statistics to each class of operational asset excluding assets representing dilapidations 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	5 years

k) Capitalisation

The minimum level for capitalisation of tangible fixed assets (excluding furniture and fittings, telecoms and IT development) is £500 per item.

1.5 Leases

Rental payments for land and buildings occupied by IPS on the basis of operating leases 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.

1.6 Stocks

Stocks are valued at the lower of current replacement cost and net realisable value and comprise new digital passport blanks and image transfer sheets.

Biometric stocks and associated consumables are valued at cost.

Digital passport stocks and associated consumables continue to be held but at nil cost as they are now obsolete. These are planned to be destroyed in 2007–08.

1.7 Work in progress

Work in progress (WIP) is valued using three elements:

- The number of applications which have been passed for issue by IPS but not printed by SP&SL are valued at the Siemens unit charge to reflect IPS liability to Siemens for this work.
- The above number of applications are also valued at average IPS direct labour cost in March 2007 at each office.
- The number of applications which have not been completed by IPS examiners are valued at an appropriate proportion of the average direct labour cost in March 2007.

Work in progress in SBS is not deemed to be owned by IPS and is therefore excluded from the IPS WIP count as no liability for these applications has been incurred by IPS at this stage.

1.8 Notional costs

In accordance with the FReM a notional cost at the appropriate rate is included for the cost of capital, a charge included in operating costs reflecting the cost of capital utilised by the Agency. The charge is calculated at the real rate set by 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, Accounts Branch and for National Audit Office audit fees.

1.9 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 introduced on 18 October 2004 is centrally funded by the Home Office, when a passport 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.

1.10 Funding

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

IPS relies primarily 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.

IPS relies on cash funding from the Home Office to support the NIS programme activities. This is drawn down as required during the year.

In accordance with *Government Accounting* any cash surplus is surrendered to HM Treasury at the end of the year.

Notes to the accounts

1.11 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 any 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.

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

Any surplus/(deficit) remaining after the FCO contribution and the cost of providing free passports (as referred to in note 1.9 above) is surrendered to the consolidated fund, via the Home Office on a cash basis.

1.12 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.

1.13 Other operating income

Operating income is income which relates directly to the operating activities of the Agency and represents miscellaneous receipts including 3M SP&SL income for use of biometric passport equipment by FCO, lease regearing, postal recovery receipts and Passport Validation Service income.

Operating income is stated net of VAT.

1.14 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*.

1.15 Government grants receivable

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

The government grant reserve is credited with the amount of the grant and a transfer is made from the government grant reserve to the income and expenditure account for depreciation.

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.

1.16 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.

1.17 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.
- 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) which are required by the FReM to be noted in the resource accounts.

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

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

1.18 Contingent assets

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

1.19 Value Added Tax

Most of the activities of the Agency are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.20 Estimating techniques

IPS undertakes passport- and NIS-related activities. Where costs are shared between these two activities, estimating techniques are used to allocate costs. These are reviewed each year and are based on the level of activities undertaken to support passport or NIS activities.

Notes to the accounts

2 Segmental reporting*, **, ***

	NIS			NIS		
	Passports 2006-07 £'000	programme 2006-07 £'000	Total 2006-07 £'000	Passports 2005-06 £'000	programme 2005-06 £'000	Total 2005-06 £'000
Income						
Turnover from continuing activities	345,606	–	345,606	277,732	–	277,732
Other operating income	5,915	–	5,915	3,144	–	3,144
Expenditure						
Cost of sales	154,419	–	154,419	107,313	–	107,313
Distribution costs	22,342	–	22,342	21,703	–	21,703
Administrative expenses	128,625	30,805	159,430	83,181	27,722	110,903
Other costs	3,148	138	3,286	1,944	–	1,944
Surplus/(deficit) on ordinary activities	42,987	(30,943)	12,044	66,735	(27,722)	39,013
Non-retainable element of passport fee for consular protection	45,072	–	45,072	46,463	–	46,463
Surplus/(deficit) after deducting non-retainable element of passport fee	(2,085)	(30,943)	(33,028)	20,272	(27,722)	(7,450)

*The deficit on passport-related activities is £2.1m (2005-06: £20.3m surplus restated) and the spend on NIS activities is £30.9m (2005-06: £27.7m).

**In accordance with FRS 6 comparative income and expenditure has been included for the NIS activities previously undertaken by the Home Office. The effects of these changes have also been reflected in the general fund and opening consolidated fund balances (see note 15). No assets or liabilities were given or received when transacting the merger and hence no further adjustments have been made to the IPS balance sheet or income and expenditure account.

