



The Insolvency  
Service

# The Insolvency Service Annual Report and Accounts 2012–13



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The Insolvency Service is an executive agency of  
the Department for Business, Innovation and Skills.

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# Contents

## **Section One**

### **Management report**

**3**

1	Chief Executive's introduction	4
2	Agency overview	5
3	Our impact	8
4	Employee engagement, at work and beyond	11
5	Performance against published targets	13
6	Financial performance	14
7	Sustainability	17

## **Section Two**

### **Statements and Accounts**

**19**

8	Remuneration report	20
9	Statements, certificate and report	28
10	Notes to the Agency's Accounts	41



# Section One Management report

## 1

# Chief Executive's introduction



It is now nearly a year since I joined the Insolvency Service.

I have greatly appreciated the warmth of welcome both within and beyond the agency.

My first impression of highly professional employees, caring deeply about what they do, has endured. Our high standards of public service, even during considerable change both to the economy and the agency, was also noted by the BIS Select Committee in their report earlier this year.

It is clear from global benchmarks and feedback that our insolvency regime is widely respected. There is, of course, always scope to evolve and improve. Positive developments through the year include:

- putting in place legislation that will enable digital applications for bankruptcy to an Adjudicator within the Insolvency Service rather than to the Court. This is planned for 2015-16
- the development of the recently launched Insolvency Practitioners Complaints gateway
- our response to the Red Tape Challenge, cutting burdensome processes – identifying £30m of savings to pass on to creditors. This will be consulted on in the coming year

The agency improved its financial position and delivered a solid performance over 2012-13. We achieved 8 out of 10 of our published targets (with the other two only narrowly missed) and

delivered an impressive breadth of outputs that includes:

- securing over 2000 enforcement actions
- realising around £80m of assets for creditors in our role as trustee liquidator and
- paying over 100,000 redundancy payment claims.

These achievements are no mean feat given substantial changes in the agency triggered by a 58% reduction in new insolvency case numbers since 2010. Over the same period, operating costs have been reduced by 34% and employee numbers reduced by around 33%.

Looking ahead, our 5 year strategy builds on the many strengths of the agency and addresses a number of legacy issues. I am confident in our ability to deliver an even stronger and more resilient organisation. Early, enabling steps have already been taken.

I would like to thank all my colleagues, at all levels, for their contribution and achievements over this past year. I look forward to working with them as we take the agency forward, and to make real progress towards meeting our ambitions over the coming years.

Dr Richard Judge  
Inspector General and Chief Executive

9th July 2013

## 2

## Agency overview

The Insolvency Service provides the frameworks and delivers the public services that deal with insolvency and the misconduct that can accompany or lead to it. It also tackles wider corporate abuse leading to market distortion. Our activities span personal and company insolvency, and investigations into live companies.

Our aim is an insolvency system that is regarded as fair and which gives investors, lenders and creditors confidence to take the commercial risks necessary to support economic growth.

This means:

- ensuring that effective options (e.g. rescue or debt relief measures) and support exists for companies and individuals in financial distress, so that they can take early action either to recover or to minimise losses
- administering bankruptcies/liquidations, including the realisation and distribution of assets to creditors
- dealing with corporate malpractice and misconduct through effective investigation into companies and individuals abusing the system, disqualification of directors and restrictions on bankrupts, and building awareness of our enforcement actions
- managing the consequences of insolvency, e.g. through managing payments to employees made redundant
- evolving and maintaining regulatory oversight of the insolvency system, drawing on operational experience and government priorities

- making processes as efficient as possible e.g. to deliver best value and to optimise outcomes

We work alongside partners from the public, private and voluntary sectors to achieve our goals.

The Insolvency Service fulfils a range of statutory functions and delivers a range of public services on behalf of the Secretary of State. It exercises powers and duties on behalf of the Secretary of State from the Insolvency Acts 1986 and 2000, the Company Directors Disqualifications Act 1986, the Employment Rights Act 1996 and the Companies Acts 1985 and 2006 as well as from a range of secondary legislation relating to these Acts.

### Our governance arrangements

For 2012-13 the agency's corporate governance was overseen through our internal Directing Board and consisted of our Executive Directors, and our Steering Board.

The governance arrangements changed significantly on 1st April 2013, to reinforce accountability and enhance the role of the Non-Executive Board Members.

The role of the Steering Board was to advise the Secretary of State, through the Director General, Markets and Local Growth, on the strategies that the Insolvency Service proposes to pursue, the development of its strategic and 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. The Steering Board comprised an independent chair,

four independent members, The Director General, Markets and Local Growth, BIS and the senior executives of the Insolvency Service.

## Fair insolvency systems – Supporting growth – Giving confidence – Minimising burdens





## Members of the Insolvency Service Steering Board during 2012-13

### Non-Executive Directors

#### **Philip Wallace**

Chair of Steering Board to 31st Aug 2012

#### **David Ereira**

Chair of Steering Board from 1st Sept 2012

#### **Derek Morrison**

Chair of Audit Committee

#### **Peter Holmes**

#### **Pat Boyden**

### Executive Directors

#### **Dr Richard Judge**

Inspector General and Chief Executive from 30 July 2012

#### **Mr Graham Horne**

Acting Inspector General and Chief Executive from 30 May 2012 to 29 July 2012  
Deputy Inspector General and Senior Official Receiver at all other dates in the year

#### **Mr Stephen Speed**

Inspector General and Chief Executive to 29 May 2012

#### **Mr Les Cramp CBE**

Deputy Chief Executive, Corporate and Business Services to 15 Feb 2013

#### **Mr Robert Burns**

Inspector of Companies and Head of Investigation and Enforcement Services to 30 Nov 2012

#### **Mrs Sharon Burd**

Chief Finance Officer from 2 April 2012 to 20 Aug 2012; and from 14 Jan 2013 to 31 March 2013

#### **Ms Alex Craker**

Director of Change from 1 May 2012

#### **Mr Terence Hart**

Director of Organisational Development from 1 April 2012 to 30 April 2012

#### **Mrs Valentina Partellas**

Acting Director of Human Resources from 2 April 2012 to 31 March 2013

#### **Mrs Marian Joyce**

Director of Strategy, Planning and Communications

## 3

# Our impact

Our work contributes to the Department of Business, Innovation and Skills' aim of promoting sustainable economic growth. We do this by, building confidence in lenders and investors, encouraging rescue where possible, and ensuring fast and fair resolution and distribution of assets, when rescue is not viable.

Our goal is a fair and efficient insolvency regime that:

- supports growth, giving confidence to investors and lenders
- promotes fair treatment of creditors and customers by businesses and individuals
- promotes the frameworks for viable and sustainable businesses
- promotes transparency of business ownership so that creditors and customers can make informed decisions

Our insolvency regime is one of the best in the world, consistently ranked in the World Bank's Top 10. Sustaining this means delivering continued improvement, learning from our front-line experience, responding to government priorities and adopting innovation.

## Enhanced confidence in our insolvency regime

### Enforcement

In 2012-13 we secured over 2000 enforcement actions. This includes winding up 163 companies, disqualifying 1,031 directors and obtaining 691 restriction orders against bankrupts, as well as making 532 criminal referrals to prosecuting authorities.

This was achieved through the focused effort of our insolvency examiners and investigators, and of our intelligence, targeting, defendant liaison and authorisation teams. It also reflected a stable level of funding from BIS Ministers for our enforcement activity, recognising its importance for market confidence.

**Our insolvency regime is one of the best in the world, consistently ranked in the World Bank's**

**Top 10**

### Policy

Following extensive public consultation and with the insolvency profession, we worked to introduce legislation within the Enterprise and Regulatory Reform Act 2013. This legislation is for debtor bankruptcy applications to be made to an Adjudicator within the Insolvency Service, rather than at Court, and to repeal early discharge from bankruptcy. These measures will take effect in 2015/16 and October 2013 respectively.

We have also worked to enhance protection for vulnerable consumers, with a Debt Management Plan (DMP) Protocol being announced in February 2013. This will ensure that DMP providers advertising compliance with the protocol maintain good customer service and meet all statutory and best practice guidance.

On corporate insolvency, stakeholders contributed to a package of measures aimed at reducing the cost of insolvency under the Red Tape Challenge. These are estimated to save over £30m every year and will be subject to formal consultation shortly. Legislative provision was also made to provide for continuity of IT

supplies in the event of insolvency, subject to payment safeguards for the suppliers.

A package of voluntary reforms was also agreed with the regulators of insolvency practitioners (IPs), including an IP complaints gateway recently launched within the agency. An independent review is also in progress on IP fees.

## Increased operational effectiveness

### Official Receivers

We dealt with 29,312 new bankruptcies and 3,990 new insolvent companies as well as 31,182 applications for Debt Relief Orders.

We significantly exceeded our published target for issuing Reports to Creditors within timescales, achieving over 92% (12% in excess of our target) for company cases. At the same time, asset realisations were boosted by a more rigorous approach to Income Payment Agreements and recovery of £8m in respect of mis-sold Payment Protection Insurance.

We also realised around £80m of assets for creditors in our role as trustee liquidator.

### Redundancy payments

In 2012-13 we processed 101,363 redundancy claims, including handling the aftermath of some high profile retail failures such as Comet, where there were several thousand claimants associated with this single case.

A public sector and private partnership exists between R3, the trade body for insolvency professionals, Jobcentre Plus and the Insolvency Service. This helps individuals navigate the issues faced when being made redundant as a consequence of insolvency. It provides an 'early warning' of pending redundancies.

Insolvency Practitioners warn Jobcentre Plus and the Insolvency Service if they think there are likely to be more than 20 redundancies. Jobcentre Plus then deploy their Rapid Response Service

to help find new employment, claim benefits and access training.

## Improved customer experience

### User satisfaction

User satisfaction measures how our customers: personal insolvents, directors, redundant employees, creditors and insolvency practitioners, perceive the service we deliver.

The agency was awarded the Customer Service Excellence (CSE) standard, replacing the old Charter Mark Standard that we have held since 1998. This follows an assessment in June 2012, demonstrating our customer centric culture in the Insolvency Service. The attitude of employees and understanding of customer needs resulted in recognition of 'compliance plus' for this element.

The Adjudicator's Office Annual Report 2013, published earlier this month, notes that Insolvency Service customer complaints remain low. The report also recognises the high quality of our complaints handling, and the continuing focus on future improvement.

### How we compare to other public sector organisations

Each year our user satisfaction results are independently benchmarked against other government departments and agencies that ask the same or similar questions. For 2012-13 survey, the Service achieved:

- the **highest** staff helpfulness/willingness score out of 29 organisations
- the **second** highest overall user satisfaction score out of 50 organisations
- the **third** highest score (out of 17) for staff politeness/courtesy

### Next steps

Over a 5 year period, our strategy will create a stronger, more resilient organisation that is demonstrably delivering value for money and able to respond to volatile changes in demand. Achieving this goal requires us to tackle significant legacy issues, while building on our many strengths and sustaining our high standards of customer service.

