



Her Majesty's Passport Office **Annual Report and Accounts** for the period 1 April – 30 September 2014

Presented to the House of Commons pursuant to Section 7 of the
Government Resources and Accounts Act 2000

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Any enquiries regarding this publication should be sent to us at:
Communications and Corporate Development Directorate,
Her Majesty's Passport Office,
2 Marsham Street,
London SW1P 4DF.

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Contents

Foreword by the Permanent Secretary	4
Management commentary	5
Strategic Report	5
Directors' Report.....	15
Statement of Accounting Officer's responsibilities.....	18
Governance Statement	19
Remuneration Report.....	26
The certificate and report of the Comptroller and Auditor General to the House of Commons	37
Accounts for the period 1 April – 30 September 2014	39
Sustainability Report (unaudited)	79
Glossary	89
Contact.....	90

Foreword by the Permanent Secretary



Her Majesty's Passport Office (HM Passport Office) was an executive agency of the Home Office. Its role was, and will continue to be, to issue passports to British nationals and provide civil registration services through the General Register Office (GRO).

On 26 September 2014, the Home Secretary announced to Parliament that HM Passport Office would no longer operate as an executive agency of the Home Office, and its remaining functions, employees, expertise and knowledge would be brought under the control of the Home Office from 1 October 2014. A Director General replaced the role of Chief Executive, ensuring greater accountability to the Home Office Executive Management Board, Ministers and the public.

Throughout the transition, the Management Board of HM Passport Office has continued to oversee the operational governance and has implemented a number of changes to improve the continued provision of services, which could not have been achieved without the dedication and commitment of its workforce.

A handwritten signature in black ink, appearing to read 'Mark Sedwill'.

Mark Sedwill

Home Office Permanent Secretary and Accounting Officer
19 March 2015



Management commentary

Strategic Report

Until 30 September 2014, Her Majesty's Passport Office (HM Passport Office) was an executive agency of the Home Office. It is the sole issuer of British passports and is responsible for civil registration services through the General Register Office (GRO), which holds records of births, marriages, deaths, civil partnerships, stillbirths and adoptions in England and Wales.

During the reporting period from 1 April to 30 September 2014, demand for passports significantly exceeded HM Passport Office's expectations, with 3.55million applications received during the six months to 30 September 2014. The increase in demand resulted in delays in processing and issuing passports, with some customers not receiving their passport within the published service standards. In response to the increase in demand, HM Passport Office, following a statement to Parliament by the Home Secretary, introduced a number of contingency measures which enabled applications to be processed in a more timely manner and reduced the volume of work in progress. These included:

- expediting 24,254 applications from customers with an urgent need to travel, which had exceeded published service standards;
- providing emergency travel documents to customers free of charge when there was an urgent need to travel and HM Passport Office could not meet the published service standards;
- redeploying staff from other areas of the Home Office to assist in the processing of applications; and
- increasing capacity across HM Passport Office to ensure customer queries were logged and escalated.

These interventions, along with the subsequent decrease in seasonal demand, have returned performance levels back to within published service standards.

In response to the delays encountered by the public, the Home Secretary commissioned two reviews. The first was an operational review to ensure that HM Passport Office works as efficiently as possible, with better processes, better customer service and better outcomes. The second, the Agency Status Review, considered whether alternative accountability and management arrangements would have meant the situation over the summer could have been avoided.

Having considered the findings from the Agency Status Review, the Home Secretary announced on 26 September 2014 that HM Passport Office would cease to operate as an executive agency of the Home Office and would report directly to Ministers with effect from 1 October 2014. The core purpose of HM Passport Office remains unchanged.

Following the operational review, HM Passport Office has reassessed its business model and redesigned its capacity and resilience strategy in preparation for the expected demand in 2015.

HM Passport Office expects passport demand to continue to increase over the next year: 6.7 million domestic and overseas applications are forecast to be received in 2015. In order to manage this continued increase in demand and restore public confidence in the quality of services offered, HM Passport Office has reviewed its forecasting, workforce planning and contingency arrangements in readiness for 2015. This will be achieved through a number of projects focusing on applying the lessons learned from the summer.

HM Passport Office has identified five key areas where it will seek to strengthen its operations:

1. Forecasting and capacity planning

Having a reliable forecast is integral to ensuring the business can cope with demand. To ensure there is confidence in forecasting, the model has been revised and tested to validate its robustness. The workforce plan has also been revised in order to set capacity at a level to cope with the expected demand the business will see over the coming years.

Developing capacity planning to allow for a greater variation from the forecast will mean that the business can function normally for longer without having to implement contingency measures. This will, in turn, reduce HM Passport Office's exposure to risk. HM Passport Office is looking to equip teams with a range of skills so that staff can be deployed flexibly to meet the demand in different areas at any time.

2. Structure and governance planning

HM Passport Office has appointed a Chief Operating Officer (COO) to reinvigorate the operations command of the business, and is looking to increase resilience, oversight and ensure responsibilities and accountabilities are aligned.

The appointment of a COO adds a layer of operational control and improved governance to the business. A strengthened command at the centre will provide an overview of daily operations, and will enable contingency measures to be deployed effectively if demand steps outside of the agreed variance.

3. Current process improvement

The increased demand during 2014 provided HM Passport Office with an opportunity to review and improve processes to enhance business functions. Going forward, there will be a focus on understanding processing times and setting productivity expectations, which will be used to inform resource planning. HM Passport Office is also looking at how teams currently function and assessing new ways of streamlining the passport process.

4. Customer service

HM Passport Office is committed to improving communications with customers, facilitating a simple application process and enhancing customer contact during the application process.

5. Preparing for digital services

HM Passport Office is continuing to invest, commensurate with Home Office capital investment plans, in its information systems and is working towards the Government's digital agenda by ensuring the services provided are as modern and flexible as possible.

Shared services

HM Passport Office remains committed to the Civil Service Reform Plan. A key theme was for government departments to make greater use of shared services, so that this becomes the normal way to provide support for operational delivery. The intent is to do more together, more efficiently, and more flexibly.

Early in May 2013, Ministers and the Home Office Executive Management Board agreed to move to shared corporate services across the Home Office to reduce costs, and refocus resources on the front line. Following a period of detailed planning, it was agreed that a number of HM Passport Office functions would move across to the Home Office. At the end of October 2013 the finance, estates, knowledge management and human resources functions, along with parts of both the security and commercial areas, transferred to the Home Office. In doing so, significant emphasis was placed on making sure staff were well informed and fairly treated, with nearly 200 people moving to the Home Office.

The IT live service operations function was transferred to the Home Office at the end of March 2014. Since April 2014, the transition of functions to the Home Office has been embedded successfully.

Performance

In 2013-14, HM Passport Office met and exceeded seven out of eight key performance indicators (KPIs) covering operational delivery, customer service, employee engagement and value for money, and came within 2% of meeting the counter-fraud KPI. For 2014-15, HM Passport Office put in place a new public protection and counter-fraud strategy and a new way of measuring the effectiveness of this activity. In addition to three new public protection KPIs, the remaining measures were realigned with public commitments to customers to ensure continued improvement to overall performance.

For the six months to 30 September 2014, business activity was measured against the KPIs¹ in the table on page 9. During this period, as a result of the increase in operational demand HM Passport Office met only two of its KPIs, is partially on track to meet one KPI, and failed to meet seven of its KPIs.

Throughout the reporting period, HM Passport Office maintained its focus on preventing fraud and other potential criminal activity, resulting in the KPI of preventing the issue of passports to people not eligible or entitled to them being exceeded at the mid-year point. As a consequence of the contingency measures which were implemented across HM Passport Office, resources were redeployed from the counter-fraud investigation teams. Whilst this did not negatively impact upon the security of the passport operations², there was an impact on the level of post issuance activity undertaken to detect the number of genuine passports obtained by deception. The number of fraudulently obtained genuine passports detected during the six-month period to 30 September 2014 is lower than the same period for 2013 and below the six-month target. However, once contingency measures came to an end and fraud investigation teams returned to normal duties fraud detection rates began to recover.

¹ Due to the operational pressures encountered by HM Passport Office these indicators measures were not approved by Ministers.

² The overall number of frauds detected during the period to 30 September 2014 has increased in respect of both absolute volumes and as a proportion of intake.



Management commentary

The GRO met its operational KPI to measure performance against customer service commitments for the delivery of certificates. Although demand was down 5.5% compared to the same period for 2013, with 580,000 certificates dispatched during the reporting period, the achievement of this KPI represents an improvement on overall performance compared to 2013 during a time when a number of civil registration staff were redeployed to support passport operations during the summer. In achieving this KPI, GRO completed 26,000 complex cases involving 52,000 transactions, received 159,000 phone calls from the public and the local registration service, and processed 102,000 emails and letters.



Performance against KPIs

Measures	Performance for six months to 30 Sep 2014	Target	Progress against target	Six months to 30 Sep 2013	Target	Achieved/Not achieved
Prevent the issue of passports to people not eligible or entitled to them. ¹	5,439	Year end target: 9,200	On track	No comparable target	No comparable target	
Cases where HM Passport Office has been informed that an individual should not be issued a passport yet has failed to act on the notification.	1 ²	0	Not achieved	No comparable target	No comparable target	
Increase the detection of the number of genuine passports obtained by deception. ³	128	Year-end target: 1,345	Not on track	No comparable target	No comparable target	
Deliver 93% (2013-14: 90%) of certificates within target.	94.7%	93.0%	Achieved	96.4%	90.0%	Achieved
Deliver 99.5% of straightforward domestic passport applications within three weeks (2013-14: 10 working days).	77.5%	99.5%	Not achieved	99.9%	99.5%	Achieved
Where additional information is required from customers, deliver 93% (2013-14: 93%) of domestic passport applications within six weeks.	88.8%	93.0%	Not achieved	97.3%	93.0%	Achieved
Process 99.5% (2013-14: 99.5%) of counter applications within 4 hours (Premium) or 7 days (Fast Track).	98.6%	99.5%	Not achieved	99.9%	99.5%	Achieved
Achieve a UK passport customer experience rating of at least 85% (2013-14: 90%).	77%	85%	Not achieved ⁴	91%	90%	Achieved
Achieve a minimum standard rating of 62% (2013-14: 58%) on the staff engagement index.	59%	62%	Not achieved ⁵	60%	58%	Achieved
Ensure operational expenditure is within budget and at least 90% of approved capital investments are delivered to plan.	n/a	n/a	Not on track ⁶	No comparable target	No comparable target	

Notes

- KPI 1 is a measure of all cases where a check or action undertaken during the course of the application process has prevented the issue of a passport to those who are not entitled or eligible and is assessed using a number of measures. It is not acceptable for any passport to be issued to an individual who is not entitled to it, and HM Passport Office works to this principle. This target seeks to build on prevention rates of the previous year. The target of 9,200 is based upon performance in 2013-14, plus 5%.
- The passport issued has been cancelled and placed on the Warnings Index.
- It is not acceptable for any fraudulently obtained passports to be in circulation, and HM Passport Office works to this principle. This target seeks to build on detection rates of the previous year. The target of 1,345 is based upon performance in 2013-14, plus 10%. The performance against this target as at 30 September 2014 does not imply that the number of genuine passports obtained by deception has increased.
- Latest customer experience survey carried out mid-March to mid-June 2014. Next survey due December 2014.
- Annual staff survey took place in October 2014.
- Operational expenditure is on track, however, capital spend to date is below 90% of budget.

The high levels of passport demand experienced in the last quarter of 2013-14 continued into the first quarter of 2014-15. The contingency measures that were introduced contributed to ensuring the majority of customers received their passports when they needed them. However, this sustained level of demand meant the level of service provided fell below HM Passport Office's target turnaround times. The feedback from the customer survey³ conveyed the level of service provided during this period of high demand fell below the required standards. Performance against the turnaround KPIs has improved considerably during September and plans are in place to ensure safe operational delivery in the second half of the year and to restore customers' confidence in the speed and reliability of the services offered.

Financial summary

HM Passport Office's principal activities are funded by the revenue generated from its passport and certificate fees. Fees for passports and certificates are set to recover the full cost of providing the service, in line with HM Treasury guidance. In addition to this, the Home Office funds HM Passport Office in relation to its statutory services and capital programmes.

In 2013-14, the average unit cost of producing a passport for UK applicants was £57.71, while the average unit cost in respect of overseas applicants was £129.04. For the six months to 30 September, the average cost of producing a passport has fallen to £57.47 for UK applicants and £89.13 for overseas applicants. The continued fall in the average unit cost of processing passport applications arises in spite of the increased demand experienced by HM Passport Office and the associated additional costs, while the 31% decrease in the average unit cost of producing passports for overseas applications supports the decision to repatriate this process.

The additional costs incurred in managing the increase in demand are outlined below:

- £483,000 paid to the Foreign and Commonwealth Office (FCO) in relation to the lost income and additional costs incurred in processing emergency travel documents and 12-month extensions. Of this figure, £46,000 was paid to the FCO in respect of the 482 emergency travel documents that were issued to customers free of charge.
- £726,000 recharged to HM Passport Office by other areas of the Home Office in respect of the additional overheads incurred in processing passport applications.
- £918,000 in respect of shipping extension stamps across the world in order to meet demand.

Conversely, in respect of HM Passport Office's registration operations, there has been an increase in the average unit cost for producing certificates to £10.87 compared to £10.44 in 2013-14. This marginal increase has arisen due to a fall in demand for the civil registration services provided by the GRO.

The costs of central corporate services are allocated to HM Passport Office's activities through a cost allocation process, which ensures the integrity of the separate funding streams. Note 2 to the Accounts provides an analysis of the expenditure in respect of each of HM Passport Office's activities. Any overall surplus arising in the reporting period is remitted to the Home Office as Consolidated Fund Extra Receipts (CFERs), taking into account Home Office funding for HM Passport Office's statutory services and capital expenditure.

³ Customer survey conducted between March and June 2014.

During the six months to 30 September, HM Passport Office made an overall surplus of £42.3m on a turnover of £280.3m, representing an operating surplus margin of 15.1%. For the corresponding period of 2013, a surplus of £50.7m⁴ on a turnover of £260.6m⁵ was generated, representing an operating surplus margin of 19.5%. Despite the substantial increase in demand during the period – which is reflected in the increase in revenue – the year-on-year decrease in HM Passport Office's operating surplus reflects the decrease in the overseas passport fees⁵ along with the increase in costs attributed to the contingency measures to help manage the increase in demand. The surplus generated in 2013-14 for the year was £56.1m on a turnover of £448.7m, representing an operating surplus margin of 12.5%. A breakdown of HM Passport Office's income and expenditure by operating segment is provided in note 2 of the Accounts.

In addition to this, HM Passport Office invested £2.2m in capital towards modernisation programmes, and a further £0.2m of assets were brought into operational use. Details of non-current assets held by HM Passport Office are contained within notes 7 and 8 of the Accounts.

The Home Office monitors performance in line with Government guidance on prompt payment. During the period to 30 September 2014, HM Passport Office paid 99% of all invoices within 5 days (2013-14: 91%)⁶

Basis for preparing the Accounts

This Annual Report has been prepared in accordance with the 2014-15 Government Financial Reporting Manual (FReM), and the Accounts contained herein have been prepared under a direction issued by HM Treasury under section 7(2) of the Government Resources and Accounts Act 2000.

Going concern

In line with the FReM, the Annual Report and Accounts for HM Passport Office has been prepared as at 30 September 2014 on a going concern basis. Although HM Passport Office no longer exists as an executive agency of the Home Office, its assets, liabilities and functions transferred to the Home Office on 1 October 2014. As the operations and activities of HM Passport Office continue as a directorate of the Home Office, it is appropriate to prepare the accounts on a going concern basis.

People

During the summer, HM Passport Office experienced exceptional demand, resulting in increases in the length of time taken to process applications. To manage the increase in demand, HM Passport Office collaborated with other business areas across the Home Office and provided training to employees in order to manage the number of applications being processed. HM Passport Office is responding to expected increases in future demand by strengthening operational resilience and capacity through the recruitment of fixed-term employees for part of the year, the use of temporary and agency workers, the secondment of people with relevant skills from commercial partners, and through the redeployment of previously trained staff from other areas of the Home Office.

⁴ Figures as at 30 September 2013 are unaudited.

⁵ From April 2014, the passport fee for customers applying for a UK passport from overseas was reduced by £45.00 to £83.00 for adults, by £28.50 to £53.00 for children, and by £63.50 to £91.00 for jumbo passports.

⁶ Figures reported in 2013-14 showed that HM Passport Office paid 94% of its invoices within 10 days.

During the six-month period to 30 September 2014, HM Passport Office recruited 415 (12 months to 31 March 2014: 413) new employees, increasing the average full-time equivalent (FTE) headcount to 3,576⁷ (31 March 2014: 3,469). In addition, there have been 111 internal promotions, demonstrating HM Passport Office’s commitment to investing in, nurturing and developing internal talent. In line with HM Passport Office’s commitment to build resilience to meet the increasing demand for passports and certificate services, plans are in place to have 3,244 FTE employees working directly within these areas of the business.

HM Passport Office has continued to support staff in redeployment. The number of employees in redeployment has decreased from four to three during the six months to 30 September 2014.

Below is an analysis of the number of persons of each gender employed by HM Passport Office as at 30 September 2014.

	Male		Female		Total
	No.	%	No.	%	No.
Executive Board Members of HM Passport Office as at 30 September 2014 ⁸	6	85.7%	1	14.3%	7
Senior managers ⁹ of HM Passport Office (other than employees who were directors of HM Passport Office)	-	-	-	-	-
All employees of HM Passport Office ¹⁰	1,371	36.4%	2,397	63.6%	3,768

Learning and development

Learning and development has focused on supporting frontline operations and passport production. During the six months to 30 September 2014, 1,065 staff have received 27,340 hours of training. Civil Service Learning (CSL) has provided generic and professional training through a mixture of face to face classroom training, e-learning and “how-to” guides, as well as links to the Civil Service Competency Framework.

As at 30 September, 189 people had enrolled on the Managing Fundamentals programme. This course is targeted at new managers and provides a consistent approach to developing managers’ core skills through a clear framework, and provides access to structured and engaging learning.

HM Passport Office has continued to promote the Operational Delivery Profession, with learning accessible through CSL. This has enabled 94 employees to undertake level 2 diplomas and 34 employees to undertake level 3 diplomas. In addition, 344 new employees have attended the full 7.5 day nationality training course, and in response to the high level of passport demand a two-day course was delivered to Home Office staff from outside passport operations, designed to provide the skills required to process straightforward renewal applications. In total 554 people received this training.

We have also appointed two qualified trainers who will deliver the accredited Fraud Managers and Fraud Specialists training course, and this is helping to facilitate our public protection strategy.