***The principle activities of IPS continuing operations have been included in note 2. There were no discontinued operations to report. Passport-related income and expenditure has been included within the passports segment, including an allocated share of overheads. This also includes projects such as biometric passports, ABl as agreed with HM Treasury and the Passport Validation Service as permitted under the wider markets initiative. NIS costs are included as incurred by IPS only. Costs incurred by other government departments are not included. Where possible, allocation is made directly, or by the use of an estimating technique. This technique is based on the staff numbers undertaking passport and NIS activities. All IPS expenditure incurred exclusively on the NIS Programme is funded directly by the Home Office as disclosed in note 15. The segmental information is not required under the requirements of SSAP 25 but is included to provide complete clarity on the expenditure and funding of passport and NIS activities.

3 Turnover from continuing activities

	2006-07 £'000	2005-06 £'000
Standard passport services*	345,606	277,732
	345,606	277,732

*All activities are governed by the Consular Fees Act 1980 and considered to be one single class of business. During the financial year 2006-07, 127,820 passports were issued under the Veterans initiative ('Free passports for those born on or before 2 September 1929'), resulting in revenue foregone of £7.3m (2005-06: 156,782 passports at revenue foregone of £7.0m). This initiative is funded centrally by the Home Office and shown within the turnover figure. Since the commencement of the Veterans initiative on 19 May 2004, a total of £0.8m has also been refunded.

Notes to the accounts

4 Other operating income

	2006–07 £'000	2005–06 £'000 Restated
Transfer from government grant reserve	300	179
Rental income	285	285
Other operating income*,**	5,330	2,680
	5,915	3,144

*Home Office funding for costs incurred by IPS during 2005–06 to support preparatory and scoping work for the NIS activities of £3.3m previously classified as notional income has been reclassified to the general fund as Home Office supply funding in accordance with the FRM and also as required under FRS 6 Merger Accounting.

**Included in Other operating income are receipts of £4.0m (2005–06: £1.3m) from 3M SP&SL for use of the equipment to print blank biometric passports by FCO, and an amount of £0.3m for fees for using the Passport Validation Service.

5 Cost of sales*

	2006–07 £'000	2005–06 £'000
Labour costs	52,751	46,813
Bank charges	427	343
Passport stationery	3,743	999
Application forms	2,483	2,752
Outsourcing service charges**	86,597	48,915
Telecommunication charges, including call centre charges	8,418	7,491
	154,419	107,313

*All expenditure in cost of sales is directly allocated to passport-related activities.

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

6 Distribution costs*

	2006–07 £'000	2005–06 £'000
Postal charges	2,177	2,200
Secure delivery	19,915	18,769
Application form distribution	244	734
Postal services	4	–
Courier services	2	–
	22,342	21,703

*All expenditure in distribution costs is allocated directly to passport-related activities.

Notes to the accounts

7 Administrative expenditure*

	2006-07 £'000	2005-06 £'000 Restated
Staff	62,363	36,710
Accommodation	17,129	13,217
Other costs**	38,854	37,975
IT running costs	11,941	7,410
Telecoms charges	2,038	1,343
Publications, stationery and printing	2,310	2,070
Non-cash costs		
Home Office Payroll and Accounts Branch	351	319
External audit fees	175	175
Depreciation	16,752	9,519
Amortisation of intangible fixed assets	72	71
Diminution in assets	1,229	1,304
Impairment of assets***	5,456	-
Increases in provisions****	760	790
	24,795	12,178
	159,430	110,903

*Administrative costs include £30.8m (2005-06: £27.7m) of expenditure that has been allocated to NIS activities. These costs are included in Staff costs £15.1m (2005-06: £3.6m), Accommodation £1.1m (2005-06: £0.3m), and Other costs £14.6m (2005-06: £23.8m).

**Other costs included £941k classified as 'fruitless payments' under *Government Accounting*. These costs relate to some offices within the Interview Office Network which have been completed before Authentication by Interview activities have fully commenced.

***Impairment costs of £5.5m relate to write-down of software development costs associated with EPA2. This was required as the project has changed its scope and as a result some of the development will no longer be used. Residual hardware and development costs of £4.2m are retained and will be used by EPA2 and other IPS projects. This write-down has been carried out in accordance with FRS 11.

****Increases in provisions of £760k include £89k for early retirement, £237k for dilapidations, £454k for bad and doubtful debts and a reduction in legal provisions of £20k. See note 14.