Our strategy aligns with the broader ambitions of Civil Service Reform, taking advantage of many wider initiatives underway across the civil service. ([www.civilservice.gov.uk/reform](http://www.civilservice.gov.uk/reform)).

Our Annual Plan can be seen at: <http://www.bis.gov.uk/insolvency/About-us>. This plan provides context for 2013/14 priorities that include making steps towards:

### Enhanced confidence in our insolvency regime

- improving stakeholder confidence in the effectiveness of our enforcement actions by delivering visible enforcement activity, targeted to priority areas
- reinforcing regulatory oversight of insolvency practitioners, including introducing centralised complaints processes and reviewing insolvency practitioner fee structures

### Improved customer experience and process efficiency

- enhance the customer experience by introducing more digital services, in the first instance to enable speedier redundancy payments
- continuing to drive efficiencies to minimise process costs and improve returns to creditors
- remove unnecessary complexity by progressing proposals to reduce “red tape” in insolvency law

## 2013: a platform for delive

A clear, agreed strategy and renewed sense of purpose, with the funds and capability (leadership and specialists) to implement our plans.

Refreshed IT infrastructure, an estates plan and a funding model in place.

Progress on simplifying processes and reinvigorating professional development.

## By 2015/16... operational deficit dealt with

Achieve break-even through actions on funding and efficiencies of 10-15%. Agency at the right size, with the right capability.

Customer service and stakeholder relations noticeably enhanced.

Better integration and flexibility across the organisation, with employee engagement at civil service average.

## In 5 years... resilience

Changes fully embedded to secure longer term resilience. Able to respond to volatile case numbers.

Externally recognised and respected as leaders, delivering outcomes valued by our stakeholders.

Vibrant working environment with employee engagement in top quartile of the civil service.

## 4

# Employee engagement, at work and beyond

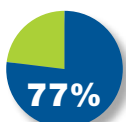
## People survey

The survey is designed to measure employee engagement, and our overall engagement index in 2012-13 was 50%, up from 47% the previous year.

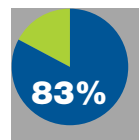
However, with the Civil Service average at 58%, we still have much to do:

- we saw a 9% decrease in whether employees believe that senior management have a clear vision, to 13%. This reflects recent history where employees were unsure of proposed strategic change. We have engaged employees across the organisation on improvement plans, we have created a new Board and SMT, and have published our Direction of Travel. We will need to build on this over the coming year
- a low score for Leadership and Managing Change – 22% is borne out by direct feedback in employee workshops. We must improve how we explain our goals to employees and involve and engage them in understanding the role they play in reaching those goals
- employees want more opportunities to have their say on the things that affect them. At 28%, this is a decrease of 12% from last year

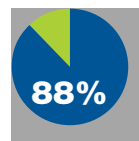
There are also real positives:



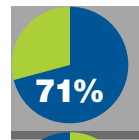
on living our values, **77% of employees feel that their ideas are taken seriously by their line manager**. The vast majority of people (80%) know they can rely on their team members when things get tough and **73% work together to improve what we do**. This shows that we are 'committing to each other's success'



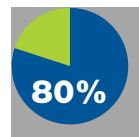
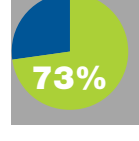
**83% of employees feel that they have a clear understanding of the Service's purpose**, and that we are an interesting place to work



**88% of employees feel that they have the skills to do their job effectively** – the highest scoring question in the survey



**71% of people feel they have a choice in deciding how they work** and **73% feel there is sufficient challenge in their role**



line management scores well on the whole, with **80% of managers recognising when a member of their team does a good job**

## Next steps

We have started to act on these results, for example implementing an employee ideas scheme, called 'Solve' and also implementing a programme of management briefing events, to outline the new strategy.

## Employee numbers

In line with falling case numbers the agency continues to operate targeted exit schemes to meet business needs and to adhere to the Civil Service freeze on external recruitment, which limit our recruitment activity to critical posts, subject to BIS/Cabinet Office approval.

The average number of full time equivalent employees in post (including permanent and casual staff but not agency workers) has therefore decreased during 2012-13.

Average staff in post	2010-11	2011-12	2012-13
<b>Number</b>	<b>2,448</b>	<b>2,220</b>	<b>1,941</b>

The Civil Service Commission 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. We did not exercise any of the exceptions during 2012-3.

## Learning and development

This year we brought our professional development programme for Insolvency Examiners back in-house. We are now working towards a nationally recognised accreditation for this programme. Our learning and development is externally benchmarked via Investors in People (IIP) and we commence a re-assessment process which will conclude in 2013/14.

We encourage employees to continue their development through access to a programme offered via Civil Service Learning. In addition, 20 of our employees embarked on Apprenticeship qualifications. We will expand this scheme to external recruits next year.

## Employee attendance

In 2012-13 the average number of working days lost to sickness was 9.3, compared to 9.2 in 2011-12. This remains higher than the Civil Service average and is something we have started to address.

## Diversity and equality

We aim to provide accessible policies and services, engage with, and understand the needs of the diverse communities who use our services.

We have an Employee Diversity and Equality Consultation Group. The Group will be refreshed next year.

We submitted returns for the Stonewall Workplace Equality Index, which measures efforts to tackle discrimination and create inclusive workplaces for lesbian, gay and bisexual employees. We finished 280 out of the 363 organisations. Against other government departments and agencies, we were ranked 25 out of 37. Stonewall were impressed by this good start.

In April 2012, we launched a new diversity and equality strategy and a supporting delivery plan, which is available on our website, along with information on our compliance with the aims of the equality duty, and our internal and external equalities policies and standards.

<http://www.bis.gov.uk/insolvency/About-us/diversity-and-equality>

This will be refreshed next year.

## Social responsibility

We encourage employees to volunteer and give back to their community. Volunteering roles undertaken this year included school governors and forces reservists.

We have a charity of the year selected by our employees. Last year we raised £13,263 for the Alzheimer's Society. In addition staff contributed almost £26,000 through our 'Give As You Earn' scheme to charity via payroll.

**£13,263**

raised for the  
**Alzheimer's Society**,  
our national charity  
of the year

## 5

## Performance against published targets

Each year, the Insolvency Service is set performance targets by the Minister for Employment Relations, and Consumer Affairs. These targets look at the timeliness of our processes and staff, customer and stakeholder satisfaction.









The new targets for 2012-13 were added to reflect the broader range of enforcement outputs produced by the Insolvency Service rather than, as in previous years, focusing solely on director disqualifications.

We have achieved eight out of our ten targets, and narrowly missed the other two, with all seven of our recurring measures showing an improvement on the previous year.

The two targets missed this year both relate to speed of payment for redundancy claims. Despite over-achievement of target levels during the second half of the financial year, we were unable to recover from underperformance in the first 3 months caused by the introduction of a new case handling and payment system. Nonetheless, we still delivered a marked improvement on the previous year.

### Table 1 – Year-end performance for 2012-13 against published targets

Additional data table for our performance in 2012-13 can be found on our website at <http://www.bis.gov.uk/insolvency/About-us/our-performance-statistics>

2011-12	Measure	2012-13 Target	2012-13 Achieved	Trend	2013-14 Target
94%	Percentage of customers who were very satisfied or satisfied with the service they received (ORS/RPS)	90%	<b>95.7%</b>		90%
65%	Stakeholder confidence in the Insolvency Service's enforcement regime	>65%	<b>66%</b>		>66%
47%	Insolvency Service staff engagement score, as recorded through the Civil Service Staff Survey	>47%	<b>50%</b>		>50%
93.2%	% of reports issued to creditors within 8 weeks	92%	<b>96.7%</b>		92%
80.2%		80%	<b>92.4%</b>		85%
New Target	% of appropriate disqualification cases in which proceedings are instigated in under 23 months	90%	<b>98.0%</b>		95%
New Target	% of investigations in relation to live companies completed within 6 months	90%	<b>93.6%</b>		90%
New Target	% Bankruptcy Restrictions authorised within 11 months of the date of insolvency	80%	<b>86.3%</b>		80%
68.2%	Action redundancy payment claims	80%	<b>77.8%</b>		80%
84.7%		93%	<b>91.9%</b>		93%

## 6

# Financial performance

We continue to make substantial progress towards rebalancing our books and reducing our operational deficit. Our intent is to achieve a sustainable break-even position on our operations by 2015-16.

The background to our financial position is a 58% reduction in insolvency caseloads handled by our Official Receivers since 2010. The associated income from insolvency fees has fallen by £77.4m (54%) over this 3 year period. This has particular significance given our relatively fixed cost base (people, estate and IT infrastructure cover 86% of our budget). Additionally, there has been a historically high level of bad debt over this same period.

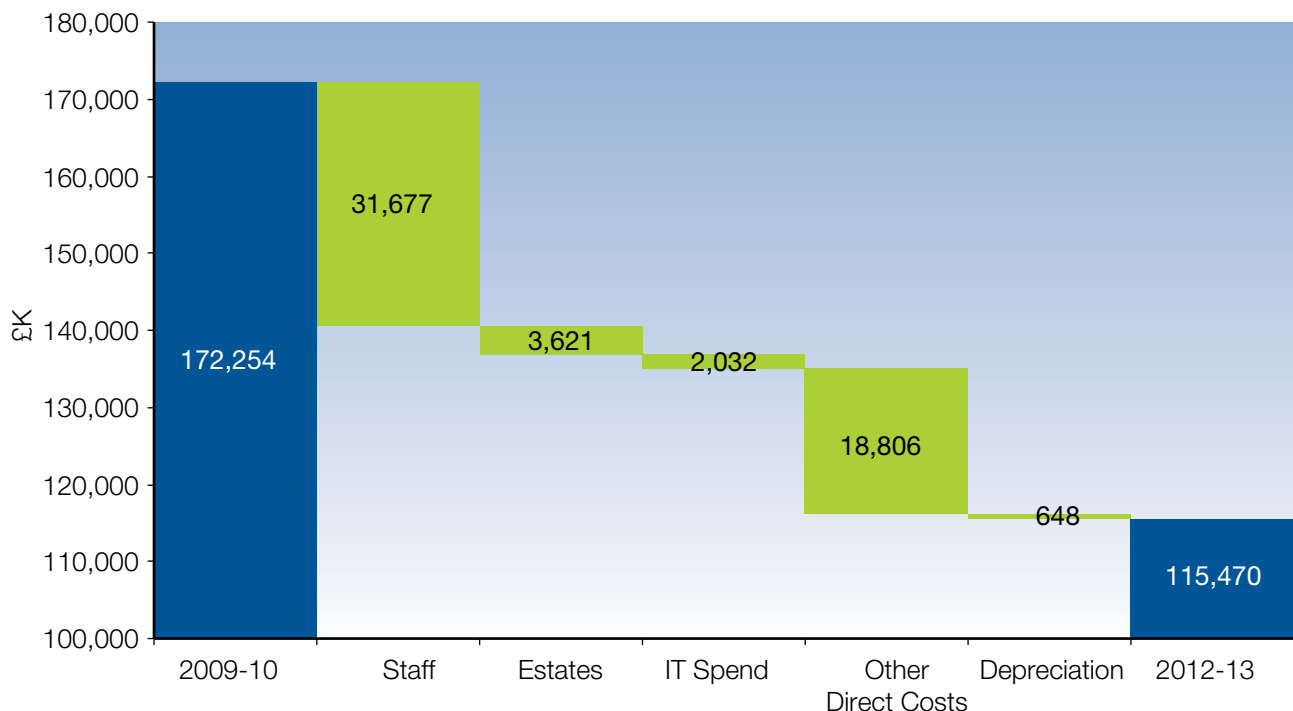
The chart below shows substantial progress in reducing fixed costs by £56.8m over these 3 years. The costs in the chart are fixed costs which have been extracted from published

accounts figures, as such they do not directly tie back to the published accounts for 2009-10 and 2012-13.

