

**The Insolvency Service
Annual Report and Accounts
2005-06**

Session 2005-06

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CORRECTION

Page 64

Amend date of signing by Sir John Bourn to read "18 July 2006"

**September 2006
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Annual Report and Accounts 2005-06



The Insolvency Service is an Executive Agency of the
Department of Trade and Industry

Accounts presented to Parliament pursuant to Section 7 of the
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thereunder, together with the Report of the Comptroller and
Auditor General thereon.

Annual Report & Accounts 2005-06

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CUSTOMER SERVICE EXCELLENCE



INVESTOR IN PEOPLE

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Chief Executive's Introduction and Overview

This annual report contains a great deal of detail regarding The Insolvency Service's performance during 2005-06 not least in the way it provides a segmented account of our different 'businesses'. However 'highlights' of the year were:

- New bankruptcies: up 42% to 53,386;
- New compulsory liquidations: up 25% to 5,605;
- 44,180 cases closed: up 52.5%;
- Enforcement
 - output: up by 33%;
 - unit cost: down by 11.7%;
 - confidence in the enforcement regime: up by 13.8%;
- 9,605 new income payments agreements/orders against bankrupts: up 42%;
- 91,516 redundancy claims paid: up by 16.7%;
- User Satisfaction Index 83%: down by 3%;
- Average staff in post 2,180: up by 9.7%; and
- At least 100% of case administration cost covered by income.

The 'big news' story of 2005-06, certainly as far as the media were concerned, was the very significant increase in the number of people going into formal insolvency proceedings. Personal bankruptcies increased by 42% to 53,386 and the number of individual voluntary arrangements (IVAs), dealt with by private sector practitioners, more than doubled to just less than 25,000. The increase in personal insolvency appears to be part of a wider picture in which consumer spending financed by borrowing is leaving an increasing number of people (albeit still a small minority of the economically active population) unable to manage their financial affairs. These increases look set to continue and it is therefore entirely possible that individual insolvencies (bankruptcies and IVAs) will exceed 100,000 in the current year.

It is with great pride therefore that I can report the exemplary response by official receivers and their staff to that substantially increased number of cases. Official receivers have introduced streamlined approaches to more straightforward cases and, above a de minimis level, allocate resources on the basis of assessed risk. We have undertaken substantial new recruitment of permanent and temporary staff and have in place a major training effort to equip new colleagues with the skills they need to do the job. Although overall customer satisfaction levels fell by 3% compared to the previous year, for the vast majority of those with whom we interact satisfaction levels remain above 90%. During the year we recognised that, because of our expanding customer base, the User Satisfaction Index (USI) calculation gave some customers a 'louder voice' than others which in turn depressed the USI score. We will address this in 2006-07 by giving all customers an equal say.

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The Service's new financial regime is proving to be highly effective in providing the additional resources needed to deal with the substantial increase in new cases. The income and expenditure account contains the whole of The Service's costs but only includes income from fee generating 'businesses' and the income from HM Revenue & Customs, which covers the costs of administering the Redundancy Payments Scheme. The provision of funds by the Department of Trade & Industry to cover the costs of The Service's enforcement and policy work is treated as financing and not as income in our accounts.

It has been possible to declare a substantial surplus in relation to the cost of dealing with the administration of cases received before 1 April 2004 and as a result The Service has reduced future fee charges against those cases. It was also possible to reduce the fee for registering IVAs. It was not considered prudent to proceed with planned reductions in case administration fees for cases received after 1 April 2006 as overall budgets (and therefore overhead allocations) for 2006-07 had not been settled by the end of March 2006.

Another headline-making event was the failure of the MG Rover Group. On 8 April 2005 the principal MG Rover companies were placed into administration, a procedure that was streamlined by the Enterprise Act 2002. However The Insolvency Service was not merely an observer of how the Act's reforms were working in this case, it had a very considerable role to play in ensuring that the employees of the company, who were made redundant a week or so after the beginning of the administration, received the payments they were entitled to - and as quickly as possible. The details of how the Redundancy Payments Directorate dealt with nearly 6,000 MG Rover claimants are set out later in this report but this is an excellent opportunity to highlight the Directorate's performance which was in the best tradition of inventive, customer focussed public service. The rapid payment of entitlements did a great deal to help former MG Rover employees at a very difficult time and many were generous in their praise of the service they received.



As from 1 April 2006, as part of the implementation of the Hampton Review, Companies Investigation Branch moved from the DTI to become part of The Insolvency Service and it will have an ongoing role in liaising with the inspectors appointed under the provisions of Section 432 of the Companies Act 1985, to enquire into the circumstances of the MG Rover Group's failure.



Because of the pressure of new cases, official receivers were not able to fully devote the planned level of resources to their further investigation work, particularly into those cases of financial misconduct for which the Enterprise Act 2002 introduced a new regime of Bankruptcy Restrictions Orders (BROs). Because only conduct that occurred after 1 April 2004 can be considered, just 22 such orders were made in 2004-05. In 2005-06 we had expected to obtain orders or

undertakings in 1,000 cases but in the event achieved 843. The Service's staff in its investigation and enforcement directorates were able to maintain their investigation levels during the year and although the number of directors disqualified fell slightly, again due to the pressure on official receivers' resources, the number of reports of possible criminal conduct rose by 5.5% and exceeded 1,200 in the year. Overall this meant that The Service's enforcement outputs (BROs, disqualifications and criminal reports) rose by 33% whilst the unit cost of them fell by 11.7%.

The level of The Service's investigation and enforcement activity needs to provide sufficient cases to be taken forward to represent a credible deterrent to financial misconduct on the part of individuals or company directors. Of particular concern were media reports that bankruptcy may have become an 'easy option' now that the discharge period has been reduced to one year, or that people can now behave irresponsibly and simply 'dump' their debts and walk away. The Enterprise Act 2002 may have reduced the automatic discharge period from three years to one but it did not otherwise diminish the impact of bankruptcy on the debtor. Substantially all a debtor's property remains available to the creditors, not least any equity in a home, and where there is any surplus income a contribution will now be required for a full three years and a further 9,605 bankrupts agreed or were ordered to make such contributions in 2005-06. The introduction of BROs was an essential balancing element of the new, more liberal regime and demonstrates to the creditor community that financial misconduct will be identified and reported by official receivers and can be sanctioned by the courts.

Insolvency law and practice are highly complex areas and we have continued to work hard to make the processes of policy development and policy evaluation as rigorous and inclusive as possible. We are fortunate in having a great deal of support from insolvency professionals, the legal profession, the academic world, and from the voluntary and commercial sectors. We value those relationships very highly and pride ourselves on being available to listen to any and every point of view. Over the coming year we will be completing evaluations of the Enterprise Act 2002 as well as taking forward a major project to consolidate the very substantial body of insolvency rules and regulations. Once again that work will rely to a great extent on the expertise and experience of a wide range of contributors, and I have no doubt that the value of such an inclusive approach will be demonstrated in legislation which is very much 'fit for purpose' in the real and everyday world in which it will be

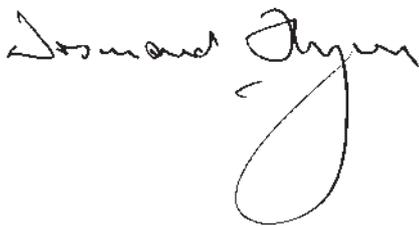
Chapter 1

deployed. The Insolvency Service, as an 'insolvency professional' itself is in an excellent position to ensure that there is no gap between policy and delivery in the insolvency area.

Front-line colleagues need a great deal of support in order to do their jobs and our Corporate Services have worked harder than ever to provide it whilst at the same time keeping down the overhead costs of those front-line businesses, e.g. the percentage of staff in Corporate Resources equates to 9.6% of our workforce, down from 10.9% in 2004-05. We have a great deal of professional expertise in areas such as Human Resources, IT, Finance and Estate Accounting and accommodation and the service they deliver is outstanding.

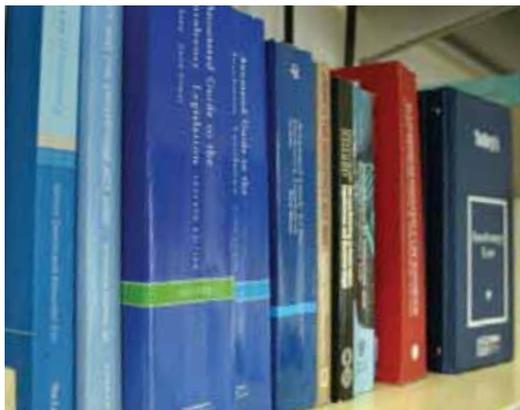
During the year we have also commenced work on a fundamental change programme to ensure that The Service can deal efficiently and effectively with the challenges that it will meet in the next five years and ensure that The Service can continue to deliver a modern, first-class service to our customers. Projects include the replacement of all our major case management systems, a major upgrade of our IT infrastructure and a fresh look at how we, as an organisation recruit, develop and motivate our people.

Finally I am delighted to report that following a successful Charter Mark surveillance visit, The Service has now continuously held the Charter Mark for 8 years. In addition, at the end of 2005 we achieved our second re-accreditation to the Investors in People Standard.

A handwritten signature in black ink, appearing to read 'Desmond Flynn', with a large, stylized flourish at the end.

Desmond Flynn
Inspector General and Agency Chief Executive
10 July 2006

Management Commentary



2.1 Agency Review and Governance

The Insolvency Service operates under a statutory framework - mainly the Insolvency Acts 1986 and 2000, the Company Directors Disqualifications Act 1986 and the Employment Rights Act 1996. Our staff are based at our network of 38 Official Receiver offices throughout England and Wales; our Enforcement Directorate and

Headquarters in London, Birmingham, Manchester and Edinburgh; our Banking Section in Birmingham; and our Redundancy Payments offices in Edinburgh, Birmingham and Watford. As of 1 April 2006 Companies Investigation Branch of the Department of Trade and Industry (DTI) transferred to The Service and is based in offices in London and Manchester.

We:

- administer and investigate the affairs of bankrupts, of companies and partnerships wound up by the court, and establish why they became insolvent;
- act as trustee/liquidator where no private sector insolvency practitioner is appointed;
- act as nominee and supervisor in fast-track individual voluntary arrangements;
- deal with the disqualification of unfit directors in all corporate failures;
- deal with bankruptcy restrictions orders and undertakings;
- authorise and regulate the insolvency profession;
- assess and pay statutory entitlement to redundancy payments when an employer cannot or will not pay its employees;
- provide banking and investment services for bankruptcy and liquidation estate funds;
- advise DTI ministers and other government departments and agencies on insolvency, redundancy and related issues; and
- provide information to the public on insolvency and redundancy matters via our website, leaflets, Insolvency Enquiry Line and Redundancy Payments Helpline.

From 1 April 2006 we also:

- conduct confidential fact-finding investigations into companies where it is in the public interest to do so. Companies Investigation Branch carries out these enquiries.

DTI ministers determine the policy framework in which we operate. They are not usually involved in day-to-day management or in the administration of individual cases, which falls under the courts' jurisdiction. Ministers also set and review our targets, which are announced in Parliament at the beginning of each financial year. The Inspector General and Agency Chief Executive reports to DTI ministers on the execution of policy, our progress towards and against targets, and our plans and proposals for future developments.

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Steering Board

The Steering Board has no executive functions. Its role is to advise the Secretary of State, through the responsible Director General, on the strategies to be adopted by The Service as set out in its corporate plans, the targets to be set for quality of service and financial performance (and monitoring and advising on performance against these) and the resources needed to meet those targets.

Members of the Agency Steering Board

Graham Oates, chairman: was managing partner with KPMG Consulting from 1989 to 2003 and is currently managing partner with Circle Partners. He has over 20 years' experience in systems integration, business transformation and management consultancy.

Stephen Gale is a partner at Herbert Smith. He is a solicitor and licensed insolvency practitioner and has extensive experience of all aspects of insolvency and corporate recovery practice in the UK and Asia. He is a past president of R3 (the UK restructuring, bankruptcy and turnaround professional body) and lectures widely on corporate recovery matters. He has recently been appointed an honorary senior lecturer at University College London's department of law.

Elizabeth McMeikan previously worked for Tesco plc for 11 years as stores board HR director, commercial director and international business development director in France. Before joining Tesco in 1989, she worked for Colgate-Palmolive in marketing and sales. She is now a Civil Service Commissioner and a non-executive director of JD Wetherspoon and Direct Wines Ltd.

Rosalind Wright CB was Director of the Serious Fraud Office until April 2003. Before that she was General Counsel and an Executive Director in the Securities and Futures Authority. She is the chairman of the Fraud Advisory Panel and vice-chairman of the Jewish Association for Business Ethics. She is a member of the Bar Association for Commerce, Finance and Industry and a bencher of Middle Temple, where she chairs the Scholarships and Prizes Committee. Rosalind is also a member of the DTI Legal Services Board.

Stephen Adamson specialised in restructuring and insolvency work from 1966 and was a partner in Ernst and Young until retirement in 2002. He is a past president of the Insolvency Practitioners Association and INSOL International (the International Federation of National Insolvency and Recovery Practitioners). He was made a CBE in 1999 for services to the insolvency profession.

Nicholas Ward is a chartered accountant. After a full-time management career, mainly in retailing and distribution, he has spent the last 14 years as chairman or non-executive director of several organisations in business and in the public and voluntary sectors. Much of his recent work has been with companies in financial difficulty and he is a fellow and former director of the Society of Turnaround Professionals.

Desmond Flynn, Inspector General and Agency Chief Executive.

Les Cramp, Insolvency Service Deputy Inspector General, (Official Receivers' Operations).

Graham Horne, Insolvency Service Deputy Inspector General (Headquarters Operations).

Dr David Evans, acting Director General, Services Group, DTI.

Peter Mason, Director, finance, policy and support, DTI.

Audit Committee

The Audit Committee is a sub-committee of the Steering Board and has no executive functions. It is chaired by an independent member of the Steering Board and the Chief Executive has the right to attend. The Committee agrees the scope and priorities for annual and long-term audit work, advises the Chief Executive on risk management, internal control, the annual financial statements and any other areas requested by The Service's Steering Board or the Chief Executive.

Auditors

The Insolvency Service annual accounts have been audited by the Comptroller and Auditor General (C&AG). The notional cost of the audit work for 2005-06 was £32,000. The cost is in respect of the audit services relating to the statutory audit. There were no other services provided or assurance work undertaken by the C&AG during the year.

As far as the Chief Executive as Accounting Officer is aware, there is no relevant audit information of which the National Audit Office is unaware and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Agency's auditors are aware of that information.

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Directing Board

The Inspector General and Agency Chief Executive is the Agency Accounting Officer and is responsible for the day-to-day running of The Service. He is assisted in this by the Directing Board comprising senior managers from The Service who also provide him with advice and support on policy and strategic issues.

2.2 Case Administration

The efficient and effective administration of cases is one of the principal objectives of The Insolvency Service and everyone in an official receiver's office contributes directly towards its achievement.

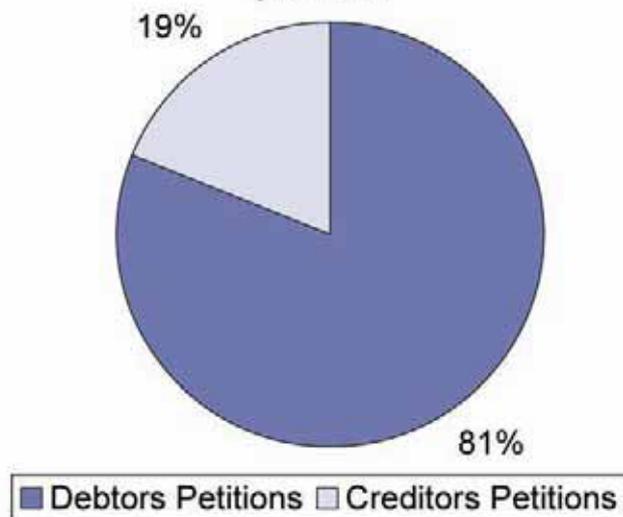
During the year official receivers dealt with 58,991 (53,386 bankruptcies and 5,605 companies), an overall increase of 40.3% against the 42,039 new cases received during 2004-05. The rise in bankruptcies was 42% and the rise in company cases was 25%. Interim receiver/provisional liquidator appointments of official receivers totalled 34 compared to 39 in 2004-05.