8 Staff numbers and related costs

As required by the FReM, details of senior staff salaries and pensions have now been included in the remuneration report.

a Staff costs*

	Permanently employed 2006-07 £'000	Permanently employed 2005-06 £'000 Restated	Others 2006-07 £'000	Others 2005-06 £'000 Restated	Total 2006-07 £'000	Total 2005-06 £'000 Restated
Salaries	58,738	53,110	33,076	12,404	91,814	65,514
Earnings-related National Insurance	4,025	3,433	448	298	4,473	3,731
Superannuation (note 8c)	10,092	8,773	1,121	763	11,213	9,536
Other	6,853	4,363	761	379	7,614	4,742
Total costs*	79,708	69,679	35,406	13,844	115,114	83,523

*Staff costs include £100.0m (2005-06: £79.9m) for passport-related activities and £15.1m (2005-06: £3.6m) for NIS activities.

Notes to the accounts

Permanently employed

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

Others

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

b These costs have been included in the income and expenditure account as follows:*

	2006-07 £'000	2005-06 £'000
Cost of sales (note 5)	52,751	46,813
Administrative expenses (note 7)	62,363	36,710
	115,114	83,523

*Administrative staff costs include £47.3m (2005-06: £33.1m) for passport-related activities and £15.1m (2005-06: £3.6m) for NIS activities.

c 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. A full actuarial valuation was carried out as at 31 March 2005. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2006-07, employers' contributions of £11.2m were payable to the PCSPS (2005-06: £9.5m) at one of four rates in the range 17.1 to 25.5% (2005-06: 16.2 to 24.8%) of pensionable pay, based on salary bands. The scheme's Actuary regularly reviews employer contributions following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based final salary defined benefit schemes (classic, premium, and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality money purchase stakeholder based arrangement with a significant employer contribution (partnership pension account).

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)'s 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 premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic. Pensions payable under classic, premium and classic plus are increased in line with the Retail Prices Index.

iv) Partnership pension account

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

Notes to the accounts

8 Staff numbers and related costs (continued)

d The average number of employees on the Agency payroll during the period, including seasonal staff, was:

	Number of permanently employed staff 2006-07	Number of permanently employed staff 2005-06	Number of others 2006-07	Number of others 2005-06	Total number 2006-07	Total number 2005-06
Management	915	768	256	174	1,171	942
Administration	310	295	86	71	396	366
Production	1,757	1,670	295	233	2,052	1,903
Total	2,982	2,733	637	478	3,619	3,211

Staff numbers relating to passport-related activities was 3,509 full time equivalents (FTEs) (2005-06: 3,150 FTEs) and on NIS activities 110 FTEs (2005-06: 61 FTEs).

9 Operating surplus

The surplus for the period is shown after charging:

	2006-07 £'000	2005-06 £'000
Hire of plant and machinery	2,261	973
Bad debts and provisions	467	14
Depreciation	16,752	9,519
Amortisation	72	71
Total operating lease costs: Buildings	10,641	8,663
Plant and machinery	106	55
External audit fees*	175	175
Internal audit fees*	375	219

*The auditors have received no remuneration for non-audit work.

10 Interest on capital

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

	2006-07 £'000	2005-06 £'000
Cost of capital	2,851	1,944
	2,851	1,944

Notes to the accounts

11 Fixed assets

a Intangible fixed assets

The IPS intangible fixed assets consist of purchased software licences.

Cost or valuation	Purchased software licences £'000
At 1 April 2006	320
Additions	23
Revaluation	–
Diminution	(14)
Disposals	–
At 31 March 2007	329
Depreciation	
At 1 April 2006	141
On disposals	–
Charge for year	72
Backlog depreciation	(6)
At 31 March 2007	207
Net book value 31 March 2007	122
Net book value 31 March 2006	179

Notes to the accounts

11 Fixed assets (continued)

b Tangible fixed assets

Cost or valuation	Plant, vehicles and machinery £'000	Furniture and fittings £'000	Electrical equipment £'000	Telecoms equipment £'000	Refurb- ishment £'000	Development £'000	Assets under construction £'000	Total £'000
At 1 April 2006	6	6,155	7,983	1,571	32,310	24,764	48,305	121,094
Additions*	3,143	492	3,164	365	1,920	395	45,551	55,030
Revaluation	1,470	–	–	–	975	–	–	2,445
Impairments**	–	–	–	–	–	–	(5,456)	(5,456)
Diminution	–	(12)	(447)	(9)	–	(1,095)	–	(1,563)
Disposals	–	(35)	(429)	(17)	(55)	(11)	(258)	(805)
Transfer of assets into use	27,249	729	1,119	209	13,567	15,103	(57,976)	–
Reclassification of asset type***, ****	14,152	76	(114)	42	1,416	(13,555)	(1)	2,016
At 31 March 2007	46,020	7,405	11,276	2,161	50,133	25,601	30,165	172,761
Depreciation								
At 1 April 2006	6	3,027	3,649	1,438	9,285	9,041	–	26,446
Reclassification of depreciation***, ****	2,830	–	1	–	189	(2,570)	–	450
On disposals	–	(5)	(351)	(1)	(10)	(3)	–	(370)
Charge for year	5,860	545	1,574	70	4,425	4,278	–	16,752
Backlog depreciation	93	(5)	(90)	(1)	171	(266)	–	(98)
At 31 March 2007	8,789	3,562	4,783	1,506	14,060	10,480	–	43,180
At 31 March 2007	37,231	3,843	6,493	655	36,073	15,121	30,165	129,581
At 31 March 2006	–	3,128	4,334	133	23,025	15,723	48,305	94,648
Asset financing:								
Owned	37,231	3,843	6,493	655	36,073	15,121	30,165	129,581
Finance leased	–	–	–	–	–	–	–	–
On balance sheet PFI contracts	–	–	–	–	–	–	–	–
Net book value at 31 March 2007	37,231	3,843	6,493	655	36,073	15,121	30,165	129,581