Of particular note during 2012/13 was:

- a continued reduction in fixed costs of £14.8m. This was from £130.4m in 2011-12. Included in this are a reduction in property leases of £1.8m
- improvements in asset realisation on the cases that we manage, coupled with the beneficial impact of changes to fees structures in 2010 have led to a significant reduction in debt write offs for unpaid fees. These have reduced from typical levels around 26% prior to 2010 to around 6% for case years from 2010 onwards.

Looking ahead, we forecast continuing pressure as the caseloads on the Official Receivers work continues to reduce. By contrast, demand for





**Table 2 – 2012-13 Capital allocation and usage**

Item	Mid-year Budget	Actual
Outsourced IT Contract	£1.10m	£1.03m
D21 IT refresh	£0.96m	£0.95m
Other e.g. Wisdom Storage; IBM	£0.75m	£0.60m
<b>Total</b>	<b>£2.81m</b>	<b>£2.58m</b>

the agency's Investigations and Enforcement and Redundancy Payments services has not diminished. Funding for these areas (from BIS and HMRC, respectively) is relatively stable.

The 2013-14 Annual Plan, available on our website at: <http://www.bis.gov.uk/insolvency/About-us> outlines the Insolvency Service's strategy to achieve break-even on operations by 2015-16. Containing costs within income received from insolvency fees will continue to be a challenge, and we are continuing to drive efficiency improvements. However, the benefits of improving operational efficiency are offset by fixed costs being shared across fewer cases. We are placing equal emphasis on the need to secure a sustainable funding model. We have initiated a joint project with BIS to review potential funding models. The intended outcomes include reducing our financial exposure to factors such as case volumes and asset values. The project will report its findings and recommendations during 2013-14, and we will take forward further work as appropriate.

Taking all of the above factors into account the overall cost of the Insolvency Service including the cost of work funded by the taxpayer through BIS fell 29% from £53.7m in 2011/12 to £37.9m in 2012-13.

The Insolvency Service has also improved its cash flow management throughout the year. As a result it has reduced its cash liability to BIS from £89m to £44m.

...the overall cost of the Insolvency Service including the cost of work funded by the taxpayer through BIS **fell 29%** from **£53.7m in 2011/12** to **£37.9m in 2012/13**.

## Capital outturn 2012-13

At the outset of 2012-13 the Insolvency Service's request for capital funding stood at £12.8m, before being reduced as part of the mid year review with BIS to £2.81m. This was a reflection of the actions within the Delivery Strategy in 2012.

During the last quarter as it became certain that various projects, in particular Desktop 21 (D21) IT refresh, would not require their full funding during the year we returned additional resource to BIS.

## Payment of creditors

In line with Cabinet Office guidance, our policy on payment to creditors is to ensure that we process payments to suppliers within 30 days and that we achieve the payment of undisputed invoices within 8 days. In 2012-13 we paid 90.4% of invoices within 8 days (2011-12 90.4%) and 98.1% within 30 days (2011-12 98.9%).

## Pension liabilities and entitlements

Pension liabilities arising from early retirement or other enhancements are accrued in total in the year in which the liability arises. These charges are paid either to the Principal Civil Service Pension Scheme, which is responsible for meeting future pension obligations on behalf of the Service, or to employees' stakeholder-based arrangements. Further details are provided in Note 3 to the accounts.

## Financial risk

The primary financial risk to which we are exposed is the recovery of our costs, either due to the insufficiency of funds in the estate related to a case, or through defendants' inability to pay costs when we are successful in bringing a court case for misconduct. The revised fee structure put in place in 2010 has addressed this risk and the Insolvency Service has been able to reduce the bad debt write-off to 6% during the year. In the coming year a further project is in place to identify our long-term funding strategy to further mitigate this risk.

Another significant risk is the exposure to further falls in case numbers. We are actively managing the reduction in operational and resource costs through targeted voluntary exit schemes to match reducing demand, while maintaining sufficient capacity to ensure effective customer services.

## Auditor

Our external auditor is the Comptroller and Auditor General, whose address is:

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

The cost of work performed by the external auditor is £70,000 (2011–12: £70,000). No other fees were paid to the external auditor.

As far as I, the Accounting Officer, am aware, there is no relevant information of which the auditors are unaware. I have taken all the steps that ought to have been taken to make myself aware of any relevant audit information, and to establish that the auditors are aware of that information.

## 7

# Sustainability

We continue to reduce our energy costs. Our impact on the environment has been reduced by ensuring that our key consumables are, where possible, recycled products and/or designed for after-use recycling. One example is the 'closed loop' recycling for our paper products, whereby our waste paper is re-made into re-usable paper and returned for use by a single supplier on collection of further waste. This also reduces carbon emissions from vehicles.

Over the next 3-4 years, our estate rationalisation programme supports our overall strategy to reduce running costs and limit our environmental impact.

We are also introducing a new method for people to apply for their own bankruptcy online, removing the need for a court hearing in around 15-20,000 cases a year, thereby significantly reducing emissions from the associated requirement for travel.

## Our work environment

We continue to address our overall environmental impact, with key improvements 2012-13 including:

- negotiation with our electricity framework suppliers, all electricity delivered for 2013 will be "green" (i.e. from renewable and low carbon sources).
- installation of Passive Infra Red Sensor lighting at Croydon to reduce electricity consumption
- the addition of video conferencing in a further 4 locations and a second suite in Birmingham. We now have 14 video conferencing suites available across 11 locations, reducing our travel emissions and providing a saving on travel costs

- placing in the top 5% of participants in the Carbon Reduction Commitment Energy Efficiency Scheme, which is reflective of the success of our overall environmental policies. We were 125th out of 2,097 in 2011-12 (the latest year where data is available)

## Building emissions

Since 2009-10 we have been working towards a target to reduce its building emissions by 25% by 2014-15. In the last year we have made significant steps towards this and are on course to meet the target.

## Use of resources

The Insolvency Service has continued to make progress in a number of the areas targeted by the Sustainable Operations on the Government Estate programme. For 2012-13 achieved a 15% reduction in energy consumption, down to 4.2 million kWh, and recycled 632 tonnes (53%) of waste, an improvement from 2011-12, at 604 tonnes and 50%. Our water consumption increased by 6% on the previous year to 16.6 million m<sup>3</sup> and we will need to reverse this trend in 2013-14.

# 632

**tonnes (53%)  
of waste recycled  
in 2012-13**

**Table 3 – Carbon dioxide emissions from Insolvency Service buildings (tonnes)**

	Year on Year Greenhouse Gas Target (tCO <sub>2</sub> e)	Actual Greenhouse Gas (tCO <sub>2</sub> e)	Actual Percentage Reduction from 2009-10 Baseline
<b>2009-10 (baseline)</b>	2,391	2,391	–
<b>2010-11</b>	2,272	2,289	2%
<b>2011-12</b>	2,152	2,165	9%
<b>2012-13</b>	<b>2,032</b>	<b>1,864</b>	<b>22%</b>



# Section Two

## Statements and Accounts

## 8

# Remuneration report

## Remuneration policy

**The remuneration of senior civil servants is set by the Government, following independent advice from the Senior Salaries Review Body.**

**In reaching its recommendations, the Review Body is to have 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 Senior Salaries Review Body will also take account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Senior Salaries Review Body can be found at [www.ome.uk.com](http://www.ome.uk.com)

## Service contracts

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

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

Further information about the work of the Civil Service Commission can be found at [www.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk)

## Remuneration (including salary) and pension entitlements (audited)

The following sections provide details of the remuneration and pension interests of the most senior management of the Insolvency Service – i.e. the members of our Directing Board.

### Remuneration (salary and payments in kind)

Officials	2012/13 Salary £'000	2012/13 Bonus Payments £'000	2012/13 Benefits in Kind (to nearest £100)	2011/12 Salary £'000	2011/12 Bonus Payments £'000	2011/12 Benefits in Kind £'000
<b>Dr Richard Judge</b> Inspector General and Chief Executive (Joined on 30 July 2012).	80-85 <sup>1</sup>	Nil	7,200	N/A	N/A	N/A
<b>Mr Graham Horne</b> Acting Chief Executive and Inspector General (From 30 May 2012 to 29 July 2012); Deputy Inspector General and Senior Official Receiver (From 1 April 2012 to 29 May 2012; and from 30 July 2012 to 31 March 2013).	90-95	Nil	Nil	90-95	Nil	Nil
<b>Mr Stephen Speed</b> Inspector General and Agency Chief Executive (Left on 29 May 2012).	15-20 <sup>2</sup>	Nil	Nil	95-100	10-15	Nil
<b>Mr Les Cramp CBE</b> Deputy Chief Executive – Corporate & Business Services (Left – Retired on 15 February 2013).	80-85 <sup>3</sup>	Nil	Nil	95-100	Nil	Nil
<b>Mr Robert Burns</b> Inspector of Companies and Head of Investigation and Enforcement Services (Left – Retired on 30 November 2012).	55-60 <sup>4</sup>	Nil	Nil	85-90	Nil	Nil
<b>Mrs Sharon Burd</b> Chief Finance Officer (Joined on 2 April 2012 to 20 August 2012; and from 14 January 2013 to 31 March 2013).	55-60 <sup>5</sup>	Nil	Nil	N/A	N/A	N/A
<b>Mr Ian Grattidge</b> Acting Chief Finance Officer (from 21 August 2012 to 13 January 2013).	50-55 <sup>6</sup>	Nil	Nil	60-65 <sup>7</sup>	Nil	Nil
<b>Mrs Marian Joyce</b> Director of Strategy, Planning and Communication	70-75	Nil	Nil	70-75	Nil	Nil

Officials	2012/13	2012/13	2012/13	2011/12	2011/12	2011/12
	Salary £'000	Bonus Payments £'000	Benefits in Kind (to nearest £100)	Salary £'000	Bonus Payments £'000	Benefits in Kind £'000
<b>Ms Alex Craker</b> Director of Change (Joined 1 May 2012). <sup>8</sup>	<b>70-75<sup>9</sup></b>	<b>Nil</b>	<b>Nil</b>	N/A	N/A	N/A
<b>Mr Terence Hart</b> Director of Human Resources (1 April 2011 to 31 March 2012); Director of Organisational Development (1 April 2012 to 30 April 2012).	<b>5-10<sup>10</sup></b>	<b>Nil</b>	<b>Nil</b>	70-75	Nil	Nil
<b>Mrs Valentina Partellas</b> Acting Director of Human Resources (From 2 April 2012).	<b>65-70</b>	<b>Nil</b>	<b>Nil</b>	N/A	N/A	N/A
<b>Mrs Anne Willcocks</b> Director of Policy (Joined on 1 April 2010 part-time, and stepped down on 31 March 2012).	N/A	N/A	N/A	70-75 <sup>11</sup>	Nil	Nil
<b>Miss Lesley Beech</b> Director of Finance, Governance & Accounting Services (Left on 30 December 2011).	N/A	N/A	N/A	55-60	Nil	Nil

1 Dr Richard Judge, full year equivalent is £120k – £125k.

2 Mr Stephen Speed, full year equivalent is £95k – £100k.

3 Mr Les Cramp CBE, full year equivalent is £95k – £100k.

4 Mr Robert Burns, full year equivalent is £85k – £90k.

5 Mrs Sharon Burd, full year equivalent is £90k – £95k.

6 Mr Ian Grattidge, the figure quoted is for the period 21/8/2012 to 13/1/2013. The full year equivalent is £125K to £130K.