7 Figures relate to the FTE headcount as at 30 September. Figures stated in note 3 of the Accounts reflect average FTE during the year. Figures quoted represent permanent civil servants employed by HM Passport Office as at 30 September 2014, including part-year appointments and unpaid staff on career breaks, but excluding staff on secondment or loan, and agency and temporary staff.

8 Does not include Paul Darling, Victoria Smith or Tyson Hepple. These directors are employees of the Home Office and are consequently excluded from the HM Passport Office headcount.

9 Senior managers are defined as Pay Band 1 Senior Civil Servants (SCS) and higher. All SCS of HM Passport Office were represented on the Executive Management Board at 30 September 2014.

10 Does not include those employees who have transferred to the Home Office as part of the Shared Services transition. Based on headcount, not FTE.

Environment

HM Passport Office is committed to achieving the Sustainable Development objectives of the government's Green Agenda and complying with relevant environmental legislation. In doing so, HM Passport Office took steps to rationalise its carbon footprint and implemented programmes to improve sustainable performance. This included the move to secure telephony, facilitating a reduction in business travel, and the rationalisation of IT and printer provisions, resulting in a decrease in energy usage.

Further information on how HM Passport Office worked towards its sustainability priorities can be found in the Sustainability Report. HM Passport Office will continue to work towards these objectives as well as those of the core Home Office.

Community

As part of the Home Office, HM Passport Office seeks to contribute to the communities in which it operates and has historically supported employees in volunteering for a corporate responsibility social activity. The Home Office as a whole encourages this by offering up to five working days a year to work as a volunteer on a corporate social responsibility activity. More days are available for our employees who undertake community work such as a special constable, a magistrate or a school governor.

Health, safety and wellbeing

During the period to 30 September 2014, HM Passport Office continued to provide high quality support to the health, safety and wellbeing of its employees. In April 2014 a comprehensive annual health and safety report was submitted to the Management Board to reflect on the previous year's performance. The report advised the Board of actions planned for 2014, which included the continued audit of health and safety implementation across business areas in HM Passport Office, a full review of the Health, Safety and Wellbeing material on the HM Passport Office Intranet, the revision of how wellbeing of staff is measured, and the delivery of a range of training to ensure the continued professional development of HM Passport Office employees. As at 30 September 2014, all of the actions prescribed in the report had been implemented.

HM Passport Office promoted and managed a range of health, safety and wellbeing activities through a number of channels, and will continue to do so as part of the Home Office. This includes the appointment of competent safety advisers in each geographical area with annual events designed to assist their continued professional development, and accredited face-to-face safety training for staff which includes courses by the Institution of Occupational Safety and Health.

Employees of the Home Office have access to a range of services, including a mobile health kiosk, online health checks, regular wellbeing newsletters and resilience training. Employees also have access to support through an Employee Assistance Provider which offers an independent and confidential counselling and support service free of charge.



Management commentary

Health Management continued to provide occupational health services throughout the reporting period. During the six months to 30 September 2014, 614 referrals were made, representing a decrease of 2% on the corresponding period of 2013. In addition, the employee assistance programme continues to offer a 24/7 service to staff across the Home Office, which was taken up by 366 HM Passport Office employees.

The services offered to employees of HM Passport Office will continue to be available, and management will continue to work with colleagues across the Home Office in maintaining the standards required by the Health and Safety at Work Act 1974 and European Union regulations relating to the health and safety of its employees, contractors and members of the public.



Mark Sedwill
Home Office Permanent Secretary and Accounting Officer
19 March 2015

Directors' Report

Corporate governance

This Annual Report includes a Governance Statement, which is supported by the work carried out by the Home Office Internal Audit Unit (IAU). The work of the IAU is provided under a shared service model, with a Service Level Agreement in place for the delivery of the service.

The Home Office IAU was represented on HM Passport Office's Audit and Risk Assurance Committee (ARAC) alongside the non-executive directors, the Chief Executive, and representatives from finance, the Security and Risk team and the NAO. During the six months to 30 September 2014, the ARAC met on three occasions to oversee all audit and assurance work. From 1 October 2014, this will be overseen by the Home Office ARAC.

The external auditor of HM Passport Office was the Comptroller and Auditor General (C&AG), who is supported by the National Audit Office (NAO). The C&AG is an officer of the House of Commons and is accountable to Parliament. The NAO has charged a notional fee of £105,000 (2013-14: £175,000) for the statutory audit carried out on this Annual Report and Accounts. There has been no remuneration paid to the NAO in respect of any non-audit work.

At the time of publication of this Annual Report and Accounts, the Accounting Officer for HM Passport Office is the Permanent Secretary of the Home Department. The Accounting Officer believes that the C&AG and the NAO are aware of all relevant audit information. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information needed to prepare the Annual Report and Accounts, and to establish that the C&AG and the NAO are aware of that information.

All executive directors of HM Passport Office have given details of any significant interests which may conflict with their management responsibilities, or declared that they have no such interests during the reporting period. Full details of the members of the HM Passport Office Management Board for the six months to 30 September 2014 are included within the Remuneration Report.

Financial risk

The cash requirements of HM Passport Office are met through a combination of the fees it charges in respect of its passport and certificate income streams, and funding from the Home Office in respect of Statutory registration and capital expenditure. Consequently, HM Passport Office is not exposed to any material financial risk. Additional detail on HM Passport Office's exposure to financial risk is provided in note 9 of the Accounts.

Personal data related incidents

During the period to 30 September 2014, there have been no personal data related incidents which required reporting to the Information Commissioner's Office.

Employee remuneration

HM Passport Office has continued to modernise the terms and conditions of its employees in line with Civil Service Reform. The second phase has now been implemented and revised terms and conditions will now apply to promotions and staff joining the Home Office from other Government departments. Modernising terms and conditions supports the Home Office transformation agenda, providing an employment package with greater long term sustainability.

Following the Home Secretary's announcement on 26 September, formal negotiations have commenced with the trade unions to work towards assimilating pay and related terms and conditions for HM Passport Office staff with the rest of the Home Office.

Employees of HM Passport Office are members of one of five pension schemes provided through the Civil Service pension arrangements – these are:

- **Classic, Classic Plus** and **Premium**, all of which are final salary pension schemes;
- **Nuvos**, a career average scheme; or
- the **Partnership** pension account, a money purchase stakeholder pension scheme with significant employer contributions.

Comprehensive details of the various pension schemes available to employees are provided in the Remuneration Report.

Staff engagement

HM Passport Office's key performance indicator for employee satisfaction is based on the staff engagement index, which measures the desire of people to speak highly of the organisation, to stay and to strive for high performance.

In 2013 HM Passport Office achieved a rating of 60%. However, with a focus on supporting operations during the summer, there has been limited opportunity for management to implement actions which respond to the 2013 survey. HM Passport Office will continue to work with colleagues across the Home Office to ensure actions are implemented in line with departmental objectives. The 2014 survey took place in October; HM Passport Office achieved a rating of 59% against a target of 62%.

Staff sickness

For the rolling 12-month period to 30 September 2014, the average number of days lost to sick absence improved to 6.88 days (12 months to 31 March 2014: 7.15 days). During the reporting period a new policy on sickness absence was introduced across the Home Office, with a greater focus on employee wellbeing and encouraging managers to provide early support to prevent and reduce sickness absence.

Equality and diversity

HM Passport Office was committed to supporting the delivery of the Home Office Diversity Strategy. HM Passport Office's Equality and Diversity Action Plan embedded equality and diversity in all of its activities and promoted equality, fairness and respect amongst employees, partners, suppliers and customers, in line with the four aims of the Home Office Diversity Strategy:

- Managers at all levels demonstrate effective leadership and due regard to equality, diversity and inclusion.
- Potential of under-represented groups developed to create a diverse, representative workforce at all levels.
- An inclusive working environment where staff respect and value each other's diversity.
- Services delivered in a way that promotes equality, and respects diversity and inclusion.

Work to deliver the strategy has included raising awareness of equality and diversity through Diversity & Respect DVD workshops, Unconscious Bias and Diversity e-learning, promoting team and individual dignity, and respect charters.

HM Passport Office Director level 'champions' have promoted and supported the work of the staff networks, and Area/Directorate level Equality & Diversity Action Groups reinforce equality and diversity at a local level. Independent Staff Contact Officers continue to listen to and sign-post staff to available support services around Bullying, Harassment and Discrimination (BHD).



Mark Sedwill
Home Office Permanent Secretary and Accounting Officer
19 March 2015



Statement of Accounting Officer's responsibilities

Under section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury has directed HM Passport Office to prepare for each financial year a Statement of Accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of HM Passport Office and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

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

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

As Accounting Officer for the Home Office, the Permanent Secretary for the Home Office has assumed the role of Accounting Officer for HM Passport Office. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of HM Passport Office which transferred to the Home Office on 1 October 2014, are set out in Managing Public Money published by the HM Treasury.



Governance statement

Scope of responsibility

The Chief Executive, Paul Pugh, was Accounting Officer of HM Passport Office until 30 September 2014. In his role as Accounting Officer, the Chief Executive had responsibility for maintaining a sound system of internal control to support the policies, aim and objectives of HM Passport Office, whilst safeguarding the public funds and assets for which he was personally accountable, in accordance with the responsibilities assigned to him in 'Managing Public Money', by me, the Accounting Officer of the Home Office. Paul Pugh continues to act as Registrar General for England and Wales.

On 26 September 2014, the Home Secretary announced that HM Passport Office would cease to operate as an executive agency of the Home Office and would report directly to ministers with effect from 1 October. At this date, accountability for the continuing functions of HM Passport Office transferred to me as Accounting Officer of the Home Office.

This Governance Statement covers the six-month period to 30 September 2014.

HM Passport Office governance framework

During the six-month period to 30 September 2014, the Chief Executive was supported and advised by the HM Passport Office Management Board in making informed decisions and managing the risks to the delivery of passports and civil registration services. Attended by all Executive Directors, three Non-Executive Directors and representatives from the Home Office, the Management Board was responsible for setting the strategic direction of HM Passport Office and approving the business plan, budget and strategic proposals for change. It also reviewed operational performance using a comprehensive performance report that provided operational, financial and commercial data measured against published performance targets and contractual arrangements.

Throughout the reporting period a number of changes were made to strengthen the governance framework, focussing on improving operational capability. These included:

- the appointment of a Chief Operating Officer;
- an independent review of the passport forecast model; and
- the implementation of recommendations from review of the passport operating model.

The Management Board met five times during the six-month period to 30 September 2014, and continues to oversee the operations of HM Passport Office. Details of attendance are provided on page 20.

Director	Role	Number of meetings attended
Paul Pugh	Chief Executive	5 out of 5
Eric Gregory	Non-executive director	5 out of 5
Isobel Sharp	Non-executive director	5 out of 5
Bill Morris	Non-executive director	4 out of 5
Philip Astle (from 4 August)	Chief Operating Officer	1 out of 1 ¹¹
Ian Forster	Director of Operational Services (until 1 June); Director of Production, Planning and Counter-Fraud (from 2 June)	5 out of 5
Ian Martin (until 31 May)	Director of Production, Planning and Counter-Fraud	2 out of 2 ^{11,12}
Shane Bryans	Director of Customer Services and Policy	3 out of 5
Andrew Dent	Director of Civil Registration	5 out of 5
Deborah Chittenden	Director of Organisational Transformation	5 out of 5
Paul Darling	Director of Finance for HM Passport Office and UK Visas and Immigration	5 out of 5
Jane Carwardine (until 5 May)	Director of Human Resources and Organisational Development	1 out of 1 ¹¹
Andrea Williams-McKenzie (6 May to 2 September)	Director of Human Resources for HM Passport Office and UK Visas and Immigration	2 out of 3 ¹¹
Victoria Smith (from 26 August)	Director of Human Resources for HM Passport Office and UK Visas and Immigration	0 out of 1 ¹¹
Brad Day (from 1 June)	Interim Director of Operational Services	3 out of 3 ¹¹
Tyson Hepple	Home Office Director of International Criminality & Extradition	3 out of 5

11 Philip Astle, Ian Martin, Jane Carwardine, Andrea Williams-McKenzie, Victoria Smith and Brad Day were not executive directors for the entire reporting period, therefore were not required to attend all Management Board meetings which were held.

12 Ian Martin also attended the July Management Board meeting.

In addition to the Management Board, the following forums made up the governance structure of HM Passport Office:

• **The Senior Leadership team**

The Senior Leadership team comprised of the executive directors of HM Passport Office and met at least weekly, and often more frequently according to business need, to discuss key operational issues affecting HM Passport Office. On occasions these meetings were also attended by representatives of the Home Office in respect of wider departmental issues.

• **The HM Passport Office Audit Risk and Assurance Committee (ARAC)**

The HM Passport Office ARAC comprised of the three non-executive directors, and was attended by the Chief Executive and representatives from Finance, the Home Office Internal Audit Unit, the HM Passport Office Security and Risk team and the National Audit Office. The Committee reviewed risk management, finance and internal controls, ensuring that HM Passport Office worked with appropriate and proportionate controls in place. The Committee, supported by a series of agreed internal and external audits, advised on the level of assurance that HM Passport Office reported to the Home Office and to the public about the effectiveness with which the funds delegated were used.

The membership and functions of the Committee were in accordance with Cabinet Office guidance on codes of practice for Board members of Public Bodies and HM Treasury's Audit Committee handbook. The chair of the Committee was also a member of the Home Office ARAC.

The ARAC met on three occasions during the reporting period.

- **The Home Office Executive Management Board**

HM Passport Office was represented on the Home Office Executive Management Board by the Home Office Director General of International and Immigration Policy. This ensured that key issues relating to HM Passport Office were escalated in a timely manner. HM Passport Office is now represented on the Home Office Executive Management Board by the Director General for HM Passport Office.

- **The Home Office Risk and Safety Committee**

The Home Office Risk and Safety Committee provides the Home Office Executive Management Board with advice on the key risks that it should consider for escalation to the corporate risk register. The Committee was attended by the Senior Information Risk Owner or senior management representatives on a quarterly basis to provide updates on the management of key risks within HM Passport Office.

Nominations and Governance Committee

The requirements of the Corporate Governance Code of Conduct in relation to the role of a nominations committee are discharged by the Home Office's Nomination and Governance Committee (NGC), whose remit also extends to the HM Passport Office. The NGC comprises two non-executive Home Office Supervisory Board members, the Permanent Secretary, the Chief Operating Officer and the Director General of Human Resources. Further detail of the NGC is provided in the Home Office Annual Report and Accounts.

Risk management

The risk management policy of HM Passport Office was aligned to that of the Home Office, with the HM Passport Office Management Board responsible in the first instance for maintaining a flexible and scalable risk process that covers all business areas. This includes monitoring and managing risks with clear ownership, timely management of data and appropriate governance.

The risk team conducted reviews with the senior management of each function to ensure that key risks were captured, mitigations were in place, and progress monitored, with risks escalated or retired as appropriate. This functional process fed into monthly reviews by the Management Board of the highest risks, and quarterly in-depth reviews of specific risk areas. The ARAC also regularly reviewed the management of risk and risk policy to provide assurance on the adequacy of processes and controls.

During the reporting period the risk profile of HM Passport Office changed significantly. Having navigated through a period of high inherent risk attributable to the implementation of AMS and the repatriation of processing applications from overseas, weaknesses in the operational control framework and management information exposed limitations in the processing of passport applications. The forecast model used by HM Passport Office to match and deploy its resources against demand had, in retrospect, not been accurate.

As this was a key control for monitoring operational risk, this resulted in a significantly higher number of applications being received than planned during the period of peak demand. This led to services not being delivered within the published customer service timeframes, and contributed to HM Passport Office failing to meet demand and maintain the high level of customer satisfaction it had previously achieved. In response, the HM Passport Office Management Board implemented a number of interventions to limit further exposure to risks affecting the delivery of passport services and enabled operational areas to focus on delivering key services whilst maintaining delivery of those areas of the change programme that also support this aim.

Risks faced by HM Passport Office

The implications of the repatriation of overseas passport application processing and the unexpected high demand for passports have required the management of a number of significant risks during the reporting period. These include:

- managing passport services through a period of exceptionally high demand whilst maintaining security standards;
- managing the impact the exceptionally high demand has had on HM Passport Office's ability to meet published customer service standards;
- developing the service that has been introduced for international customers and stakeholders so it will meet their expectations;
- meeting a challenging timetable of policy proposals to modernise the Civil Registration service; and
- ensuring that the systems and processes on which services rely are as robust as possible.

Mitigating actions have been agreed for each of these risks by the HM Passport Office Management Board to ensure that any issues have minimal impact. The risk register will continue to be monitored by the Board, and reported to the Home Office Executive Management Board by the Director General for HM Passport Office.

Key events during the reporting period

Inaccuracies within the passport forecasting model meant that HM Passport Office was under-resourced and without the necessary levels of flexible contingency to foresee and manage the early high demand experienced. The volume of applications received by HM Passport Office reached exceptional levels. At its peak, the number of passport applications awaiting assessment was 546,000; at 30 September 2014 the number of passport applications awaiting assessment had fallen to 66,000.

This issue was compounded by difficulties in obtaining skilled contingent labour at short notice to manage intake through the period. As a result, HM Passport Office failed to meet key customer targets. Publicity surrounding the operational position compounded the issue by further increasing demand as customers submitted applications earlier than expected and customer-service enquiries escalated, further stretching the operational and support functions. The management of this issue required HM Passport Office to escalate a number of mitigations and operational interventions for Ministerial approval:

- UK passport holders living overseas were offered the option to extend their passport for 12 months.

- Parents or guardians of children living overseas who wished to travel to the UK were able to apply for an emergency travel document free of charge in place of a new or renewed passport for their children.
- Passport applications from customers travelling within seven days and which had exceeded published turnaround times were expedited.
- Staff were seconded in from other areas of HM Passport Office and the wider Home Office and given training on how to process passport applications. This provided HM Passport Office with increased capacity to handle the increasing volumes of applications being received.
- Management incentivised staff by offering overtime. By increasing the amount of time available in which to process applications, staff were able to increase the volume of passports issued.
- Temporary workers were employed to provide additional support for existing staff, while ensuring that HM Passport Office's other functions continued to operate.
- Additional staff were deployed to the MP Hotline in order to respond to MPs' queries and escalate customers' applications where necessary.

These interventions, coupled with the determination and flexibility of staff and additional resource provided by other parts of the Home Office, enabled the service to be delivered, albeit in many cases outside the delivery target.

During this period, the Home Secretary commissioned an operational review to ensure that HM Passport Office operates as efficiently as possible, with better processes, better customer service and better outcomes; and a review of HM Passport Office's Agency status, which considered whether alternative accountability and management arrangements would have meant the situation over the spring/summer could have been avoided. A subsequent independent review of the passport production forecast model was undertaken to establish where operational improvements could be made.