*Capital additions totalled £55.0m including expenditure on the Interview Office Network and supporting systems, the passport production reserve facility site and production line.

**Impairment costs of £5.5m relate to write-down of software development costs associated with Electronic Passport Application (2) (EPA2). This was required as the project has changed its scope and as a result some of the development will no longer be used. Residual hardware and development costs of £4.2m are retained and will be used by EPA2 and other IPS projects. This write-down has been carried out in accordance with FRS 11.

***Biometric passport assets have been reclassified from software development to plant, machinery and vehicles, which more accurately reflects the nature of the biometric passport production line equipment.

****Reclassification also includes two assets that have been reclassified to government grants and rent regearing. See notes 13b and 15c.

Notes to the accounts

12 Debtors

	2006-07 £'000	2005-06 £'000
Trade debtors	74	61
HM Government debtors	5,762	6,552
Staff debtors	251	198
Prepayments and accrued income*	14,342	4,585
Partnership debtors	3,338	2,894
	23,767	14,290

*Accrued income includes £10m of income that has been included for Partner Income not billed at 31 March 2007.

13a Creditors: amounts falling due within one year

	2006-07 £'000	2005-06 £'000
Trade creditors	5,318	5,324
Other creditors*	8,722	9,697
Deferred income**	7,196	5,954
Accruals***	39,831	25,587
Amounts due to Home Office general cash account	27,878	25,667
Bank overdraft	7,923	3,729
	96,868	75,958

*Included within Other creditors is £4.7m which represents the non-retainable element of the passport fee for consular protection due to the Home Office (2005-06: £9.5m). See note 23a.

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

***Accruals of £2.9m from 2005-06 that relate to the transferred NIS activities from the Home Office have not been consolidated into comparators as they have been settled in full by the Home Office.

Notes to the accounts

13b Creditors: amounts falling due after one year

	2006-07 £'000	2005-06 £'000
Deferred income*	3,778	3,000
	3,778	3,000

*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 £'000	Bad debts £'000	Dilapidation costs £'000	Early retirement costs £'000	Total costs £'000
Balance at 1 April 2006	159	–	2,809	24	2,992
Amount utilised	(20)	–	(420)	(28)	(468)
Arising in the year	–	454	657	117	1,228
Balance at 31 March 2007	139	454	3,046	113	3,752

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

Provision has been made to cover bad debts relating to income from Partners included in turnover, which may not be paid in full. IPS undertakes reconciliation of Partner income each month and this work has identified income in February and March 2007 that had not been billed in full. External validation of the income that is due has not yet been fully completed. IPS is therefore required to estimate the likely effects of this. A prudent provision has therefore been included based on estimates jointly agreed between IPS and the Partner concerned. Corrective actions have now been taken to prevent a re-occurrence of this issue.

Dilapidation costs

IPS creates a dilapidation provision for all leased properties where it has an obligation to bring the property into a good state of repair at the end of the lease. The provision is based on the estimated costs of reinstatement of modifications it has made and repair obligations required during the lease.

During the year IPS increased provisions for wear and tear costs of leasehold estate by £657k and has reduced its provision on specific leasehold property where the dilapidation costs are now certain and will be settled in 2007-08.

Early retirement costs

IPS meets the additional costs of benefits beyond the PCSPS scheme 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.