7 Mr Ian Grattidge is not directly employed by the Service, he joined as an interim Chief Finance Officer on 5 December 2011, as a 'bridge' between the exiting director (Miss Lesley Beech, left on 30 December 2011) and incoming Chief Finance Officer (Mrs Sharon Burd, joined on 2 April 2012).

8 Ms Alex Craker, is on a Fixed Term Contract and will leave the Service on 30 June 2013.

9 Ms Alex Craker, full year equivalent is £80k – £85k.

10 Mr Terence Hart, full year equivalent is £75k – £80k.

11 Mrs Anne Willcocks salary band reflects her part-time pay.

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

The banded remuneration of the highest-paid Director in the agency in the financial year 2012-13 was £125-130k (2011-12, £105-110k) which is the full year equivalent of the amount actually paid. This was 5.5 times (2011-12, 4.9) the median remuneration of the workforce, which was £23,261 (2011-12, £22,056).

In 2012-13, 0 (2011-12, 0) employees received remuneration in excess of the highest-paid Director. Remuneration ranged from the bandings £12.5-£13k to £125-£130k (2011-12 £12.5-£13k to £105-£110k). Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.



Descriptor	2012/13	Descriptor	2011/12 (Restated)
<b>Band of Highest Paid Director's Total (full year equivalent)</b>	120-125k <sup>1</sup>	<b>Band of Highest Paid Director's Total</b>	95k-100k <sup>2</sup>
<b>Median Total Remuneration</b>	23,261	<b>Median Total Remuneration</b>	22,056
<b>Ratio</b>	5.5	<b>Ratio</b>	4.9

1 The banding is full year equivalent and excludes benefit in kind and bonus payments

2 The banding is full year equivalent and excludes benefit in kind and bonus payments

The Ratio of Median Total Remuneration to the Band of Highest Paid Director's Total has increased from 2011-12 due to the fact that the Band of Highest Paid Director's Total (full year equivalent) has increased.

## Remuneration of Steering Board members (audited)

The Insolvency Service's Steering Board comprises thirteen members; although there have been movements throughout the year where members have joined and left the Steering Board and/or the agency. Nine of roles are civil servants, comprising the Directing Board members whose details are shown on the previous page:

- The Inspector General and Chief Executive (previous incumbent left during 2012-13 and new incumbent appointed)
- Deputy Chief Executive (left the Service during 2012-13)
- Deputy Inspector General and Senior Official Receiver
- Inspector of Companies and Head of Investigation and Enforcement Insolvency Services (left the agency during 2012-13)
- Acting Director of Change (left Steering Board during 2012-13)
- Chief Finance Officer
- Interim Chief Finance Officer (left the Steering Board during 2012-13)
- Acting Director of Human Resources, and
- Director of Strategy, Planning and Communications

Their remuneration is borne by the Insolvency Service and disclosed above (as well as those members who have been in post during 2012-13 but left by the year-end, and those members in post during 2011-12 who have subsequently left). The costs of two other civil servant members is borne by the Department for Business, Innovation and Skills (BIS), they do not receive any additional amount for Board duties from the Insolvency Service. The remaining members are the three Non-Executive Board Members, of which a new Chair was appointed in August 2012 after the preceding Chair stepped down. These members are remunerated for their services; remuneration for the year ended 31 March 2013 was £28,739 (remuneration in 2011-12 was £26,274).

Non-Executive Steering Board Members	Salary 2012-13	Salary 2011-12
Mr Phil Wallace (Chair until left on 31/08/2012)	0-5	5-10
Mr David Ereira (Chair from 01/09/2012)	5-10	0-5
Mr Derek Morrison	5-10	5-10
Mr Pat Boyden	0-5	0-5
Mr Peter Holmes (left on 31/03/2012)	0-5	0-5
Mrs Rosalind Wright (left on 08/12/2011)	N/A	0-5

None of the Non-Executive Board Members received any benefits in kind.

## Salary

'Salary' includes gross salary; 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 accrued payments made by the Insolvency Service and thus recorded in these accounts.

## Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the Insolvency Service and treated by HM Revenue and Customs as a taxable emolument. Dr Richard Judge received £7,213 for excess fares following his transfer to BIS grossed up to cover the tax and NI contributions.

## Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. The appraisal process does not allow enough time to accrue for individual bonuses. Bonuses therefore relate to performance in the previous year to that in which they become payable to the individual. The bonuses reported for 2011-12 relate to performance in 2010-11. There were no bonuses in 2012-13.

## Pension benefits (audited)

Officials	Accrued pension at pension age as at 31/3/13 and related lump sum £'000	Real increase in pension and related lump sum at pension age £'000	CETV at 31/3/13 £'000	CETV at 31/3/12 <sup>1</sup> £'000	Real increase in CETV £'000
<b>Dr Richard Judge</b> Inspector General and Chief Executive (Joined on 30 July 2012).	<b>50-55</b> plus lump sum of <b>Nil</b>	<b>0-2.5</b> plus lump sum of <b>No increase</b>	<b>756</b>	<b>714</b>	<b>6</b>
<b>Mr Graham Horne</b> Acting Chief Executive and Inspector General (From 30 May 2012 to 29 July 2012); Deputy Inspector General and Senior Official Receiver (From 1 April 2012 to 29 May 2012; and from 30 July 2012 to 31 March 2013).	<b>50-55</b> plus lump sum of <b>95-100</b>	<b>2.5-5.0</b> plus lump sum of <b>2.5-5.0</b>	<b>965</b>	<b>863</b>	<b>50</b>
<b>Mr Stephen Speed</b> Inspector General and Agency Chief Executive (Left on 29 May 2012).	<b>35-40</b> plus lump sum of <b>105-110</b>	<b>0-2.5</b> plus lump sum of <b>0-2.5</b>	<b>621</b>	<b>599</b>	<b>1</b>
<b>Mr Les Cramp CBE</b> Deputy Chief Executive – Corporate and Business Services (Left on 15 February 2013).	<b>50-55</b> plus lump sum of <b>145-150</b>	<b>0-2.5</b> plus lump sum of <b>0-2.5</b>	<b>1,122</b>	<b>1,118</b>	<b>No increase</b>
<b>Mr Robert Burns</b> Inspector of Companies and Head of Investigation and Enforcement Services (Left on 30 November 2012).	<b>45-50</b> plus lump sum of <b>135-140</b>	<b>0-2.5</b> plus lump sum of <b>0-2.5</b>	<b>1,056</b>	<b>1,009</b>	<b>No increase</b>
<b>Mrs Sharon Burd</b> Chief Finance Officer (From 2 April 2012 to 20 August 2012; and 14 January 2013 to 31 March 2013).	<b>0-5</b> plus lump sum of <b>Nil</b>	<b>0-2.5</b> plus lump sum of <b>No increase</b>	<b>22</b>	<b>0</b>	<b>18</b>
<b>Ms Alex Craker</b> Director of Change (Joined on 1 May 2012).	<b>0-5</b> plus lump sum of <b>Nil</b>	<b>0-2.5</b> plus lump sum of <b>No increase</b>	<b>24</b>	<b>0</b>	<b>20</b>
<b>Mr Terence Hart</b> Director of Organisational Development (From 1 April 2012 to 30 April 2012).	<b>25-30</b> plus lump sum of <b>85-90</b>	<b>0-2.5</b> plus lump sum of <b>0-2.5</b>	<b>506</b>	<b>504</b>	<b>1</b>
<b>Mrs Valentina Partellas</b> Acting Director of Human Resources (From 2 April 2012 to 31 March 2013).	<b>25-30</b> plus lump sum of <b>75-80</b>	<b>5.0-7.5</b> plus lump sum of <b>15.0-17.5</b>	<b>431</b>	<b>320</b>	<b>93</b>
<b>Mrs Marian Joyce</b> Director of Strategy, Planning and Communications.	<b>30-35</b> plus lump sum of <b>90-95</b>	<b>0-2.5</b> plus lump sum of <b>2.5-5.0</b>	<b>591</b>	<b>545</b>	<b>14</b>

1 The actuarial factors used to calculate CETVs were changed in 2012/13. The CETVs at 31/3/12 and 31/3/13 have both been calculated using the new factors, for consistency. The CETV at 31/3/12 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

## Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (classic, premium or classic plus); or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 1.5% and 3.9% of pensionable earnings for **classic** and 3.5% and 5.9% for **premium, classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2013. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

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

Further details about the Civil Service pension arrangements can be found at the website <http://www.civilservice.gov.uk/pensions>

## Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the

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

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

## Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

## Compensation for loss of office

No employees included on the remuneration report received any compensation for loss of office.

A handwritten signature in black ink that reads "Richard Judge". The signature is written in a cursive, flowing style.

Dr Richard Judge  
Inspector General and Chief Executive

9th July 2013

## 9

# Statements, certificate and report

## Statement of Accounting Officer's responsibilities

Under section 7 of the Government Resources and Accounts Act 2000 the Treasury has 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 state of affairs of the Service and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular 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 judgments 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 a going concern basis

The Accounting Office for the Department for Business, Innovation and Skills has designated the Chief Executive as the Accounting Officer of the Insolvency Service. The responsibilities of an Accounting Officer, including the responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Service's assets, are set out in *Managing Public Money* issued by HM Treasury.

## Governance statement

The Insolvency Service is an executive agency of The Department for Business, Innovation and Skills (BIS). As such it is fully accountable to Parliament through Ministers.

### Governance structure

This section describes the governance arrangements in place during 2012-13. These changed significantly on 1st April 2013 to reinforce accountabilities and to enhance the role of the non-executive board members. Membership of the Directing and Steering Boards during 2012-13 is provided in the remuneration report on page 21. Details of the revised arrangements for 2013-14 are formalised in our Framework Document which is available to download at <http://www.bis.gov.uk/insolvency/About-us/BoardMeetings>.