Following the reviews, the Home Secretary announced that HM Passport Office would cease to operate as an executive agency of the Home Office and would report directly to Ministers with effect from 1 October 2014. Following this decision, and in response to the recommendations made in the independent reviews, the following actions have been implemented:

- The post of Director General for HM Passport Office has been created, to replace the role of Chief Executive. The Director General will be a member of the Home Office Executive Management Board, which will result in greater accountability to the Home Office, Ministers, and the public. As at the date of publication, Tyson Hepple is acting Director General for HM Passport Office.
- A Chief Operating Officer (COO) has been appointed, which will provide an additional layer of operational control and improved governance to the business. The COO is responsible for overseeing five new operational commands: UK passport operations, International passport operations, customer and digital services, public protection, and national operations.
- Additional operational staff have been recruited and trained with a view to working flexibly across HM Passport Office, enhancing the resilience of the workforce during periods of seasonal demand.
- Operational processes have been improved by reviewing the use and functionality of existing IT systems and enhancing productivity which will facilitate an increase in capacity.
- The forecasting model has been revised and tested to ensure that it is fit for purpose.

By implementing these changes, HM Passport Office has a more robust framework in place to mitigate the risk of similar issues occurring.

Financial management

HM Passport Office's key function is to provide passport and civil registration services to the public. In delivering these services, fees are set to fully recover costs, with the exception of statutory registration services which are funded by the Home Office. During the six-month period to 30 September 2014, the unit cost of processing passports continued to fall, in spite of the additional costs attributable to the contingency resource used during the summer peak. Furthermore, the 31% decrease in the unit cost for producing passports for overseas applicants supports the decision to repatriate this process and generate substantial savings to the taxpayer.

To ensure effective financial management, HM Passport Office carried out monthly reviews with each director and this is reported to the Management Board. Also, we are fully engaged with the finance shared service functions, roles, relationship and controls that facilitate financial reporting and accounting processes.

Information management

The processes and systems that were in place across HM Passport Office were developed and implemented in line with government standards and accredited on an annual basis. The integrity of the systems HM Passport Office continues to manage is paramount in maintaining the trusted and secure relationship with the public. Access to the information held by HM Passport Office is limited to only those persons who are entitled to, and need, it. HM Passport Office will continue to work closely with its strategic partners and service providers to ensure that the high standards set are maintained and that the systems and services they provide are reliable, enabling HM Passport Office to deliver to its agreed standards.

HM Passport Office shares its data with a range of public and private sector organisations to support crime prevention and identity verification. Where data is shared memoranda of understanding are available to ensure appropriate monitoring and oversight is in place, over the reporting period HM Passport Office has continued to review and refine the monitoring and incident reporting processes.

HM Passport Office adheres to the requirements of the cross-government Information Management Maturity Model (One3M). HM Passport Office met the departmental target of achieving a level 3 maturity rating against the One3M by the end of financial year 2013/14, and will continue to work with the Home Office to maintain this level of excellence.

Evaluation of Board effectiveness

As part of the annual review of the Board's effectiveness, a non-executive director provided an assessment of the Management Board in April 2014, noting that it had been effective in setting the long term strategic direction for HM Passport Office, with good focus on the change landscape and wider stakeholder issues, and that the structure and agendas over the period met with HM Passport Office Governance Framework terms of reference which, in turn, complied with standards set out in The Corporate Governance Code of Conduct. One of the lessons learned from managing the high level of demand during this period was that the Board needed more up to date and forward looking data. By the end of this period, significant changes had been made to the data considered by the Board, aiding its future effectiveness.

Future governance

On 1 October 2014, the accountability of the ongoing operations of HM Passport Office transferred to me as Accounting Officer of the Home Office, and the Chief Executive remained Head of HM Passport Office until the appointment of an acting Director General of HM Passport Office on 10 November.

To maintain a robust governance framework, the HM Passport Office Management Board will continue to manage the delivery of passport and civil registration services with oversight from the Director General for Passports and the Home Office Executive Management Board. In addition, the functions and responsibilities of the HM Passport Office ARAC will transfer to the Home Office ARAC.

The Chief Executive, before transferring to another role, ensured an orderly transition of accountability, and all relevant information has been transferred to the Home Office in order to facilitate this transition.

Conclusion

The Home Office IAU carries out a programme of work focused on the key risks facing the organisation, and the governance arrangements in place across HM Passport Office. In 2013-14, the IAU drew attention to the existence of issues surrounding compliance, and identified opportunities for improving efficiency in the processing of passport applications. In the intervening period, HM Passport Office has encountered further challenges which limited management's ability to implement changes and highlighted further weaknesses which were reported in the subsequent reviews. It is for these reasons that IAU has issued an opinion of low assurance for the six-month period to 30 September 2014.

The challenges and risks that have been managed over the reporting period have tested risk management, assurance and control frameworks. Where their effectiveness has been challenged, management has escalated and responded with proportionate action plans designed to reduce the risks to an acceptable level, both within the reporting period and for future mitigation. By the end of this period, the HM Passport Office Board had significantly recast the management information it reviewed, ensuring that, going forward, it has the right tools to be fully effective in managing the business.

The change in the organisational status of HM Passport Office with effect from 1 October 2014 provided an opportunity to reflect on the governance within HM Passport Office and take specific steps to strengthen this in line with the findings of the recent reviews.

It will take some time to assess the full implications of the change in organisational status for HM Passport Office and its integration within the core Home Office. Until a permanent Director General is appointed, interim changes will be made to the governance structure to reflect that of other business areas within the Home Office, whilst maintaining a level of independent scrutiny to provide assurance that HM Passport Office continues to deploy its resources and assets in line with the Cabinet Office Code of Good Conduct.



Mark Sedwill
Home Office Permanent Secretary and Accounting Officer
19 March 2015



Remuneration Report

In accordance with the FReM, the Remuneration Report has been prepared for the period 1 April 2014 to 30 September 2014. The objective of the Remuneration Report is to disclose in full all information about senior staff in accordance with the Companies' Act 1985 as interpreted for the public sector. Senior staff have been defined as members of the HM Passport Office Management Board and its non-executive directors. Further details on other staff, including costs, can be found in note 3 to the Accounts.

Remuneration policy

HM Passport Office employees hold substantive Civil Service contracts. Appointments may be terminated in accordance with the Civil Service Management Code.

The arrangements for senior civil service pay and reward are determined centrally by the Cabinet Office following recommendations from the independent Senior Salaries Review Body (SSRB). Further information about the work of the Review Body can be found at www.gov.uk/government/organisations/review-body-on-senior-salaries.

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

Remuneration committee

Performance pay of HM Passport Office SCS members is determined by the Home Office Remuneration Committee. The Home Office Remuneration Committee work to Cabinet Office guidelines to determine the amount of consolidated and non-consolidated performance related pay for the SCS within the Home Office.

The assessment and review of performance for the SCS is based on individual performance and the relative assessment of the individual against their peers. Individuals are ranked in three performance groups in each pay band:

- Group 1 – Top 25% of performers;
- Group 2 – Achieving 65% of performers;
- Group 3 – Low 10% of performers.

For the 2013-14 performance year, SCS assessed in Group 1 were eligible for a non-consolidated performance payment. Bonus payments for the 2013-14 performance year were paid in July 2014.

Service contracts

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

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

During the period to 30 September 2014, HM Passport Office made no salary or compensation payments to past senior managers for loss of office. Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk

The Management Board

HM Passport Office operated a Governance Framework that outlined the processes by which the organisation is managed. The most senior body is the Management Board which advised and supported the Chief Executive on setting the strategy and direction of HM Passport Office.

The Management Board approves the annual and longer-term business plans, conducts quarterly reviews of overall performance, and considers the impact of cross-government change initiatives upon the HM Passport Office, and approves strategic proposals that will enhance performance.

The Management Board for the six-month period to 30 September 2014 comprised the Chief Executive and all executive directors (the senior leadership team), and three non-executive board members. It is the senior leadership team which was regarded as the main decision makers in HM Passport Office, and they operated as such throughout the reporting period. The executive members of the Management Board are listed in the salary and pension analysis on page 36 onwards.

Non-executive directors

Independent non-executive directors of the HM Passport Office Management Board were recruited through fair and open competition and were appointed by the Permanent Secretary of Home Office. The appointment of non-executive directors was for an initial period of three years with an option to extend for a further three years.

Non-executive director	Start date
Eric Gregory	1 July 2011
Bill Morris	10 February 2014
Isobel Sharp	18 February 2014

On 30 September 2014, HM Passport Office ceased to operate as a separate entity. Consequently, the formal role of a non-executive director for the purposes of the Remuneration Report also ceased to exist. However, Isobel Sharp, Eric Gregory and Bill Morris continue to provide advisory support in a non-executive capacity to the HM Passport Office senior leadership team.

Salary and benefits in kind

The tables on pages 30-35 give details of all individuals who have acted as a member of the senior management team during the period. Salary includes gross salary, performance pay or bonuses, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, and any other allowance to the extent that it is subject to UK taxation.

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

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes:

- Either a final salary scheme (**classic, premium or classic plus**); or
- A whole career scheme (**nuvos**).

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

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

Employee contributions are salary related and range between:

- 1.5% to 6.25% of pensionable earnings for **classic**; and
- 3.5% to 8.5% for **premium, classic plus** and **nuvos**.

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

For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum.

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

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

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

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

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

Cash equivalent transfer values (CETV)

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, an arrangement to secure pension benefits in another pension scheme, or an arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme, and any arrangement the member has transferred to their Civil Service pension arrangements. They also include any pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008. They do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement), and uses common market valuation factors for the start and end of the period. Where the individual was not in post for the full year, the CETV at 31 March 2014 represents the value as at their start date, and the CETV at 30 September 2014 represents the value as at their end date.

Value of pension benefits

This reflects the total value of the pension. This is calculated as the real increase in the pension multiplied by 20, plus the real increase in any lump sum, less any contributions made by the member.

The real increases exclude increases due to inflation, or any increase or decrease due to a transfer of pension rights.

Salary and benefits in kind for members of the HM Passport Office Management Board as at 30 September 2014 (audited)

(Where an individual has only served for part of the year, the full year equivalent salary is reported in brackets)

Senior Staff Name	Notes	Job Title	2014-15 £'000				31 Mar 2014 £'000			
			Salary (see note 1)	Bonus payments	Value of pension benefits	Totals	Salary (see notes 1 and 6)	Bonus payments	Value of pension benefits	Totals
Paul Pugh		Chief Executive & Registrar General for England and Wales	50-55 (100-105)	0	16	65-70	100-105	0	25	120-125
Phillip Astle		Chief Operating Officer (from 4 August 2014)	15-20 (100-105)	0	9	25-30	n/a	n/a	n/a	n/a
Shane Bryans		Director of Customer Services and Policy	35-40 (75-80)	0	12	45-50	30-35 (70-75)	0	8	35-40
Deborah Chittenden	2	Director of Organisational Transformation	45-50 (95-100)	0	n/a	45-50	95-100	0	0	95-100
Paul Darling	3	Director of Finance	20-25 (45-50)	0-5	n/a	20-25	10-15 (45-50)	0	n/a	10-15
Brad Day	4	Interim Director of Operational Services (from 1 June 2014)	20-25 (70-75)	0	n/a	20-25	n/a	n/a	n/a	n/a
Andrew Dent		Director of Civil Registration	35-40 (75-80)	0	10	45-50	30-35 (75-80)	0	2	35-40
Ian Forster		Director of Operational Services (until 1 June 2014); Director of Production, Planning & Counter Fraud (from 2 June 2014)	35-40 (70-75)	0	8	40-45	45-50 (70-75)	0 (0-5)	1	50-55

Senior Staff Name	Notes	Job Title	2014-15 £'000				31 Mar 2014 £'000				
			Salary (see note 1)	Bonus payments	Value of pension benefits	Totals	Salary (see notes 1 and 6)	Bonus payments	Value of pension benefits	Totals	
Victoria Smith	3	Human Resources Director for UKVI & HM Passport Office (from 26 August 2014)	0-5 (45-50)	0	n/a	0-5	n/a	n/a	n/a	n/a	n/a
Eric Gregory		Non-executive director	5-10 (15-20)	n/a	n/a	5-10	n/a	n/a	n/a	n/a	15-20
Bill Morris		Non-executive director (from 10 February 2014)	5-10 (15-20)	n/a	n/a	5-10	n/a	0-5 (15-20)	n/a	n/a	0-5
Isobel Sharp	5	Non-executive director (from 18 February 2014)	10-15 (20-25)	n/a	n/a	10-15	n/a	0-5 (15-20)	n/a	n/a	0-5

Pension benefits for members of the HM Passport Office Management Board as at 30 September 2014 (audited)

Senior Staff Name	Job Title	Real increase/ (decrease) in pension at age 60 and related lump sum £'000	Total accrued pension at age 60 at 30 September 2014 and related lump sum £'000	Cash Equivalent Transfer Value (CETV) at 31 March 2014 £'000	CETV at 30 September 2014 £'000	Real increase/ (decrease) in CETV after adjustment for inflation and changes in market investment factors £'000
Paul Pugh	Chief Executive & Registrar General for England and Wales	0-2.5 Lump sum	45-50 Lump sum	835	885	8
Phillip Astle	Chief Operating Officer (from 4 August 2014)	0-2.5 Lump sum	10-15 Lump sum	179	184	4
Shane Bryans	Director of Customer Services and Policy	0-2.5 Lump sum	25-30 Lump sum	465	490	2
Deborah Chittenden	Director of Organisational Transformation	n/a	n/a	n/a	n/a	n/a
Paul Darling	Director of Finance UKVI & HM Passport Office	n/a	n/a	n/a	n/a	n/a
Brad Day	Interim Director of Operational Services (from 1 June 2014)	n/a	n/a	n/a	n/a	n/a
Andrew Dent	Director of Civil Registration	0-2.5 Lump sum	25-30 Lump sum	466	490	0
Ian Forster	Director of Operational Services (until 1 June 2014); Director of Production, Planning & Counter Fraud (from 2 June 2014)	0-2.5 Lump sum	10-15 Lump sum	249	266	2
Victoria Smith	Director of Human Resources (from 26 August 2014)	n/a	n/a	n/a	n/a	n/a

Senior Staff Name	Job Title	Real increase/ (decrease) in pension at age 60 and related lump sum £'000	Total accrued pension at age 60 at 30 September 2014 and related lump sum £'000	Cash Equivalent Transfer Value (CETV) at 31 March 2014 £'000	CETV at 30 September 2014 £'000	Real increase/ (decrease) in CETV after adjustment for inflation and changes in market investment factors £'000
Eric Gregory	Non-executive director	n/a	n/a	n/a	n/a	n/a
Bill Morris	Non-executive director (from 10 February 2014)	n/a	n/a	n/a	n/a	n/a
Isobel Sharp	Non-executive director (from 18 February 2014)	n/a	n/a	n/a	n/a	n/a

Salaries and benefit in kind for members of the HM Passport Office Management Board who left the before 30 September 2014 (audited)

Senior Staff Name	Job Title	2014-15 £'000				31 Mar 2014 £'000			
		Salary (see notes 1 and 6)	Bonus Payments	Value of pension benefits	Totals	Salary (see notes 1 and 6)	Bonus Payments	Value of pension benefits	Totals
Jane Carwardine	Director of Human Resources and Organisational Development (until 5 May 2014)	15-20 (110-115)	0	2	20-25 (110-115)	110-115	0	28	135-140
Ian Martin	Director of Planning, Production and Counter-Fraud (until 31 May 2014)	10-15 (65-70)	0	2	10-15 (65-70)	65-70	0-5	2	75-80
Andrea Williams-McKenzie	Director of Human Resources (from 6 May until 2 September 2014)	10-15 (20-25)	0	n/a	10-15 (20-25)	N/A	N/A	N/A	N/A

Pension benefits for members of the HM Passport Office Management Board who left the before 30 September 2014 (audited)

Senior Staff Name	Job Title	Real increase/ (decrease) in pension at age 60 and related lump sum £'000	Total accrued pension at age 60 at 30 September 2014 and related lump sum £'000	Cash Equivalent Transfer Value (CETV) at 31 March 2014 £'000	CETV at 30 September 2014 £'000	Real increase/ (decrease) in CETV after adjustment for inflation and changes in market investment factors £'000
Jane Carwardine	Director of Human Resources and Organisational Development (until 5 May 2014)	0-2.5 Lump sum 0	10-15 Lump sum 0	201	203	0
Ian Martin	Director of Planning, Production and Counter-Fraud	0-2.5 Lump sum 0-2.5	20-25 Lump sum 70-75	387	389	(1)
Andrea Williams-McKenzie	Director of Human Resources (from 6 May until 2 September 2014)	n/a	n/a	n/a	n/a	n/a

Notes

- Salaries include, where applicable, excess fares, and gross taxable allowances including temporary cover allowance.
- Deborah Chittenden is a member of a Partnership pension scheme and the total employer and employee contributions, paid to the scheme on her behalf, amounted to £9,800 (2013-14: £20,000).
- Paul Darling and Victoria Smith are both employed by Home Office and have responsibility as Finance & HR director for both HM Passport Office and UK Visas and immigration service. The amounts shown reflect the remuneration apportioned equally between the two roles. Their pension costs remain within the Home Office accounts.
- Brad Day is a member of a Partnership pension scheme and the total employer and employee contributions paid to the scheme amounted to £5,000.
- Salary paid to Isobel Sharp included £580 that relates to her payroll increase as audit committee member in 2013-14.
- Salary includes benefits in kind to the nearest £100: Eric Gregory - £1,500, Isobel Sharp - £1,100. All others nil. The following members of the HM Passport Office Management Board received benefits in kind during 2013-14: Dame Janet Finch (£4,300); Eric Gregory (£2,200); Anne Tutt (£3,100); and Bill Morris (£600).

Remuneration Report

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

	30 September 2014	31 March 2014 (restated)
The mid-point banded remuneration of the highest paid director in HM Passport Office	£100,000 – 105,000	£110,000 – £115,000
The median remuneration of the workforce	£20,427	£20,803
Ratio	5.0	5.6

The mid-point banded remuneration of the highest paid director was incorrectly stated as £115,000–£120,000 in 2013-14.

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

The table above shows that the ratio of the median to highest-paid remuneration as at 30 September 2014 has decreased due to a decrease in the band of the highest paid director. Payment of six months of temporary allowances have been included with permanent allowances annualised, resulting in reduction to the median salary from the usual twelve months calculation. The mid-year report has been compiled using the guidance and, a well established and agreed methodology.