Notes to the accounts

15 Reconciliation of movements in government funds

a General fund

	2006-07 £'000	2005-06 £'000 Restated
Balance at 1 April 2006	48,933	29,242
Surplus on operating activities*	12,044	39,013
Non-retainable element of the passport fee for consular protection	(45,072)	(46,463)
Transfer from revaluation reserve	593	56
Non-cash cost	526	494
Home Office funding for concessionary passports	(7,345)	(7,039)
Receipts from consolidated fund**	89,770	57,353
Amounts owed to the Home Office	(27,878)	(25,667)
Cost of capital	2,851	1,944
Balance at 31 March 2007	74,422	48,933

*As at 31 March 2007 IPS has made an overall deficit of £33.0m (2005-06: £7.5m deficit). The deficit on passport-related activities is £2.1m (2005-06: £20.3m surplus restated) and the spend on NIS activities is £30.9m (2005-06: £27.7m).

**During 2006-07 IPS received cash funding from the Home Office of £58.9m to fund capital expenditure and £30.9m to fund NIS revenue costs. IPS has also continued to generate its own cash resources, which will be surrendered to the Home Office once IPS accounts have been finalised in accordance with government policy.

b Revaluation reserve*

	2006-07 £'000	2005-06 £'000
Balance at 1 April 2006	2,855	2,419
Movement in year		
Fixed assets	2,445	691
Stock	-	3
Others	69	-
Backlog depreciation (unrealised)	(264)	(202)
Movement to general fund	(593)	(56)
Balance at 31 March 2007	4,512	2,855

*The revaluation reserve represents the difference between the net book value of the fixed assets on a revalued basis and on an historic cost basis where the revalued amount is higher. IPS assets are only revalued at the end of every financial year.

c Government grant reserve

	2006-07 £'000	2005-06 £'000
Balance at 1 April 2006	2,378	2,557
Government grant addition from a prior year*	338	-
Depreciation charged to income and expenditure in year (note 4)	(300)	(179)
Home Office Grant reclassified as a creditor	(2,000)	-
Balance at 31 March 2007	416	2,378

*The government grant addition from a prior year relates to a government grant received from the DVLA in 2005-06 to support the development of the specialised software. This was incorrectly treated as a fixed asset and has been restated as a specific government grant in accordance with the FReM.

Notes to the accounts

16a Non-cash transaction

	2006-07 £'000	2005-06 £'000 Restated
Depreciation charges (notes 7 and 11b)	16,752	9,519
Amortisation of intangible assets (note 11a)	72	71
Impairment (note 11b)	5,456	–
(Profit)/loss on disposal of fixed assets	–	161
Notional charges (note 7)	526	494
Diminution of assets (note 7)	1,229	1,304
Government grant income	(300)	(179)
Concessionary passport funding from Home Office (note 3, 15a)	(7,345)	(7,039)
	16,390	4,331

16b Movements in working capital other than cash

	2006-07 £'000	2005-06 £'000
Decrease/(increase) in stocks	(1,026)	434
Decrease/(increase) in work in progress	89	(113)
Decrease/(increase) in debtors (including VAT)	(9,477)	(696)
Increase in creditors (excluding bank overdraft)	17,544	7,592
Increase in provisions	760	2,161
	7,890	9,378

17 Analysis of movements in cash balances

	2006-07 £'000	2005-06 £'000
Opening balance at 1 April 2006	22,026	3,938
IPS non-fee accounts	(4,073)	(1,009)
Fee accounts due to consolidated fund	2,221	19,097
Increase in cash	(1,852)	18,088
Closing balance at 31 March 2007	20,174	22,026
Balance at office of Paymaster General	23,562	20,721
Balance at commercial banks and cash in hand	4,535	5,034
Cash at bank and in hand	28,097	25,755
Bank overdraft	(7,923)	(3,729)
Balance at 31 March 2007	20,174	22,026

Notes to the accounts

18 Contingent liabilities

The Public Private Partnership agreements with Siemens IT Solutions and Services and 3M SP&SL are due for expiry in the next two years. These contracts contain early expiry and other clauses which if exercised would 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 are no known contingent assets as of 31 March 2007.

20 Lease obligations and other financial commitments

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

	2006-07 £'000	2005-06 £'000
Land and buildings		
Expiry within one year	557	995
Expiry between 2008-09 and 2012-13	5,717	1,159
Expiry after 31 March 2013	4,560	4,506
	10,834	6,660
Other		
Expiry within one year	31	597
Expiry between 2008-09 and 2012-13	2,359	636
Expiry after 31 March 2013	283	518
	2,673	1,751
Plant and machinery		
Expiry within one year	54	63
Expiry between 2008-09 and 2012-13	45	62
Expiry after 31 March 2013	-	-
	99	125
Total commitments under operating leases	13,606	8,536

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 (ION) which will be used to deliver Authentication by Interview activities. This estate will be provided by making use of an estate licence to operate within specified buildings, leased by a third party. The licence complies with the provisions of SSAP 13 and is accordingly included within the lease note. The planned value of licence and facilities management charges covering all properties is £8.2m per annum. Licences are due for expiry in September 2009 and are subject to two optional one-year extensions. At the balance sheet date 56 properties had been occupied or approved for occupation by IPS. Of these properties 39 are now occupied with the remaining 17 properties in the process of being fitted out. The property commitments associated with relevant properties have been included above. The remaining licences are expected to be agreed in 2007-08.