The Minister responsible for Employment Relations, and Consumer Affairs will account for the Insolvency Service's business in Parliament. The Principal Accounting Officer (PAO) for BIS is accountable to Parliament for the issue of financial resources to the agency. The BIS sponsor is the

Director General of Market Frameworks, who was a member of the Steering Board and is The Chief Executive's line manager. The PAO and departmental sponsor are responsible for advising Ministers on an appropriate framework of objectives and targets for the agency; on an appropriate budget and reporting on performance and delivery of value for money.

The Chief Executive as Accounting Officer, has personal responsibility to Parliament for maintaining a sound system of governance, risk management and internal control that supports the achievement of the Insolvency Service's policies, aims and objectives. This responsibility includes safeguarding public funds and assets, in accordance with HM Treasury guidance, in particular Managing Public Money. To deliver this role the Chief Executive as Accounting Officer is supported and challenged by the Steering Board.

The Steering Board had responsibility for providing oversight on the governance of the Insolvency Service, its corporate plan, targets and performance. It also advised the executive on strategic matters, reviews, risk and risk management and otherwise provided challenge and support to the executive. Membership of the Steering Board included an independent Chair, three Non-Executive Members, senior officials from BIS and the agency's senior executives.

The Steering Board met six times during the year. Matters considered by them included:

- a review of the strategic direction to agree a 3-5 year strategy and associated actions to tackle deficit, to create a stronger, more resilient organisation, and to be able to respond to volatile changes in demand
- revised governance arrangements, including the establishment of new Board structures and a refreshed framework document
- a review of our Corporate Plan, annual budgets and associated delivery targets including consideration of the degree of alignment between INSS targets, Departmental and wider Government aims
- the regular assessment of exposure to and management of risk
- the monitoring of performance against key targets and financial allocations

The Audit Committee was a sub-committee of the Steering Board and is chaired by an independent non-executive member of the Steering Board. Its membership is completed by two further independent non-executive board members. Internal and external auditors attended all formal meetings. The Committee receives reports from both internal and external auditors and from the agency's Risk Committee including, when appropriate, on the accuracy of the data held in our systems and how it is extracted for management use.

The Audit Committee provided support to the Chief Executive as Accounting Officer. It reviewed the annual financial statements prior to publication and provided assurance to the Steering Board on controls and risk. The Audit Committee met four times during the year. Matters considered by them included:

- the post-implementation impact of our general ledger package (Agresso) within our estates accounts, and received assurances throughout the year on progress being taken to improve legacy issues as well as discussing how future fee recoveries and debtor levels are assessed
- approval of the internal audit plan, review of quarterly internal audit summary reports and annual audit opinion on risk management, governance and internal control

- a review of the work undertaken by the agency's Risk Committee and scrutiny of the agency Risk Register
- the agency Annual Report and Accounts and ISA (White Paper) Accounts. Work on both was regularly reviewed by the Audit Committee
- counter fraud management and arrangements

Responsibility for operational and financial management resided with the Directing Board, which was the Insolvency Service's executive committee chaired by the Chief Executive. A system of Directing Board sub-committees was in place to support the Directing Board. These sub-committees dealt with Operational Policy, Finance and Business Planning, Risk Management and Corporate Services. The Directing Board met twice a month and reviewed progress against key targets, financial performance, risk and other issues of strategic significance.

### Effectiveness of Steering Board and Audit Committee performance

The table below shows Non-Executive attendance at Board and Committee meetings held during 2012-13.

Non Executive Directors	Steering Board (6 in year)	Audit Committee (4 in year)
Phil Wallace (Chair of Steering Board to 31st August 2012) **	2	2
David Ereira (Chair of Steering Board from 1st September 2012)	3	3
Derek Morrison (Chair of Audit Committee)	6	4
Peter Holmes	3	*
Pat Boyden	5	2

\* Not a member of the Committee.

\*\* Appointment expired end August 2012.

A self-assessment of the Steering Board's effectiveness was carried out, by all Board members using questionnaires as the basis for discussion. The Audit Committee undertook a self-assessment of their performance by reviewing compliance against HM Treasury's guidance *The Audit Committee Handbook*.

Areas that both assessments highlighted for improvement, was the need for clearer instructions for new members on their roles and responsibilities, which is to be provided in revised letters of appointment, together with implementing a more structured induction programme for new Board members.

As noted above, the Governance structure for the Insolvency Service changed on 1st April 2013. Relevant principles and protocols outlined in the *Corporate Governance in Central Government Departments: Code of Good Practice* (2011) have been adopted in these refreshed arrangements.



## Internal control framework

### Delegated authorities

The context for delegated authorities is an established Business Planning process. All Directorates have local Plans linked to the Insolvency Service Business Plan. These are reviewed and updated as necessary at the mid-year stage. Directorate Plans in turn are supported by team plans and individual performance agreements. The agency's budgets are allocated at Director level, in line with Directorate Plans, and monitored by the Directing Board and Director Management teams.

A system of delegations and approvals is in place through the organisation to ensure that proper processes exist for the assessment, approval and authorisation of new expenditure. The Accounting Officer's delegations are set by BIS and sub-delegated to Directors.

### Internal audit

The audit programme is delivered in partnership by BIS Internal Audit and the agency's Corporate Governance Section, and complies with Government Internal Audit Standards. The annual audit programme is substantially informed by the agency's key risks and is reassessed throughout the year to ensure assignments due are still in areas deemed at highest risk.

The audits also cover wider responsibilities, for example the control framework covering redundancy payments from the National Insurance Fund. This particular assurance supported a positive statement to the Accounting Officer in HMRC about the control environment linked to the redundancy payments system.

### Customer feedback and complaints processes

The Insolvency Service maintains insight on how service delivery is perceived by customers via a user satisfaction survey and a complaints process. The results of the user satisfaction survey for 2012-13 was positive with 95.7% either satisfied or very satisfied with the service they received. The complaints process has two internal complaint tiers. The first tier investigates and responds; the second is designed to review the decision taken at the first tier. A third tier (external) utilises the Adjudicator's Office, an independent complaints adjudication body, which investigates complaints referred by a complainant about our service. The complainant and the agency are either given assurance that the complaint has been correctly handled or the Adjudicator advises what further action the agency should take if the complaint is upheld.

During the year, the Adjudicator investigated 14 complaints, of which 12 were not upheld. Two complaints were partially upheld. The elements of the complaints that were upheld were firstly, in relation to a delay in releasing monies due and secondly, a delay in collecting accounting records.

### Information security

The agency's Senior Information Risk Owner (SIRO) oversees information risk and is supported in the role by an IT Security Officer and a network of Information Asset Owners from across the business.

A self-assessment against The Cabinet Office Security Policy Framework was undertaken, which has been validated by Internal Audit. The outcome demonstrates that the business is at or above Level 2/3 (largely compliant/fully compliant). There were no significant data losses reported in 2012-13.

## Tax arrangements

During 2012, the Government reviewed the tax arrangements of public sector appointees. This highlighted the possibility of arrangements that might enable tax avoidance, such as by the use of personal service companies. Recommendations of the review were published in May 2012, including measures for Departments to implement from August 2012.

In response, the Insolvency Service has implemented a policy developed by the Department of Business, Innovation and Skills. All new contracts and contract renewals have been amended to include a clause which allows us to gain assurance that individuals are paying the correct amount of tax with no contracts to be entered into or renewed without this clause. Tax assurance evidence has been sought and scrutinised to ensure it is sufficient to provide the relevant assurance and contracts terminated where it has not been forthcoming.

## Risk profile

The Insolvency Service maintains an Agency Risk Register which captures current financial, reputational, operational, information or legal risks and then details the controls put in place to mitigate those risks. Each risk was owned by an individual Directing Board member who assesses the risk by reference to likelihood, impact and organisational risk appetite.

The Agency Risk Register was managed through the Risk Management Committee which reviews the scoring and control of individual risks. The Register was also scrutinised by the Directing Board and the Audit Committee to ensure that the correct risks were included and that controls were consistent with risk appetite. The Agency Risk Register links to local (Directorate) Risk Registers and is used to inform the annual Audit Plan. Key risks identified and managed during the year related to:

- reducing the risk of fee write-offs by actively monitoring levels of fee recovery. Improved recoveries for case years from 2010 have reduced the bad debt write off from 12% to 6% for these years. This improving position reflects a revised fee structure put in place in 2010, a reduction in the amount of income a bankrupt could retain in an IPA/O and successful Payment Protection Insurance claims have all helped increase recoveries. Ongoing analysis and improvements in management information available have also assisted in managing this risk
- maintaining service delivery by actively managing the rate of reduction in operational and resource costs as demand fell. Cases continued to fall in 2012-13. Two voluntary exit schemes were held during the year and eligibility was targeted to specific grades and/ or offices/ sections which helped to reduce the risk of a negative impact on service delivery, as evidenced by strong performance against ministerial targets and budgets
- mitigating potential reputation risks resulting from the LEAP (Legal Entitlements and Payments) correction exercise. The Redundancy Payment Service received legal advice regarding the interpretation of section 186 of the Employment Rights Act 1996 that changes the way claims to individuals are calculated. The Insolvency Service has liaised closely with HMRC throughout the year to reach agreement on how the exercise should be conducted, with decisions agreed with Ministers where appropriate. A pilot will commence making payments in April 2013. The full exercise, which involves a high level of automation via IT, is expected to be launched in January 2014
- mitigating project risks, costs and impact on strategy linked to delays in delivery of the Desktop 21 IT solution. Productively working with IT partners (ATOS and Thales) on agreed implementation plans. Risks mitigated through robust programme and project management and contractual

liabilities in respect of delays. Forward planning in place to support wider organisational strategy (Direction of Travel) at earliest opportunity pre and post implementation

The Insolvency Service is refreshing detail within its risk processes in 2013-14. Although the current process works well, improvements have been identified that will further strengthen our approach. These include a clearer separation of strategic and operational risks, and an improved quantification of impacts to reflect the Board's risk appetite and to enhance consistency when reporting risks.

## Significant Issues

The Insolvency Service is dealing with the impact of a broad range of legacy issues resulting from the spike in caseload seen over the past decade and tackling the associated deficit. Issues managed through the year, and where further action is planned as part of our 5 year strategy, include:

- addressing overcapacity and excess estates as demand for our services falls, while maintaining service levels and ensure on-going flexibility
- introducing reliable IT infrastructure, developing more integrated ways of working and sustaining our investment in people and professional capability to improve efficiency and secure longer term resilience
- ensuring fee structures are robust in the face of volatile case numbers and low asset values in insolvent estates
- addressing required improvements to collecting and reporting operational performance data to support day to day decision making and Board oversight
- managing the impact on staff engagement while the Insolvency Service is undergoing significant change and restructuring.