Mark Sedwill
Home Office Permanent Secretary and Accounting Officer
19 March 2015



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 HM Passport Office for the period ended 30 September 2014 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statement

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of HM Passport Office's affairs as at 30 September 2014 and of the net operating cost for the period then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in Foreword by the Permanent Secretary and Management Commentary for the period for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

Without qualifying my opinion, I draw attention to Note 1 and Note 23 of the financial statements. On 1 October 2014, the functions of HM Passport Office were transferred to the Home Office. As the functions previously provided by HM Passport Office will continue to be provided by another public sector entity, it remains appropriate for the financial statements for the HM Passport Office in respect of the period to 30 September 2014 to be prepared on a going concern basis in accordance with the Government Financial Reporting Manual issued by HM Treasury.

Sir Amyas C E Morse
Comptroller and Auditor General National Audit Office,
157-197 Buckingham Palace Road,
Victoria,
London,
SW1W 9SP

23 March 2015



Accounts for the period 1 April – 30 September 2014



Statement of comprehensive net expenditure

For the period ended 30 September 2014

	NOTES	30 Sep 2014*			Restated
		Staff costs	Other costs	Income	31 Mar 2014*
		£'000	£'000	£'000	£'000
Administrative costs					
Staff costs	3	8,373			21,739
Other administrative costs	4		14,257		16,163
Operating income	6			(21,942)	(39,056)
Programme costs					
Staff costs	3	50,021			79,222
Programme costs	5		165,329		275,514
Income	6			(258,377)	(409,656)
Totals		58,394	179,586	(280,319)	(56,074)
Net operating (surplus)/deficit				(42,339)	(56,074)

Other comprehensive expenditure

			30 Sep 2014	31 Mar 2014
	NOTES		£'000	£'000
Net (gain)/loss on revaluation of property, plant and equipment	7		-	(812)
Net (gain)/loss on revaluation of intangibles	8		-	277
Total comprehensive net expenditure			-	(535)

The notes on pages 44 to 78 form part of these accounts.

With effect from 30 September 2014, HM Passport Office ceased to operate as an executive agency of the Home Office. The assets and liabilities of HM Passport Office transferred to the Home Office at their carrying value as of this date.

*The current year figures reflect the six-month period to 30 September 2014; the prior year comparators reflect the year to 31 March 2014.

Statement of financial position

As at 30 September 2014

		30 Sep 2014	31 Mar 2014
	NOTES	£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment	7	59,133	64,185
Intangible assets	8	84,259	87,674
Total non-current assets		143,392	151,859
Current assets			
Inventories and work in progress	11	3,337	4,392
Trade and other receivables	12	4,761	25,313
Cash and cash equivalents	9,13	-	-
Total current assets		8,098	29,705
Total assets		151,490	181,564
Liabilities			
Current liabilities			
Trade and other payables	14	(68,445)	(94,468)
Provisions	15	(1,289)	(1,249)
Total current liabilities		(69,734)	(95,717)
Non-current assets plus/(less) net current assets/liabilities		81,756	85,847
Non-current liabilities			
Other payables	14	(2,432)	(2,811)
Provisions	15	(5,416)	(5,475)
Total non-current liabilities		(7,848)	(8,286)
Assets less liabilities		73,908	77,561
Taxpayers' equity			
General fund		65,583	68,610
Revaluation reserve		8,325	8,951
Total taxpayers' equity		73,908	77,561

The notes on pages 44 to 78 form part of these accounts.

With effect from 30 September 2014, HM Passport Office ceased to operate as an executive agency of the Home Office. The assets and liabilities of HM Passport Office transferred to the Home Office at their carrying value as of this date.



Mark Sedwill
Accounting Officer

19 March 2015

Statement of cash flows

For the period ended 30 September 2014

		30 Sep 2014*	31 Mar 2014*
	NOTES	£'000	£'000
Cash flows from operating activities			
Net operating surplus/(cost) as per Statement of Comprehensive Net Expenditure		42,339	56,074
(Increase)/decrease in trade and other receivables	12	20,552	8,528
(Increase)/decrease in inventories and work in progress	11	1,055	(913)
Increase/(decrease) in trade payables	14	(24,955)	21,972
Adjustments for non-cash transactions	4,5	11,104	18,791
Utilisation of provisions**	15	(339)	(2,019)
Net cash inflow from operating activities		49,756	102,433
Cash flows from investing activities			
Purchase of property, plant and equipment	7,14	(1,452)	(8,283)
Purchase of intangible assets	8	(2,207)	(9,032)
Proceeds on disposal of non-current assets	5,7,8	-	6
Net cash outflow from investing activities		(3,659)	(17,309)
Cash flows from financing activities			
Funding (to)/from Home Office		(46,097)	(85,068)
Net cash flows from financing activities		(46,097)	(85,068)
CFERs payable to consolidated fund		-	(58)
Net increase/(decrease) in cash and cash equivalents in the period		-	(2)
Cash and cash equivalents at the beginning of the period	13	-	2
Cash and cash equivalents at the end of the period	13	-	-
Net increase/(decrease) in cash and cash equivalents in the period		-	(2)

*The current year figures reflect the six-month period to 30 September 2014; the prior year comparators reflect the year to 31 March 2014.

**Utilisation of provisions included £339,000 (31 Mar 2014: £1,797,000) for early departure costs is netted off against actual exit cost payments in the current year. As a result, the amount shown in note 3 is the difference between provision made and additional payments in the year.

The notes on pages 44 to 78 form part of these accounts.

With effect from 30 September 2014, HM Passport Office ceased to operate as an executive agency of the Home Office. The assets and liabilities of HM Passport Office transferred to the Home Office at their carrying value as of this date.

Statement of changes in taxpayers' equity

For the period ended 30 September 2014

		General Fund	Revaluation Reserve	Total Reserves
	NOTES	£000	£000	£000
Balance at 31 March 2013		95,889	10,014	105,903
Funding (to)/from Home Office		(85,068)	-	(85,068)
Net increase on revaluation of non-current assets	7,8	-	535	535
Non-cash charges – auditors' remuneration	4	175	-	175
Receipts payable to the Consolidated Fund		(58)	-	(58)
Realised revaluation reserve to general fund	7,8	1,598	(1,598)	-
Net operating surplus for the year excluding consular protection fees		127,020	-	127,020
Consular protection fees	22	(70,946)	-	(70,946)
Balance at 31 March 2014		68,610	8,951	77,561
Funding (to)/from Home Office		(46,097)	-	(46,097)
Net increase on revaluation of non-current assets	7,8	-	-	-
Non-cash charges – auditors' remuneration	4	105	-	105
Realised revaluation reserve to general fund		626	(626)	-
Net operating surplus for the year excluding consular protection fees		87,513	-	87,513
Consular protection fees	22	(45,174)	-	(45,174)
Balance at 30 September 2014		65,583	8,325	73,908

The notes on pages 44 to 78 form part of these accounts.

With effect from 30 September 2014, HM Passport Office ceased to operate as an executive agency of the Home Office. The assets and liabilities of HM Passport Office transferred to the Home Office at their carrying value as of this date.



Notes to the accounts

Note 1 – Statement of accounting policies

1.0 Basis of preparation

These financial statements have been prepared under the Government Resources and Accounts Act 2000 and in accordance with the 2014-15 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

These financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000). The accounting period is for the six-month period to 30 September 2014, and the comparative figures reflect the year to 31 March 2014.

1.1 Accounting convention

These accounts have been prepared on an accruals basis under the historic cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets.

1.2 Going concern

On 26 September 2014 the Home Secretary announced that HM Passport Office would cease to operate as an executive agency of the Home Office with effect from 30 September 2014, with the continuing operations being transferred to the Home Office on 1 October 2014. As these operations will continue as part of the Home Office, and the custodianship of the assets and liabilities of HM Passport Office transferred to the Home Office at their carrying value on 1 October 2014, it is appropriate to prepare these accounts on a going concern basis. These accounts have been prepared at the point immediately prior to the transfer of assets and liabilities to the Home Office.

1.3 Property, plant and equipment (PPE)

PPE is initially measured at cost and includes any expenditure directly attributable to bringing the assets into use. The capitalisation threshold for expenditure on PPE is £5,000, with the exception of furniture and fittings which is capitalised only when it comprises separately identifiable groups costing £25,000 or greater. Individual assets costing less than £5,000 are capitalised if purchased as part of a separately identifiable group of assets, and the total cost of the group of assets exceeds £5,000.

PPE is subsequently valued at the lower of net replacement cost and recoverable amount. PPE is revalued annually as outlined below:

- **Land and buildings:** Includes freehold land and buildings owned by HM Passport Office and associated improvements to its estate. Land and buildings are revalued annually using the PUBSEC Tender Price indices published by the Building Cost Information Services. In addition, an independent professional valuation is undertaken every five years.
- **Information technology (IT):** Includes computer hardware and telecommunications equipment. Software which cannot be separated from the hardware on which it operates and upon which the hardware is dependent in order to function correctly is classified as PPE. IT is revalued annually using Producer Price indices published by the Office for National Statistics (ONS).
- **Plant, machinery and motor vehicles:** Primarily relates to machinery and associated enabling infrastructure which forms the production line used to produce passports. Also included are motor vehicles owned by HM Passport Office. Plant, machinery and motor vehicles are revalued annually using Producer Price indices published by the ONS.
- **Furniture and fittings:** This category is capitalised at cost and revalued annually using Producer Price indices published by the ONS.
- **Assets under construction:** All assets under development and not in full operation at the reporting date are classified as assets under construction. When an asset is brought into use, its cost is reclassified to the appropriate category of non-current assets and depreciation commences. Assets under construction are not subject to revaluation. Expenditure which does not meet the criteria for capitalisation as outlined in International Accounting Standard (IAS) 16: *Property, plant and equipment* is treated as an operating cost in the year in which it is incurred.

PPE is not revalued in either the year it is brought into use or the year in which it is disposed.

At the reporting date a revaluation exercise of PPE had not taken place. Revaluation of the assets held by HM Passport Office on 30 September 2014 and transferred to the Home Office will take place in March 2015, in line with Home Office accounting policies.

1.4 Intangible assets

Intangible assets are initially measured at cost and include any expenditure directly attributable to bringing the assets into use. The capitalisation threshold for expenditure on intangible assets is £5,000. Individual assets costing less than £5,000 are capitalised if purchased as part of a separately identifiable group of assets, and the total cost of the group of assets exceeds £5,000. Intangible assets are revalued annually using Producer Price indices published by the ONS.

- **Information technology (IT):** Expenditure on software and website development is capitalised as an intangible IT asset separately from its hardware where the hardware is able to operate independently of the software itself. Such expenditure is capitalised when it meets the definition of “development” as outlined in IAS 38: *Intangible Assets*, and includes costs of consultancy and civil service staff who work on the project. Expenditure on software which does not meet the criteria for capitalisation is recognised in the Statement of Comprehensive Net Expenditure (SoCNE) in the year in which it is incurred.
- **Software licences:** All HM Passport Office licences covering a period in excess of one year are capitalised at cost.

As at the reporting date a revaluation exercise of intangible assets had not taken place. Revaluation of the assets held by HM Passport Office on 30 September 2014 and transferred to the Home Office will take place in March 2015, in line with Home Office accounting policies.

1.5 Depreciation

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

Land	n/a – land is considered to have an infinite UEL and is not depreciated
Buildings	up to 60 years
Improvements to buildings	2 to 15 years or, if leased, the duration of the lease
IT	up to 15 years
Plant, machinery and motor vehicles	2 to 15 years
Furniture and fittings	3 to 10 years or, if leased, the duration of the lease

As at the reporting date, a review of UELs had not been undertaken. A review will take place in March 2015, in line with Home Office accounting policies.

1.6 Amortisation

Intangible non-current assets are amortised over the expected useful life over which the service potential or other economic benefits will be delivered. As at the reporting date, a review of UELs had not been undertaken. A review will take place in March 2015, in line with Home Office accounting policies.

HM Passport Office capitalises the directly attributable costs associated with populating databases where they meet the recognition criteria of an intangible asset, the costs of populating the database are clearly separable from normal business activities, and if they are held to deliver identifiable service potential or other economic benefits. Expenditure on development of a product or service is capitalised if it meets the criteria specified in the 2014-15 FReM, which has been adapted from IAS 38 to take account of the considerations relevant for not-for-profit entities.

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

IT	up to 15 years
Software licences	up to 15 years

1.7 Impairments

As at the reporting date, an impairment review of PPE and intangibles had not been undertaken. A review will take place in March 2015, in line with Home Office accounting policy.

1.8 Leases

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

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

Rental payments for land and buildings occupied by HM Passport Office, on the basis of operating leases or equivalent, are charged to the SoCNE. As required by IAS 17: *Leases*, where a lease contains pre-determined increases during its term, the impact of these increases is spread equally over the term of the lease.

HM Passport Office reviews all changes to lease arrangements to confirm the appropriate classification as an operating or finance lease. HM Passport Office currently has no finance leases.

1.9 Inventories

Inventories are valued at weighted average cost and comprise blank certificates and books which are used to produce passports.

1.10 Work in progress (WIP)

- **Passports:** WIP is valued based on the stage a passport application has reached in the overall production process. Applications which have been completed and await printing are valued to include all direct costs associated with the application except for the costs of printing. Applications that are part of the way through the examination process are valued to include an estimate of the examination costs and all costs associated with initial scanning and verification of the application.
- **Civil registration services:** The production and issuing process for certificates is completed within the same day and, as a result, only notional costs can be attributed to an application which has not yet been issued. These costs are not considered material and are not recorded as WIP.

1.11 Programme and administration expenditure

Expenditure is classified as administrative or as programme in accordance with the definition set out in HM Treasury's 'Consolidated Budgeting Guidance 2014-15'. Administrative expenditure reflects the costs of managing HM Passport Office and excludes expenditure attributable to HM Passport Office's front line activities. Programme expenditure reflects the costs attributable to HM Passport Office's front line activities and is defined as expenditure that does not fall within administrative budgets.

During the reporting period a management decision was made to realign the financial reporting structure. This resulted in all depreciation and amortisation charged against HM Passport Office's non-current assets to be classified as programme expenditure, as the substantial majority of assets were used in the delivery of HM Passport Office's frontline activities.

1.12 Income

Revenue from continuing activities represents:

- **Passport fees:** All passport activities are governed by the Consular Fees Act 1980 and considered to be one single class of business. Passport fees include an element relating to consular protection services provided by the FCO worldwide. These costs are not retained by HM Passport Office and are remitted via the Home Office to HM Treasury as Consolidated Fund Extra Receipts (CFERs). See also 1.13. Costs associated with passports issued free of charge to British Nationals born on or before 2 September 1929 are financed from parliamentary supply drawn down by the Home Office and passed to HM Passport Office.
- **Certificate fees:** Certificate fees are collected in accordance with the Births and Deaths Registration Act 1953, section 30(2c), and are considered to be one single class of business.

HM Passport Office sets its passport and certificate fees to recover the administrative and programme costs incurred in providing its services. Income is analysed and offset against administrative costs only to the extent that administrative costs are recovered. All other income, and the associated surplus or deficit, is offset against HM Passport Office's programme costs.

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

In addition to income generated from its passport and registration services, HM Passport Office generates other income in relation the Passport Validation Service (PVS), charges for services provided to other government departments and charges for use of HM Passport Office facilities.

1.13 Funding

The principal activities of HM Passport Office are funded on a net resource basis from Home Office Request for Resources.

HM Passport Office relies on the revenue generated from its passport and certificate fees to fund its activities. The Home Office provides additional cash to fund HM Passport Office's statutory services and capital programmes.

The consular protection fees, which are collected by HM Passport Office as part of its passport fee, are remitted to HM Treasury via the Home Office as a CFER on a monthly basis. The element of the passport fee relating to consular protection is reported by HM Passport Office as both income and programme expenditure.

Any overall surplus arising in the financial year is remitted to the Home Office as CFER, taking into account Home Office funding for HM Passport Office's statutory services and capital expenditure.

1.14 Bank

Cash received by HM Passport Office is banked into the Home Office's Government Banking Service (GBS) bank account on a daily basis. The income/receivable is recognised in HM Passport Office's accounts, and the cash is recognised in those of the Home Office. The movement between the two entities is through the reserves, and is reflected in the accounts as "Funding (to)/ from Home Office" in the Statement of Changes in Taxpayers' Equity (SoCTE).

The main cash outgoings of HM Passport Office are funded through the Home Office GBS. For this reason, the HM Passport Office element of the GBS is taken to be zero at any given time as HM Passport Office is financed in full when required.

1.15 Deferred income

Income is deferred when a passport fee or certificate fee has been received but the passport or certificate has not yet been passed for issue. These balances are held as a liability.

1.16 Accrued income

HM Passport Office has an agreement with Post Office Ltd in which passport fees can be paid by customers over the counter as part of the "check and send" service offered by the Post Office. Invoices are raised by HM Passport Office in respect of the fees taken by the Post Office based on management information from AMS. Since HM Passport Office has a contractual right to receive cash from the Post Office in respect of these applications, the fees not yet paid to HM Passport Office are defined as a financial asset in accordance with IAS 32: *Financial Instruments: Presentation* and recognised in the SoFP as a receivable. The associated income is subsequently deferred if the application to which the fee relates has not been passed for issue (see also note 1.15). This ensures that both the fees payable by the Post Office and the amount of income to be deferred at the reporting date are correctly reflected in the SoFP.

1.17 Pension costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. HM Passport Office recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, HM Passport Office recognises the contributions payable for the year.

1.18 Voluntary exit and early release schemes

Total early retirement costs are fully provided for in the year in which the departure is agreed. Expenditure is subsequently released from the provision and recognised as cash expenditure on a straight-line basis in accordance with the terms of the scheme. The acceptance of both offer and the scheme conditions must be confirmed by the employee, and the date agreement is reached dictates the year in which the costs are recognised.

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

1.19 Provisions

HM Passport Office accounts for any provisions in accordance with IAS 37: *Provisions, Contingent Liabilities and Contingent Assets*. HM Passport Office provides for legal or constructive obligations which are of uncertain timing or arise at the reporting date on the basis of the best estimate of the expenditure required to settle the obligation.

When the timing of the cash flow is expected to take place in more than one year and the time value of money is material, the estimated cash flows are discounted to present value using the discount rates provided by HM Treasury. For the purposes of these financial statements, and to maintain consistency with the reporting period of the Home Office, the discount rates applied for the six month period to 30 September 2014 are as follows:

Cash flow of provisions between 1 April 2015 and 31 March 2019	-1.90%
Cash flow of provisions between 1 April 2019 and 31 March 2024	-0.65%
Cash flow of provisions on or after 1 April 2024	2.20%

1.20 Contingent liabilities

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

In addition to contingent liabilities disclosed in accordance with IAS 37, if relevant, HM Passport Office discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote but which are required to be reported to Parliament in accordance with 'Managing Public Money'.