Income payment orders/agreements obtained against bankrupts in 2005-06 totalled 9,605 an increase of 42% on the 6,741 gained in 2004-05.

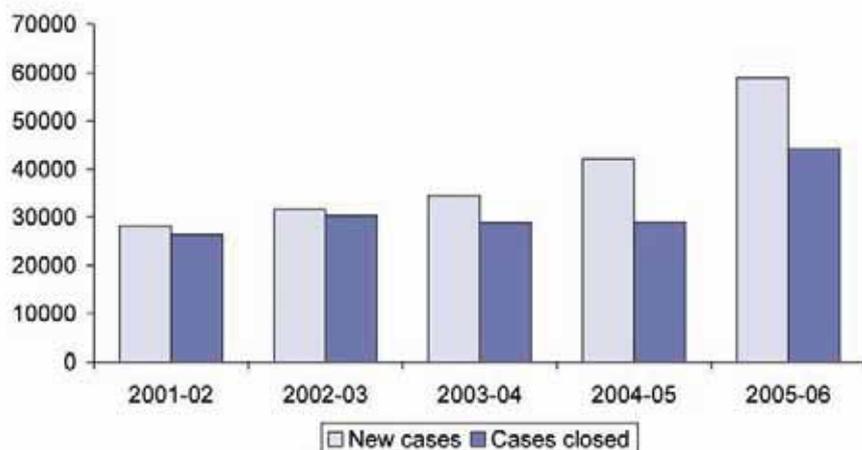
Official receivers have completed 44,180 cases during 2005-06, an increase of over 50% on the 28,972 case completions achieved in the same period of 2004-05.



Split between debtors and creditors bankruptcy petitions



New cases and cases closed 2001-06



	2001-02	2002-03	2003-04	2004-05	2005-06
Outturn	28,150	31,585	34,490	42,039	58,991
Reduce the bankruptcy administration fee to £1,600	n/a	n/a	n/a	2 year target	***
Reduce the company administration fee to £1,920	n/a	n/a	n/a	2 year target	***
Complete case administrations	26,395	30,328	28,907	28,972	44,180
Uncompleted administrations	17,925	19,052	24,889	37,758	53,191
Maintain the level of open insolvency cases at <12 months input	n/a	n/a	n/a	90%	n/a
Number of cases where income payment order/agreement obtained by official receiver	2,396	2,219	2,961	6,741	9,605

***It was not considered prudent to proceed with planned reductions in case administration fees for cases after 1 April 2006 as overall budgets (and therefore overhead allocations) for 2006-07 had not been settled by the end of March 2006.

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Case administration income and costs

Prior to 1 April 2004 The Insolvency Service was funded on a gross regime with funding provided by the DTI. Fees raised by The Service were paid over to the DTI. Additionally, there was no direct relationship between fees charged and the cost of the function they related to. This resulted in fees raised for one function being used to cross subsidise another.

Since 1 April 2004 fees have been set to recover costs. For case administration we have set a single case administration fee (£1,625) to reflect the average cost of administering a bankruptcy case and another case administration fee (£1,950) for compulsory company liquidation cases. These fees are recovered in part from the deposit paid by the debtor or creditor when presenting a petition for bankruptcy or company liquidation. Since 1 April 2004 the deposit levels have been:

	Petition costs
Debtor's bankruptcy petition	£310
Creditor's bankruptcy petition	£370
Creditor's company petition	£620

The balance of the case administration fee is recovered from the assets realised in a particular case. However, more than 50% of cases have little or no assets. A second fee, the Secretary of State fee is therefore also applied to those cases that have assets over £2,000. The fee is charged at 17% although it is capped at £100,000 in any one case.

The case administration fee is charged to the insolvency case on the making of the insolvency order but in line with current accounting standards it is only recognised in The Service's accounts when it has been earned. The Service has developed a case profile to calculate how far cases have been



completed and therefore the amount of the fee that has been earned each month. In practice the deposit will cover time spent on cases and disbursements incurred in the first to second month but there will then be a delay until assets are recovered. The Secretary of State fee is only treated as earned when it is charged.



The cost of completion to date of pre-1 April 2004 cases has been lower than forecast and fee recovery from such cases has been higher than expected. This has resulted in a surplus of £16.7m on pre-1 April 2004 cases in 2005-06. In 2005-06 The Service's costs increased by 26.6% over 2004-05 compared to a 40% increase in cases. The following table shows the number of insolvency cases and financial results for the last 5 years although due to the changes made on 1 April 2004 the results for 2004-05 and 2005-06 are not directly comparable with those in earlier years:

	2001-02	2002-03	2003-04	2004-05	2005-06
Compulsory Insolvency Cases	28,150	31,585	34,490	42,039	58,991
	£'000	£'000	£'000	£'000	£'000
Case administration fee income	15,861	17,610	18,491	59,288	97,332
Case administration costs	36,305	45,115	50,102	59,250	75,174

Future developments

Compulsory insolvency cases are forecast to rise further in 2006-07 particularly debtor petition bankruptcy cases. The Service's plans are based on 71,650 cases. Fee income will rise in line with case numbers and the case cost profile and fee recovery levels will continue to be monitored to ensure that fees are set at a level to recover costs. It is expected that during 2006-07, with the exception of a few complex cases, all pre-1 April 2004 cases will be completed. In view of the unexpected high recovery of pre-1 April 2004 Secretary of State fee in 2004-05 and 2005-06 this fee has now been reduced from 1 April 2006.

Beyond 2006-07 The Service expects compulsory insolvency cases to increase further. It has therefore put in place a programme of changes that will enable The Service to manage increased case numbers and deliver efficiency savings. Included in this programme is the development of a new case administration system based on workflow technology.

2.3 Enforcement & Investigation

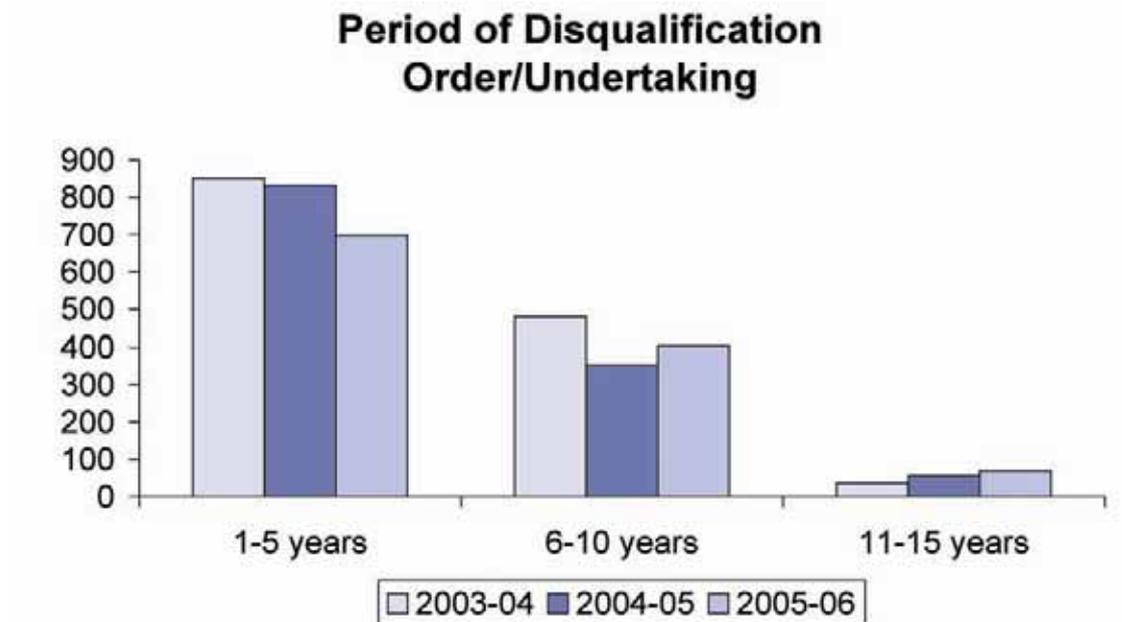
Our enforcement regime aims to ensure that dishonest or irresponsible people are identified and dealt with in a timely manner. We rigorously pursue directors and bankrupts where there is evidence of financial misconduct or criminality.

During 2005-06 we sought to establish the level of confidence amongst investors, businesses and other stakeholders in our enforcement regime. A second annual survey was conducted by GfK NOP Social and Political with 300 interviews being conducted resulting in a 64.8% level of confidence being established against a published target of 55% and compared with a level of 51% in 2004-05. This increase in confidence levels can be attributed to improvements we have made in publicising the enforcement work we have undertaken and the results we have achieved during the year. We will be looking to build on this during 2006-07 by improving the information available on our website about our enforcement activity and we have set a new published target of 60%.

Disqualifications

Against a backdrop of decreasing corporate insolvencies, disqualification orders/undertakings obtained against directors in 2005-06 totalled 1,173 compared to 1,240 in 2004-05. Of the 1,173 disqualifications 906 (77%) were achieved by way of an undertaking made by directors compared to 950 (77%) in 2004-05.



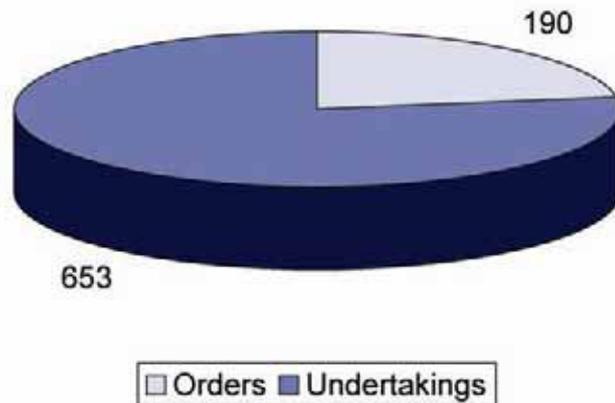


Bankruptcy Restrictions

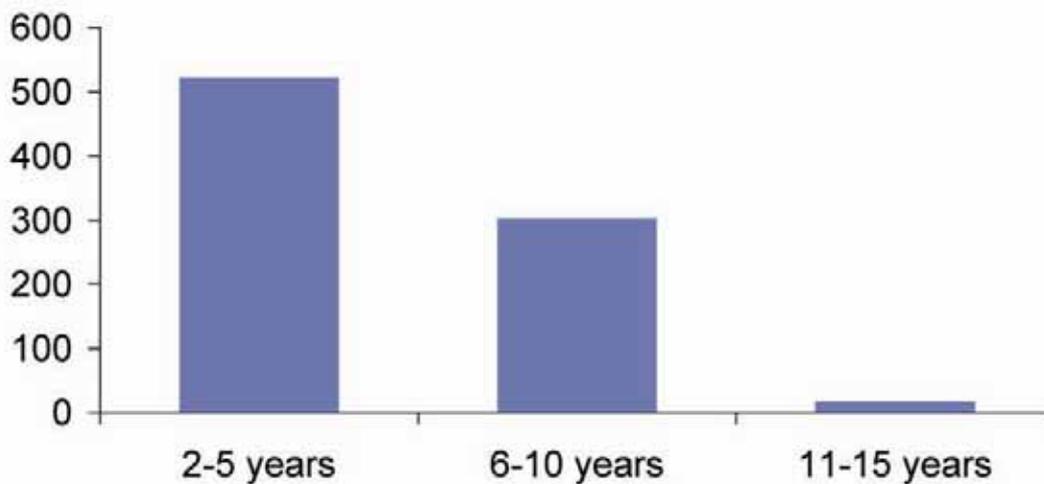
Bankruptcy restrictions orders/undertakings were introduced on 1 April 2004. In circumstances where the official receiver considers that the conduct of a bankrupt has been dishonest, reckless or blameworthy in some other way, an application can be made to the court for a restriction order to be made for a period of between 2-15 years. The Service was successful in securing 843 bankruptcy restrictions with 653 (77.5%) being obtained by way of an undertaking, where the debtor can accept the official receiver's allegations of misconduct and agree to a bankruptcy restrictions undertaking for an appropriate period.

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Number of Bankruptcy Restrictions Orders and Undertakings obtained against debtors in 2005-06



Period of Bankruptcy Restrictions Orders/Undertakings secured 2005-06



BRO/BRU Allegations Breakdown

Allegations	Number
Accounting records	34
Preferences/Transactions at undervalue	166
Failure to supply goods or services	17
Trading at a time when insolvent	13
Incurring debt without reasonable prospect of payment	386
Failure to account for loss	72
Gambling/rash and hazardous speculation/unreasonable extravagance	198
Neglect of business affairs contributing to the bankruptcy	14
Fraud and prosecutable matters	29
Non co-operation	6
Other	65
Total	1000



Case Study

In September 2004, a debtor had debts of £35,920 and was considering bankruptcy. He subsequently resigned from his job as a police officer, believing that he could not continue in such a role if he was bankrupt. Between 20 September and 30 November 2004 the debtor ran up additional debts of £21,529 at a time when he knew, or ought to have known that, he had no reasonable prospect of meeting the repayments as he had failed to find alternative employment. He failed to provide a satisfactory account to the official receiver of how he had spent £21,760 withdrawn as cash. He also failed to explain to the official receiver what had happened to a motorcycle and a personalised number plate. He claimed to have sold them but was unable to verify the sale prices or explain what became of the proceeds. The debtor also made a payment to his parents of £3,000 in September 2004 in preference to his other creditors and when he knew he was insolvent. The bankrupt gave a Bankruptcy Restrictions Undertaking for a period of 8 years.

Prosecutions

Our Enforcement Directorate considers reports received from official receivers concerning possible criminal offences committed by insolvent individuals (bankrupts) and directors of companies in compulsory liquidation. In 2005-06 1,295 reports were submitted to the prosecutions branch of the DTI compared with 1,227 in 2004-05.

As a result of reports submitted to the DTI legal team, 174 defendants were sentenced having been convicted of offences following prosecutions brought by the Prosecutions Branch of the DTI. The convictions were for a range of offences relating to corporate and individual insolvencies.

Of those convicted:

- 33 defendants received custodial sentences, ranging from one month to two and a half years;
- 76 defendants were sentenced to Community Punishment Orders, ranging from 40 hours to 240 hours;
- 5 were sentenced to Rehabilitation Orders, ranging from 12 months to 2 years;
- 26 defendants were fined. The fines imposed ranged from £160 to £5,001;
- 8 Confiscation orders were made totalling £451,851.32;
- 15 Compensation Orders were made in 10 cases totalling £261,578*;

Chapter 2

- 83 Disqualification Orders were made ranging from 12 months to 12 years; and
- 106 defendants were ordered to pay total prosecution costs of £208,030.71.

* Note - some of these amounts of compensation are to be paid out of some of the confiscation orders made: to be specific, £213,844.21 worth of confiscation is to be paid as compensation.

Case Study

A bankrupt who preyed on ailing companies and defrauded creditors on a massive scale is now serving 4 years in prison following a series of investigations. He has also been disqualified from being a company director for the maximum 15 Years. The bankrupt who had a total of 94 companies wound up by The Service, persuaded directors to take him on as an insolvency expert and so called 'white knight' in 'credit resistance' strategies. In some instances he set up a shell company and generated false invoices to make that shell company the main creditor of the ailing business. The firm would then go into liquidation, with most of the assets transferring to the shell company- now the main creditor. But instead of transferring the assets back to the company owners as promised, the bankrupt charged extortionate fees to claim back the hidden money.