## Summary of effectiveness on internal control

The Head of Internal Audit provides a report annually on the internal audit activity during the year. The report provides an opinion on the adequacy and effectiveness of internal control and for 2012-13 the assessment given is "Satisfactory". This was recognition that management had strengthened controls in operational processes, which had been identified by auditors as weak early in the financial year. The weaknesses identified were not considered to be systemic.



Dr Richard Judge  
Inspector General and Chief Executive

9th July 2013

## The Certificate and Report of the Auditor General (2 pages)

### 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 for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

#### Respective responsibilities of the Chief Executive and auditor

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

#### Scope of the audit of the financial statements

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

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

#### Opinion on regularity

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

#### Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Insolvency Service's affairs as at 31 March 2013 and of the net operating cost for the year then ended; and

- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder

### Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000, and
- the information given in Section One – Management Report of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements

### Matters on which I report by exception

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

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

### Report

I have no observations to make on these financial statements.

**Amyas C E Morse**

**Comptroller and Auditor General**

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

11 July 2013

## Statement of Comprehensive Net Expenditure

for the year ended 31 March 2013

			2012-13	2011-12
			£'000	£'000
	Note	Staff Costs	Other Costs	Income
<b>Administration Costs</b>				
Staff Costs	3	7,042		6,506
Other Administrative Costs	4		6,507	9,264
Operating Income	6			(8,859)
				(9,200)
<b>Programme Costs</b>				
Staff Costs	3	70,154		70,478
Programme Costs	5		39,105	71,616
Income	6			(76,047)
				(94,928)
<b>Totals</b>		<b>77,196</b>	<b>45,612</b>	<b>(84,906)</b>
<b>Net Operating Cost</b>				<b>37,902</b>
				<b>53,736</b>

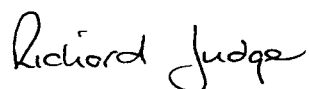
All income and expenditure is derived from continuing operations. There is no other comprehensive expenditure.

The Notes on pages 40 to 75 form part of these Accounts

# Statement of Financial Position

as at 31 March 2013

		2013	2012
		£'000	£'000
	<b>Note</b>		
<b>Non-current assets:</b>			
Property, Plant and Equipment	8	1,872	2,260
Intangible Assets	9	8,073	8,630
Financial Assets	12	13,301	26,859
<b>Total Non-Current Assets</b>		<b>23,246</b>	<b>37,749</b>
<b>Current Assets:</b>			
Other Current Assets	12	3,016	3,744
Financial Assets	12	30,072	29,839
Cash and Cash Equivalents	13	33,227	55,067
<b>Total Current Assets</b>		<b>66,315</b>	<b>88,650</b>
<b>Total Assets</b>		<b>89,561</b>	<b>126,399</b>
<b>Current Liabilities</b>			
Trade and Other Payables	14	(57,560)	(101,371)
Provisions	15	(1,809)	(7,163)
<b>Total Current Liabilities</b>		<b>(59,369)</b>	<b>(108,534)</b>
<b>Non-Current Assets Less Net Current Liabilities</b>		<b>30,192</b>	<b>17,865</b>
<b>Non-Current Liabilities:</b>			
Provisions	15	(4,634)	(3,092)
<b>Total Non-Current Liabilities</b>		<b>(4,634)</b>	<b>(3,092)</b>
<b>Assets less Liabilities</b>		<b>25,558</b>	<b>14,773</b>
<b>Taxpayers' Equity:</b>			
General Fund		25,558	14,773
<b>Total Taxpayers' Equity</b>		<b>25,558</b>	<b>14,773</b>



Dr Richard Judge  
Inspector General and Chief Executive

9th July 2013

The Notes on pages 40 to 75 form part of these Accounts

## Statement of Cash Flows

for the year ended 31 March 2013

		2012-13	2011-12
		£'000	£'000
	<b>Note</b>		
<b>Cash Flows from Operating Activities</b>			
Net Operating Cost	SoCNE	(37,902)	(53,736)
Adjustments for non-cash transactions			
Depreciation and Amortisation charge	8,9	3,357	6,335
Operating cost Impairment of Non-Current Asset		0	2,391
Audit Fee	4	70	70
Loss on Disposal	8	176	0
Movement in Provisions	15	(3,812)	4,866
(Increase)/Decrease in Trade Receivables	12	14,053	25,006
Increase/(Decrease) in Trade Payables	14	(43,811)	(4,636)
<b>Net Cash Outflow from Operating Activities</b>		<b>(67,869)</b>	<b>(19,704)</b>
<b>Cash Flows from Investing Activities</b>			
Purchase of Property, Plant and Equipment	8	(1,153)	(730)
Purchase of Intangible Assets	9	(1,435)	(625)
<b>Net cash Outflow from Investing Activities</b>		<b>(2,588)</b>	<b>(1,355)</b>
<b>Cash Flows from Financing Activities</b>			
BIS Financing		52,811	60,916
VAT recovered by BIS		(3,614)	(4,145)
Capital element of payments in respect of Finance Leases and Service Concession Arrangements		(580)	(2,665)
<b>Net Financing</b>		<b>48,617</b>	<b>54,106</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents in the period</b>		<b>(21,840)</b>	<b>33,047</b>
<b>Cash and Cash Equivalents at the beginning of the period</b>	13	<b>55,067</b>	<b>22,020</b>
<b>Cash and Cash Equivalents at the end of the period</b>	13	<b>33,227</b>	<b>55,067</b>

The Notes on pages 40 to 75 form part of these Accounts



## Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2013

		General Fund £'000	Total Reserves £'000
	Note		
<b>Balance at 1 April 2011</b>		<b>14,333</b>	<b>14,333</b>
<b>Comprehensive Expenditure for the Year 2011-12</b>			
Non-cash charges – Auditor's Remuneration	4	70	70
Net Operating Cost for the year	SoCNE	(53,736)	(53,736)
BIS Financing		60,916	60,916
Capital element of payments in respect of Finance Leases and Service Concession Arrangements		(2,665)	(2,665)
VAT recovered by BIS		(4,145)	(4,145)
<b>Balance at 31 March 2012</b>		<b>14,773</b>	<b>14,773</b>

### Comprehensive Expenditure for the Year 2012-13

Non-cash charges – Auditor's Remuneration	4	70	70
Net Operating Cost for the year	SoCNE	(37,902)	(37,902)
BIS Financing		52,811	52,811
Capital element of payments in respect of Finance Leases and Service Concession Arrangements		(580)	(580)
VAT recovered by BIS		(3,614)	(3,614)
<b>Balance at 31 March 2013</b>		<b>25,558</b>	<b>25,558</b>

The Notes on pages 40 to 75 form part of these Accounts

# 10

## Notes to the Agency's accounts

### 1 Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2012-13 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Insolvency Service for the purpose of giving a true and fair view has been selected. The particular policies adopted by the agency are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

#### 1(a) Accounting pronouncements

There are no new accounting pronouncements which have been adopted early or which have not yet been adopted by the agency. Such pronouncements would be by or endorsed by the International Accounting Standards Board (IASB) and would include:

- (i) the accounting standards i.e. International Accounting Statements (IAS) and International Financial Reporting Standards (IFRS); and
- (ii) interpretations thereof issued by the Standards Interpretations Committee (SIC) or its successor, the International Financial Reporting Interpretations Committee (IFRIC).

#### 1(b) Accounting convention

These accounts have been prepared under the historical cost convention. Financial assets are stated at their fair value as required.

#### 1(c) Administration and Programme expenditure

The Financial Memorandum sets out the financial framework within which the Insolvency Service has operated since 1 April 2004. It has been agreed between the Department for Business Innovation and Skills (BIS) and the agency and is annexed to the agency's Framework Document. Since 1 April 2004 the Insolvency Service has operated under a net funding regime agreed by HM Treasury.

The Insolvency Service aims to recover the full cost of its activities either from fees and charges from users of the agency, from HM Revenue & Customs in respect of the administration of the Redundancy Payment Scheme (RPS) or from direct funding from BIS in respect of insolvency policy and investigation (other than official receiver investigations) and enforcement.

As a net funded regime, the resource expenditure and income of the Insolvency Service will count against BIS's Departmental Expenditure Limit (DEL).

The Statement of Comprehensive Net Expenditure is analysed between administration and programme income and expenditure. Administration costs reflect the costs of the Insolvency Service as defined under the Consolidated Budgeting Guidance, together with the associated operating income.

Administration spending covers the cost of all administration other than the cost of direct frontline service provision. Activities that are directly associated with frontline service delivery are considered to be programme. In practice administration costs include activities such as the provision of policy advice, business support services and back-office functions.

The Insolvency Service has classified administration costs in accordance with HM Treasury Consolidated Budgeting Guidance 2012-13. The agency has developed a detailed profile of administrative costs (including overhead cost and the basis of its apportionment) which forms the basis for budgeting, monitoring, control and reporting of such costs. Methodologies used for the apportionment of costs are recorded to provide a robust audit trail.

#### **1(d) Management judgements and estimation uncertainties**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Judgments made by management that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the relevant note to the financial statements.

#### **1(e) Property, Plant and Equipment (PPE)**

PPE are non-current assets that are held by the Insolvency Service for use in the supply of services or for administrative purposes and are expected to be used during more than one accounting period. IAS 16 prescribes the accounting treatment for PPE so that users of the financial statements can discern information about the Insolvency Service's investment in its PPE and the changes in such investment.

The minimum level for capitalisation of PPE is £2,000. The Insolvency Service has determined a threshold level which ensures the agency's asset values are materially complete. PPE with a cost below the chosen capitalisation threshold is expensed in the period of purchase. Recognition depends on two criteria:

- (i) it is probable that future economic benefits associated with the asset will flow to the agency and;
- (ii) the cost of the asset to the agency can be measured reliably.

Initial measurement of an item of PPE will be at cost. Some costs can be included if they are directly attributable to bringing the asset to working condition for its intended use. In accordance with the FRoM, the Insolvency Service has adopted depreciated historical cost as a proxy for fair value, as the useful life is a realistic reflection of the life of the asset and the depreciation method provides a realistic reflection of the consumption of the assets.

Therefore, with effect from 1 April 2009, the Insolvency Service ceased to use indices to restate PPE to current cost and brought forward balances as at 1 April 2009 represent historic cost. PPE are carried at depreciated historical cost less impairment losses.

### 1(f) Depreciation

Depreciation is the allocation of the depreciable amount of an asset over its estimated useful life. Depreciable assets are those which:

- (i) are expected to be used during more than one accounting period;
- (ii) have a limited useful life; and
- (iii) are held by the Insolvency Service for the use in the supply of services or for administrative purposes.

Depreciation is provided on PPE assets, at rates calculated to write-off the valuation, less any residual value, of each asset over its expected useful life. The depreciation method reflects the pattern in which the asset's economic benefits are consumed by the Insolvency Service.

Computers unless otherwise stated	3 to 5 years
Office machinery	3 to 15 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(g) Intangible Assets and Amortisation

Intangible assets are identifiable non-monetary assets without physical substance. They may be held for use in the supply of services or for administrative purposes. The asset must be:

- (i) controlled by the Insolvency Service as a result of events in the past; and
- (ii) something from which the agency expects its future economic benefits will flow e.g. computer software.