b Other financial commitments

IPS has outsourced suppliers and has financial commitments under these contracts until the end of the contract term. Material contracts with 3M SP&SL (expiry October 2010), Siemens IT Solutions and Services (expiry October 2009, extended from October 2008), Secure Mail Services (expiry July 2007, extended from February 2007), Teleperformance (expiry November 2007, extended from November 2006) and Atos Origin (expiry August 2009). Much of the financial commitment in these contracts is based on volumes of passports produced and is estimated at £344.3m until the expiry of each contract. These figures reflect the position at year end 2006-07 and are subject to review at year end 2007-08.

Both the 3M SP&SL and the Siemens IT Solutions and Services contracts are classified as off balance sheet Public Private Partnership (PPP) arrangements.

Notes to the accounts

21 Capital commitments

Contracted capital commitments for High Street Networks Infrastructure, ION Operating Systems and the Electronic Passport Application system existed as at 31 March 2007 for which no provision has been made and which totalled £17.1m.

22 Euro expenditure

As at 31 March 2007, IPS had incurred no direct expenditure ensuring that its computerised systems are compliant with the introduction of the euro. IPS is, however, represented on the Home Office Euro Steering and Co-ordinators Groups.

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 2006 to March 2007 included: £49.8m for the non-retainable element of the passport fee (2005–06: £41.4m) which is remitted to HM Treasury for FCO. Additionally, the IPS payroll service is provided by the Home Office Pay and Pensions Service (HOPPS) resulting in transactions of £79m (2005–06: £66.1m).
- b) Net accommodation costs paid by the Home Office during the year amounted to £0.67m (2005–06: £0.67m).
- c) The Home Office provided £89.8m to IPS during the year to fund capital expenditure and NIS activities (2005–06: £57.4m). IPS also generates its own cash resources, which will be surrendered to the Home Office once the IPS accounts have been approved, in accordance with government accounting policy. During 2006–07 a payment of £25.7m cash was surrendered to the Home Office for 2005–06 and £27.9m will be surrendered to the Home Office for 2006–07, during the financial year 2007–08.

FCO is also regarded as a related party. The Agency collects £9.65 per adult standard passport, £2.41 per child and £14.49 per jumbo passport to recover the cost incurred by FCO for providing consular protection abroad. The total collected during April 2006 to March 2007 was £45.1m (2005–06: £46.5m).

Other government departments and agencies which IPS transacted with in the normal course of business during the year include the Department for Work and Pensions, the Department for Constitutional Affairs (formerly the Lord Chancellor's Department), the Department of Trade and Industry, Her Majesty's Revenue & Customs and the Driver and Vehicle Licensing Agency. IPS has paid £25.4m to the DWP and HM Revenue & Customs (2005–06: £18.8m) and had received £24.7m from other agencies (2005–06: £20.2m). The total value amounted to £50.1m (2005–06: £39m).

Post Office Limited (POL) paid over passport fees during the period amounting to £138.6m (2005–06: £106.7m). The balance due from POL at 31 March 2007 was £3.2m (2005–06: £2.8m).

As at year end 2006–07, none of the Board Members, key management staff or other related parties had undertaken any material transactions with IPS.

24 Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which 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.

Notes to the accounts

25 Special payments*

	2006–07 £'000	2005–06 £'000
Compensation to the public	123	129
Compensation to staff – personal injury	7	–
Compensation to staff – excluding personal injury	10	1
Fruitless payments**	941	–
	1,081	130

*There were no individual 'special payments' payable for compensation made by IPS exceeding £100k.

**During 2006–07 IPS continued its planned expansion of the Interview Office Network. Some of these offices have been completed before AbI activities have fully commenced, resulting in some offices not being fully utilised. These payments should be classified as 'fruitless payments' and disclosed as special payments under *Government Accounting*.

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*	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)
Balances with other central government bodies	6,404	–	(35,319)	–
Balances with other local authorities	171	–	(286)	–
Balances with NHS trusts	–	–	–	–
Balances with public corporations and trading funds	2,827	–	(761)	–
Balances with bodies external to government	4,888	–	(39,592)	(3,000)
At 31 March 2006	14,290	–	(75,958)	(3,000)

*This includes VAT as a debtor of £5.5m (2005–06: £6.1m) and consolidated fund extra receipts as a creditor of £27.9m (2005–06: £25.7m).