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

1.21 Value added tax (VAT)

Where input tax is chargeable on goods and services provided to HM Passport Office and is recoverable from HM Revenue and Customs, expenditure is stated net of VAT. Where input tax is not recoverable, VAT is recognised in the SoCNE.

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

1.22 Financial instruments

HM Passport Office's financial assets and financial liabilities are recognised and disclosed in accordance with IAS 32, IAS 39: *Financial Instruments: Recognition and Measurement*, IFRS 7: *Financial Instruments: Disclosures*, and IFRS 9: *Financial Instruments*.

The measurement of financial assets and liabilities is dependent on their classification. The following classifications are applicable to assets and liabilities held by HM Passport Office:

Financial assets at fair value through profit or loss

This category includes financial assets classified as held for trading and other assets designated as such on inception. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or as financial guarantee contracts. Assets are carried in the Statement of Financial Position (SoFP) at fair value with gains or losses recognised in the SoCNE.

Loans and receivables

Trade and other receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are subsequently measured at amortised cost. Provision is made when there is objective evidence that HM Passport Office will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote. A Financial asset is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. Trade and other payables are recognised at cost, which is deemed to be materially the same as the fair value. Where the time value of money is material, payables are subsequently measured at amortised cost. A Financial liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

1.23 Taxpayers' equity

Taxpayers' equity comprises of the general fund and revaluation reserve. The general fund represents the total net assets of HM Passport Office to the extent that they are not represented by other reserves. Net funding from HM Treasury and realised gains and losses are reflected in the general fund. The revaluation reserve represents the unrealised element of the cumulative balance of revaluation and indexation adjustments to non-current assets.

1.24 Judgements and key sources of estimation uncertainty

Management is required when applying the accounting policies to make judgements, estimates and assumptions which impact upon the reported assets and liabilities at the reporting date, and the income and expenditure incurred during the year. These judgements and associated assumptions are based on historical experience and other factors that are considered appropriate from external sources.

In the process of applying these accounting policies, management has made the following judgements which have a significant effect on the amounts recognised in these financial statements:

Service concession arrangements

HM Passport Office is party to Private Finance Initiatives (PFIs). The classification of such arrangements as service concession arrangements requires HM Passport Office to determine, based on an evaluation of the terms and conditions of the arrangements, whether it controls the associated infrastructure. Further detail is provided in note 1.26.

Development costs

Capitalisation of project expenditure is based on management's judgement that technological and economic feasibility is confirmed.

1.25 Service concession arrangements

HM Passport Office accounts for PFI transactions on a control approach based on International Financial Reporting Interpretations Committee (IFRIC) interpretation 12: *Service Concession Arrangements*. HM Passport Office is considered to control the infrastructure in a public-to-private service concession arrangement if:

- it controls or regulates the services that the operator must provide using the infrastructure, to whom it must provide them, and at what price; and
- it controls any significant residual interest in the property at the end of the concession term through ownership, beneficial entitlement or otherwise.

Where it is determined that such arrangements are not in scope of IFRIC 12, HM Passport Office assesses such arrangements under IFRIC 4: *Determining whether an Arrangement contains a Lease*. Where it is identified that the arrangement conveys a right to use an asset in return for a payment or series of payments, the lease element is accounted for as either an operating lease or finance lease in accordance with the risk and reward based approach set out in note 1.8. Where it is determined that arrangements are in scope of IFRIC 12, HM Passport Office recognises the infrastructure as a non-current asset.

On-balance sheet service concession arrangements

Where the contract is separable between the service element, the interest charge and the infrastructure asset, the asset is measured as outlined in IAS 17, with the service element and the interest charge recognised as incurred over the term of the concession arrangement. Where there is a unitary payment stream that includes infrastructure and service elements that cannot be separated, the various elements will be separated using estimation techniques.

On initial recognition of existing PFI arrangements under IFRS, HM Passport Office measures the non-current asset in the same way as other non-current assets of that generic type. A liability is recognised for the capital value of the contract at its fair value at the period end, which will normally be the outstanding liability in respect of the asset (that is, excluding the interest and service elements), discounted by the interest rate implicit in the contract. Interest and service charges are recognised as expenditure in the SoCNE as they are incurred.

Off-balance sheet service concession arrangements

Where the contract is separable between the service element, the interest charge and the infrastructure asset, but the asset has not yet been constructed, there is no asset to recognise in the SoFP, and consequently no liability against which the asset can be offset. Where the operator is obliged to construct the asset as part of the arrangement, the asset will be recognised upon the delivery of pre-determined milestones. At this point a liability equal to the value of the asset will be recognised. The interest and service charges will be recognised as expenditure in the SoCNE as they are incurred.

In determining the interest rate implicit in the contract, HM Passport Office applies the risk-free market rate at the time the contract was signed. The rate is not changed unless the infrastructure element or the whole contract is renegotiated. The risk-free rate is determined by reference to the real rate set by HM Treasury, currently 3.5%. The nominal rate is then calculated by adjusting this real term rate by the UK inflation rate.

Assets are revalued in accordance with the revaluation policy for property, plant and equipment (note 1.3) and intangible assets (note 1.4). Liabilities falling due in more than one year are measured at their present value using the appropriate discount rate.

1.26 Operating segments

The net operating cost reported in the SoCNE includes income and expenditure associated with passport, certificate and statutory activities.

For passport related activities, income generated by HM Passport Office is intended to meet the cost of the passport and non-fee bearing consular services overseas provided by the FCO. The non-retainable element of the passport fee for consular protection is remitted to HM Treasury via the Home Office as a CFER.

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

An analysis of operating income and expenditure by operating segment is provided in note 2. HM Passport Office's operating costs are apportioned across each of the products by assessing each business unit and considering which of the income streams that business unit activity serves. The apportionment assessment is validated by the respective executive directors.

Direct costs

Operational costs are attributable to the respective business segments defined by HM Passport Office, and represent costs directly incurred in the delivery of each of the products offered.

Indirect costs

Expenditure in respect of central overheads is apportioned to each of HM Passport Office's business segments based on the most appropriate estimate. Costs associated with Human Resources are apportioned to the business segments based on the respective headcount in each of the segments; costs associated with Organisational Transformation are apportioned based on the respective project spend across each of the segments; and other overheads are apportioned in line with the effort focussed on each segment, based on management estimates.

1.27 Impending application of newly issued accounting standards not yet effective

IFRS 13: *Fair Value Measurement* was issued on 1 January 2013 and will come into effect for the Home Office from 1 April 2015. IFRS 13 has been prepared to provide consistent guidance on fair value measurement for all relevant balances and transactions covered by IFRS. Guidance on how this should be applied across government has yet to be issued by HM Treasury. Until guidance on its adoption is issued by HM Treasury in the FReM, it is not possible to provide an assessment on the impact of adopting this standard.

Note 2 – Statement of operating income and expenditure by operating segment

Below is an analysis of operating income and expenditure by operating segment. The primary segmentation, which has been defined by how financial performance is reported to the executive board, comprises of HM Passport Office's main streams of income: issuance of passports in the UK; issuance of passports overseas; civil registration certificate services; and civil registration statutory services.

Business segments at 30 September 2014

	NOTES	Passports		Civil registration services		Total £'000
		UK £'000	Overseas £'000	Statutory £'000	Certificate £'000	
Passport income		(246,728)	(18,433)	-	-	(265,161)
Registration services income		-	-	(496)	(7,111)	(7,607)
Other income		(3,243)	(4,165)	(48)	(95)	(7,551)
Total operational income		(249,971)	(22,598)	(544)	(7,206)	(280,319)
Cost of sales		146,336	14,383	3,994	5,930	170,643
Other expenditure		18,748	1,576	1,080	759	22,163
Consular protection fees	22	42,343	2,831	-	-	45,174
Total expenditure		207,427	18,790	5,074	6,689	237,980
Operating (surplus)/deficit		(42,544)	(3,808)	4,530	(517)	(42,339)

The above segmental analysis is consistent with how financial performance is reported to the Management Board. The underlying factors in identifying reportable segments are driven by operational activities split by product ratios, agreed with HM Treasury.

HM Passport Office aims to fully recover its costs in respect of passports. A fee is charged for all passports except for those issued under the veterans' initiative (free passports for those born on or before 2 September 1929). During the six months to 30 September 2014, 15,602 (2013-14: 30,801) passports were issued free of charge under the veterans' initiative.

HM Passport Office also aims to recover its costs in respect of civil registration certificate services, which include all services relating to the issuance of copies of certificates for births, stillbirths, adoptions, civil partnerships, marriages and deaths. Civil registration statutory services are funded by the Home Office. These services involve the maintenance of registers of key life events (for example, the disclosure of death records). The net surplus generated as a result of providing these services is surrendered to the consolidated fund as a CFER.

Business segments at 31 March 2014

	NOTES	Passports		Civil registration services		Total £'000
		UK £'000	Overseas £'000	Statutory £'000	Certificate £'000	
Passport income		(382,388)	(38,907)	-	-	(421,295)
Registration services income		-	-	(921)	(14,182)	(15,103)
Other income		(4,530)	(7,298)	(145)	(283)	(12,256)
Total operational income		(386,918)	(46,205)	(1,066)	(14,465)	(448,654)
Cost of sales		225,821	36,317	7,376	11,700	281,214
Other expenditure		32,754	3,444	2,213	1,447	39,858
Impairments		135	-	19	10	164
Loss on disposal of non-current assets	5	420	-	13	23	456
Consular protection fees	22	65,704	5,242	-	-	70,946
Total expenditure		324,834	45,003	9,621	13,180	392,638
Operating (surplus)/deficit		(62,084)	(1,202)	8,555	(1,285)	(56,016)

Note 2.1 – Reconciliation between operating segments and SoCNE

	NOTES	30 Sep 2014 £'000	31 Mar 2014 £'000
Total net operating surplus reported for operating segments		(42,339)	(56,016)
Reconciling items:			
CFER income	6	-	(58)
Total net operating surplus per SoCNE		(42,339)	(56,074)

In 2013-14, CFER income related to recoveries of duplicate payments which took place in previous years, less any costs incurred in the recovery of these amounts.

Note 3 – Staff numbers and related costs

(a) Staff costs

	Permanent staff		Non-permanent staff		Total all staff	
	30 Sep 2014	31 Mar 2014	30 Sep 2014	31 Mar 2014	30 Sep 2014	31 Mar 2014
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	48,033	80,983	656	936	48,689	81,919
Social security costs	3,369	5,226	-	-	3,369	5,226
Other pension costs	6,272	13,383	-	-	6,272	13,383
Early exit costs	64	433	-	-	64	433
Total gross salary costs	57,738	100,025	656	936	58,394	100,961

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but HM Passport Office is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2012. Details can be found on the Civil Service Pension website: (<http://www.civilservicepensionscheme.org.uk/media/94676/pcspss-2012-valuation-final-report-final-22072014.pdf>).

For the six months to 30 September 2014, employers' contributions of £6.22m were payable to the PCSPS (2013-14: £13.29m) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the costs of the benefits accruing during 2014-15 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £52,300 (2013-14: £93,900) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £2,400 (2013-14: £4,100), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

No employees (2013-14: one) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to nil (2013-14: £7,500).

(b) Average number of persons employed

	30 Sep 2014			31 Mar 2014
	Permanently employed staff	Others	Total	Total
Directly employed	3,381	-	3,381	3,348
Other	-	7	7	5
Total staff numbers	3,381	7	3,388	3,353

With effect from 30 September 2014, HM Passport Office ceased to operate as an executive agency of the Home Office. The employees of HM Passport Office transferred to the Home Office as of this date.

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

Exit package cost band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
	30 Sep 2014	31 Mar 2014	30 Sep 2014	31 Mar 2014	30 Sep 2014	31 Mar 2014
<£10,000	-	1	1	-	1	1
£10,000 – £25,000	-	2	-	-	-	2
£25,000 – £50,000	-	2	-	-	-	2
£50,000 – £100,000	-	1	1	-	1	1
£100,000 – £150,000	-	-	-	1	-	1
£150,000 – £200,000	-	-	-	-	-	-
£200,000 – £250,000	-	-	-	-	-	-
£250,000 – £300,000	-	-	-	-	-	-
Total number of exit packages	-	6	2	1	2	7

	30 Sep 2014 £'000	31 Mar 2014 £'000
Total resource cost of exit packages	67	353

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972 and as amended by The Superannuation Act 2010. Exit costs are accounted for in full in the year of departure. Where the Department has agreed early exits, the additional costs are met by the Department and not by the Civil Service pension scheme. Ill health retirement costs are met by the pension scheme and are not included in the table.

Note 4 – Other administrative costs

	NOTES	30 Sep 2014 £'000	Restated 31 Mar 2014 £'000
IT and other service charges		6,004	3,916
Professional fees		3,843	4,074
Staff training, travel and subsistence		831	2,328
Accommodation, facilities management and staff services		2,757	4,535
Other costs		59	120
Media and IT		43	81
Distribution costs		567	810
Publications, stationery and printing		48	124
Non-cash costs			
Auditor's remuneration and expenses*		105	175
Depreciation of property, plant and equipment **	7	-	-
Amortisation of intangible assets **	8	-	-
Total other administrative costs		14,257	16,163

*HM Passport Office external auditors do not receive remuneration for non-statutory audit work (2013-14 £nil).

**During the reporting period a management decision was made to realign the financial reporting structure within HM Passport Office. The result of this realignment was to reclassify all depreciation and amortisation charged against HM Passport Office's assets as programme expenditure. See note 5 for further detail on the implication of changes to the depreciation and amortisation policy.

Note 5 – Programme costs

	NOTES	30 Sep 2014 £'000	Restated 31 Mar 2014 £'000
Consular protection fees		45,174	70,946
Passport outsourcing service charges		38,695	64,407
Publications, stationery and printing		2,078	20,538
Accommodation, facilities management and staff services		13,370	20,486
Distribution costs		20,212	26,087
IT and other service charges		12,168	29,305
Passport stationery		3,094	8,056
Call centre charges		11,875	9,416
Application forms		1,123	2,911
Staff training, travel and subsistence		812	2,037
Other costs		1,345	1,583
Professional fees		4,180	1,019
Media and IT		204	328
Non-cash costs			
(Profit)/loss on disposal of non-current assets		-	456
Depreciation of property, plant and equipment **	7	5,057	11,465
Amortisation of intangible assets **	8	5,622	9,544
Impairment	7,8,10	-	164
Movements in provisions*	15	320	(3,234)
Total programme costs		165,329	275,514

*The movement in provisions does not include the utilisation of early retirement costs totalling £339,000 (2012-13: £826,000). The utilisation of these costs has been reflected in note 3.

**During the reporting period, a management decision was made to realign the financial reporting structure within HM Passport Office. The result of this realignment was to reclassify all depreciation and amortisation charged against HM Passport Office's assets as programme expenditure. In previous years, depreciation and amortisation was classified as administration expenditure during the year in which the assets were brought into use, and subsequently reclassified into programme expenditure where relevant. This resulted in a disproportionate amount of depreciation and amortisation being charged to administration expenditure. Management has made this decision on the basis that the substantial majority of assets held by HM Passport Office are used in the delivery of its frontline activities, and the quantity and value of assets in relation to HM Passport Office's administrative activities is not material to the accounts.

Note 6 – Income

	30 Sep 2014 £'000	31 Mar 2014 £'000
Passport income		
UK passport income	246,728	382,388
Overseas passport income*	18,433	38,907
Total passport income	265,161	421,295
Registration services income		
Certificate services	7,111	14,182
Services provided to other government departments	496	921
Total registration services income	7,607	15,103
Other income		
Passport Validation Service	318	570
Rental income	1,462	1,598
Secure mail services fee receipts**	1,659	2,790
Overseas courier services receipts**	4,112	7,298
Total other income	7,551	12,256
Total operating income	280,319	448,654
CFER income	-	58
Total income	280,319	448,712

This represents income by type. For segmental analysis refer to note 2.

*In April 2014, the passport fee for customers applying for a UK passport from overseas was reduced from £128.00 to £83.00 for adults, from £81.50 to £53.00 for children, and from £154.00 to £91.00 for jumbo passports.

**Secure mail services and overseas courier receipts relate to monies received by HM Passport Office from passport applicants in respect of premium courier services. These fees are over and above the standard fee charged by HM Passport Office for the processing of passport applications, and are paid directly to the service provider. No economic benefit is received from these fees.

Note 6.1 – Fees and charges

30 September 2014

Objective	Income £'000	Full cost £'000	Surplus/ (deficit) £'000	Fee recovery (actual) %	Fee recovery (target) %
Passports: UK	246,728	207,427	39,301	119%	100%
Passports: Overseas	18,433	18,790	(357)	98%	100%
Registration: Certificates	7,111	6,689	422	106%	100%
Registration: Statutory	496	5,074	(4,578)	10%	0%
Total	272,768	237,980	34,788		

31 March 2014

Objective	Income £'000	Full cost £'000	Surplus/ (deficit) £'000	Fee recovery (actual) %	Fee recovery (target) %
Passports: UK	382,388	324,834	57,554	118%	100%
Passports: Overseas	38,907	45,003	(6,096)	86%	100%
Registration: Certificates	14,182	13,180	1,002	108%	100%
Registration: Statutory	921	9,621	(8,700)	10%	0%
Total	436,398	392,638	43,760		

HM Passport Office has complied with the statutory requirements set out in HM Treasury guidance from the above analysis. An analysis of HM Passport Office income in accordance with IFRS 8: *Operating Segments* is provided in note 2.

Note 7 – Property, plant and equipment

30 September 2014

	Land	Buildings	IT	Plant, Machinery and Motor Vehicles	Furniture and Fittings	Assets under con- struction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation							
At 1 April 2014	1,361	51,419	57,783	8,218	5,976	6,320	131,077
Additions	-	-	-	-	-	5	5
Disposals	-	-	-	-	-	-	-
Impairments	-	-	-	-	-	-	-
Reclassifications	-	-	179	-	-	(179)	-
Revaluations	-	-	-	-	-	-	-
At 30 September 2014	1,361	51,419	57,962	8,218	5,976	6,146	131,082
Depreciation							
At 1 April 2014	-	(30,977)	(28,169)	(3,201)	(4,545)	-	(66,892)
Charged in year	-	(1,508)	(2,899)	(493)	(157)	-	(5,057)
Disposals	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-
Revaluations	-	-	-	-	-	-	-
At 30 September 2014	-	(32,485)	(31,068)	(3,694)	(4,702)	-	(71,949)
Net book value at 30 September 2014	1,361	18,934	26,894	4,524	1,274	6,146	59,133
Net book value at 1 April 2014	1,361	20,442	29,614	5,017	1,431	6,320	64,185
Asset financing							
Owned	1,361	18,934	26,894	4,524	1,274	6,146	59,133
Net book value at 30 September 2014	1,361	18,934	26,894	4,524	1,274	6,146	59,133

A full independent valuation of land and buildings was carried out in March 2010 by DTZ chartered surveyors. In addition, a full dilapidations survey of all other HM Passport Office occupied offices was undertaken during the financial year 2010-11.