Amortisation is the allocation of the amortised amount of an asset over its estimated useful life.

The Insolvency Service has adopted amortised historical cost as a proxy for fair value. With effect from 1 April 2009 the agency ceased to use indices to restate intangible assets to current cost and the brought forward balances as at 1 April 2009 are used as a proxy for historic cost. Intangible assets are carried at cost less accumulated amortisation and impairment losses. Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. The amortisation method reflects the pattern in which the asset's economic benefits are consumed by the agency.

Software licenses	3 to 10 years
Internally developed systems	useful life of the system from date brought into use

### 1(h) Impairments

Impairment is a fall in value of an asset, so that its recoverable amount is less than its carrying value in the balance sheet. The carrying amount is the net value at which the asset is included in the balance sheet i.e. after deducting accumulated depreciation and any impairment losses.

The Insolvency Service carries out a review of its assets at each balance sheet date to assess whether there are any indications of impairment to any assets. The concept of materiality applies, (only material impairments are identified) but if there are indications of impairment losses, the agency will make a formal estimate of the recoverable amount of the assets concerned.

Information about possible impairment may be from both internal sources (e.g. evidence of obsolescence or physical damage) and external sources (e.g. a larger than anticipated fall in an asset's market value or significant technological, market, economic or legal change).

### **1(i) Provisions**

A provision is a liability of uncertain timing or amount. A provision is recognised in the balance sheet when the Insolvency Service has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. It must also be possible to make a reliable estimate of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at the rate determined by HM Treasury for financial liabilities.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Insolvency Service from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Each year the financing charges in the Statement of Comprehensive Net Expenditure include the adjustments to amortise one year's discount so that liabilities are shown at current price levels.

### **1(j) Pensions**

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

### **1(k) Early Departure Costs**

The Insolvency Service, operating as part of the BIS scheme, is required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The agency provides in full for this cost when any early retirement programme is announced and is binding on the agency. The agency 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.

The Insolvency Service is also required to meet the costs of early departures in respect of employees who opt to retire under voluntary exit or redundancy schemes. Where the agency has agreed early retirement, the additional costs are met by the agency and not by the Civil Service pension scheme. These costs are paid in full at the time of the exit or redundancy.

The Civil Service Compensation Scheme (CSCS) was revised in December 2010 so that early leavers are entitled to lump sum compensation depending on their number of years' service. Leavers over the minimum early retirement age (usually 50) have the option to apply their lump sum to enable them to

draw their pension without the usual actuarial reduction. The compensation lump sum by itself will often be insufficient for this purpose and departments have the option to top up the leaver's lump sum payment to ensure a complete buyout of the actuarial reduction. Under the old scheme the legal substance of this arrangement was that the actuarial liability rested with the department not the CSCS. Therefore from an accounting perspective departments had:

- a. treated the lump sum payment as a prepayment
- b. established a creditor for the pension entitlement
- c. on an annual basis release elements of both the prepayment and the creditor to reflect the passage of time such that when normal retirement age is reached both are eliminated.

From 2011-12 HM Treasury confirmed that once the compensation lump sum (including any top-up) has been paid to the scheme to buy out the actuarial reduction, the pension is payable by the scheme and the employing department has no further liability to the former employee. On this basis the PCSPS is acting as principal in respect of these pensions once it has received the lump sum payments. Therefore it is no longer appropriate for creditors and prepayments to be maintained and released over the period to the normal retirement date.

### **1(l) Contingent liabilities**

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

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

### **1(m) Operating Income**

Operating income is income which relates directly to the operating activities of the agency. 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 estate accounting activities. It also comprises fees for the administration of debt relief orders; 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 agency under a service level agreement with HM Revenue & Customs for the administration of the Redundancy Payments Scheme are also treated as operating income. Operating income does not include funding received from BIS under a programme allocation for investigation and enforcement activities carried out by the agency or administration funding for policy activities.

Operating income is stated at its fair value. In most cases, consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is delayed, the fair value of the consideration may be less than the nominal amount of cash received or receivable. In relation to insolvency case administration fee income the fair value of the consideration is determined by

discounting all future receipts using the discount rate for financial assets set by HM Treasury, currently 3.5%.

The Insolvency Service sets its case administration fees in accordance with the principles in Managing Public Money in that it sets its fees to recover full costs including the cost of capital. However, it does not set its fees to recover the costs of discounting receivables to fair value as taking account of one year with the next, the discounting costs will eventually unwind. We therefore adhere to the principle that fees are not set to recover more than 100% of costs. This may lead to the agency recording a deficit on its case administration business which reflects the timing difference between the fair value of the fee income and the eventual finance credit for the unwinding of the discount.

Case administration fees are charged to the insolvent estate at the date of the event giving rise to the fee and it is treated as income in these accounts when it is earned.

### **1(n) Deferred Income**

Deferred income is primarily made up of fees recovered on old regime cases (order dates before 1 April 2004) that have not yet been recognised as income. When the fees were recovered (after 31 March 2004) the Insolvency Service recognised deferred income in respect of its obligation to provide the case administration services.

Fee income from cases commenced before April 2004 is recognised in accordance with IAS18 Revenue Recognition, in that it is matched to the costs incurred in the relevant accounting period. Income is recognised to the extent that the official receiver has performed the case administration functions. The value of the services provided is calculated using the Insolvency Service's costing and time recording systems. Costs to complete the case administration functions can be estimated reliably.

Where there is surplus fee income, (i.e. any amounts which exceed the Insolvency Service's forecast of costs required to complete the work on pre April 2004 cases) it is recognised at the point at which no further costs associated with those revenues remain to be incurred. This can be done either at the end of the period in which those costs are incurred, or more appropriately in proportion to the surplus of those revenues over those costs being identified.

### **1(o) Operating Leases**

Rentals payable under operating leases are charged to the statement of comprehensive net expenditure account on a straight-line basis over the term of the lease.

### **1(p) 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:

- i) depreciation: which is provided on a straight-line basis over the economic useful life of the asset
- ii) 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(q) Service Concession Arrangements**

IFRIC 12 Service Concession Arrangements addresses arrangements where a private sector entity (operator) constructs or upgrades the public sector infrastructure to be used and then operates and maintains the infrastructure for a specified period of time. To be within the scope of IFRIC 12, the service concession arrangement must contractually oblige the private sector operator to provide the services related to the infrastructure to the public on behalf of the grantor. In line with the FReM the infrastructure for public services includes non-current assets used for administrative purposes in delivering services to the public.

IFRIC 12 applies to the public sector those private sector service concession arrangements in which:

- (i) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them and at what price
- (ii) the grantor controls, through beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement

Where the infrastructure asset is used for its entire useful life, and there is little or no residual interest, the arrangement would fall within the scope of IFRIC 12 where the grantor controls or regulates the services as described in the first condition.

The grantor will recognise the infrastructure as a non-current asset and value it in the same way as other non-current assets of that generic type. The asset will be recognised when:

- (iii) it is probable that future economic benefits associated with the asset will flow to the organisation
- (iv) the cost of the asset can be measured reliably

In practice, this means that the grantor will usually only recognise the asset when the asset comes into use.

The unitary payment stream will be separated between the non-current asset element – reported as a non-current asset and related liability – and the finance charge and service element using either the contract or estimation techniques where the elements of the unitary payment stream cannot otherwise be separated.

The grantor will recognise a liability for the capital value of the contract. That liability does not include the interest charge and the service elements, which are expensed annually to the statement of comprehensive net expenditure account. Finance charges are allocated based on the primary period of the arrangement using the implicit rate of interest.

### **1(r) Non-cash Charges**

In accordance with Treasury guidance the following non-cash item is charged to the statement of comprehensive net expenditure account: (i) Audit fee (note 4).

### **1(s) Financial Instruments**

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Financial instruments are recognised in the balance sheet when the Service has become a party to the contractual provisions of the instruments.



### **1(t) Financial Assets**

The Insolvency Service has classified its Case Administration Receivables, Estate Account Receivables, and Receivables for Disqualification costs as Financial Assets. Case Administration Receivables are stated at the amount earned and carried at expected realisable values. Bad Debts are written off when it is established that they are irrecoverable. All Receivables are reviewed as at the reporting period date. Receivables are discounted to reflect the time value of money. The discount rate used is 3.5% which is recommended by HM Treasury to be used for Financial Assets.

### **1(u) Value Added Tax (VAT)**

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

Where VAT is recoverable by the Insolvency Service the expenditure shown in the Statement of Comprehensive Net Expenditure (SoCNE) is net of VAT. Outstanding recoverable VAT on expenditure is included in VAT receivables and is shown in Note 12 to the accounts.

### **1(v) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash at bank.

## **2 Significant areas of judgement**

The Insolvency Service's estimation techniques and underlying assumptions utilised are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period.

The Insolvency Service believes that the most critical accounting policies and significant areas of judgement/estimation arise from accounting for Service Concession Arrangements under IFRIC 12; the method of revenue recognition in relation to case administration fee income and accounting for case administration receivables.

### **2(a) Service Concession Arrangements**

In assessing the fair value of assets associated with Service Concession Arrangements, certain indicative assessments have been received from the operator. These assessments cannot be corroborated independently. The Insolvency Service is satisfied that the assessments are reasonable in that the fair value has been tested against the calculation of the interest rate implicit in the service concession arrangements (Note 8).

Other apportionments have been applied to the costs in relation to the infrastructure asset where the infrastructure and service elements cannot be separated. The various elements have been separated using estimation techniques. We are satisfied that our assessments are reasonable.

### **2(b) Case Administration Revenue Recognition**

The performance of Official Receivers' obligations gives rise to Case Administration Income and Assets, which the Insolvency Service has the right to recognise. The agency measures this by reference to an average casework profile (one for bankruptcy and one for company cases). The casework profile shows the extent to which cases were complete over the year. The agency uses these profiles to calculate the amount of fees charged that should be recognised as income (Note 6).

The first casework profile was agreed by senior management in November 2003 in preparation for the introduction of the new financial regime on 1 April 2004. For the financial years 2004-05, 2005-06 and 2006-07 the same agreed casework profile was used on the basis that it reflected how costs were incurred. There were no significant changes to work processes which required the case profile to be adjusted. There were also no significant changes to the legislation during the period.

Case Administration Fees were increased from 1 April 2007 but only in relation to cases where the insolvency order was on or after 1 April 2007. Fee increases were implemented to ensure that the cost of investigation work carried out by Official Receivers and previously met from BIS funding could be recovered from fees. The casework profile was amended from 1 April 2007 to reflect the change in policy.