**Intra-government balances for debtors and creditors have been analysed from trade debtors and creditors, HM Government debtors and creditors, and accruals and prepayments.

27 Financial target – surplus/deficit

IPS has made an overall deficit of £33.0m (2005–06: £7.5m deficit). The deficit on passport-related activities is £2.1m (2005–06: £20.2m surplus restated) and the spend on NIS activities is £30.9m (2005–06: £27.7m).

28 Post Balance Sheet Event

IPS accounts were authorised for issue by the Accounting Officer on 25 July 2007.

On 29 June 2007, IPS signed a contract extension with Siemens IT Solutions and Services. The contract is now due for expiry in September 2009. The impact of this has been included within the other financial commitments (note 20b).



“

Just want to say fantastic service!!!! I received a reply to my e-mail the same evening I sent it with necessary information. Well done and thank you!!

”

Mary Bennett, Manchester

Glossary

BA	Benefits Agency	IPS	Identity and Passport Service
BIA	Border and Immigration Agency	IT	Information technology
BME	Black and minority ethnic	KPI	Key performance indicator
CETV	Cash Equivalent Transfer Value	NAO	National Audit Office
CIS	Customer Information System	NDPB	Non-departmental public body
CRB	Criminal Records Bureau	NHS	National Health Service
DAO(GEN)	Dear Accounting Officer (General Correspondence)	NIS	National Identity Scheme
DCA	Department for Constitutional Affairs (formerly the Lord Chancellor's Department)	PCS	Public and Commercial Services Union
DVLA	Driver and Vehicle Licensing Agency	PCSPS	Principal Civil Service Pension Scheme
DWP	Department for Work and Pensions	PFI	Public Finance Initiative
EPA2	Electronic Passport Application (2)	PIP	Personal Identity Process
FCO	Foreign and Commonwealth Office	PVS	Passport Validation Service
FReM	<i>Financial Reporting Manual</i>	ROPE	Regional Office Printing Equipment
FRS	Financial Reporting Standard	SBS	Siemens Business Services (now Siemens IT Solutions and Services Limited)
FTE	Full time equivalent	SEO	Senior Executive Officer
GRAA	Government Resource and Accounts Act	SLA	Service Level Agreement
HEO	Higher Executive Officer	SP&SL	Security Printing and Systems Limited
HMRC	Her Majesty's Revenue & Customs	SSAP	Statement of Standard Accounting Practice
HOPPS	Home Office Pay and Pensions Service	TSO	The Stationery Office
HQ	Headquarters	UKPS	UK Passport Service
HR	Human Resources	VAT	Value Added Tax
ION	Interview Office Network		

Publication scheme

The publication scheme provides a route map so you can find information held by the Identity and Passport Service quickly and easily; contact points are provided throughout.

The following three documents are collectively called the IPS Corporate and Business Plans.

Class	Description	Format/Availability
Business Plan	The Business Plan sets out the top-level performance indicators and targets that the organisation has been set for the next 12 months in pursuance of its longer-term strategies.	Electronic version from www.ips.gov.uk . Printed versions are available from the Communications Manager.
Framework Agreement	As an Executive Agency of the Home Office, the Framework Agreement sets out the accountabilities, scope of activities and governance structures supporting IPS.	Electronic version from www.ips.gov.uk . Printed versions are available from the Communications Manager.
Strategic Action Plan for the National Identity Scheme	The Strategic Action Plan for the NIS sets out the IPS framework for developing identity services.	Electronic version from www.ips.gov.uk . Printed versions are available from the Communications Manager.

Class	Description	Format/Availability
Important information about applying for a passport	A booklet on how to apply for or renew a passport, the different ways to apply or pay for a passport, as well as specific information: <ul style="list-style-type: none"> – for people with disabilities – on passports for children – for newlyweds – for civil partnerships – on biometric passports – on lost or stolen passports. 	Electronic version from www.ips.gov.uk . Printed versions are available from the Communications Manager or through the IPS advice line (0870 521 0410).
The way you apply for a passport is changing	A leaflet about the introduction of identity interviews when applying for your first passport.	Electronic version from www.ips.gov.uk . Printed versions are available from the Communications Manager.
Guidance notes on how to apply for a passport	An information booklet with detailed information on how to complete the passport application process.	Printed versions available from all passport offices, main Post Offices or through the IPS advice line (0870 521 0410).