Hotline

The Service operates a 24/7 Hotline, which allows members of the public to provide our Criminal Allegations Team with information about individuals who may be managing limited companies whilst disqualified, or committing any other offence in relation to an insolvency.

In 2005-06 the Hotline received 301 calls of which 135 resulted in reports alleging possible offences being submitted to the prosecuting authority compared with 98 in 2004-05.



	2001-02	2002-03	2003-04	2004-05	2005-06
Reduce the cost of enforcement activity by 4%	n/a	n/a	n/a	15%	n/a
Reduce the unit cost of enforcement activity by 25%	n/a	n/a	n/a	n/a	11.7%
Reduce average time (months) from a company's insolvency to conclusion of disqualification proceedings	27.5	24.3	22.4	25	27*
Percentage of disqualification cases concluded					
Within 30 months	72%	84%	80.8%	80.50%	79.13%
Within 24 months	33%	58%	54.4%	50%	47.64%
Increase the level of public confidence in The Service's Enforcement regime to 55%	n/a	n/a	n/a	51%	64.75%
Number of reports submitted where there is evidence of criminal behaviour	1,174	1,097	946	1,227	1,295
Take proceedings for disqualifications of unfit directors					
Orders/Undertakings obtained	1,761	1,594	1,367	1,240	1,173**
Secure bankruptcy restrictions orders/Undertakings against unfit debtors	n/a	n/a	n/a	22	843
Increase enforcement activity outputs by 41%	n/a	n/a	n/a	2 year target	33%*

Enforcement Output

* Because of the pressure of new cases, official receivers were not able to fully devote the planned level of resources to their further investigation work therefore enforcement activity outputs were below the expected levels. As a direct result we were unable to reduce the unit cost of enforcement activity by the planned levels.

** Includes disqualifications under Section 2 of the Company Directors Disqualification Act 1986.

Enforcement and Investigation Funding and Costs

Prior to 1 April 2004 the external costs (including short-term appointees (STAs)) were funded through a DTI programme budget i.e. from the public purse. However, the internal costs of staff, accommodation and general administrative costs were funded from a gross administration budget from the DTI. However, as a result of the fees raised from insolvency cases being paid to the DTI and interest on insolvency case assets being paid to the Treasury this activity was cross-subsidised from money that would have otherwise been available for creditors. Following the introduction of the new financial regime introduced from 1 April 2004, all investigation and enforcement activity is funded through a DTI programme budget. Funding is therefore agreed as part of the Spending Review process conducted across government. The Service receives an indicative budget allocation covering three years. Budget adjustments are subject to other funding pressures in the

Chapter 2

DTI and the changing resource requirements of The Service.

The following table shows the financial results and outputs for investigation and enforcement activity. Results for 2004-05 and 2005-06 cannot, however, be directly compared with earlier years due to the changes implemented on 1 April 2004:

	2001-02	2002-03	2003-04	2004-05	2005-06
Disqualifications, Bankruptcy Restrictions (since 1 April 2004) and statements of facts	2,935	2,691	2,313	2,489	3,311
	£000	£000	£000	£000	£000
DTI Funding	33,389	34,327	31,732	26,984	31,879
Cost recovery from Disqualified Directors*	5,438	3,883	2,902	2,330	1,862
Investigation & Enforcement Costs**	38,827	38,210	34,634	29,314	33,741

* Cost recoveries from Disqualified Directors have been reducing since the introduction of a disqualification undertakings procedure introduced in April 2001. An undertaking avoids the need for court proceedings and therefore eliminates the prospect of an order for costs against the director or The Service.

** Investigation and Enforcement costs prior to 1 April 2004 included the costs of DTI prosecution solicitors. These costs are now included in DTI's accounts (2001-02 £5,772k; 2002-03 £5,279k and 2003-04 £5,355k)

Future Developments

On current known allocated resources we expect to have broadly similar enforcement outputs in 2006-07 as last year, although we expect the number of bankruptcy restrictions to significantly exceed the 2005-06 levels.



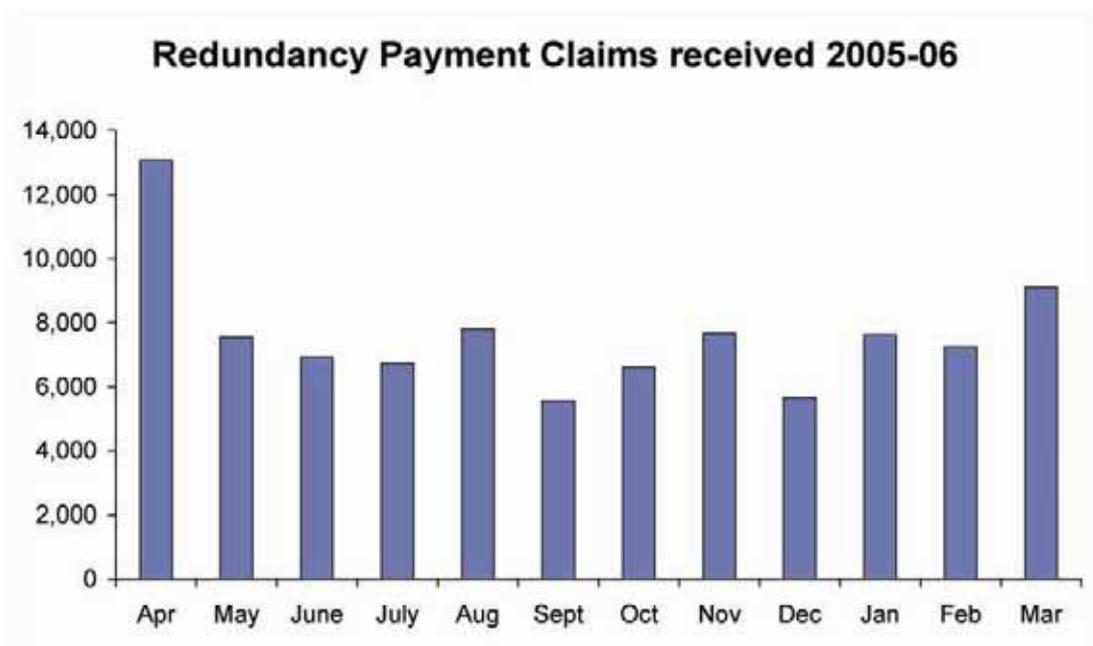


2.4 Redundancy Payments

We aim for accurate, efficient and speedy payment of claims made by people whose employers have become insolvent. In 2005-06 our redundancy payments offices dealt with 91,516 new claims for redundancy payments entitlements. This represents an increase of 16.7% on the 78,397 claims received during 2004-05. 92.5% of these claims were paid within 6 weeks against a target of 92%, this being the same outturn as 2004-05. In addition 78.6% were paid within 3 weeks against a newly introduced target of 70%.

The insolvency of MG Rover resulted in by far the largest number of claims ever received by the redundancy payment directorate from staff of one employer at one time. A total of almost 6,000 former employees made claims through Birmingham's two redundancy payment offices, which paid out over £55m in redundancy payments, holiday pay, notice pay and protective awards.

The process was structured for maximum efficiency. Former MG Rover employees visited a drop-in centre at Longbridge. Because the administrator was on the spot, claims could be cleared and taken back to the redundancy payment office in batches. Around 1,000 claims a day were processed, and the majority of first payments - made up of redundancy and holiday pay - were made with astonishing speed. The average time taken was 3.2 days, a long way ahead of the Directorate's target of 70% in three weeks and 92% in six weeks.



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	2001-02	2002-03	2003-04	2004-05	2005-06
Number of Claims for Redundancy Payment entitlements	n/a	98,995	90,269	78,397	91,516
Increase manpower productivity of processing redundancy payment claims by 11%	n/a	n/a	n/a	13%	n/a
Reduce unit cost of redundancy payments by 2.5%	n/a	n/a	n/a	n/a	1.89%
Action 92% of redundancy payment claims within 6 weeks	n/a	n/a	89%	92.5%	92.57%
Action 70% of redundancy payment claims within 3 weeks	n/a	n/a	n/a	n/a	78.58%

Redundancy Payments Funding and costs

The costs for the administration of the Redundancy Payments Scheme are met from the National Insurance Fund. An annual Service Level Agreement is in place between The Service and HM Revenue and Customs (HMRC) under which funding is agreed. The Service is able to retain any surplus funding but must cover any deficit. Unless additional funding can be secured from HMRC deficits not covered by surpluses must be met by DTI. Payments made to employees under the Redundancy Payments Scheme are also met by the National Insurance Fund but are included in the DTI's accounts.



The following table shows the financial results and volumes for Redundancy Payments. The Redundancy Payments Service as then named did not merge with The Insolvency Service until 1 April 2003 so there are no comparable costs available prior to 2003-04.

	2001-02	2002-03	2003-04	2004-05	2005-06
Redundancy claims	n/a	n/a	90,269	78,397	91,516
	£000	£000	£000	£000	£000
RP funding from HMRC	n/a	n/a	8,782	8,782	8,782
RP Costs	n/a	n/a	8,528	8,838	8,991

Future Developments

The amount of funding under the SLA with HMRC remains fixed at £8,782k in 2006-07. This is against increasing redundancy claims since 2004-05. The implementation of an in-house payments system in July 2005 has generated savings that The Service plans to recycle into the development of a new claims handling system to replace the CHIRPS legacy system. HMRC have been advised of the need for a replacement system and the possibility that with increased claims a budget increase may be needed.

2.5 Policy

The Service ensures that the framework of insolvency law is kept up to date and 'fit for purpose'. In addition we are committed to policy-making based on real evidence. We have an evaluation programme that is currently concentrating on the effects of recent insolvency legislation. The evaluation work comprehensively assesses how and to what extent, legislation meets its policy objectives. The evaluation work also provides information and data that can be used to inform future policy decisions and assist in evidence-based policy making. During the year work continued on the evaluation of the Enterprise Act 2002. The work includes both quantitative and qualitative data collected from various sources and copies of the evaluation planning papers and interim evaluation reports, are available on The Service's website.

In addition to evaluation work, The Service undertook and commissioned research to further assist in its evidence-based policy making. We are compiling and profiling statistics about bankrupts, and have published an initial report. We have also investigated and published a paper about the relationship between personal insolvency and entrepreneurship. A study into the characteristics of the users of bankruptcy courts has also been published.

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Debt Relief Orders

Most people use credit effectively without getting into difficulties. There are however a growing number for whom the servicing of debts has become a problem and in response to this we are developing proposals for a debt relief order. This would provide a non-court based scheme, aimed at those who owe relatively little, are on low incomes and have no prospect of ever being able to repay what they owe within an acceptable timescale. In November 2005, we published the government reply to the consultation 'Relief for the indebted - an alternative to bankruptcy'.

The Service has formed an intermediaries working group comprising representatives from organisations with an interest in providing debt relief to the financially excluded. The group is helping us to ensure that intermediaries are properly trained, accredited and equipped to perform their function in relation to any debt relief order scheme.

Introducing the debt relief order will require a change to primary legislation, and we propose to make these amendments via the Courts and Tribunals Bill, which will be introduced as soon as parliamentary time permits.

IVA Reform

The Service is also developing proposals to widen access to individual voluntary arrangements, which offers better returns to creditors than bankruptcy, whilst the debtor benefits from greater flexibility. These proposals for reform are based on the recommendations of an independent working group of stakeholders who reported in July 2005. The responses received informed the policy set out in 'Improving Individual Voluntary Arrangements'- 'Summary of Responses and Government Reply', published in March 2006.

Consolidation

Work continued during the year to consolidate and modernise the secondary insolvency legislation, focusing particularly upon the Insolvency Rules 1986, which have been amended at least 14 times since they came into force nearly 20 years ago. In recent months The Service has been consulting widely with various stakeholder groups to canvass their ideas for simplification, innovation and to invite suggestions for the removal of any administrative and other unnecessary burdens that are imposed upon insolvency office-holders and others by the existing legislation.





One particular development we are exploring is that of providing for the electronic provision and transmission of information within insolvency procedures, as an alternative to postal delivery, with the aim of reducing the costs of administering insolvencies and thereby providing better returns to creditors. As well as the Insolvency Rules themselves, a further 9 insolvency statutory instruments are being reviewed and consolidated within this project.

International Issues

The Service continues to be at the forefront of international insolvency matters, including UNCITRAL's current discussions on potential new areas of work. The Service has membership and takes part in the business of The International Association of Insolvency Regulators and INSOL (a cross-stakeholder international insolvency organisation). The Service has been asked to present papers to a number of international groups in the year, including the INSOL Academics Group and an EC conference on entrepreneurship. The Service continues to participate in an EC Expert Group to investigate the extent that the stigma of failure impacts on levels of entrepreneurship. Work is also planned to design an online diagnostic tool to act as an early warning device for businesses in financial difficulty.

UNCITRAL

Following a wide consultation process taking in views from the judiciary, the legal and accountancy professions and other government departments, the Cross-Border Insolvency Regulations 2006 will be brought into force in England, Wales and Scotland on 4 April 2006.

These Regulations implement the main measures of a Model Law, formulated by the United Nations Commission on International Trade Law (UNCITRAL) in 1997. The Model Law is a legislative text, which assists countries to equip their insolvency laws with a modern, harmonised and fair framework to deal with insolvencies that cross international borders. For example, these Regulations will cover cases where a debtor has assets in more than one country or where the creditors are located in a different country to the one in which the insolvency proceedings are taking place. The Regulations should help creditors, who may be located anywhere in the world, by reducing costs incurred in realising assets and increasing funds available for distribution.

Employment Rights Directive

Work continues on the implementation of a European Union Directive, which provides for the protection of employees' rights in the event of the insolvency of their employer, in particular in order to guarantee payment of their outstanding claims such as wages, pensions and other benefits. The United Kingdom already has in place several protective measures enshrined in

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existing legislation and as a result of the representations made by the policy team, the European Commission have accepted that in general, the UK has met the objectives required by the Directive.

	2001-02	2002-03	2003-04	2004-05	2005-06
Reduce the cost of policy work by 9%	n/a	n/a	n/a	10%	n/a
Reply to letters from Members of Parliament delegated to the Chief Executive within 10 working days	100%	100%	100%	100%	100%

Policy Funding and costs

The policy function is financed by funding from the DTI's administrative budget. The following table shows the costs and funding over the past five years. In 2001-02 and 2002-03 some of the costs on the preparation and implementation of the Enterprise Act 2002 were met centrally by DTI and are not included in The Service's costs.

	2001-02	2002-03	2003-04	2004-05	2005-06
	£000	£000	£000	£000	£000
Policy funding from DTI	1,460	1,210	1,817	1,641	1,858
Policy costs	1,460	1,210	1,817	1,641	1,858

Future developments

During 2006-07 The Service expects to complete the evaluation of the Enterprise Act 2002. Work to consolidate and modernise the secondary insolvency legislation will continue. Funding for the policy function is expected to remain at 2005-06 levels over the next two years.





2.6 Insolvency Practitioner Regulation

April 2005 saw the introduction of revised Regulations (The Insolvency Practitioners Regulations 2005) for insolvency practitioners that clarified bonding and record keeping requirements, removed unnecessary educational qualifications and introduced a requirement for continuing professional development for those practitioners authorised by the Secretary of State.

Set against the increasing number of individual voluntary arrangements (IVAs) made during the year, and following suggestions made by the Insolvency Practices Council, improvements were made to the database of IVAs that enabled statistical information to be provided on the success and failure rates of IVAs on a rolling basis. An analysis of outcomes of completed IVAs was also provided to the authorising bodies for monitoring purposes. Improved services to insolvency practitioners included the facility for sanction applications (in cases where there is no liquidation or creditors committee) to be submitted electronically, and by the end of the year 60% of applications were received by this means.