With effect from 30 September 2014, HM Passport Office ceased to operate as an executive agency of the Home Office. The assets and liabilities of HM Passport Office transferred to the Home Office at their carrying value as of this date.

31 March 2014

	Land £'000	Buildings £'000	IT £'000	Plant, Machinery and Motor Vehicles £'000	Furniture and Fittings £'000	Assets under con- struction £'000	Total £'000
Cost or valuation							
At 1 April 2013	1,295	54,569	52,988	7,609	7,804	36,905	161,170
Additions	-	33	189	-	140	1,730	2,092
Disposals	-	(9,368)	(7,597)	(43)	(2,256)	-	(19,264)
Impairments	-	-	-	-	-	(126)	(126)
Reclassifications	-	4,438	12,536	467	263	(32,189)	(14,485)
Revaluations	66	1,747	(333)	185	25	-	1,690
At 31 March 2014	1,361	51,419	57,783	8,218	5,976	6,320	131,077
Depreciation							
At 1 April 2013	-	(35,666)	(29,539)	(2,207)	(5,939)	-	(73,351)
Charged in year	-	(3,490)	(6,374)	(963)	(638)	-	(11,465)
Disposals	-	9,119	7,594	43	2,046	-	18,802
Reclassifications	-	-	-	-	-	-	-
Revaluations	-	(940)	150	(74)	(14)	-	(878)
At 31 March 2014	-	(30,977)	(28,169)	(3,201)	(4,545)	-	(66,892)
Net book value at 31 March 2014	1,361	20,442	29,614	5,017	1,431	6,320	64,185
Net book value at 1 April 2013	1,295	18,903	23,449	5,402	1,865	36,905	87,819
Asset financing							
Owned	1,361	20,442	29,614	5,017	1,431	6,320	64,185
Net book value at 31 March 2014	1,361	20,442	29,614	5,017	1,431	6,320	64,185

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

Note 8 – Intangible assets

30 September 2014

	IT £'000	Software licences £'000	Assets under construction £'000	Total £'000
Cost or valuation				
At 1 April 2014	126,096	19,902	4,684	150,682
Additions	-	-	2,207	2,207
Impairments	-	-	-	-
Reclassifications	-	-	-	-
Revaluations	-	-	-	-
Disposals	-	-	-	-
At 30 September 2014	126,096	19,902	6,891	152,889
Amortisation				
At 1 April 2014	(58,620)	(4,388)	-	(63,008)
Charged in year	(4,623)	(999)	-	(5,622)
Revaluations	-	-	-	-
Disposals	-	-	-	-
At 30 September 2014	(63,243)	(5,387)	-	(68,630)
Net book value at 30 September 2014	62,853	14,515	6,891	84,259
Net book value at 1 April 2014	67,476	15,514	4,684	87,674
Asset financing				
Owned	62,853	14,515	6,891	84,259
Net book value at 30 September 2014	62,853	14,515	6,891	84,259

Included within intangible IT are assets with carrying values of £40.6m in respect of the PASS Replacement Release (PRR), and £10.6m in respect of the New Passport Programme (NPP). The UELs associated with these programmes are scheduled to expire in 2023.

With effect from 30 September 2014, HM Passport Office ceased to operate as an executive agency of the Home Office. The assets and liabilities of HM Passport Office transferred to the Home Office at their carrying value as of this date.

31 March 2014

	IT £'000	Software licences £'000	Assets under construction £'000	Total £'000
Cost or valuation				
At 1 April 2013	83,891	6,052	41,021	130,964
Additions	678	4	8,350	9,032
Impairments	-	-	(38)	(38)
Reclassifications	44,932	14,202	(44,649)	14,485
Revaluations	(583)	(30)	-	(613)
Disposals	(2,822)	(326)	-	(3,148)
At 30 March 2014	126,096	19,902	4,684	150,682
Amortisation				
At 1 April 2013	(53,616)	(3,332)	-	(56,948)
Charged in year	(8,153)	(1,391)	-	(9,544)
Revaluations	327	9	-	336
Disposals	2,822	326	-	3,148
At 31 March 2014	(58,620)	(4,388)	-	(63,008)
Net book value at 31 March 2014	67,476	15,514	4,684	87,674
Net book value at 1 April 2013	30,275	2,720	41,021	74,016
Asset financing				
Owned	67,476	15,514	4,684	87,674
Net book value at 31 March 2014	67,476	15,514	4,684	87,674

Note 9 – Financial instruments

As the cash requirements of HM Passport Office are met through fees and funding from the Home Office, financial instruments play a more limited role in creating and managing risk than would normally apply to a non-public sector body. HM Passport Office has no powers to borrow, invest surpluses or purchase foreign currency. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risk facing HM Passport Office in undertaking its activities. The majority of financial instruments relate to contracts to buy non-financial items in line with HM Passport Office's expected purchase and usage requirements, therefore there is minimal credit, liquidity or market risk. However, the FReM requires disclosure of the objectives and policies of an entity in holding financial instruments and the role financial instruments have had during the period in creating or changing the risks the entity faces in undertaking its activities.

Liquidity risk

HM Passport Office's net revenue resource requirement is financed by Home Office funding, as is its capital expenditure. It is therefore not exposed to liquidity risks and, consequently, HM Passport Office has no need to maintain commercial borrowing facilities.

Interest rate risk

HM Passport Office has no financial assets or financial liabilities carrying variable rates of interest. HM Passport Office is not, therefore, exposed to interest rate risk.

Currency risk

HM Passport Office does not conduct any business denominated in foreign currency. HM Passport Office is not, therefore, exposed to risk as a result of currency fluctuations.

Credit risk

There are no significant concentrations of credit risk within HM Passport Office. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the reporting date.

	NOTES	30 Sep 2014 £'000	Restated 31 Mar 2014 £'000
Financial assets			
Cash	13	-	-
Trade and other receivables	12	4,146	20,704
Financial liabilities			
Trade and other payables	14	(57,433)	(69,221)
Total		(53,287)	(48,517)

The figures reported in 2013-14 included amounts relating to non-financial assets and liabilities (i.e. prepayments and deferred income). The 2013-14 figures have been restated to reflect only the financial assets and liabilities due to HM Passport Office.

There are no indications to suggest the need to impair the carrying values of HM Passport Office's financial assets and liabilities. Consequently, the fair value is equal to the carrying value.

With effect from 30 September 2014, HM Passport Office ceased to operate as an executive agency of the Home Office. The assets and liabilities of HM Passport Office transferred to the Home Office at their carrying value as of this date.

Note 10 – Impairments

HM Passport Office has incurred the following impairments during the year:

	NOTES	30 Sep 2014 £'000	31 Mar 2014 £'000
Charged to the SoCNE	5,21	-	164
Charged to revaluation reserve		-	-
Total impairments		-	164

Note 11 – Inventories and work in progress

	30 Sep 2014 £'000	31 Mar 2014 £'000
Passport and certificate inventories	1,294	1,568
Work in progress	2,043	2,824
Total inventories and work in progress	3,337	4,392

With effect from 30 September 2014, HM Passport Office ceased to operate as an executive agency of the Home Office. The assets and liabilities of HM Passport Office transferred to the Home Office at their carrying value as of this date.

Note 12 – Trade receivables and other assets

(a) Trade receivables and other assets

	30 Sep 2014 £'000	31 Mar 2014 £'000
Current		
Trade receivables	271	11,298
Deposits and advances	78	178
Prepayments and accrued income	4,412	13,837
Total trade receivables and other current assets	4,761	25,313

HM Passport Office has no trade receivables, deposits, advances or other accrued income which fall due after more than one year.

(b) Intra-government balances

	30 Sep 2014 £'000	31 Mar 2014 £'000
Current		
Balances with other central government bodies	64	114
Balances with local authorities	6	6
Balances with NHS Trusts	-	14
Balances with public corporations and trading funds	2,576	19,153
Total intra-government balances	2,646	19,287
Balances with bodies external to government	2,115	6,026
Total	4,761	25,313

With effect from 30 September 2014, HM Passport Office ceased to operate as an executive agency of the Home Office. The assets and liabilities of HM Passport Office transferred to the Home Office at their carrying value as of this date.

Note 13 – Cash and cash equivalents

	30 Sep 2014 £'000	31 Mar 2014 £'000
Balance at 1 April	-	2
Net change in cash and cash equivalent balances	-	(2)
Balance at reporting date	-	-

HM Passport Office is funded through the Home Office GBS account. For this reason, HM Passport Office GBS cash balance is taken to be £nil at any given time. At 30 September 2014, £nil balance was held by HM Passport Office's commercial partners in the form of cash in hand (2013-14: £nil).

With effect from 30 September 2014, HM Passport Office ceased to operate as an executive agency of the Home Office. The assets and liabilities of HM Passport Office transferred to the Home Office at their carrying value as of this date. Since HM Passport Office's cash requirement is funded directly through the Home Office GBS account, there was no transfer of cash at this date.

Note 14 – Trade payables and other liabilities

(a) Trade payables and other liabilities

	30 Sep 2014 £'000	31 Mar 2014 £'000
Current		
Trade payables	7,437	6,045
Accruals and deferred income	42,143	68,111
Capital accruals	18,865	20,312
Total trade payables and other current liabilities	68,445	94,468
Non-current		
Accruals	2,432	2,811
Total non-current liabilities	2,432	2,811

Non-current payables relate to the recognition of lease incentives over the life of the lease in accordance with Standing Interpretations Committee (SIC) interpretation 15: *Operating Leases – Incentives*.

(b) Intra-government balances

	30 Sep 2014 £'000	31 Mar 2014 £'000
Current		
Balances with other central government bodies	11,787	2,452
Balances with local authorities	115	552
Balances with public corporations and trading funds	245	276
Total intra-government balances	12,147	3,280
Balances with bodies external to government	56,298	91,188
Total	68,445	94,468
Non-current		
Balances with bodies external to government	2,432	2,811
Total	2,432	2,811

HM Passport Office has no intra-government balances which fall due after more than one year.

With effect from 30 September 2014, HM Passport Office ceased to operate as an executive agency of the Home Office. The assets and liabilities of HM Passport Office transferred to the Home Office at their carrying value as of this date.

Note 15 – Provisions for liabilities and charges

30 September 2014

	Dilapidation costs	Early departure costs	Other costs	Total
	£'000	£'000	£'000	£'000
Balance at 1 April 2014	4,361	2,213	150	6,724
Provided in the year	-	57	333	390
Provisions not required written back	(89)	(5)	(44)	(138)
Provisions utilised in the year	-	(339)	-	(339)
Unwinding discount	-	68	-	68
Balance at 30 September 2014	4,272	1,994	439	6,705
Analysis of expected timing of discounted cash flows				
Not later than one year	402	448	439	1,289
Later than one year and not later than five years	798	1,534	-	2,332
Later than five years	3,072	12	-	3,084
Total of flows	4,272	1,994	439	6,705

With effect from 30 September 2014, HM Passport Office ceased to operate as an executive agency of the Home Office. The assets and liabilities of HM Passport Office transferred to the Home Office at their carrying value as of this date.

Dilapidation costs

HM Passport Office makes provision to cover its obligations for reinstatement of its leased buildings to their original state before its occupation. A full dilapidations survey of HM Passport Office occupied offices was undertaken during the 2010-11 financial year by DTZ. HM Passport Office provides in full for this obligation when it becomes binding and utilises the provision as costs are incurred. Provisions that have been written back during the year have arisen as a result of lower than anticipated costs being incurred in returning leased properties to their original state.

Early departure costs

HM Passport Office meets the additional costs of benefits beyond the PCSPS in respect of employees who retire early. HM Passport Office provides in full for this obligation when it becomes binding and utilises the provision each year as costs are incurred. In previous years the provision for early retirement costs has been discounted to present value using the discount rates prescribed by HM Treasury, however, in order to align the estimation techniques for calculating HM Passport Office's early retirement provision with those of the Home Office, it has been decided to fully unwind the discount attributed to the provision.

Other costs

Other costs include employee tax liabilities in respect of 2013-14 and the accrued estimated value as at 30 September 2014, and provisions have been made for various legal claims against HM Passport Office. The legal 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.

31 March 2014

	Dilapidation costs	Early departure costs	Other costs	Total
	£'000	£'000	£'000	£'000
Balance at 1 April 2013	7,107	4,548	101	11,756
Provided in the year	344	87	115	546
Provisions not required written back	(2,789)	(685)	(58)	(3,532)
Provisions utilised in the year	(214)	(1,797)	(8)	(2,019)
Unwinding discount	(87)	60	-	(27)
Balance at 31 March 2014	4,361	2,213	150	6,724
Analysis of expected timing of discounted cash flows				
Not later than one year	490	609	150	1,249
Later than one year and not later than five years	604	1,592	-	2,196
Later than five years	3,267	12	-	3,279
Total of flows	4,361	2,213	150	6,724

Note 16 – Capital commitments

Contracted capital commitments at 30 September 2014 not otherwise included in these accounts include:

	30 Sep 2014 £'000	31 Mar 2014 £'000
Intangible assets		
Not later than 31 March 2015	2,544	2,544
Later than 31 March 2015 and not later than 31 March 2019	1,934	1,934
Later than 31 March 2019	-	-
Total commitments (intangible assets)	4,478	4,478

During 2013-14 a review of HM Passport Office's major contracts was undertaken, with the result that certain contracts met the criteria of a service concession arrangement as defined in IFRIC 12.

All commitments due as at 30 September 2014 were transferred to the Home Office.

Note 17 – Commitments under leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods:

	30 Sep 2014 £'000	31 Mar 2014 £'000
Buildings		
Not later than 31 March 2015	6,629	12,298
Later than 31 March 2015 and not later than 31 March 2019	34,887	32,028
Later than 31 March 2019	16,114	16,114
Total commitments under leases	57,630	60,440

All commitments due as at 30 September 2014 were transferred to the Home Office.

Note 18 – Commitments under PFI contracts

18.1 On and off-balance sheet (SoFP)

Computer Sciences Corporation

Under the terms of the 10 year contract signed in 2009, Computer Sciences Corporation (CSC) work with HM Passport Office in supporting and upgrading HM Passport Office's IT systems. This includes the recent upgrade of HM Passport Office's passport application and enrolment system, which incorporates new capabilities to process applications for passports, enabling customers to apply online; and the upgrade of the existing Omnibase application, which is a secure database used across government that stores historic passport records. The total cost of this contract is £404.9m, of which £92.8m relates to capital.

De La Rue

Under the Passport Design and Production (PDP) contract, HM Passport Office has outsourced an element of its passport printing to De La Rue (DLR). Under the terms of the contract, which was signed in 2009, DLR builds infrastructure on behalf of HM Passport Office and uses this infrastructure in the production of passports. DLR is also responsible for ongoing support and maintenance of the infrastructure. The total cost of this contract is £403.8m, of which £36.6m relates to capital.

Both arrangements are based upon the same contractual model and show "on" balance sheet characteristics, i.e. there is a transfer of assets to HM Passport Office and the continued operation of the assets is performed by the service providers. However, since the amounts falling due are paid immediately, there is no imputed finance lease element to these arrangements. Under the arrangements, the service providers use a range of assets deemed to be assets of HM Passport Office exclusively in the delivery of services to the public.

In addition, the arrangement with DLR also involves the use of assets which are not used exclusively in the service provided to HM Passport Office; these assets are classified in the contract as “non-exclusive assets” and are not recognised as assets of HM Passport Office. This element of the arrangement with DLR is disclosed as “off” balance sheet as the NBV of non-exclusive assets is material to HM Passport Office. Total NBV of non-exclusive asset held by DLR is £10.39m with 57.22% (£5.9m) applied to HM Passport Office, compared to NBV of exclusive asset of £20.2m resulting in 23% non-exclusive “off” balance sheet disclosure of total commitments).

Payments fall due upon the completion of a Milestone, which is defined as the later of the achievement date or the date set out in the contract as the payment event date, and when HM Passport Office management confirms that all requirements have been delivered by way of a Milestone Acceptance Certificate (MAC). Until this point the service provider has no contractual right to invoice HM Passport Office, and HM Passport Office holds no liability.

Payments against a MAC are comprised of two elements. The majority of the amount due is paid by HM Passport Office immediately, however, a small proportion of the amount due, normally 50% of the service provider’s profit margin, is retained by HM Passport Office until it is demonstrable that the services provided have reached stable operation. These retentions are accounted for as current liabilities. Management does not consider this liability to represent a “PFI liability” as they do not represent a regular and frequent pattern of payment for the ongoing provision of services.

Payments to the service providers include both a capital and a non-capital element. Payments in respect of the development of infrastructure used by the service provider exclusively for the provision of services are treated by HM Passport Office as capital payments. Payments in respect of the service provided will include an element in respect of the cost of capital attributable to the infrastructure that is not used exclusively in the provision of these services (“non-exclusive assets”).

All assets used in the provision of the services are owned by the service provider during the contract, however, at the end of the contract the ownership of those assets exclusively used for the provision of the services is transferred to HM Passport Office. On the basis that the ownership of the assets transfers to HM Passport Office at the end of the arrangement, the assets are used exclusively for services offered to the public by HM Passport Office, substantially all of the cost of developing and maintaining the assets is borne by HM Passport, and the risks and rewards generated by the assets are held by HM Passport Office. HM Passport recognises all expenditure in respect of the assets in the SoFP as capital.

As at the reporting date, HM Passport Office holds no liabilities in respect of these arrangements other than those in respect of the MAC retentions, as described above. The nature of the arrangements is such that the use of the non-exclusive assets represents an implicit and necessary aspect of delivering the overall service. The associated costs of running and maintaining these assets are therefore deemed to represent an element of the overall charges recorded in the SoCNE.

Obligations under on-balance sheet (SoFP) PFI contracts

The total obligations under on-balance sheet (SoFP) PFI contracts are outlined below. Obligations falling due not later than one year include capital expenditure of £4.4m with £0.3m later than one year. The 13-14 comparators have been restated to reflect the change in how the contracts have been recognised in accordance with IFRIC 12.