Class	Description	Format/Availability
Customer service – your feedback	A leaflet to use to tell us what you think of our service.	Electronic version from www.ips.gov.uk . Printed versions are available from the Communications Manager.
Services and standards	A leaflet detailing what you can expect from our staff when dealing with us in person at a passport office or if calling, writing to or e-mailing us.	Electronic version from www.ips.gov.uk . Printed versions are available from the Communications Manager.
Race, Disability and Gender Equality Scheme	The document sets out our plans to meet specific and general duties, in addition to the Equality Act 2006, the Race Relations (Amendment) Act 2000 and the Disability Discrimination Act 2005.	Electronic version from www.ips.gov.uk . Various accessible formats are available from the Head of Equality and Diversity.
Sustainable Development Plan	An online booklet setting out our Sustainable Development Plan, scoping out our key tasks and objectives.	Electronic version from www.ips.gov.uk .
Employment Monitoring Report	An annual report setting out the results of the monitoring of our employment processes in fulfilment of our duties under the Race Relations (Amendment) Act 2000, Disability Discrimination Act 2005 and Equality Act 2006 as well as reporting progress on IPS' five-year diversity strategy.	Electronic version from www.ips.gov.uk .
Cost report	A twice yearly report to Parliament about the likely costs of the ID cards scheme.	Electronic version from www.ips.gov.uk .
Passport Validation Service for the Financial Services Industry	A leaflet about the service that we offer to organisations regulated by the Financial Services Authority – to validate the status of a UK passport that has been presented to them as evidence of identity.	Printed versions are available from the Communications Manager.
Passport Validation Service for the Public Sector	A leaflet about the service that we offer to approved government agencies – to validate the status of a UK passport that has been presented to them as evidence of identity.	Printed versions are available from the Communications Manager.

Class	Description	Format/Availability
IPS website	The website covers the organisation, UK passports and identity cards. It includes details of all aspects of the passport application process and the National Identity Scheme, as well as hosting our library of publications, press releases and guidelines.	See www.ips.gov.uk .
Investors in People (IIP)	The IPS action plan to retain Investors in People (IIP) recognition.	Printed versions are available from the Communications Manager.
Meetings of the Management and Advisory Boards	Agendas, minutes and associated papers of the IPS Management Board and the Consultative Panel of Passport Users.	Printed versions are available from the Communications Manager.
IPS: Personnel policies and guidance to managers and staff	A series of leaflets and booklets detailing IPS policy on topics ranging from discipline, training and development strategies to equal opportunities, and pay and pension Service Level Agreements.	Printed versions are available from the Communications Manager.
Customer service standards: A guide for staff	A leaflet detailing the IPS principles of customer service.	Printed versions are available from the Communications Manager.
Welsh Language Scheme	The IPS Welsh Language Scheme.	Electronic version from www.ips.gov.uk .
Report on Key Projects Implemented in 2006: Lessons learned	A post-implementation report on three key IT projects delivered in 2006.	Electronic version from www.ips.gov.uk .
Contracts Advertised	Notices of IPS contracts awarded above £100,410 from November 2002.	Supplement to the <i>Official Journal of the European Community</i> . Website at: www.eur-lex.europa.eu .
Contracts Awarded	Notices of IPS contracts awarded above £100,410.	Supplement to the <i>Official Journal of the European Community</i> . Website at: www.eur-lex.europa.eu .

Feedback form

Annual Report and Accounts 2006–07

IPS is pleased to receive your views, whether positive or negative, on this document. Comments received via this questionnaire will be considered during the completion of our next Annual Report and Accounts.

Q1. How did you receive this report? (Please tick as appropriate)

- I am on the external distribution list From the internet/intranet
Internal distribution Purchased
Other

Comments

Q2. What is your overall impression of the report? (Please tick as many as appropriate)

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Clearly written Easy to understand Complicated
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Too long Too short Acceptable size

Comments

Q3. What do you like/dislike about the report? (Please tick as many as appropriate)

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Q4. How easy did you find the report to read? (Please tick one box)

Very easy Easy Acceptable
Not very easy Difficult

Comments

Q5. How easy did you find the accounts to read? (Please tick one box)

Very easy Easy Acceptable
Not very easy Difficult

Comments

Q6. We would appreciate any other comments you have regarding this report; for example, what improvements would you like to see made, and/or what additional information would you like to see featured in the report?

Comments

Thank you for taking time to fill in this questionnaire.

We would be grateful if you could provide us with your name and organisation details, but there is no obligation.

Name: _____

Organisation: _____

Please return to: Marketing and Communications Directorate, Identity and Passport Service, Globe House, 89 Eccleston Square, London SW1V 1PN, fax: 020 7901 2468, or e-mail: publications@ips.gsi.gov.uk

Contact

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

Marketing and Communications Directorate
Identity and Passport Service
Globe House
89 Eccleston Square
London SW1V 1PN

Or via the Identity and Passport Service website:

www.ips.gov.uk

You can also telephone the Passport Adviceline (24 hours a day, 7 days a week):
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