The number of authorised insolvency practitioners remained fairly static in 2005-6. The table below shows the numbers authorised by each of the Recognised Professional Bodies and the Secretary of State in January 2006.

Professional Body	Number of IPs authorised
Law Society of Scotland	15
Institute of Chartered Accountants of Scotland	108
Law Society	153
Association of Chartered Certified Accountants	179
Institute of Chartered Accountants in England and Wales	721
Institute of Chartered Accountants in Ireland	48
Insolvency Practitioners Association	371
Secretary of State	93
Total	1,688

Insolvency Practitioner Regulation Funding and costs

The Service ensures that the insolvency practitioners directly authorised by the Secretary of State (SoS) for Trade and Industry carry out their work to a high standard. In addition we ensure that the Recognised Professional Bodies (RPBs) regulate their members ensuring high standards are maintained.

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Prior to 1 April 2004 insolvency practitioner (IP) regulation costs were largely met from DTI funding. The DTI received all fees collected by The Service including a notional £100 fee collected from IPs authorised by the SoS. A fee of £35 per Individual Voluntary Arrangement (IVA) registered by an IP was also collected and paid to DTI.

Following the introduction of the Enterprise Act on 1 April 2004 new fees reflecting the cost of authorising and monitoring IPs and RPBs were introduced. The IVA fee of £35 has been continued. An authorisation fee of £2,000 and annual monitoring fee £2,000 are payable by IPs authorised by the SoS and an annual fee equivalent to £100 per IP authorised by RPBs is payable by the RPBs.

The following table shows the financial results and volumes for the IP regulation activity. Results for 2004-05 and 2005-06 cannot, however, be directly compared with earlier years due to the changes implemented on 1 April 2004:

	2001-02	2002-03	2003-04	2004-05	2005-06
IVAs	6,009	6,425	8,210	11,612	24,938
IPs authorised by SoS	n/a	n/a	n/a	92	83
IPs authorised by RPBs	n/a	n/a	n/a	1,575	1,598
	£'000	£'000	£'000	£'000	£'000
IP Regulation fee income	245	259	342	761	1,211
IP Regulation costs	1,052	1,143	514	702	808



Future Developments

Following a fees review in 2005-06 the fees for IPs authorised by the SoS will increase from 1 April 2006 to £2,100 and the fees charged to RPBs have been increased from 1 April 2006 to £150 and from 1 April 2007 to £200 per IP authorised by the RPBs. The fee for registration of an IVA has, however, been reduced from 1 April 2006 to £15 per registration. The fees review showed



that fees being paid on IVAs were cross subsidising those paid by IPs and RPBs and the adjustments restore the requirement for fees to reflect the costs of the function. Part of the reduction in the IVA fee reflects efficiencies arising from handling an increasing number of IVA registrations.

2.7 Banking

Insolvency practitioners (IPs) and official receivers are required by Statute to use the Insolvency Services Account (ISA) for estate banking and investment in relation to both bankruptcies and compulsory liquidations. Since April 2004 voluntary liquidators can choose their provider of banking services. Many continue to use our services, particularly for high value voluntary cases, as we provide services specifically tailored to insolvency estate account management as well as offering a highly competitive rate of interest.

IP Banking, part of The Service's Banking Directorate, administers the ISA at the Bank of England. Funds in excess of daily requirements are transferred to The Insolvency Service's Investment Account managed by the Commissioners for the Reduction of the National Debt.

Number of estates	At 31 March 2005	At 31 March 2006
Bankruptcies	38,844	37,980
Compulsory liquidations	5,692	5,824
Voluntary liquidations	7,986	5,966
Total	52,522	49,770
Balances	At 31 March 2005	At 31 March 2006
Bankruptcies	£160.3m	£152.3m
Compulsory liquidations	£207.9m	£159.6m
Voluntary Liquidations	£516.5m	£673.3m
Total	£884.7m	£985.2m

During the reporting period, the total value of estates held in the ISA increased by 10% whereas the number of estates held fell by 6%. This is due to large IP firms using our services for high value voluntary cases that resulted in this part of the fund increasing by 23% on 2004-05 levels.

Total transactions fell by 9% on the prior reporting period, but payments increased due to activity associated with large voluntary distributions. Usage of our online services rose by 18% in the year, contributing to a 42% fall in

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the number of statements we issued, as our customers are able to obtain these online.

Transaction volumes	2004-05	2005-06
Payments issued	199,706	202,098
Bank giro credit receipts	93,275	74,077
Balance statements issued on request	12,582	5,241
Total	305,563	281,416

The above figures are as yet un-audited. The audited Insolvency Services Account and Insolvency Services Investment Account are published separately, and will be available from The Stationery Office.

	Target	Outturn
Post bank giro credit receipts on day received or day following set up if later	95%	96.8%
Post transfers from official receivers within 48 hours subject to set up	95%	97.7%
Process IP's BACS payment requests within 2 days	98%	98.8%
Check and action Insolvency Service's Account payment requisitions within 4 days or by the due date	98%	98.3%
Calculate and dispatch half yearly interest statements within 10 days (April/October)	95%	100%

	2001-02	2002-03	2003-04	2004-05	2005-06
Check and action Insolvency Service Account payment requisitions within 4 days or by due date	98.7%	98.5%	97.4%	97.9%	98.5%

Banking Income and Costs

Prior to 1 April 2004 The Insolvency Service was funded on a gross regime. It received funding from its parent department the DTI and the fees that were raised by The Service were paid over to the DTI. Additionally, there was not a direct relationship between fees charged and the cost of the function that they related to. This resulted in fees raised for one function being used to cross subsidise another. For the banking function the only fees directly related to the banking activities were those for issuing cheques and investing in government securities, usually treasury bills, on behalf of individual cases.

On 1 April 2004 The Service introduced a quarterly banking fee that covers the majority of estate account functions carried out on behalf of insolvency practitioners. The costs of carrying out estate account functions on cases being administered by official receivers is recovered through the case administration fee. The cheque issue fee continues to be charged and a new BACS fee was introduced. A new flat rate investment fee was also introduced although in practice there have been few investments since 1 April 2004. This is because an alternative to investing in government securities is to receive interest on the monies held in the insolvent estate account. Prior to 1 April 2004 the rate of interest paid was fixed at 3.5% with any investment income above this level being paid to the Treasury consolidated fund. On 1 April 2004 the Enterprise Act 2002 introduced a change where all interest is paid to insolvent estates (subject to retaining a buffer in the Insolvency Service Investment Account (ISIA) to protect solvency levels). The interest rate can now be changed by notice to reflect the amount being earned by the ISIA.

The following table shows the number of insolvency practitioner accounts, transactions and financial results for the last 5 years although due to the changes made on 1 April 2004 the results for 2004-05 and 2005-06 are not directly comparable with those in earlier years:

	2001-02	2002-03	2003-04	2004-05	2005-06
Insolvency Practitioner Accounts	56,446	68,897	69,192	52,522	49,770
Transactions	319,721	341,289	338,985	305,563	281,416
Interest rate paid to estate accounts	3.5%	3.5%	3.5%	4.25% (from 1 April 2004) 4.5% (from 1 August 2004)	4.5% (from 1 April 2005) 5.0% (from 1 August 2005) 5.25% (from 1 December 2005)
	£000	£000	£000	£000	£000
Banking fee income	824	342	151	3,867	3,291
Banking costs	713	1,317	1,930	2,641	3,362

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Future Developments

A project to introduce a new financial estate accounting system (previously known as Cameo) is to be re-started during 2006-07. This system will replace the two current separate estate accounting systems (LOLA and BANCS). During the year it was decided to restructure the Banking Directorate in advance of the introduction of the new financial system with the aim of increasing efficiency and further improving the service to customers. The restructuring should be complete by 5 June 2006 when the Directorate will become known as the Estate Accounts Directorate. The current split of resource between separate OR and IP sections will change to an operational function and an accounting and support function.

2.8 Companies Investigation Branch

In his budget speech on 16 March 2005 the Chancellor of the Exchequer announced that following the Hampton Review the DTI's Companies Investigation Branch (CIB) would become part of The Insolvency Service. CIB assess whether or not it is in the public interest to investigate companies against which complaints have been made to the DTI. Where they are satisfied that there is good reason and it is in the public interest they conduct an investigation under powers contained in the Companies Act 1985. The investigations are confidential but if the complaint is substantiated the Secretary of State may seek to wind the company up. The Secretary of State can also apply to the Court for the directors to be disqualified and information may also be used to prosecute the company or directors or may be passed to other regulatory organisations to take action. CIB became part of The Insolvency Service on 1 April 2006. CIB is funded by the DTI and from 1 April 2006 The Service's investigation and enforcement budget (see section 2.3) will be increased to cover the costs of CIB's work.





2.9 Customers and Stakeholders

Our customer-focussed approach is recognised by the Charter Mark accreditation which The Service has held continuously since 1998. Our emphasis is on successful delivery across the wide range of services we provide. We ask our customers wherever possible for feedback, interacting with them in a variety of different ways. Having got the information, we use it to improve everything that we do.

User Satisfaction Index

We measure the satisfaction of our customers via a User Satisfaction Index. During 2005-06 a total of 14,138 responses were received across the business areas. The index score for the year was 83.37%, slightly down on the 86.3% achieved in 2004-05. The greatest numbers of responses, 12,018 (85.7%), were from bankrupts and directors of companies in compulsory liquidation and the satisfaction amongst this group remains high at 92.8%. The index also provides qualitative information as to how services can be improved and as a result changes have been made to leaflets, our website and standard letters.

National Consultative User Group

As well as seeking our customers' views directly, we consult with specific representative groups. The National Consultative User Group, comprising representatives from the Bankruptcy Advisory Service, The Institute of Credit Management, the Federation of Small Businesses, the Consumer Credit Counselling Service, Citizens Advice and the Court Service Agency met twice during the year and issues considered by the group included how The Service could increase its stakeholder confidence in its enforcement regime. The group suggested publication of more information regarding the allegations relating to conduct made against individuals and also commented on The Service's new website facility of a searchable database of bankrupts and directors subject to restrictions.

Banking User Group

The Banking User Group, made up of insolvency practitioners and representatives of the recognised professional bodies, also met in April and October 2005. The group identified that we need to communicate more effectively to cashiers and managers in IP firms, a key customer group, who are often overlooked when procedural or technical changes are made. Other operational & technical issues that have been discussed include:

- Gross Interest Payments;

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- problems arising from miscellaneous estate receipts received from official receiver offices;
- the benefits and disadvantages of the way we charge banking fees;
- requests to operate foreign currency accounts, which we are unable to do at present;
- improvements to online services, such as printing statements and issuing payment instructions.

The Service is grateful to the members of both user groups, for the contributions they have made to during the year.

Helplines

The Service operates two helplines, one providing information about general insolvency matters, the other assisting employees made redundant as a result of insolvency. Our helplines are available Monday to Friday from 9.00am to 5.00pm. During 2005-06 the helplines received 58,692 calls, an increase of 15.2% on the 2004-05 figure of 50,960. Enquiries by e-mail have also increased during the period to 3,902 as against 3,078 in 2004-05 an increase of 27%.

Website

In addition to our helplines, customers can access information via The Service's website. Use of the website increased during the year with 486,355 unique visitors compared to 278,615 in 2004-05. Use of the online insolvency register has continued to grow at a rapid rate with 1,387,459 searches undertaken in the year as compared with 534,206 in 2004-05. In response to requests from commercial organisations who regularly access the register we have provided data downloads of the register for a small fee. The Service's publications can be downloaded from the website free of charge but to ensure our customers have a choice in accessing our services, printed copies are also available. Demand for publications continued to rise with 770,144 distributed in 2005-06 as against 729,554 in 2004-05 an increase of 5.27%.



Complaints

In 2005-2006 The Service received 428 new complaints an increase of 56 complaints on the 2004-05 figure of 372.

The Service found 91 (21%) complaints to be justified in whole or part against 94 (25.3%) in 2004-05.

353 (82.5%) complaints received in

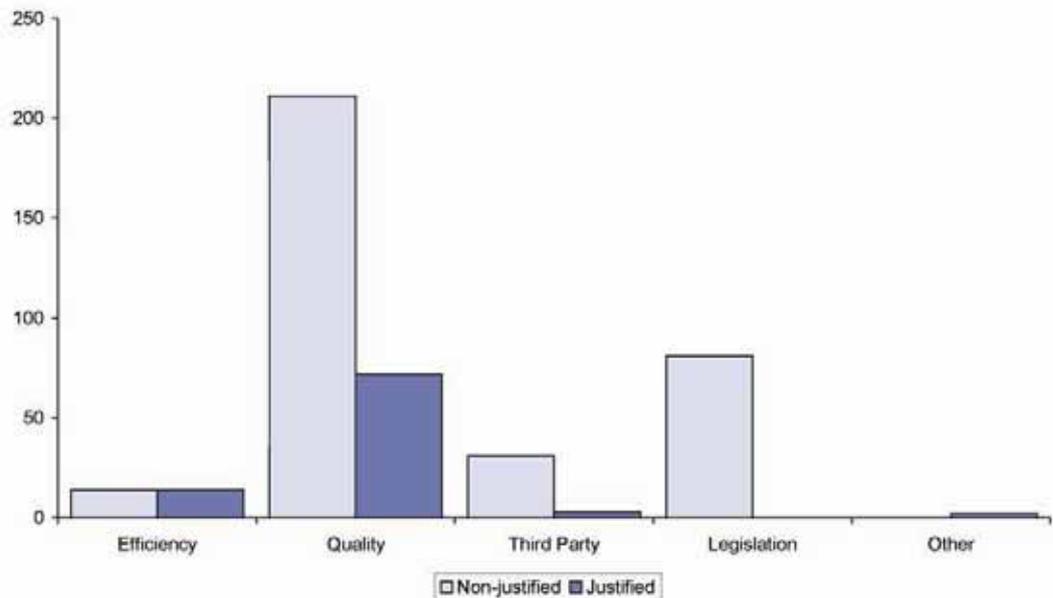


2005-06 were answered within 10 working days, against a target of 90% and compared with 326 (87.6%) in the previous year.

To assist us in our aim of improving our services to our users we analyse complaints received to ensure that we address any recurring problems. Complaints are therefore categorised into one of five specific areas:

1. efficiency of Service;
2. quality of Service;
3. Insolvency Legislation*;
4. complaints about third parties; and
5. other.

The nature of the complaint



*Note: All complaints received about insolvency legislation are formally recorded as non-justified, as The Service is bound to operate under current legislation.

Independent Complaints Adjudication

During the year The Adjudicator's Office has taken on 11 complaints for investigation, the same as in 2004-05 and in line with the 10 complaints taken on for investigation in 2003-04.

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The Adjudicator concluded her investigation in 12 complaints of which 8 were not upheld, and 4 complaints were upheld or partly upheld with none being withdrawn.

The Service fully accepted the recommended form of redress suggested by The Adjudicator in relation to the 4 complaints that were upheld or partly upheld and made payments totalling £935 to complainants comprising £755 in respect of costs arising from our mistakes or delays and £180 in recognition of worry and distress caused to these complainants.

During this year various improvements have been made as a result of feedback received by The Service, either by way of complaints, surveys, customer comments cards or through user groups. These included the addition of The Insolvency Rules to our website and a revision of the internal guidance issued to staff clarifying the Early Discharge Process.

The following table shows our performance against our Charter Standards for the last 2 years.