	30 Sep 2014 £'000	Restated 31 Mar 2014 £'000
Not later than 31 March 2015	31,508	65,404
Later than 31 March 2015 and not later than 31 March 2019	217,672	221,906
Later than 31 March 2019	9,209	9,201
Total commitments under on-balance sheet (SoFP) PFI contracts	258,389	296,511

18.2 Charge to the SoCNE and future commitments

The total amount charged to the SoCNE in respect of off-balance sheet (SoFP) PFI transactions and the service element of on-balance sheet (SoFP) transactions was £52.4m (2013-14: £68.2m). Future payments to which HM Passport Office is committed are as follows:

	30 Sep 2014 £'000	31 Mar 2014 £'000
Not later than 31 March 2015	31,673	69,451
Later than 31 March 2015 and not later than 31 March 2019	256,148	255,964
Later than 31 March 2019	11,960	11,950
Total commitments under on and off-balance sheet (SoFP) PFI contracts to be charged to the SoCNE	299,781	337,365

Included in the table above are commitments of £4.6m falling due before 31 March 2015, £38.7m falling due later than 31 March 2015 and not later than 31 March 2019, and £2.8m falling due later than 31 March 2019 in respect of off-balance sheet (SoFP) transactions. All commitments due as at 30 September 2014 were transferred to the Home Office.

Note 19 – Other financial commitments

	30 Sep 2014 £'000	31 Mar 2014 £'000
Not later than 31 March 2015	4,369	9,021
Later than 31 March 2015 and not later than 31 March 2019	18,437	18,437
Later than 31 March 2019	-	-
Total other financial commitments	22,806	27,458

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

All commitments due as at 30 September 2014 were transferred to the Home Office.

Note 20 – Contingent liabilities

As at 30 September 2014 HM Passport Office had the following contingent liabilities:

- Three legal cases relating to unfair dismissal following economic redundancy due to the closure of an overseas regional passport processing centre on the repatriation of the processing and issuing of passports of overseas applicants. As at the reporting date, the tribunal cases which would determine the outcome had not been heard, therefore it is not possible to determine the likelihood of a liability materialising.
- 14 legal cases relating to challenges by customers on HM Passport Office's refusal to issue passports. It is not possible to quantify the potential liability to HM Passport Office in respect of these cases.

If these contingent liabilities materialise, the Home Office will meet any financial obligation.

Note 21 – Losses and special payments

Cases over £300,000

	30 Sep 2014 £'000	31 Mar 2014 £'000
Non-cash losses		
Disposal and impairment of non-current assets		
During the year HM Passport Office conducted a detailed review of its non-current assets. As a result of this review: <ul style="list-style-type: none"> • 431 assets with a carrying value of £243,000 were identified as no longer in use and disposed of; • 52 assets with a carrying value of £219,000 fell below HM Passport Office's capitalisation threshold, as outlined in notes 1.4 and 1.5, and have been impaired; and • £126,000 of transactions held in HM Passport Office's asset clearing accounts were identified as being erroneous and consequently removed. 	-	588
Total losses and special payments over £300,000	-	588

Cases under £300,000

	No. cases	30 Sep 2014 £'000	No. cases	Restated 31 Mar 2014 £'000
Compensation to public and staff	1,267	126	2,000	126
Waiving of contractual entitlements	326	30	418	32
Cost of issuing free Emergency Travel Documents	482	46	-	-
Total losses and special payments under £300,000	2,075	202	2,418	158
Total losses and special payments		202		746

Note 22 – Related party transactions

HM Passport Office is an executive agency of the Home Office and is regarded as a related party. Material transactions between the Home Office and HM Passport Office which occurred during the period ended 30 September 2014 are as follows:

Amounts paid to the Home Office as at September 2014 included £39.7m (2013-14: £70.9m) from passport sales, which was remitted to HM Treasury for consular services provided by FCO.

Accommodation costs – HM Passport Office has entered into an arrangement with the Home Office. HM Passport Office has sublet the 5th and 6th floors of Globe House (its London Customer Services Centre) to the Home Office who, in turn, have sublet part of 2 Marsham Street, the Home Office headquarters building, to HM Passport Office.

For the six-month period to 30 September 2014, the Home Office funding arrangements to HM Passport Office covered capital expenditure and £4.5m towards the non-fee funded civil registration statutory services. HM Passport Office generates its own cash resources for all other expenditure.

FCO is regarded as a related party. The UK passport fee includes an element to recover the cost incurred by FCO for providing consular protection abroad; this element of the passport fee is remitted through the Home Office to HM Treasury. HM Passport Office collects £15.62 (2013-14: £15.62) per adult standard passport, £4.28 (2013-14: £4.28) per child passport and £23.18 (2013-14: £23.18) per jumbo passport (for passports issued both in the UK and overseas). The total collected during the period ended 30 September 2014 for consular protection abroad was £45.2m (2013-14: £70.9m). The total paid over to Home Office during the period was £39.7m (2013-14: £70.9m).

Payroll services are provided by the Ministry of Justice.

Other government departments and agencies with which HM Passport Office transacted in the normal course of business during the year include the HM Revenue and Customs, Driver and Vehicle Licensing Agency, Department for Work and Pensions, Office for National Statistics, Department for Education, Department for Transport, Treasury Solicitors, Department for Business, Innovation and Skills, Ministry of Defence, Department for International Development, Health & Social Care Information Centre and Environment Agency.



Notes to the accounts

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

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

Note 23 – Events after the reporting period

On 1 October, the assets and liabilities of HM Passport Office transferred to the Home Office and the operations of HM Passport Office were brought under the control of the Department. With effect from this date, the Permanent Secretary of the Home Office became the Accounting Officer.

The Permanent Secretary of Home Office duly authorised the issue of these financial statements on the same date that the Comptroller and Auditor General certified the accounts.



Sustainability Report (unaudited)

Introduction

HM Passport Office contributed to the review of the Home Office sustainability commitments as part of the wider Home Office Business Plan. The departmental sustainability priorities are to:

- assess and manage environmental, social and economic impacts and opportunities in policy development and decision making;
- procure from small businesses with the aspiration that 25% of contracts should be awarded to small and medium-sized enterprises (SMEs); and
- meet the Greening Government Commitments (GGC), supplying quarterly information and contributing to an annual report on progress.

HM Passport Office has made contributions to environmental sustainability through the effective management of its estate and procurement. Service charges that contributed to wider social and economic sustainability through provision of facilities for video interviews and promoting internet applications were implemented, in order to make the services offered more accessible to its customers. This actively contributed to the Government's 'digital by default' agenda by researching and developing platforms that will further reduce the need for movement of people or paperwork in accessing passport and civil registration services.

This report reflects progress made by HM Passport Office during the six-month period to 30 September 2014. To provide a more accurate comparison to prior years, data obtained for the six-month period to 30 September 2014 has been extrapolated over the year using 2013-14 data. The data used in this report relates to locations where HM Passport Office has paid for at least one utility or service directly. Buildings occupied by HM Passport Office for which generic service charges are paid to a landlord or operator are not included. Where required, prior year figures have been restated to reflect data improvements. A robust control environment is in place to ensure accuracy and completeness of this data.

Governance arrangements

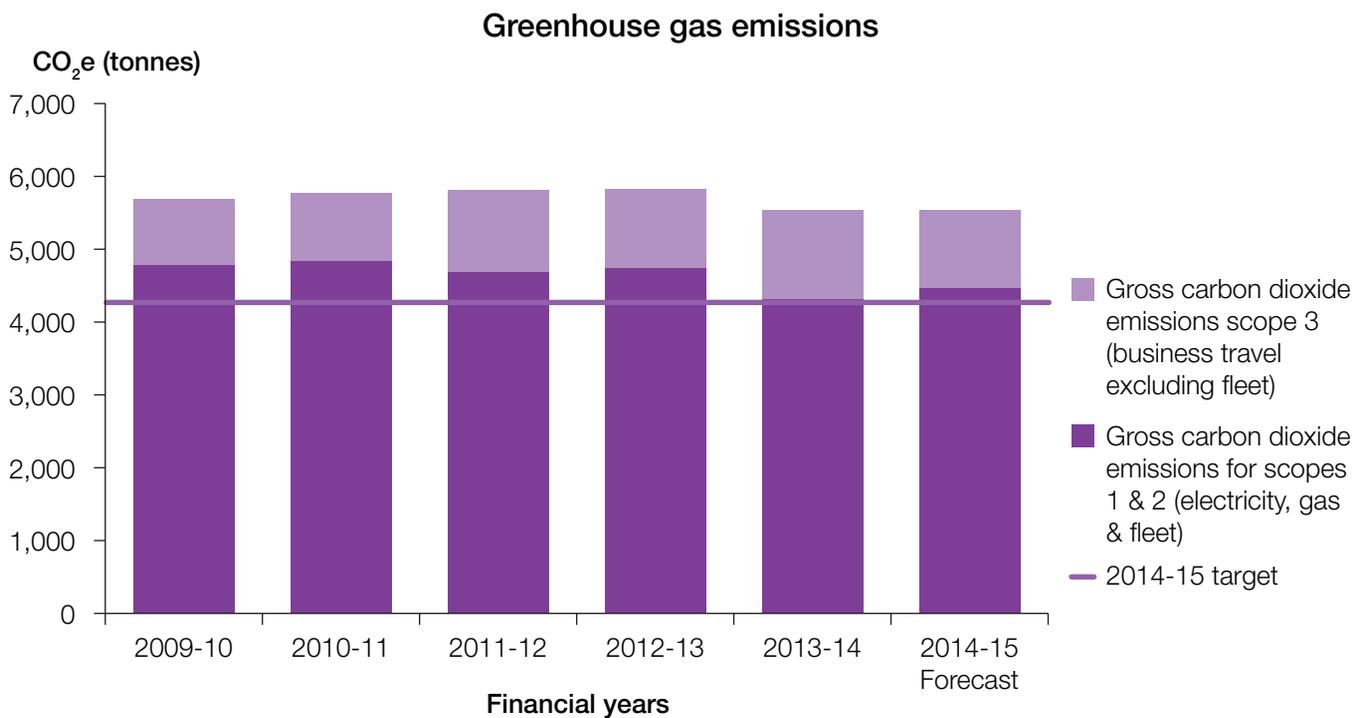
The Home Office Business Plan contains sustainability objectives. Performance is scrutinised by a Home Affairs sub-committee. The Permanent Secretary oversees progress against the sustainability objectives, with day-to-day direction provided by the Sustainable Development Team (SDT), which is accountable to the Department's Sustainable Development Champion (SDC), the Director of Finance and Estates. A Sustainability Implementation Group reviews the Sustainable Development Plan to reflect progress and changing focus. The SDC reports to the Chief Operating Officer, who is a member of the Home Office Supervisory Board and the Executive Management Board. More information on sustainability activity can be found at <https://www.gov.uk/government/>.

Performance

Performance over the last five and a half years is recorded below. This data will be consolidated into the Home Office Annual Report and Accounts for the year ending 31 March 2015.

All greenhouse gas emissions

The GGC requires the Home Office to reduce its domestic greenhouse gas emissions for buildings and travel by 25% by 2015, measured against a 2009-10 baseline. HM Passport Office has contributed to the overall performance of the Home Office. HM Passport Office's reported energy use does not reflect the significant estate reductions in the last few years, because the energy used at these vacated sites was provided as part of the landlord service charge.

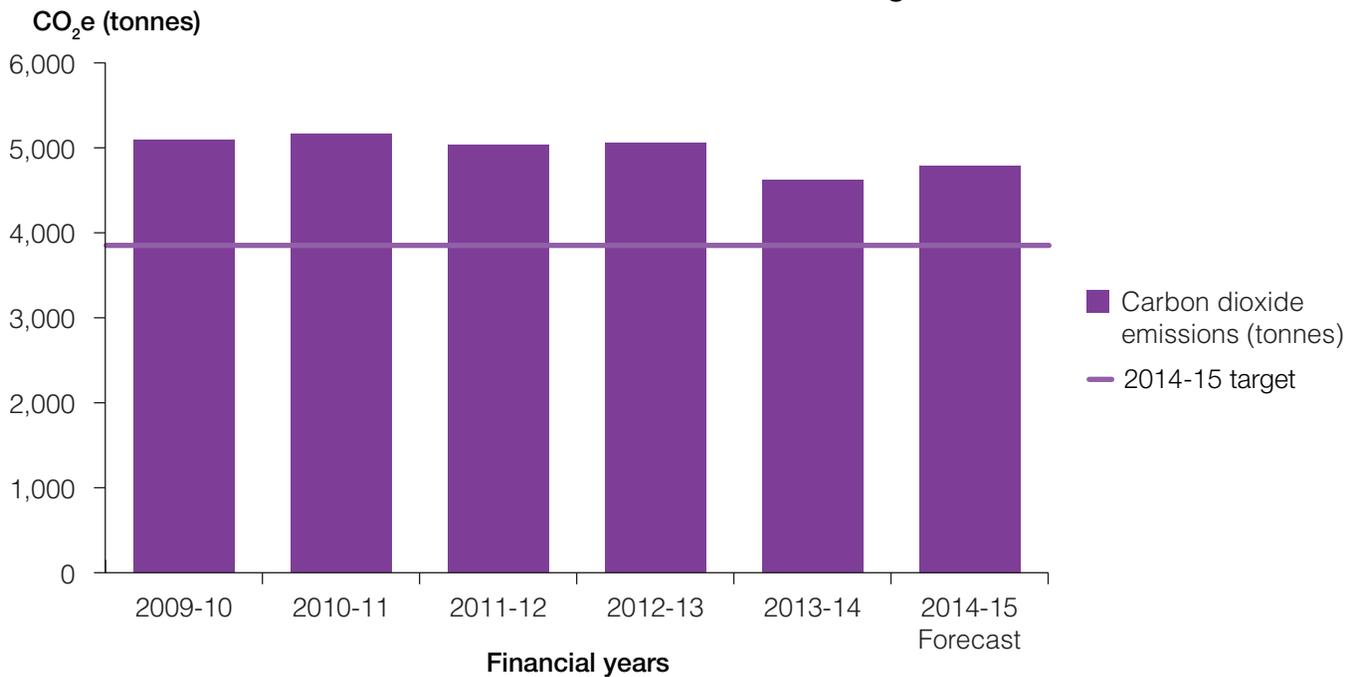


Energy use in buildings

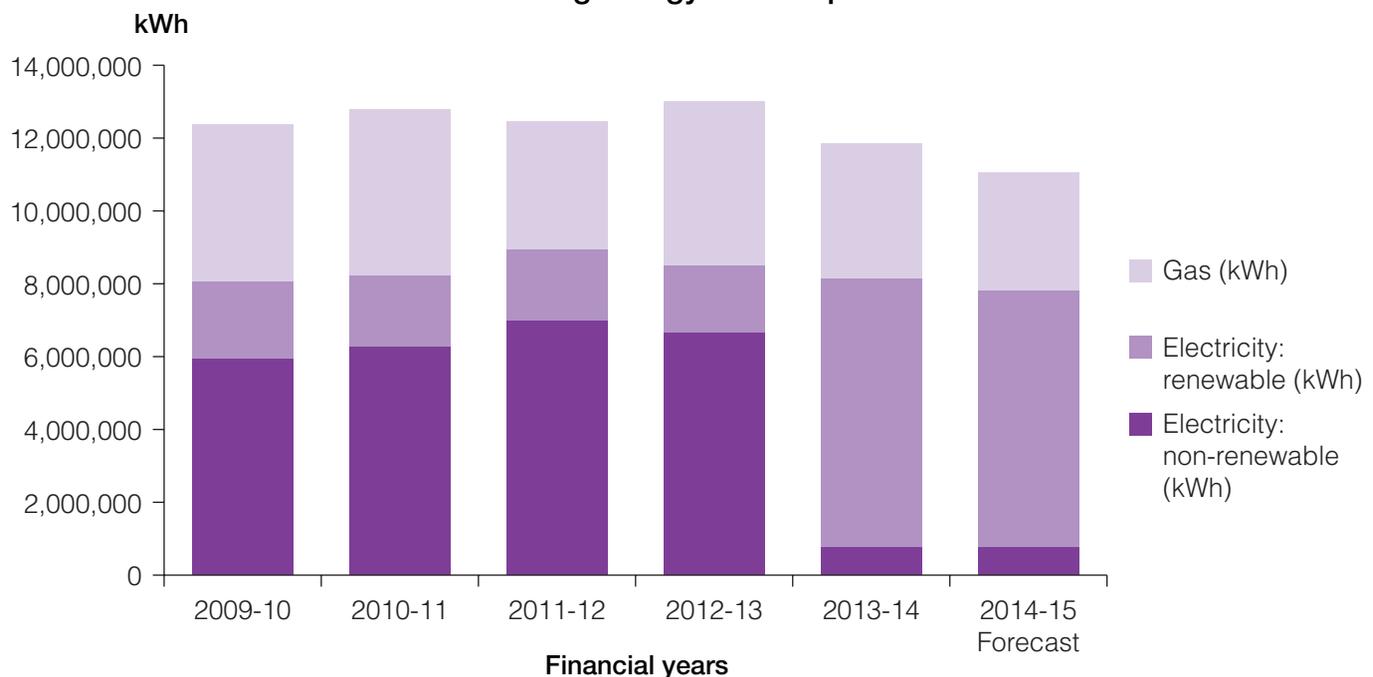
HM Passport Office promotes good energy practice by displaying Energy Performance Certificates and Display Energy Certificates where applicable. HM Passport Office also participates in the CRC Energy Efficiency Scheme as part of the Home Office group.

Annual carbon dioxide emissions across the buildings for which HM Passport Office is directly responsible for energy use decreased by 9% to 4,620 tonnes as at 31 March 2014, and for the six-month period to 30 September 2014 emissions totalled 2,262 tonnes.