Charter Standards	2004-05 Actual (target)	2005-06 Actual (target)
Correspondence requiring a reply will be acknowledged within 5 working days with a specified reply date or replied to within 15 working days of receipt	87.3% (95%)	88.9%* (95%)
Visitors with appointments will be seen within 5 minutes of their appointment time	97.7% (95%)	97.5% (95%)
Visitors without appointments will be seen within 10 minutes of arrival	92.5% (95%)	90.1%* (95%)
All calls to offices/sections between 9am and 5pm, Monday to Friday, will be answered within 16 seconds	95.1% (95%)	95.3% (95%)
All calls to the insolvency enquiry line will be answered within 20 seconds	99.2% (95%)	91.9%** (95%)
The official receiver will contact the bankrupt/director within 2 working days of The Insolvency Service receiving written notification of the court order	91.6% (90%)	91.6% (90%)
Telephone interview to be carried out or the bankrupt to be telephoned within 5 minutes of the agreed interview time	99.1% (95%)	99.0% (95%)

* Response times to correspondence and dealing with customers without appointments have been impacted upon by increased case numbers.

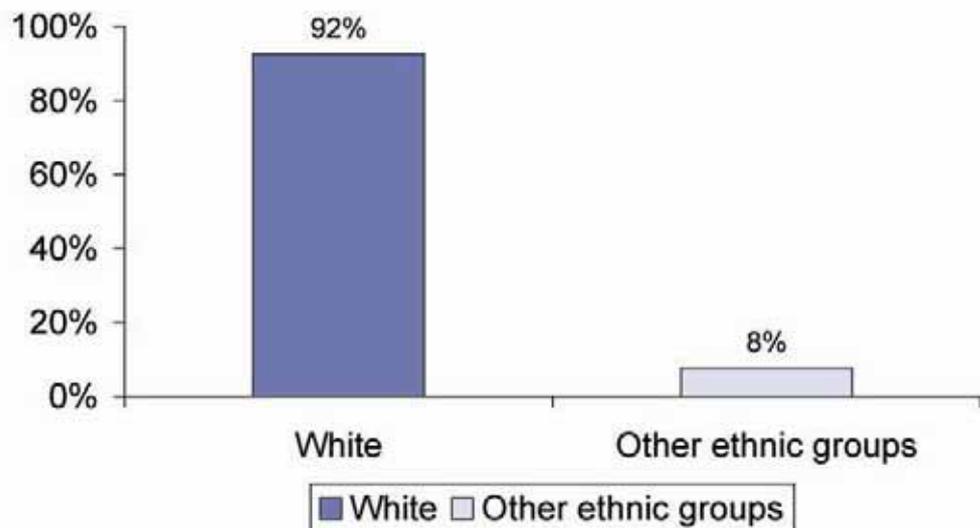
** The move of the insolvency enquiry line to Leeds in 2005-06 resulted in reduced levels of service for a limited period as a result of technical problems and inability to maintain staffing levels.



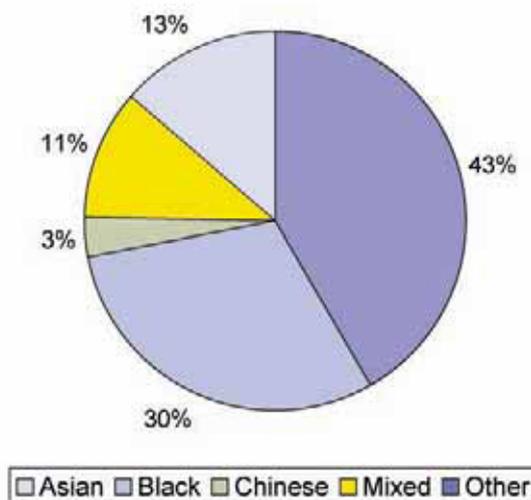
Diversity

To enable us to assess the impact of our policies and processes on bankrupts from different ethnic groups we monitor their ethnicity. During the year the ethnicity of 45,495 bankrupts was obtained. The information was used to determine whether the early discharge process, implemented on 1 April 2004, has had any differential impact on different ethnic groups. Whilst the assessment identified that there was a differential impact, this did not appear to be as a result of any differential application of the legislation or process by Insolvency Service staff. Research will be undertaken in 2006-07 to determine more clearly the reasons for such impact. The Service also commenced a diagnostic using the Diversity Excellence Model, to help shape and chart progress in the diversity arena.

Percentage split between white and ethnic minorities during 2005-06



Ethnic minority breakdown of individuals made bankrupt 2005-06



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Payments to suppliers

In line with the Government's commitment to the prompt payment of bills for goods and services rendered, The Service aims to pay its invoices within 30 days of receipt of the goods or services, or presentation of a valid invoice or similar demand, whichever is later unless otherwise specified by contract.

The prompt payment of invoices is a key Agency target and in 2005-06 99.14% were paid within 30 days.

	2001-02	2002-03	2003-04	2004-05	2005-06
Action invoices for payment					
within 30 days of receipt	99%	99%	99.1%	99.2%	99.14%
within 20 days of receipt	97.3%	97.6%	95.8%	94.6%	n/a

2.10 People

To enable our staff to give of their best, we must maintain an efficient work place where optimal use is made of resources. We need to ensure that we recruit the right people to get the job done as well as providing staff with the skills and knowledge to enable them to carry out the tasks to which they are assigned. A Health and Safety Report for the year ending 31 December 2005 is available at Annex A.



Recruitment

During the financial year 2005-06, The Service appointed 332 new recruits to the following posts:

Range	Permanent		Casual		Total
	Male	Female	Male	Female	
A1	45	69	8	18	140
A2	42	61	9	7	119
B1	7	3	0	0	10
B1 Examiner	10	17	0	0	27
B2 Investigator	10	6	0	0	16
B3 Examiner	9	9	0	0	18
Band C	1	1	0	0	2
Total	122	166	17	25	332

The Civil Service Commissioners require that all recruitment to The Civil Service is on the basis of fair and open competition, except in limited circumstances where flexibility is required to meet genuine business needs. The Service exercised this exception on four occasions in 2005-06.

Almost 9% of those appointed to The Service recorded that they had a disability, a 3% rise from last year's figures. There was also a significant rise from 15% to 18% of new entrants from an ethnic minority background.

Equal Opportunities

The Insolvency Service is committed to pursuing equality of opportunity. It does not discriminate against staff or eligible applicants for posts on the grounds of race, colour, ethnic origin, nationality, gender, marital status, religious affiliation, disability, sexual orientation or because they work part-time. Every possible step is taken to ensure that staff are treated equally and fairly and that decisions on recruitment, selection, training, promotion and career development are based solely on objective and job-related criteria. The Service does not tolerate any form of discrimination, harassment or victimisation, all of which are treated as disciplinary offences. The Service is committed to providing a working environment where no one is disadvantaged.

All staff are required to co-operate in making this policy work effectively.

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Disabled Persons

As an equal opportunities employer The Insolvency Service is also committed to develop management awareness of their role in avoiding discrimination and in supporting disabled staff through its Disability Policy. Human Resource Advisors also have, as part of their role, responsibility to promote and advise all staff with disabilities on recruitment and career development issues. The Service uses the Department for Work and Pensions (DWP) 'Positive about Disabled People - Two Ticks Symbol' which is a public statement of The Service's commitment to equal opportunities, and particularly its desire to ensure that disabled persons are treated fairly.

Qualifications and training

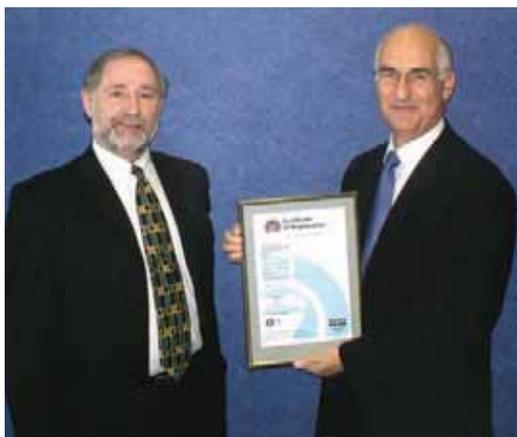
The Service runs a suite of in-house training programmes for its technical staff. Each programme is accredited by Nottingham Trent University who award a qualification on completion of these programmes. All new technical staff must attain the appropriate qualification as part of their development, these range from a Certificate of Achievement in Insolvency Practice Administration for administration staff, to a Professional Diploma in Insolvency Practice for examiners. In November 2005 Nottingham Trent University held a graduation ceremony for qualifying candidates from the various programmes. 29 successful candidates were eligible to attend the ceremony.

Over the last year, The Service has delivered 45 training courses providing the required knowledge and skills, and conducted 27 exams testing knowledge and understanding relevant to the job across these programmes. Staff also undertake units of competence which ensure trainees are demonstrating these skills on a day-to-day basis.

The Service launched a 360 Degree Appraisal feedback system in June 2005. 152 managers across The Service signed up to receive feedback from colleagues and managers. This form of appraisal was introduced as a development tool; enabling participants to identify any development needs arising from the feedback received. The system was managed electronically with the information being gathered, collated and transmitted to the

participant in the form of a report allowing the identification of development needs.





Flexible Working Patterns

To support staff in effectively balancing work with outside commitments, we provide a number of alternative working arrangements. All staff have access to the flexible working hours scheme which enables them to vary their times of arrival and departure from work, vary the length and timing of their lunch break and take time off if they work extra hours. 14% of all staff work part-time, with representation being fairly evenly spread across administrative and middle management grades.

Currently 13 members of staff (7 in 2004-05) spend their entire working week at home. The Service supports this working arrangement by providing the necessary IT, communication and office equipment. In addition 27 staff (18 in 2004-05) have a compressed hours arrangement whereby they work full time hours over a 4-day week or 9-day fortnight.

Flexible working, where staff spend part of their week working in the office and part of the week from home, was introduced in The Service in 2002. The number of staff working in this way continues to grow with 90 staff participating in the scheme. Flex workers are provided with appropriate IT and telephone facilities to support their working arrangements. In addition The Service has also been able to support a number of requests for ad-hoc flexible working arrangements made under the Flexible Working Regulations 2002.

Employee Involvement

The Service places great importance on effective communication with staff. This is achieved in a number of ways including:

- a Core Brief following the second bi-monthly Directing Board meetings which is cascaded to staff and discussed at monthly team meetings;
- a system of notices to staff, identified by subject and available on The Service's Intranet;
- Performance Agreements for individual staff members as an integral part of the business planning process;
- involvement of staff in the preparation of office/section business plans;
- circulation of key documents e.g. the Agency Annual Report, the Corporate Plan;
- a Leadership Group consisting of the senior management of The Service which meets 4/5 times a year and which agrees key messages to be cascaded to staff following its meetings;
- a Communications Forum for HQ Managers and communication Focus Groups involving staff at all levels;
- briefing of all staff following The Insolvency Service annual conference;

Chapter 2

- displays in offices of monthly charts measuring office performance against The Insolvency Service Charter and key targets and indicators;
- a New Ideas Scheme for staff suggestions;
- formal and informal meetings between senior management and groups of staff.

In addition there are regular meetings and communications with the Agency Trade Union Side.

Investors in People (IiP)

The Service underwent its third post-recognition assessment for IiP in the autumn of 2005 which confirmed that, The Service continues to meet, and in the vast majority of areas exceeds, the requirements of the IiP standard. Training is currently planned for the IiP champions in the Revised Standard and they will be undertaking internal diagnostics shortly after receiving the training.

Sick Absence

During 2005-06, The Service was successful in reducing its sick absence levels. The number of working days lost per man-year has decreased significantly over the last year with levels reduced by 2.3 days from the previous year, to 7.3 working days per man-year.

Analysis of best practice techniques employed across other organisations indicated that early intervention by line management was paramount in reducing absence levels. With this in mind, a new course was designed for the Management Development Programme, which included an element on managing attendance. This course is designed to enable managers to understand The Service's attendance procedure and their role within it, and has been made compulsory for all managers to attend.

In common with other organisations, muscular skeletal conditions and mental health problems are the major contributors to The Service's overall level of absence. It is possible for such absences to have a work element associated with them.

The table below shows the number of days lost to various mental health problems and the percentage of these absences contribute to the overall leave of absence in the Service.

	Number of days lost						
	1999	2000	2001	2002	2003	2004	2005
Absence reason							
Stress	1,448	1,610	1,813	1,349	2,590	3,097	1,218
Depression	1,690	1,714	919	1,022	1,271	1,746	1,574
Anxiety	537	610	172	988	784	854	315
Nervous debility	51	40	326	77	129	244	317
Neurosis	133	0	59	56	51	1	5
Emotional upset	543	221	4	236	25	88	14
Mental disorder	0	0	0	0	0	0	52
Total	4,402	4,195	3,293	3,728	4,850	6,030	3,495
Contribution of mental health absence to overall absence	25%	23%	19%	19%	24%	27%	18%

It is encouraging to note that the number of days lost to stress and the percentage contribution of mental health absence to overall absence levels is the lowest for 6 years. Furthermore, the results of the cultural and business effectiveness survey, carried out during the year, indicated that staff report lower levels of stress than average when compared against other organisations.

Diversity

The Insolvency Service remains committed to pursuing equality of opportunity. It recognises that the unique perspective each employee brings to their work can help The Service to compete for the best talent in the labour market, and meet the diverse needs of The Service's customers.

There have been positive advances in delivering workforce diversity in 2005-06. Across The Service, the representation of women is equitable with that of men and there is increasing representation of women at the management level, with 51% of Band B managers and 40% of Band C managers being female.

Staff from an ethnic minority background now make up 15.7% of our workforce. The Service also continues in its commitment to the terms of the DWP's Positive about Disabled People 'Two Ticks' symbol with almost 13% of staff indicating through self declaration that they have a disability or long-term health condition.

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The use of The Service's independent diversity advisory group has been expanded and now has 22 members in the group. The group now reports to The Service's Diversity Board, chaired by the Agency Chief Executive, in his role of Diversity Champion. The aims of the group are:

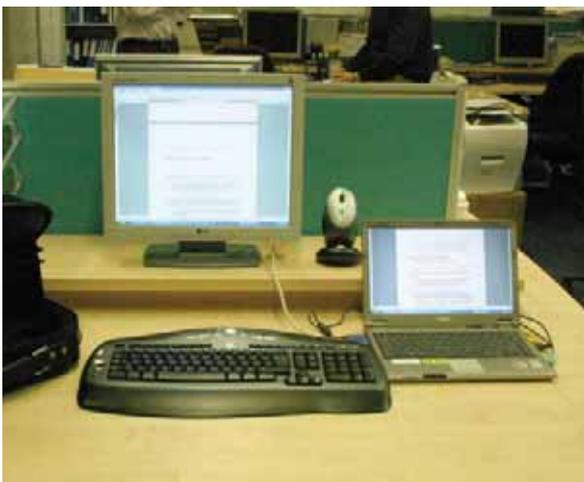
- to foster a culture which is supportive, positive, encouraging, inclusive and comfortable, and which is not only fair but is also seen to be fair;
- to be consulted about and to advise on new initiatives, the impact of new legislation, and new policies and changes to policies; and
- to raise the visibility, awareness and understanding of diversity within The Service.

Rewarding Long Service

In October 2005, Long Service Awards were presented for the fifth time since the scheme was introduced with 27 staff eligible for the award having worked for 20 years. This year's ceremony was held in London, where the Chief Executive presented each recipient with a certificate and a gift voucher worth £150.

Cultural and organisational effectiveness survey

In November 2005 The Service undertook two surveys to assess its culture and to gain some benchmark data on business performance in areas including communication, leadership/managerial effectiveness and job design. Over 2,000 staff completed the questionnaires representing about 90% of staff (both permanent and temporary). The surveys showed that there is room for improvement, in particular, in the areas of inter-unit co-ordination, selection/placement and employee involvement. An action plan will be prepared in the summer of 2006 to improve performance in these areas and a further cultural survey will be conducted in 2007-08 to measure the progress made.