Carbon emissions from buildings

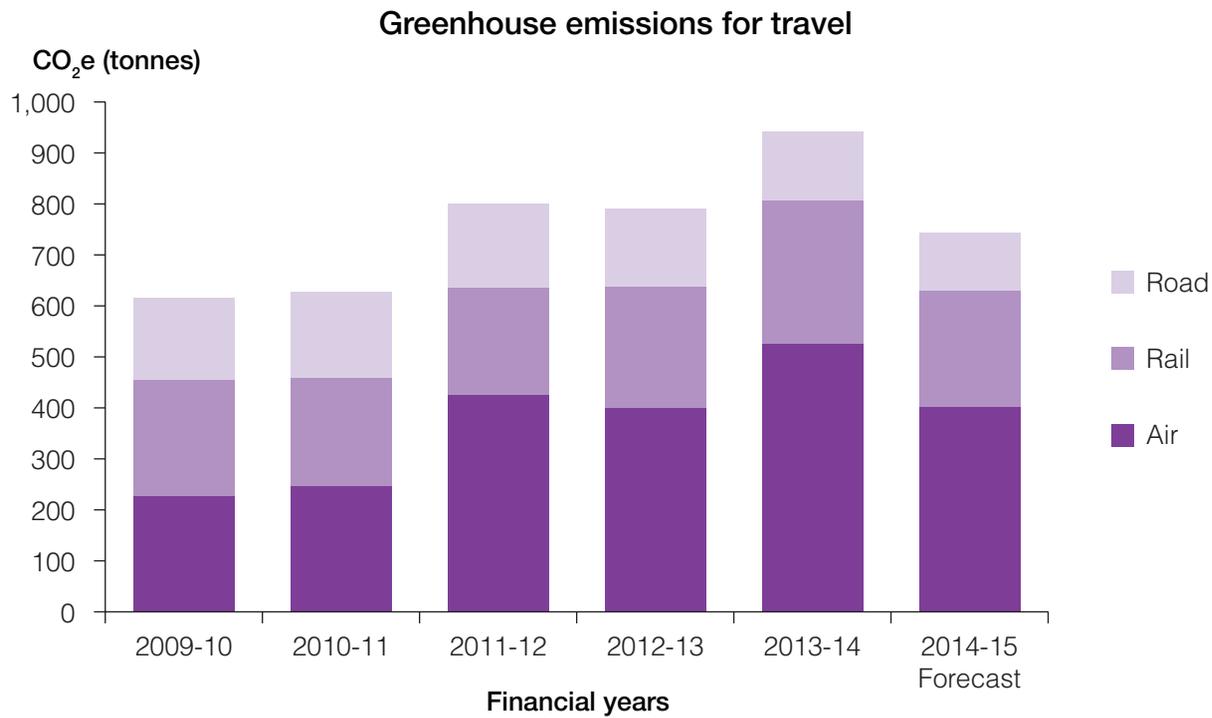


Building energy consumption

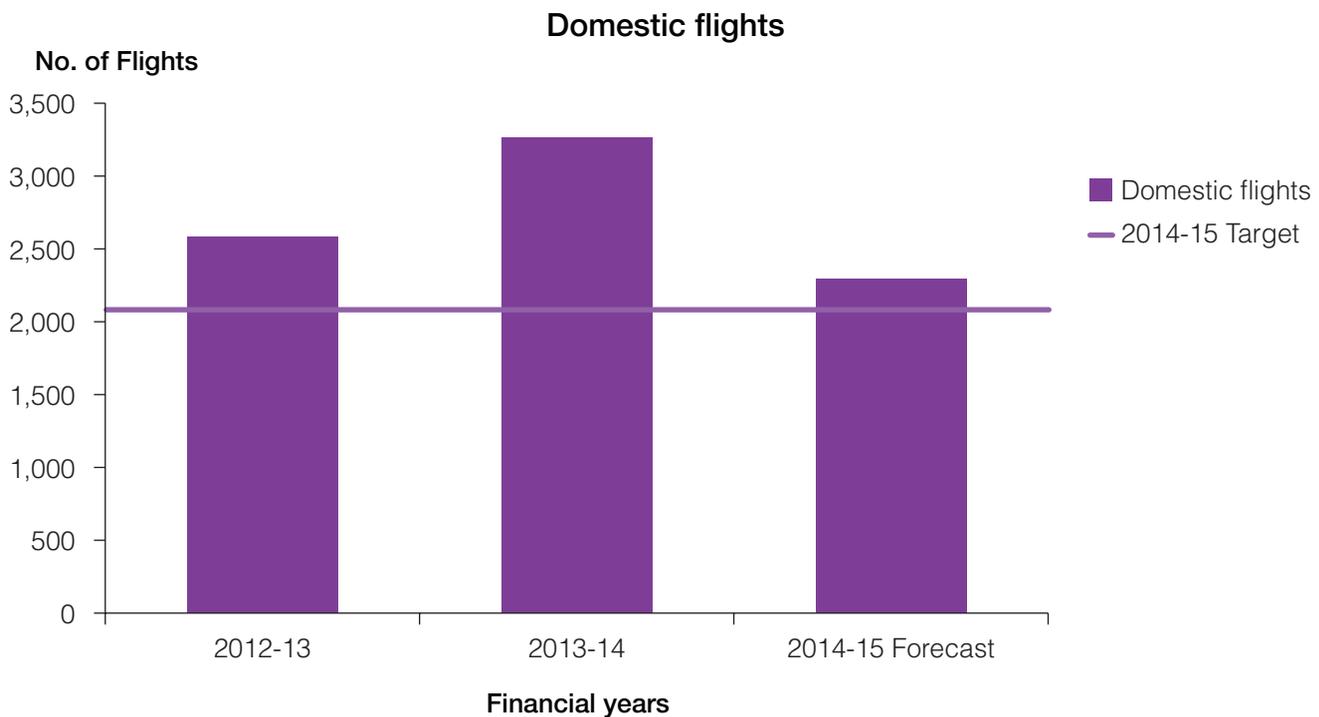


Greenhouse gas emissions from travel

Travel has risen in previous years in line with business activity. However, measures have been introduced to restrict unnecessary travel and facilitate alternative ways of working, such as Information and Communication Technology (ICT) solutions for communications and meetings, resulting in a significant decrease in greenhouse gas emissions forecast for 2014-15, which is largely attributable to a decrease in domestic flights. The graph below shows HM Passport Office's performance for emissions from domestic and international travel.

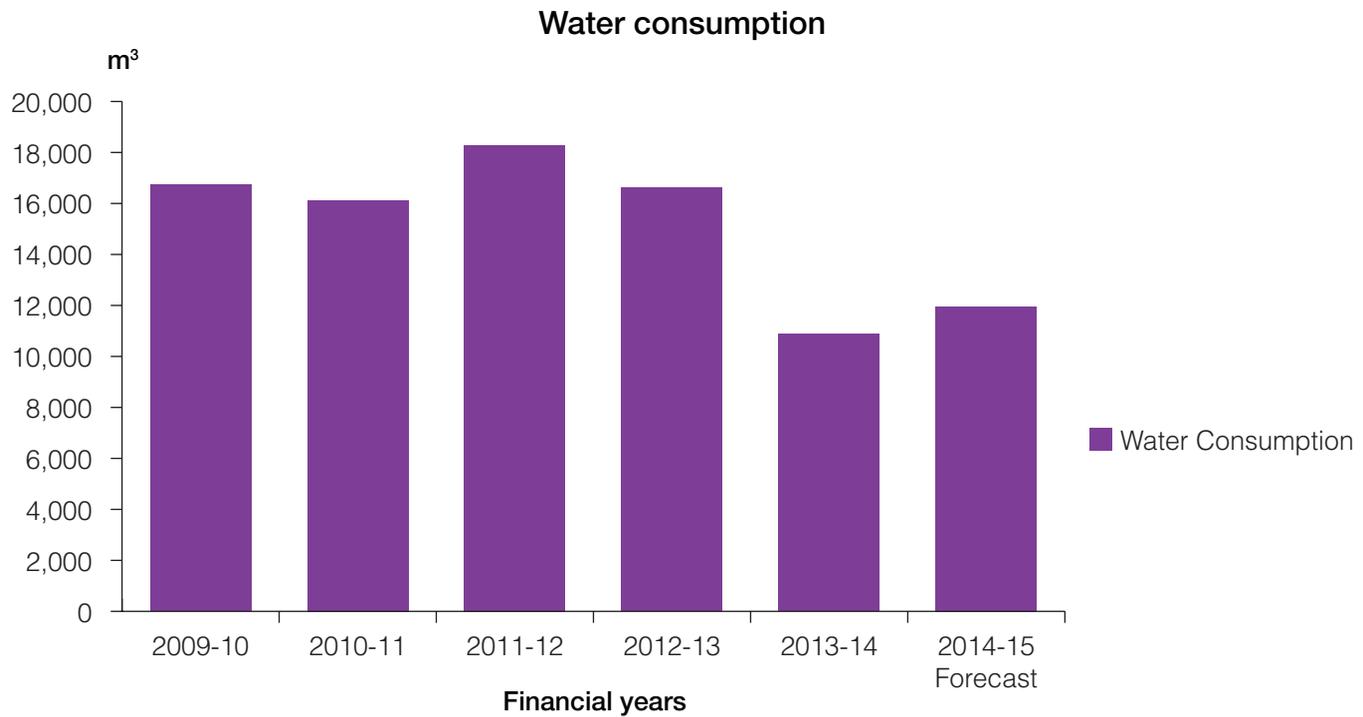


GGC requires the Home Office to reduce the number of domestic flights by 20% against a 2009-10 baseline. Information is only available from 2012-13. The graph below shows HM Passport Office's performance against the 2012-13 baseline.



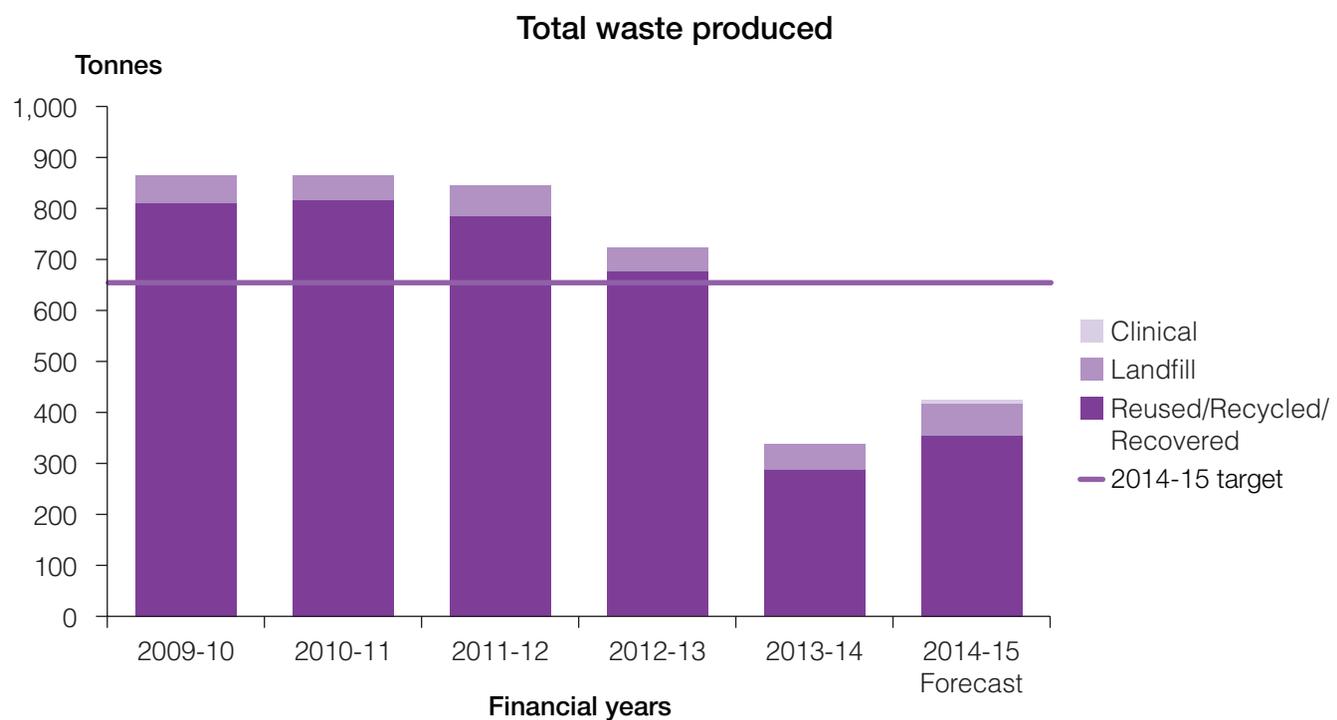
Water use

The GGC require the Home Office to reduce water consumption against a 2009-10 baseline. Water is used in washrooms, showers, for drinking, and in heating and ventilation systems. The graph below shows the performance of HM Passport Office.



Office waste

The GGC requires the Home Office to reduce the amount of waste generated by 25 per cent from a 2009-10 baseline. The graph below shows the performance of HM Passport Office.



Reported waste streams include shredded and non-shredded paper and other dry mixed recyclables, food waste and packaging. Through our supply chain HM Passport Office ensures that redundant ICT equipment is re-used or responsibly recycled. Data on ICT waste is not included in the above graph.

Sustainable procurement

HM Passport Office works with suppliers to promote sustainable procurement as part of a Corporate and Social Responsibility (CSR) programme. This includes supporting SMEs and the diversity agenda. We promote the mandated Government Buying Standards¹³ and consider CSR factors in investment decisions where they are relevant to the contract. CSR factors are incorporated throughout the procurement cycle from pre-qualification through to contract award to ensure value for money is optimised.

The information gathered from the supply chain through a self-assessment questionnaire (CAESER) is reported to us on an annual basis to enable us to obtain an overview of our suppliers' performance in relation to CSR. This is used by HM Passport Office to inform contract management discussions and business decisions, manage supply chain risks, and drive improved outcomes.

Biodiversity and adaptation

Biodiversity is not material for the HM Passport Office estate because we own no open spaces. We are mindful of a changing climate as part of our resilience measures.

¹³ <http://sd.defra.gov.uk/advice/public/buying>

Supporting data

Table 1a: Greenhouse gas emissions

	2009-10	2010-11	2011-12	2012-13	2013-14	6 months to 30 September 2014	2014-15 Forecast
tCO ₂ e							
Gross emissions for scopes 1 (gas and fleet) and 2 (electricity)	4,775	4,840	4,686	4,746	4,311	2,097	4,794
Gross emissions scope 3 (business travel excluding fleet)	914	932	1,129	1,082	1,227	286	722
Greenhouse gas emissions	5,689	5,772	5,815	5,828	5,538	2,383	5,516

Table 1b: Greenhouse gas emissions – expenditure

	2009-10	2010-11	2011-12	2012-13	2013-14	6 months to 30 September 2014	2014-15 Forecast
£'000							
Energy expenditure (see also Table 2)	981	1,030	1,128	1,121	1,112	515	1,098
CRC allowances	Information not available	Information not available	69	68	60	45	90
Expenditure on official business travel	Information not available	Information not available	1,335	1,629	2,249	840	2,068
Total expenditure	Information not available	Information not available	2,532	2,818	3,421	1,400	3,256

Table 2: Energy use in buildings

	2009-10	2010-11	2011-12	2012-13	2013-14	6 months to 30 September 2014	2014-15 Forecast
tCO ₂ e							
From buildings	5,089	5,161	5,030	5,054	4,620	2,096	4,793
Electricity: non-renewable	5,931,519	6,253,788	6,973,283	6,647,425	769,848	368,213	750,750
Electricity: renewable	2,135,556	1,981,136	1,959,704	1,856,105	7,373,905	3,583,466	7,044,835
Gas	4,296,242	4,549,142	3,524,339	4,496,359	3,703,110	774,385	3,261,680
Total	12,363,317	12,784,066	12,457,326	12,999,889	11,846,863	4,726,064	11,057,265
Total energy expenditure £'000	981	1,030	1,128	1,121	1,112	515	1,098

Table 3a: Carbon emissions from travel – non-financial indicators

	2009-10	2010-11	2011-12	2012-13	2013-14	6 months to 30 September 2014	2014-15 Forecast
tCO ₂ e							
Air	226	247	425	399	526	147	386
Rail	229	211	211	239	281	88	225
Road	145	153	149	136	111	52	112
Total (including fleet)	600	611	785	774	918	287	723
Number of domestic flights	Information not available	Information not available	Information not available	2,583	3,061	884	2,300

3b: Carbon emissions from travel – financial indicators

£'000		2009-10	2010-11	2011-12	2012-13	2013-14	6 months to 30 September 2014	2014-15 Forecast
	Air	Information not available	Information not available	Information not available	384	509	199	451
	Rail	Information not available	Information not available	Information not available	1,065	1,561	569	1,457
	Road	Information not available	Information not available	Information not available	181	179	66	160
	Total	Information not available	Information not available	Information not available	1,630	2,249	834	2,068

Table 4: Water consumption

	2009-10	2010-11	2011-12	2012-13	2013-14	6 months	2014-15 Forecast
Water consumption (m ³)	16,724	16,129	18,295	16,616	10,886	6,559	11,950
Invoiced water supply costs (£'000)	30	38	34	34	24	15	31

Table 5: Office waste

	2009-10	2010-11	2011-12	2012-13	2013-14	6 months to 30 September 2014	2014-15 Forecast
Tonnes							
Reused/Recycled/Recovered	810	816	785	676	286	227	354
Landfill	55	49	59	48	52	37	62
Clinical	n/a	n/a	n/a	n/a	n/a	7	9
Total	865	865	844	724	338	271	425
£'000							
Reused/Recycled/Recovered	122	121	117	101	42	33	52
Landfill	5	4	5	4	4	3	5
Clinical	n/a	n/a	n/a	n/a	n/a	1	1
Total disposal cost	127	125	122	105	46	37	57

Table 6: Paper usage (A4 equivalent)

Metric	2009-10	2010-11	2011-12	2012-13	2013-14	6 months April to September 2014	2014-15 Forecast
Amount (reams '000)	n/a	n/a	n/a	24	18	16	26
Expenditure (£'000)	n/a	n/a	n/a	56	43	41	67



Glossary

ARAC	Audit Risk and Assurance Committee
BHD	Bullying, Harassment and Discrimination
CAESER	Self assessment questionnaire
C&AG	Comptroller and Auditor General
CETV	Cash Equivalent Transfer Value
CFER	Consolidated Fund Extra Receipt
COO	Chief Operating Officer
CSC	Computer Sciences Corporation
CSL	Civil Service Learning
CSR	Corporate and Social Responsibility
DLR	De La Rue
ETD	Emergency Travel Documents
FCO	Foreign and Commonwealth Office
FRem	Financial Reporting Manual
FTE	Full time equivalent
GBS	Government Banking Service
GGC	Greening Government Commitments
GRO	General Register Office
HMT	Her Majesty's Treasury
IAS	International Accounting Standard
IAU	Internal Audit Unit
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IT	Information Technology
KPIs	Key Performance Indicators
MAC	Milestone Acceptance Certificate
NAO	National Audit Office
NGC	Nomination and Government Committee
NPP	New Passport Programme
One3M	Information Management Maturity Model
ONS	Office of National Statistics
PCSPS	Principal Civil Service Pension Scheme Service
PDP	Passport Design and Production
PFI	Private Finance Initiative
PRR	PASS Replacement Release
PVS	Passport Validation Service
SCS	Senior Civil Service
SIC	Standing Interpretations Committee
SoCNE	Statement of Comprehensive Net Expenditure
SoFP	Statement of Financial Position
SoCTE	Statement of Changes in Taxpayers' Equity
UEL	Useful Economic Life
VAT	Value Added Tax



Contact

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Communications and Corporate Development Directorate
Her Majesty's Passport Office
2 Marsham Street
London SW1P 4DF

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