Enabling the future

During 2005-06 work commenced on the Enabling the Future programme, a fundamental change management programme to ensure that The Service can deal efficiently and effectively with the challenges that it will need to meet in the next five years. Set against a background of increasing case numbers, changes to the IT infrastructure and the need to adopt more flexible working

practices, our people management strategy and practices are fundamental to the achievement of a high quality, innovative and flexible approach to deliver a modern first class service to our customers. New IT will require different methods of working and we will need staff with different skills (or a different mix of skills) in the future. There will be a greater opportunity for staff to undertake more challenging work as the IT automates the more routine processing, and an increasing emphasis on management skills as the new methods of working provide both an opportunity to widen managers' responsibilities, and greater demands to undertake work more flexibly, for example, by moving cases between locations where it can be processed more effectively or where staff work partially from home. During the forthcoming year, a number of Human Resources initiatives will be taken forward to support the business strategy.

	2001-02	2002-03	2003-04	2004-05	2005-06
Average staff in post	1,375	1,413	1,635*	1,680*	1,825*

* Staff in post includes permanent and casual staff but does not include short-term appointees or agency staff.

2.11 Environment and Sustainability

The efficient and effective use of our property is of great importance as it keeps overheads low. We have had to re-model many of our offices to accommodate increased staff numbers to deal with increased cases, and as a result we have managed to reduce our accommodation costs per capita by 13.2% over the last two years.

	2001-02	2002-03	2003-04	2004-05	2005-06
Reduce the cost of accommodation and procurement functions by 8%	n/a	n/a	n/a	2 year target	13.2%

We remain committed to maximising the use of our offices through encouraging home and flexible working arrangements and to meet work-life balances that are vital in maintaining an experienced workforce.

The Service is continuing to build on previous measures to promote sustainable development by encouraging local initiatives through its Community Involvement Strategy. Under this offices are being encouraged to introduce their own initiatives to promote environmental objectives, such as recycling and energy efficiency. These will support and supplement existing initiatives that are centrally driven.

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We aim to use our natural resources with care and thought for the future. During 2005-06 we achieved the following:

- we generated the equivalent of 1.5% of our annual electricity requirement for 21 Bloomsbury Street through the photovoltaic installation in the atrium roof - calculated from data on the amount of electricity generated, and the amount consumed as stated in our electricity bills;
- proximity lighting, which saves energy, is installed in all cellular space (eg meeting rooms, toilets, etc) when offices are refurbished or relocated;
- Electronic Records Management pilot systems have been in place since September 2005 and we are extending it to other sections. This should significantly reduce the amount of paper used.



Agency Remuneration Report

Remuneration Policy

The Prime Minister, following independent advice from the Review Body on Senior Salaries, sets the remuneration of senior civil servants.

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

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

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits;
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.uk.com

Chapter 3

Service Contracts

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

The officials covered by this report hold appointments, which are open-ended until they reach the normal retiring age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

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

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the most senior officials of the department and of the Agency Steering Board.

Desmond Flynn, Les Cramp and Graham Horne are all members of the Senior Civil Service (SCS). All other officials hold posts below SCS level.

Remuneration of Officials (audited)

Officials	2005-06		2004-05	
	Salary £000	Benefits in kind (to nearest £100)	Salary £000	Benefits in kind (to nearest £100)
Mr Desmond Flynn Inspector General	95-100	-	90-95	-
Mr Les Cramp Deputy Inspector General - Operations	85-90	-	80-85	-
Mr Graham Horne Deputy Inspector General - Headquarters	80-85	-	75-80	-
Miss Lesley Beech Director of Finance Banking and Resources	70-75	-	65-70	-
Mr David Chapman Regional Director London Region	60-65	-	55-60	-
Mr Terry Hart Director of Human Resources	60-65	-	55-60	-
Mr Stephen Leinster Director of Policy - Technical, Legislative and Professional Regulation (Joined 1 April 2005)	55-60	-	n/a	n/a
Mr Mike Lowell Director of Redundancy Payments	60-65	-	55-60	-
Mr Mike Norris Director of Policy Development, Review and International Issues	55-60	-	50-55	-
Mr Steve Quick Director of Investigations	60-65	-	55-60	-
Mr Mark Savigar Director of Change Programme	55-60	2,300	55-60	2,400
Mr Tony Wilkin Director of Enforcement	65-70	-	65-70	-

Chapter 3

Remuneration of Steering Board members (audited)

The Agency Steering Board comprises 10 members, five of whom are civil servants. The Chief Executive and two Deputy Inspector Generals are three of these members and their remuneration is borne by the Agency and disclosed above. The costs of the two other civil servant members are borne by DTI, they do not receive any additional amount for Board duties. The Service pays the external members and remuneration for the year ended 31 March 2006 is £27,127 (total remuneration in 2004-05 was £25,761). None of the non-executive board members received any benefits in kind.

Non-executive board members	Salary 2005-06 £000	Salary 2004-05 £000
Mr Stephen Adamson Until 9 September 2005	0-5	5-10
Mr Stephen Gale	0-5	0-5
Mrs Elizabeth McMeikan	0-5	5-10
Mr Graham Oates	5-10	5-10
Mr Nicholas Ward Until 8 February 2006	5-10	5-10

Salary

'Salary' includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

This report is based on payments made by The Service and thus recorded in these accounts.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. Mr Mark Savigar received an interest free loan for a housing advance on relocation and chargeable to tax under s163 of the Income and Corporation Taxes Act 1988.

Pension Benefits (audited)

	Real increase in pension	Real increase in lump sum	Pension at End Date	Lump sum at End Date	CETV at 31/3/05	CETV at 31/3/06	Employee contributions and transfers in	Real increase in CETV funded by employer
	To nearest £				To nearest £000		To nearest £	To nearest £000
Mr Desmond Flynn Inspector General	10-12.5	2.5-5	35-40	115-120	556	894	0-2.5	219
Mr Les Cramp Deputy Inspector General - Operations	0-2.5	0-2.5	35-40	115-120	688	862	0-2.5	17
Mr Graham Horne Deputy Inspector General - Headquarters	0-2.5	0-2.5	30-35	75-80	378	519	0-2.5	26
Miss Lesley Beech Director of Finance, Banking and Resources	0-2.5	2.5-5	25-30	75-80	293	414	0-2.5	24
Mr David Chapman Regional Director London Region	0-2.5	2.5-5	15-20	50-55	197	275	0-2.5	14
Mr Terry Hart Director of Human Resources	0-2.5	2.5-5	15-20	55-60	214	303	0-2.5	14
Mr Stephen Leinster Director of Policy - Technical, Legislative and Professional Regulation (Joined 1 April 2005)	0-2.5	2.5-5	10-15	40-45	152	227	0-2.5	25
Mr Mike Lowell Director of Redundancy Payments	0-2.5	2.5-5	30-35	90-95	608	695	0-2.5	23
Mr Mike Norris Director of Policy Development, Review and International Issues	0-2.5	2.5-5	15-20	45-50	164	234	0-2.5	13
Mr Steve Quick Director of Investigations	0-2.5	0-2.5	20-25	60-65	262	352	0-2.5	10
Mr Mark Savigar Director of Change Programme	0-2.5	2.5-5	20-25	60-65	234	327	0-2.5	17
Mr Tony Wilkin Director of Enforcement	0-2.5	2.5-5	25-30	80-85	371	494	0-2.5	17

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The non-executive Steering Board members are not entitled to a pension payment.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' 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 (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

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 selection of approved products. 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). Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk

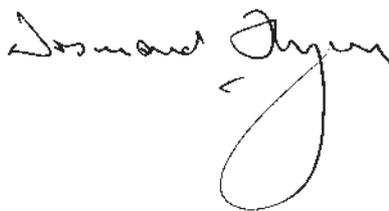
Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real increase in CETV

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



Desmond Flynn
Chief Executive
10 July 2006

Accounts

STATEMENT OF THE AGENCY'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under section 7 of the Government Resources and Accounts Act 2000 the Treasury have directed The Insolvency Service to prepare a statement of accounts for each financial year 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 Agency's state of affairs at the year-end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing accounts the Agency is required to:

- observe the accounts direction issued by the 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 Financial Reporting Manual, have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

The Accounting Officer for the Department of Trade and Industry has designated the Chief Executive of The Insolvency Service as the Accounting Officer for the Agency. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in Government Accounting.

Chapter 4

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Agency policies, aims and objectives, whilst safeguarding the public funds and Agency assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The Agency supports the Department of Trade and Industry's ambition of creating the conditions for business success and helping the UK respond to the challenge of globalisation by ensuring fair, dynamic and competitive markets in which everyone can be confident in participating. We do this by ensuring that financial failure is dealt with fairly and effectively and that we detect and deter fraud and financial misconduct. I am advised and supported by:

- The Agency Steering Board whose role is to advise the Secretary of State, generally through the Director General for The Services Group (DTI), on governance of the Agency, its corporate plan, targets and performance. It meets at least five times a year to review the plans, strategic direction and performance of the Agency. The Board comprises senior officials from the Agency and DTI, as well as four (five to September 2005) independent members;
- The Directing Board meets twice monthly to consider strategic direction, plans, and continuing activity in support of them and progress and performance against them. I receive advice and support on policy, strategic and operational issues.
- An Audit Committee chaired by an independent member of the Steering Board that meets four times a year and receives reports from both internal and external auditors on risk and other audit issues; and
- The Corporate Governance Group considers the overall risks to the Agency's objectives, the management and control of those risks, and the review and monitoring of the Agency's risk register and reports to the Audit Committee.

DTI Ministers determine the policy framework in which the Agency operates, and they answer to Parliament on that policy. I report to DTI Ministers on the execution of policy, our progress towards targets and plans, and proposals for future development.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an

ongoing process designed to identify and prioritise the risks to the achievement of Agency policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in The Insolvency Service for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

The Steering Board and Directing Board regularly review management information so that they can consider the performance of the Agency, including its financial performance. The Directing Board sets the policies on risk management and internal control. It also promotes and supports the development of risk management and internal control activity.

The Corporate Governance Section reviews the adequacy and effectiveness of offices' and sections' systems of internal control on a risk based audit programme. Internal Audit operates to Government Internal Audit Standards. The work of Internal Audit is informed by an analysis of the risks to which the Agency is exposed. The analysis of risk and Internal Audit plans are endorsed by the Agency's Audit Committee and approved by me.

Training has been provided to key managers and staff in risk identification, evaluation and management. Written guidance on risk management and evaluation is published on the Agency's intranet system to which all staff have access.

Systems are in place to identify any significant risk or control weaknesses to ensure that appropriate action is taken to manage the risk and implement improvements to internal controls to reduce reoccurrence. Procedures are in place for the planning, monitoring and reporting on all major projects. Furthermore, all key projects in the Agency are subject to Gateway Review, which includes an assessment of the key risks they face.

4. The risk and control framework

A risk appetite matrix has been issued against which risk at all levels is assessed. An Agency wide risks register is aligned to the key objectives of the Agency. The risk register format requires the identification of risk against business objectives. That ensures the risks are evaluated by type (financial, reputation, operational) and by level of exposure (likelihood and impact).

All key risks have been evaluated and allocated to appropriate managers. All Directorates/Regions and Offices/Sections maintain their own risk registers, which are reviewed, as a minimum, twice per year.

Chapter 4

Risk Management is tied to the business planning process at all levels and ensures that top-down and bottom-up risks are communicated and managed at the appropriate level.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, the work of the Agency's Corporate Governance Section and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of internal control by the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The effectiveness of the system of internal control is reviewed by my Directors who each provide me with a Statement on Risk Management and Internal Control and Corporate Governance Representation for their Directorate.

The Corporate Governance Group advises on embedding risk management within the organisation. The Audit Committee advises on the Internal Audit work programme and the Chairman also sits as an Independent Member of the Steering Board.

Internal Audit operates to Government Internal Audit Standards. Their audit programme is focused around the Agency's key risks and they submit regular reports on the adequacy and effectiveness of internal control together with recommendations for improvement. The Director of Internal Audit provides me with an Annual Report, which contains an independent opinion on the adequacy and effectiveness of internal control.

A key risk for The Service in 2004-05 was the delivery of the Cameo IT project intended to replace the existing IT system for banking, work on which was suspended in December 2004. A claim made by the PFI provider was not accepted by The Service but The Service agreed to undertake, on a without prejudice basis, a joint project review. This review was completed in November 2005 and agreement was reached with the PFI provider to re-commence the project with a new sub-contractor. The first stage of this work is a 12 week review of the development to date and an update of The Service's business requirements which is due to commence in the first quarter of 2006-07. An interim solution ensures the performance and reliability of the existing system.

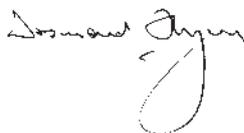
The 2004-05 review of the effectiveness of internal control highlighted some control issues where further improvement was required. The following

progress has been made:

- there was a need for the Directing Board to agree revisions to the Agency risk matrix and risk appetite. This was undertaken during the year and Corporate Governance Section will be publishing guidance on implementation at operational level on the intranet;
- there was a need for the role of the senior management team to be formally documented and evaluated. Evaluation is being achieved through the appraisal system and the need to formally document the role of the senior management team was considered to be disproportionate in view of the size of the team. The role is documented through the production of standard agendas and the output of regular meetings being communicated to all staff either through a process of cascading the information and/or by the publication of minutes; and
- there was a need for appropriately qualified and experienced staff to deal with a rising workload. During the year the contracts for the supply of agency staff were re-tendered and new arrangements to use existing staff to cover higher-grade work were implemented to ensure that appropriately qualified and experienced staff were available to deal with a rising workload. The risk has also been managed by an increased level of supervision of new staff.

The awareness and application of risk management continues to improve across the Agency. There were no significant internal control issues during the course of 2005-06 but where weaknesses in the control environment are identified, action to strengthen control has been taken or is planned. The Internal Audit review of the effectiveness of internal control did, however, highlight a number of priority areas where further improvement is required during 2005-06. These are as follows:

- the need to embed the balanced scorecard into the Agency to monitor progress against performance and highlight where action may be required. This will be done by publishing to all staff the principles and the plans and timescales for introducing the reporting protocols. The responsibility for developing local scorecard, will be allocated to named individuals; and
- enhance the preventative controls on the BANCS and LOLA IT systems to reduce the risk of unauthorised access to the key datasets and transactions.



Desmond Flynn
Chief Executive
10 July 2006

Chapter 4

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of The Insolvency Service Executive Agency for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Agency, the Chief Executive and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 58 to 61 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2006 and of the deficit, total recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Chapter 4

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
18 July 2006

Income and Expenditure Account

For the year ended 31 March 2006

	Notes	2005-06 £000	2004-05 £000
Income			
Fee income	2(a)	101,834	63,916
Other operating income	2(b)	13,591	14,226
Gross income		115,425	78,142
Expenditure			
Staff costs	4(a)	60,110	50,518
Depreciation	6	332	306
Other operating charges	3	65,319	54,112
Finance lease charges	11	990	-
Total expenditure		126,751	104,936
Operating deficit before interest		(11,326)	(26,794)
Cost of capital	7	473	464
Deficit for the year	12(c)	(11,799)	(27,258)

All income and expenditure is derived from continuing operations.

The notes on pages 69 to 84 form part of these accounts.

Chapter 4

Statement of Total Recognised Gains and Losses

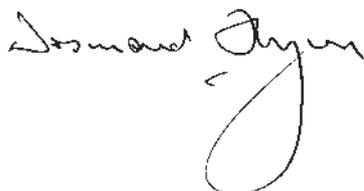
For the year ended 31 March 2006

	2005-06 £000	2004-05 £000
Deficit for the year	(11,799)	(27,258)
Fixed asset revaluation - unrealised profit	25	18
Government Grant revaluation - unrealised profit:	18	12
Total recognised loss for the year	(11,756)	(27,228)

Balance Sheet

As at 31 March 2006

	Notes	2006 £000	2005 £000
Fixed assets			
Tangible fixed assets	6	5,514	1,917
Current assets			
Debtors	8	41,094	23,918
Cash at bank	9	41,388	18,313
Creditors - amounts falling due within one year	10	(70,068)	(34,793)
Net current assets		12,414	7,438
Total assets less current liabilities		17,928	9,355
Provisions for liabilities and charges	5	(1,628)	(783)
		16,300	8,572
Taxpayers's equity			
Revaluation reserve	12(a)	47	22
Government Grant Revaluation Reserve	12(b)	30	12
General fund	12(c)	16,223	8,538
		16,300	8,572



Desmond Flynn
Chief Executive
10 July 2006

The notes on pages 69 to 84 form part of these accounts

Chapter 4

Cash Flow Statement

For the year ended 31 March 2006

	Notes	2005-06 £000	2004-05 £000
Operating activities			
Net cash inflow/(outflow) from operating activities	13	8,008	(12,634)
Capital expenditure			
Net cash outflow from purchase of fixed assets	6	(4,051)	(781)
Net cash inflow/(outflow) before financing		3,957	(13,415)
Financing			
Net cash inflow from financing	13	19,118	14,903
Change in cash and cash equivalents	9	23,075	1,488

The notes on pages 69 to 84 from part of these accounts.

Notes to the Accounts

For the year ended 31 March 2006

1. Accounting Policies

- 1(a) Basis of preparation
The financial statements have been prepared in accordance with the 2005-2006 Government Financial Reporting Manual issued by HM Treasury. The particular accounting policies adopted by The Service are described below. They have been applied consistently in dealing with the items considered material in relation to the accounts.
- 1(b) Accounting convention
The accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.
- 1(c) Tangible fixed assets
Fixed assets have been stated at current cost using appropriate indices. The minimum level for capitalisation of a tangible fixed asset is £2,000.
- 1(d) Depreciation
Depreciation is provided on tangible fixed assets, at rates calculated to write-off the cost or valuation, less any residual value, of each asset evenly over its expected useful life, as follows:
- | | |
|-----------------------------------|---------------------------------------|
| Computers unless otherwise stated | 3 to 5 years |
| Software Development | 10 years or life of system if shorter |
| Office machinery | 3 to 10 years |
| Property Leasehold Enhancements | 10 years or life of lease if shorter |
- Assets held that are in the course of construction are not depreciated until they are commissioned.
- 1(e) Stocks
There are no stocks: items such as consumables are charged to the Income and Expenditure Account in the year in which they are purchased.
- 1(f) Administration expenditure
Administration expenditure reflects the cost of running The Service under the net cost control regime.

Chapter 4

1(g) Non cash charges

In accordance with Treasury guidance the following non cash items are charged to the Income and Expenditure Account:

- (i) Interest on the average cost of capital employed (note 7)
- (ii) Audit fee (note 3)

1(h) Operating leases

Rentals payable under operating leases are charged to the Income and Expenditure Account on a straight-line basis over the term of the lease.

1(i) Finance leases

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases") the assets are treated as if they had been purchased outright at the present value of the total rentals payable during the primary period of the lease. The corresponding leasing commitments are shown as obligations to the lessor.

Charges are made to the Income and Expenditure Account in respect of:

- (a) depreciation - which is provided on a straight-line basis over the economic useful life of the asset.
- (b) the total finance charge which is allocated over the primary period of the lease using the sum of digits (or rule of 78) method.

1(j) Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described at note 4. The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependents' benefits. The Service recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employee's 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 elements of the schemes, The Service recognises the contributions payable for the year.

1(k) Early departure costs

The Service, operating as part of the DTI scheme, is required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Service provides in full for this cost when the early retirement programme has been announced and is binding on The Service. The Service may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Service Superannuation Vote. The amount provided is shown net of any such payments.

1(l) Operating income

Operating income is income which relates directly to the operating activities of The Service. It principally comprises statutory fees recovered and recoverable from the estates of bankrupts and companies in liquidation (insolvent estates) during the year, in relation to both case administration and banking activities. It also comprises fees generated from Insolvency Practitioner Regulation activities; amounts recovered in respect of costs awarded by the court in directors' disqualification proceedings; property rental income and other miscellaneous income. Amounts received by The Service under a Service Level Agreement with HM Revenue & Customs for the administration of the Redundancy Payments Scheme is also treated as operating income. Operating income does not include funding received from the DTI under a programme allocation for investigation and enforcement activities carried out by The Service or administration funding for policy activities.

Up until 31 March 2004 The Service operated under a gross control regime where fees were handed over to the DTI. Under the gross regime fees were charged to the insolvent estate in full at the date of the event giving rise to the fee or fees and resulted in a timing difference between charging the fee and the insolvent estate having sufficient assets to discharge the fee. Fees were handed over to the DTI only when there were sufficient monies in the insolvent estate to pay them. Since 1 April 2004 The Service has operated under a net regime and although fee income is still charged to the insolvent estate at the date of the event giving rise to the fee it is treated as income in these accounts when it is earned.

1(m) Value Added Tax (VAT)

The Service is covered under the VAT registration of the DTI, which is responsible for paying over and recovering from HM Revenue & Customs any VAT on behalf of The Service.

Where VAT is recoverable by The Service the expenditure shown in the Income and Expenditure Account is net of VAT. Outstanding recoverable VAT on expenditure is included in VAT debtors and is shown in note 8 to the accounts.

Chapter 4

1(n) Cost of capital

The financing structure of The Service does not include specific interest bearing debt. To ensure that the Income and Expenditure Account bears an appropriate cost for the use of capital, a non-cash charge is included.

2. Income

2(a) Fee income

	2005-06 Fees Earned £000	2004-05 Fees Earned £000
Insolvency case administration	97,333	59,288
Banking	3,291	3,867
Regulation of Insolvency Practitioners	1,211	761
Fees recoverable in the period	101,835	63,916
Debit balances written off (note 3)	(1)	-
Net fee income	101,834	63,916

Since 1 April 2004 The Service has operated on a net regime. Fees under the old Fees Orders were largely repealed from 1 April 2004 save for those fees required to discharge the costs still to be incurred on incomplete cases at 1 April 2004. Insolvency case administration includes fees of £11,408,914 relating to work on incomplete cases at 1 April 2004. It also includes £9,581,279 being surplus income recognised in 2005-06 relating to Old Regime cases. New and much simplified Fees Orders were brought into effect on 1 April 2004 to reflect the costs of the activity to which the fees relates. Fees are still charged to insolvency cases on an event giving rise to the fee but are only shown as income in this account when earned.

2(b) Other operating income

	2005-06 £000	2004-05 £000
Investigation and Enforcement	1,862	2,330
Administration of Redundancy Payments	8,782	8,782
Rental income	2,813	2,575
Miscellaneous income (including Consolidated Fund extra receipts (CFER))	134	539
Total	13,591	14,226

2(c) Segmental reporting

The following information on the main activities of The Service is produced for fees and charges purposes and does not constitute segmental reporting under Statement of Standard Accounting Practice 25.

	Turnover		Cost of service		Surplus/(Deficit)	
	2005-06 £000	2004-05 £000	2005-06 £000	2004-05 £000	2005-06 £000	2004-05 £000
Case Administration	97,332	59,288	75,174	59,250	22,158	38
Investigation and Enforcement	1,862	2,330	33,741	29,314	(31,879)	(26,984)
Banking	3,291	3,867	3,362	2,641	(71)	1,226
Regulation of Insolvency Practitioners	1,211	761	808	702	403	59
Policy advice and development	-	-	1,858	1,641	(1,858)	(1,641)
Other	2,947	3,114	2,817	2,550	130	564
Redundancy Payments	8,782	8,782	8,991	8,838	(209)	(56)
Total	115,425	78,142	126,751	104,936	(11,326)	(26,794)

Common costs are apportioned largely on the basis of staff employed on the main activities.

2(d) National Insurance Fund

Redundancy Payments are made from the National Insurance (NI) Fund to employees whose employers have failed to make payments due or who were insolvent. The Insolvency Service has a Service Level Agreement (SLA) with HM Revenue & Customs to administer the Scheme.

These accounts include the administration costs and associated income (see note 2(c)), the NI Fund payments and receipts will be published in the consolidated resource accounts of the Department of Trade and Industry (DTI).

Claims processed under the Scheme fall into two categories: RP1 (which covers redundancy pay, holiday pay and arrears of pay) and RP2 (pay in lieu of notice). The average payment for RP1 during the 2005–06 year was £2,662 (2004–05 £1,644). An average amount of £964 was paid during 2005–06 for RP2 (2004–05 £764).

There are associated receipts related to this scheme which arise from two sources:

Solvent Recovery—where monies are recovered for the NI Fund over a period of up to three years from companies, that are continuing to trade but would not be able to do so if they had to meet the full costs of redundancy payments at that time;

Insolvent Recovery—the DTI becomes a creditor of the insolvent company in place of the employee paid from the NI Fund and receives a dividend if there are sufficient funds to make a payment to creditors in the winding up of the company.

Chapter 4

The summary financial position (un-audited) is as follows:

	2005-06 £000	2004-05 £000
Outstanding debt at start of year	80,319	72,845
Plus payments in year	289,647	217,252
Less receipts in year	(36,918)	(30,770)
Less debt written off in year	(239,920)	(179,008)
Outstanding debt at end of year	93,128	80,319

3 Other operating charges

The other operating charges comprise:

	2005-06 £000	2004-05 £000
Cash costs		
Legal and other costs of investigation and enforcement	13,011	11,127
General administrative expenses	10,671	9,280
Other costs	4,886	3,204
Accommodation	5,937	4,550
Operating leases - accommodation	7,504	7,334
Operating leases - computers	4,491	4,722
Operating leases - office machinery	250	167
Disbursements funded by DTI	394	52
Disbursements funded from case administration fees	4,338	3,234
DTI overhead	2,229	2,229
Travel and Subsistence	1,673	1,372
Hospitality	10	6
	55,394	47,277
Non cash costs		
Debit balances written off against fees	1	-
Adjustment to bad debt provision	351	1,103
Bad debt provision for case administration fees	9,124	5,346
Bad and doubtful debt provision for banking fees	305	220
Other bad debt and write offs	86	9
Audit fee	32	37
Loss on disposal of fixed assets	1	-
Loss and revaluation of fixed assets	25	120
	9,925	6,835
Total other operating charges	65,319	54,112

4 Staff costs and employee information

4(a) Staff costs

	2005-06 £000	2004-05 £000
Wages and salaries	48,762	42,038
Social security costs	3,341	2,964
Pension costs	7,913	5,339
Early retirement costs	94	177
	60,110	50,518

The wages and salaries cost includes £5,735,464 (2004-05 £2,408,169) for short-term appointees and agency staff.

The PCSPS are unfunded multi-employer defined benefit schemes. It is not possible to identify the share of the underlying assets and liabilities by each employer. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (<http://www.civilservice-pensions.gov.uk/>).

For 2005-06, employer's contributions of £7,912,914 (2004-05 £5,339,352) were payable to the PCSPS at one of the four rates in the range 16.2 to 24.6 per cent of pensionable pay, based on salary bands (2004-05 12 to 18.5 per cent). The Scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of 0.8 per cent of pensionable pay are payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. There were no partnership pension accounts.

4(b) Staff numbers

	2005-06 No.	2004-05 No.
Service Delivery	1,584	1,458
Corporate Services	185	173
Policy advice and Development	56	49
	1,825	1,680

Staff numbers are averages for 2005-06 and include permanent and casual staff but exclude 355 loanees, short term appointees and agency staff (307 in 2004-05).

The total gross remuneration, including bonuses but excluding pension costs, of the Chief Executive Desmond Flynn was £103,131 (£98,813 in 2004/05). He is an ordinary member of the Principal Civil Service Pension Scheme.

Chapter 4

5 Provisions

The movements in provisions are shown below:

	Pre 1996 Debit Balance Write Offs	Early Departure Costs	Other	Total
	£000	£000	£000	£000
Balance at 1 April 2005	336	48	399	783
Provided in the year	-	70	875	945
Provisions not required written back	-	-	(80)	(80)
Provisions utilised in the year	-	(20)	-	(20)
Balance at 31 March 2006	336	98	1,194	1,628

The refund of previously recovered fees following the decision in the Leyland Daf Limited case estimated at £400,000 is included in the opening provision of £399,000 above. None of the provision relating to the Leyland Daf Ltd case was utilised in the year and £79,712 was written back as not being required.

6 Tangible fixed assets

	Assets under construction	Property Leasehold Enhancements	Office Machinery	Computers	Total
Cost or valuation	£000	£000	£000	£000	£000
At 1 April 2005	452	739	362	1,813	3,366
Additions	3,464	-	64	523	4,051
Revaluation	-	61	(8)	(70)	(17)
Disposals	-	-	(35)	(39)	(74)
Transfers	(452)	-	-	452	-
At 31 March 2006	3,464	800	383	2,679	7,326
Depreciation	£000	£000	£000	£000	£000
At 1 April 2005	-	142	362	945	1,449
Provided in the year	-	43	6	283	332
Provided in year for Government Grant	-	26	-	113	139
Revaluation	-	18	(8)	(45)	(35)
Disposals	-	-	(35)	(38)	(73)
At 31 March 2006	-	229	325	1,258	1,812
Net book value at 31 March 2005	452	597	-	868	1,917
Net book value at 31 March 2006	3,464	571	58	1,421	5,514

The net book value on leased assets under finance leases is £3,359,487 (see note 11).

7 Cost of capital

In accordance with treasury guidance the charge is calculated at 3.5% of the average net assets employed at current value during the year.

8 Debtors

	2006 £000	2005 £000
Prepayments	2,232	2,005
Debtors for disqualification costs	3,514	3,730
VAT debtor	1,924	1,325
Staff debtors	631	669
Debtors for fees - case administration	30,821	14,087
Debtors for fees - banking	1,112	563
Other debtors	860	1,539
	41,094	23,918

The debtors for fees are in relation to fees charged and earned on insolvency cases but not yet realised because asset realisations in insolvency cases have not yet been completed. The debtors for disqualification costs has been reduced by a provision for doubtful debt of £591,063 (2004-05 £869,255). The staff debtors figures includes £462,310 (2004-05 £494,551) which is repayable after more than one year. Other debtors include £666,500 DTI inter entity debtor and £14,000 debtor with HFEA (Department of Health).

Chapter 4

9 Cash and cash equivalents

	2006 £000	2005 £000
Cash held at ISA	30,027	12,618
Cash held at the Bank of England	-	3,695
Cash held at the Office of the Paymaster General	11,361	2,000
	41,388	18,313

The cash held at the Bank of England and in the ISA at 2004-05 year end represents deferred fee income and DTI cash funding retained from 2003-04 to meet monthly cash flow requirements.

Cash movements in year	2006 £000
Cash at bank as at 1 April 2005	18,313
Cash movement in year	23,075
Cash at bank as at 31 March 2006	41,388

10 Creditors

Amounts falling due within one year	2006 £000	2005 £000
Trade creditors	429	337
Accruals	3,154	2,094
Deferred fee income	31,223	22,840
DTI Inter-entity creditor	18,406	8,993
CFER payable to the Consolidated Fund	16,856	529
	70,068	34,793

DTI Inter-entity creditor includes DTI cash funding of £8,999,317 retained to meet cashflow requirements and £9,353,214 to meet payroll costs not yet invoiced and £53,367 payable to DTI for early retirement and steering board fees and expenses.

The CFER payable to the Consolidated Fund includes £16,726,177 of old regime income that is payable to the Consolidated Fund.

11 Lease obligations

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

	2006 £000	2005 £000
Land and buildings		
Expiry within 1 year	134	351
Expiry within 2 to 5 years	2,739	2,371
Expiry thereafter	4,505	4,364
	7,378	7,086
Other		
Expiry within 1 year	21	15
Expiry within 2 to 5 years	263	118
Expiry thereafter	5,781	6,195
	6,065	6,328

IT infrastructure and applications for The Service are provided for in a schedule to the DTI Elgar Contract referred to as the IS ELGAR Service. The schedule was signed in August 1999 for 10 years, extendable for up to a further 5 years, and covered the provision of IT infrastructure including 1,600 desktop PCs and office application software. At the beginning of this financial year the number of users was 1,899. This increased gradually during the year until it reached 2,125 in March 2006. Since the year end the number of users has increased to 2,162.

The service charge is shown in note 3 to the accounts under Operating Leases - computers and is subject to annual indexation at a rate equivalent to the percentage change in the Retail Price Index less 2.5%. The Service has a responsibility to pay termination charges, amounting to £6.4m as at 31 March 2006, should it exercise its break option before the agreed service end date.

On 13 June 2003 the DTI signed an agreement under the ELGAR PFI contract for IT Services for a new financial system (CAMEO). Due to development and programming difficulties The Service requested the contractor cease further activity on 23 December 2004. In 2005-06 the project was restarted with the original PFI price but the characteristics of the agreement now cause it to be treated as a finance lease. The total cost will remain at £18,538,753. A new subcontractor has been appointed who will review the development to date and update the business requirements. This review is due to commence in June and will take approximately 12 weeks. Further contractual amendments will then be agreed to enable the project to be completed.

The Service paid £751,553 on 1 April 2003 and £5,000,000 on 31 March 2006. Interest on the finance lease charged in the year is £989,545.

The net book value of leased assets under finance leases is £ 3,359,487 (see note 6).

Chapter 4

Once the review referred to above has been completed and further contractual amendments agreed The Service will have the following obligations under finance leases.

The future minimum lease payments to which the Insolvency Service is committed as at 31 March 2006 are:

	£000
Amounts payable next year	4,976
Amounts payable in years 3 to 9	8,081
	13,057
Less finance charges allocated to future periods	1,395
	11,662

12 Movement on reserves

12(a) Revaluation reserve

	2006 £000	2005 £000
At 1 April	22	4
Revaluation of fixed assets	25	18
At 31 March	47	22

The revaluation reserve represents the revaluation of fixed assets to current costs.

12(b) Government Grant Revaluation Reserve

	2006 £000	2005 £000
At 1 April	12	-
Revaluation of Government Grant Reserve	18	12
At 31 March	30	12

12(c) General fund

	2006 £000	2005 £000
At 1 April	8,538	20,419
Financing (note 13)	19,118	14,903
Movement on Invest to Save	(113)	-
Movement on Government Grant Reserve	(26)	(27)
Non cash financing	505	501
Deficit for the year	(11,799)	(27,258)
At 31 March	16,223	8,538

The general fund represents the value of the net assets employed by The Service in its operations. The financing for the year is given net of the old regime income which is shown as a CFER payable to the Consolidated Fund in creditors (see note 10).

Included within the General Fund are amounts in respect of a Government Grant Reserve as detailed below:

Government grant reserve

	2006 £000	2005 £000
At 1 April	234	261
Depreciation released to Income & Expenditure account	-	(1)
Historical Cost Depreciation released to Income & Expenditure account	(26)	(26)
At 31 March	208	234

The reserve represents a UK government grant made to partly fund the acquisition of a photovoltaic (solar panel) roof.

13 Reconciliation of operating deficit to net cash inflow/(outflow) from operating activities

	2006 £000	2005 £000
Operating deficit before interest	(11,326)	(26,794)
Depreciation charge	332	306
Audit fee	32	37
Loss on disposal of fixed assets	1	-
Loss on revaluation of fixed assets	25	120
Movement in provisions	845	(2,284)
Increase in debtors	(17,176)	(15,296)
Increase in creditors	35,275	31,277
Net cash inflow/(outflow) from operating activities	8,008	(12,634)

Sources of financing

	2006 £000	2005 £000
Cash financing		
-DTI Request for Resource allocation	24,048	19,587
-ISB Request for Resource allocation	93	-
-VAT recovered by DTI	(5,023)	(4,684)
Net cash inflow from financing	19,118	14,903

Chapter 4

14 Fast Track Voluntary Arrangements

The Enterprise Act 2002 extended the provisions of the Insolvency Act 1986 to provide for a fast track voluntary arrangement (FTVA). These schemes enable the official receiver (OR) to act as nominee and supervisor of FTVAs, which can only be entered into after an individual has been made bankrupt.

A FTVA is a binding agreement between the bankrupt and his/her creditors to pay all or part of the money owed to them. In a FTVA the OR acts as nominee and supervisor. The OR fee to act as nominee is £300, and as supervisor the OR also charges 15% of all sums realised. Registration fees of £35 are payable to ensure the FTVA is on the public register of all individual voluntary arrangements.

During the year 2005/06, 22 individuals attempted to enter into a FTVA. The fees received by The Service were £18,099 and are included in these accounts under the case administration business. The balance of funds held in FTVA estates as at 31 March 2006 was £61,045. These amounts are not included in these accounts as they represent trust monies.

15 Related party transactions

The Insolvency Service is an executive agency of The Department of Trade and Industry (DTI). The DTI is regarded as a related party. During the year, The Service has had various material transactions with the DTI and with other entities for which the DTI is regarded as the parent Department, viz: Advisory Conciliation Arbitration Service (ACAS); Companies House.

In addition, The Service has had various material transactions with other government departments and other central government bodies. Most of these transactions have been with The Treasury Solicitor.

None of the Board members, key managerial staff or other related parties has undertaken any material transactions with The Service during the year.

16 Commitments

There were no capital commitments authorised or contracted for at 31 March 2006.

17 Contingencies

Banking liabilities

Following the enactment of the Cheques Act 1992, the Secretary of State for Trade and Industry has indemnified The Service's bankers against certain liabilities arising in respect of non-transferable "account payee" cheques due to insolvent estates and paid into the accounts of The Service.

18 Financial exposure

Financial Reporting Standard 13 (FRS13), Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities.

Due to the largely non-trading nature of its activities and the way in which it is financed, The Service is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS13 mainly applies. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing The Service in undertaking its activities.

The Service has taken advantage of the exemption in FRS13 not to give disclosures in respect of short term debtors and creditors.

The Service's financial assets comprise cash at bank and in hand. The interest generated from these balances is not retained by The Service, but surrendered directly to the Consolidated Fund. The fair value of cash concerned is not considered to be materially different from the book value. The Service has provisions relating to lease dilapidations. The fair value of these is also not considered to be materially different from the book value.

Liquidity, Interest Rate and Foreign Currency risk.

The Service has no exposure to significant liquidity risks.

The Service is not exposed to interest rate risk.

The Service has no exposure with regards to foreign currency risk.

Chapter 4

19 Performance target

The Service is required to generate sufficient fees to meet the costs of case administration, banking and insolvency practitioner regulation. The Service has a Financial Memorandum agreed with the DTI to break-even in each of these activities over a three year period.

20 Post balance sheet events

There are no post balance sheet events.



Health and Safety Report

REPORT ON HEALTH & SAFETY FOR THE YEAR ENDING 31 DECEMBER 2005

The Insolvency Service continues to be committed to the maintenance of a safe working environment for its staff and visitors. The agency complies with the provisions of the Health and Safety at Work etc. Act 1974 and all other relevant regulations, and policies and procedures are in place to see that this commitment is met.

Organisation

The Chief Executive is ultimately responsible for health and safety in The Insolvency Service.

Property, services and procurement (PSP) is responsible for co-ordinating health and safety arrangements and risk assessments, for carrying out 12 monthly inspections of the workplace, for providing staff with health and safety information, instruction and training, for investigating the causes of accidents and near misses and co-ordinating any remedial action, and for ensuring contractors and visitors are aware of their responsibilities and monitoring contractors performance.

The Service actively seeks the support of its staff and works in partnership with its contractors to achieve these aims. Welfare and first aid facilities are provided where appropriate.

The Service promotes the setting up of health and safety committees for all offices. In addition a Whitley Health and Safety Committee, chaired by PSP and comprising union members from PCS and Prospect met twice in 2005 to discuss a range of health and safety topics.

Risks and control strategies

The Service's operational activities are predominately office based. The significant health and safety risks faced by staff, and their associated control strategies, are:

- musculoskeletal injuries associated in particular with the use of display screen equipment and manual handling tasks. Staff at risk of injury have been provided with health and safety information and training, and risk assessed;
- fire and other emergency incidents. Emergency evacuation procedures and incident control teams have been established, and training given on dealing with emergency situations;
- slips, trips and falls. The agency aims to maintain high standards of housekeeping, and workplaces are subject to regular inspection and remedial action;

Annex A

- electrical equipment. Electrical appliances and associated equipment are subject to visual inspection and testing every 12 months. There are strict controls on equipment that can be used in the workplace;
- hygiene and environmental comfort factors. The agency complies with the regulations covering maintenance and inspection of all plant and equipment; and
- chemical, microbiological and deleterious materials hazards. An office notice on the COSHH regulations has been circulated and guidance provided, systematic water sampling and testing is in place, and asbestos registers are kept up to date and asbestos removal is managed under controlled conditions.

Accidents

The Service has suffered no fatalities or dangerous occurrences (as defined under RIDDOR), and has not been served with any health and safety enforcement notices, nor been convicted of a breach of any health and safety statutory requirement. The Service has reported three injuries under RIDDOR in the period ending 31 December 2005.

The numbers of non-reportable accidents recorded decreased to 58, compared with 66 recorded in 2004 - these are shown in the table below.

Non- reportable accidents in The Insolvency Service							
Types of accident	1999	2000	2001	2002	2003	2004	2005
Trips over cables, boxes, tiles etc	4	0	1	6	3	3	1
Strains from lifting	3	1	5	3	3	0	3
Cuts to fingers/hands	27	28	32	29	30	29	21
Slip on wet floors	0	1	1	0	1	2	2
Traps to fingers/hands	4	5	9	5	0	2	3
Dust particles in eyes	1	1	1	0	0	2	0
Inflamed joints	0	1	0	0	0	0	0
Bruising caused by bumps into furniture	12	19	20	13	12	13	12
Trips on stairs	2	2	2	1	3	1	2
Scalding by hot water	3	0	0	3	2	6	5
Strains from slipping on uneven floors	3	1	0	0	0	0	0
Burns from equipment	0	0	1	0	1	0	3
Breathing problems (air pollution)	0	1	1	5	0	0	2
Other minor accidents	0	6	13	6	7	10	4
Totals	59	66	86	66	62	66	58

Glossary

Assets

Property available to pay debts or the costs of the insolvency proceedings.

BANCS

Batch Accounting Nominal Ledger and Cashbook System. One of the financial systems used by The Service.

Bankruptcy

Personal insolvency proceedings.

Bankruptcy order

An order of the court, based on a creditor's or debtor's petition, which makes an individual bankrupt.

Bankruptcy restrictions orders or undertakings

A court order made against a bankrupt or an undertaking given by a bankrupt to the Secretary of State, which will mean that bankruptcy restrictions continue to apply after discharge for 2-15 years.

Company Directors Disqualification Act 1986

An Act of Parliament about the disqualification of directors.

Charter Mark

Charter Mark is the Government's standard for excellence in customer service.

Compulsory liquidation

Winding up of a company after a petition to the court, usually by a creditor.

Creditor

An individual or company that is owed goods or money.

Debtor

A person who owes money.

Discharge

The process by which a bankrupt is freed from the restrictions of bankruptcy.

Disqualification order or undertaking

A court order made against a director or an undertaking given by a director to the Secretary of State which will mean that it is an offence for that person to be involved in the management or directorship of a company for the period specified in the order or undertaking (unless the court grants permission).

Estate

A company's assets or a bankrupt's property which the liquidator or trustee has the legal right to deal with.

Executive Agency

An executive unit that delivers a service for government under a framework document agreed by Ministers which sets out the Agency's and the Chief Executive's functions, responsibilities and accountabilities.

Fast-track voluntary arrangement

A binding agreement that a bankrupt may enter into with his/her creditors to pay all or part of the money owed to them.

Income payments order/agreement

A court order made against a bankrupt or an agreement with a bankrupt to pay part of their wages, salary or other income to the trustee if their income is more than they or their family need to live on.

Individual voluntary arrangement (IVA)

A procedure under the insolvency legislation which enables a debtor to come to a legally binding arrangement to pay all or part of their debts. It is considered as an alternative to bankruptcy.

INSOL International

The international federation of national insolvency and recovery practitioners

Insolvency

Defined alternatively as being unable to pay debts when they are due or having insufficient assets to meet all debts.

Insolvency practitioner

An authorised person who specialises in insolvency, usually an accountant or solicitor. They are authorised either by the Secretary of State or by one of a number of recognised professional bodies on the basis of having demonstrated that they are fit and proper to act as an insolvency practitioner.

Inspector General

Desmond Flynn who is also the Agency Chief Executive.

Insolvency Services Account (ISA)

The account at the Bank of England into which money realised from the assets in bankruptcies and liquidations is paid.

Interim receiver

The court may appoint the official receiver or an insolvency practitioner to act as interim receiver of a debtor's property (usually to protect and secure it), after the presentation of the bankruptcy petition, but before a bankruptcy order is made.

Investors In People (IIP)

A nationally recognised standard that seeks to encourage organisations to train and develop all their staff and to develop the potential of all employees.

Liquidation (winding up)

Applies to companies or partnerships. It involves the realisation and distribution of the assets and usually the closing down of the business. There are three types of liquidation - compulsory, creditors' voluntary and members' voluntary.

Liquidator

The official receiver or an insolvency practitioner appointed to administer the liquidation of a company or partnership: may be appointed provisional liquidator pending determination of petition to wind up a company or partnership.

LOLA

Local office ledger accounting system

National Insurance Fund

A fund financed by National Insurance contributions collected by HM Revenue and Customs. The fund is used to pay benefits.

Official receiver

An officer of the court and civil servant employed by The Insolvency Service, who deals with bankruptcies and compulsory liquidations.

Open case

A current ongoing case dealt with by the official receiver.

Petition

An application to a court.

Provisional liquidator

An official receiver or insolvency practitioner appointed to take control of a company's affairs pending the hearing of a winding-up petition.

R3

Rescue, Recovery, Renewal - The Association of Business Recovery Professionals.

Realise

To sell or dispose of an asset in order to raise money.

Recognised professional bodies (RPB)

Organisations that set down standards and guidelines to which their members must comply, and are recognised by the Secretary of State as competent to license and oversee insolvency practitioners.

RIDDOR

The Reporting of Injuries Diseases and Dangerous Occurrences Regulations 1995.

Secretary of State

The Secretary of State for Trade and Industry, Alistair Darling

The Service

The Insolvency Service.

Trustee

The trustee in bankruptcy is either the official receiver or an insolvency practitioner who takes control of the assets. The trustee's main duties are to sell these assets and share the money out amongst the creditors.

UNCITRAL

United Nations Commission on International Trade Law.

User Satisfaction Index

An index calculated from the satisfaction returns of our main user groups

Voluntary liquidation

Method of liquidation not involving the courts or the official receiver. There are two types of voluntary liquidation - members' voluntary liquidation for solvent companies and creditors' voluntary liquidation for insolvent companies.

Winding up order

Order of a court for the compulsory winding up or liquidation of a company or partnership.