Generally, the following assumptions in respect of when the work is performed are valid:

- (i) the work undertaken on cases is front loaded, i.e. a large proportion is undertaken in the first six months
- (ii) the majority of work undertaken by Official Receivers will be completed within three years of an insolvency order

The reasonableness of these assumptions is tested by:

- (i) reviewing the weightings for business planning purposes, which determine the average time spent by each grade of staff
- (ii) reviewing the time-recording data
- (iii) communicating and confirming assumptions with senior managers, Official Receivers and their staff

## **2(c) Case Administration Receivables**

The Insolvency Service must make accounting estimates and judgments regarding the recoverability of its Case Administration Receivables (Note 12). Information is provided here to allow users to understand how the agency has arrived at its estimates. For all of these estimates, it should be noted that future events rarely develop exactly as forecast, and estimates require regular review and adjustment.

The measurement of Case Administration Receivables requires analysis of past trends of recoveries and a review of asset levels in insolvency cases. Asset values can be affected by economic factors e.g. property prices. Employment rates can affect the ability of bankrupts to make a financial contribution to the estate. Economic factors can determine the proportion of cases that have assets and will impact on the recoverability of fees. Judgment is also required in determining the timing of the Case Administration Receivables. To the extent that it is not expected to recover the debt a Bad Debt write-off will be made (Notes 5 and 7.1).

### 3 Staff numbers and related costs

Staff costs comprise:

	2012-13			2011-12		
	Permanently employed	Others	Total	Permanently employed	Others	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	54,909	3,589	58,498	56,659	3,776	<b>60,435</b>
Social security costs	4,207	–	4,207	4,334	–	<b>4,334</b>
Other pension costs	10,668	–	10,668	10,624	–	<b>10,624</b>
Voluntary Exit Scheme – compensation payments	4,033	–	4,033	1,701	–	<b>1,701</b>
<b>Sub Total</b>	<b>73,817</b>	<b>3,589</b>	<b>77,406</b>	<b>73,318</b>	<b>3,776</b>	<b>77,094</b>
Less recoveries in respect of outward secondments	(210)	–	(210)	(110)	–	<b>(110)</b>
<b>Total net costs</b>	<b>73,607</b>	<b>3,589</b>	<b>77,196</b>	<b>73,208</b>	<b>3,776</b>	<b>76,984</b>

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Insolvency Service is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2012-13, employers' contributions of £10,612,192 were payable to the PCSPS (2011-12: £10,570,028) at one of four rates in the range 16.7 to 24.3 per cent (2011-12: 16.7 to 24.3 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2013-14 the rates will be in the range 16.7 to 24.3 per cent. The contribution rates are set to meet the cost of the benefits accruing during 2012-13 to be paid when the members retired and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, which is a stakeholder pension with an employer contribution. Employers' contributions of £47,470 for 2012-13 (2011-12: £46,086) were paid to the three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent (2011-12: 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 £3,204 (2011-12: £3,113) 0.8 per cent of pensionable pay, were 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. Contributions due to the partnership pension providers at the reporting period date were £4,763 (2011-12: £4,205). Contributions prepaid at that date were nil (2011-12: £nil).

1 person (2011-12: 1 person) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £1,635 (2011-12: £3,471).

#### Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows.

Number	2012-13			2011-12		
	Total	Permanent staff	Others	Total	Permanent staff	Others
Directly Employed	1,966	1,966	–	2,253	2,253	–
Other	148	148	–	147	147	–
Staff engaged on Capital Projects	4	4	–	–	–	–
<b>Total</b>	<b>2,118</b>	<b>2,118</b>	<b>–</b>	<b>2,400</b>	<b>2,400</b>	<b>–</b>

The figures above for average number of persons employed include the number of staff engaged on Capital Projects; costs of £231k have been capitalised in 2012-13. These costs are primarily for the Desktop 21 project (see Note 8 for PPE costs and Note 18 for details of the Desktop 21 project).

### 3.1 Reporting of Civil Service and other compensation schemes – exit packages

Exit package by cost band £	Number of Compulsory Redundancies	Number of other departures agreed	Total number of exit packages by cost band
<10,000	–	4 (12)	4 (12)
10,001 – 25,000	–	29 (34)	29 (34)
25,001 – 50,000	–	32 (12)	32 (12)
50,001 – 100,000	–	21 (8)	21 (8)
100,001 – 150,000	–	4 (0)	4 (0)
150,001 – 200,000	–	1 (1)	1 (1)
200,001 – 250,000	–	0 (0)	0 (0)
<b>Total number of exit packages</b>	<b>–</b>	<b>91 (67)</b>	<b>91 (67)</b>
<b>Total Resource cost / £'000s</b>	<b>–</b>	<b>4,033 (1,701)</b>	<b>4,033 (1,701)</b>

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

Departures were under a Voluntary Redundancy Scheme or a Voluntary Exit Scheme based on the terms of the CSCS. The Insolvency Service recognised the full cost of the departures in the SoCNE. 45 staff departed under a Voluntary Redundancy Scheme at a cost of £1,343,575, and 46 staff departed under a Voluntary Exit Scheme at a cost of £2,689,455.

#### 4 Other administrative costs

	2012-13	2011-12
	£'000	£'000
IT infrastructure expenses	1,125	1,826
Accommodation	1,132	1,429
Operating leases – accommodation	1,098	1,241
Operating leases – computers	937	1,170
BIS overhead including provision of shared services	99	849
Other costs	269	689
General administrative expenses	596	646
Travel and subsistence	211	277
Operating leases – office machinery	85	84
Non-cash items:		
Depreciation	360	822
Amortisation	525	161
Audit Fee	70	70
<b>Total</b>	<b>6,507</b>	<b>9,264</b>

## 5 Programme costs

	2012-13	2011-12
	£'000	£'000
Legal and other costs of investigation and enforcement	9,448	9,861
Operating leases – accommodation	5,691	7,326
Accommodation	6,234	6,132
IT infrastructure expenses	2,549	3,537
Operating leases – computers	3,798	3,202
General administrative expenses	2,915	2,637
Other costs	1,376	1,882
Disbursements funded from case administration fees	1,671	1,869
BIS overhead including provision of shared services	1,188	1,586
Travel and subsistence	1,001	990
Operating leases – office machinery	321	424
Non-cash items:		
Write offs bad debt for Investigation and Enforcement	565	1,758
Write offs bad debt for banking fees	687	297
Write offs for case administration fees	(2,106)	14,524
Bad debt provision for Investigation and Enforcement	366	124
Provision for Lease Dilapidations	619	3,917
Provision for Fruitless Payments	335	109
Provision for Onerous Leases	417	–
Other Provisions including adverse costs for disqualification proceedings	(159)	4,831
Unwinding of discount for provisions	397	–
Depreciation	1,006	3,336
Amortisation	1,466	2,016
Loss on Disposal	176	–
Impairment of non-current assets	–	2,391
Case admin – unwind discounting of receivables for fees	(856)	(1,133)
<b>Total</b>	<b>39,105</b>	<b>71,616</b>

Included in Non-cash items within net operating costs for 2012-13 is £0.176m of expenditure (a loss on transfer) relating to the transfer (by absorption accounting) of the leasehold interest of 21 Bloomsbury Street to BIS.

## 6 Income

	2012-13	2011-12
Administration income	£'000	£'000
Redundancy Payments Administration	8,859	9,200
<b>Programme income</b>	<b>8,859</b>	<b>9,200</b>
Insolvency Case Administration	66,875	84,496
Case Administration Income accrued from Deferred Income	189	322
Discounting Costs	379	(135)
Estates Accounts	2,202	2,053
Regulation of Insolvency Practitioners	1,405	1,486
Debt Relief Order Administration	2,757	2,725
Investigation and Enforcement	1,942	2,269
Rental Income	298	1,712
<b>Fees recoverable in the period</b>	<b>76,047</b>	<b>94,928</b>

The Case Administration Fee is charged to the estates on the making of the insolvency order but IAS18 (Revenue Recognition) allows fee income to be recognised only in respect of the work undertaken on those cases in the year. The basic principle is that the seller (the Official Receiver) obtains the right to be paid in return for the performance of his obligations under a contractual arrangement. The contractual obligations are set out in the relevant Fees Orders.

Case Administration income accrued from deferred income of £189,418 (2011-12: £322,013), has been transferred from deferred income in accordance with the Insolvency Service's deferred income accounting policy (Note 1(n) and Note 14).

Case Administration income has been increased in 2012-13 by £378,658 (2011-12: decreased by £135,343) to ensure the income is stated at its fair value, in accordance with the Insolvency Service's Financial Instruments Accounting Policy (Notes 1(s) and 1(t)).

Debt Relief Orders (DRO), which were introduced from 6 April 2009, are for those who would otherwise be financially excluded from debt relief solutions such as bankruptcy.

They are intended to provide cheap and easy access to debt relief for those on low incomes, with no assets of value, who are overwhelmed by relatively low levels of debt. A flat fee of £90 is paid by the debtor.

## 7 Segmental reporting

**7.1** All significant activities of the Insolvency Service are derived from the Insolvency Act 1986, The Company Disqualification Act 1986, the Employment Rights Act 1996 and the Companies Act 1985 and are considered for segmental purposes to be one single class of business.

The following information on the main activities of the Insolvency Service is produced for fees and charges purposes and does not constitute segmental reporting under International Financial Reporting Standard 8, Operating Segments.

Administration Costs	Income		Cost of Service		Surplus/(Deficit)	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Activities funded from BIS Financing</b>						
Policy Advice and Development	–	–	1,228	1,478	(1,228)	(1,478)
Investigation and Enforcement	–	–	3,624	4,540	(3,624)	(4,540)
<b>Activities funded by HMRC</b>						
Redundancy Payments Administration	8,859	9,200	8,697	9,752	162	(552)
<b>Total Administration Costs</b>	<b>8,859</b>	<b>9,200</b>	<b>13,549</b>	<b>15,770</b>	<b>(4,690)</b>	<b>(6,570)</b>
<b>Programme Costs</b>						
Programme Costs	Income		Cost of Service		Surplus/(Deficit)	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Activities Funded from Fees</b>						
Insolvency Case Administration	67,443	84,683	65,650	92,659	1,793	(7,976)
Estate Accounts	2,202	2,053	1,653	1,904	549	149
Regulation of Insolvency Practitioners	1,405	1,486	1,050	1,264	355	222
Debt Relief Order Administration	2,757	2,725	2,757	2,726	–	(1)
Other	298	1,712	293	1,741	5	(29)
<b>Total Fee Funded Programme</b>	<b>74,105</b>	<b>92,659</b>	<b>71,403</b>	<b>100,294</b>	<b>2,702</b>	<b>(7,635)</b>
<b>Activities Funded from BIS Financing</b>						
Investigation and Enforcement	1,942	2,269	32,631	36,101	(30,689)	(33,832)
Provision for Lease Dilapidations	–	–	1,016	3,998	(1,016)	(3,998)
Voluntary Exit Scheme	–	–	4,033	1,701	(4,033)	(1,701)
Transfer of Asset to BIS	–	–	176	–	(176)	–
<b>Total BIS Funded Programme</b>	<b>1,942</b>	<b>2,269</b>	<b>37,856</b>	<b>41,800</b>	<b>(35,914)</b>	<b>(39,531)</b>
<b>Total Programme Costs</b>	<b>76,047</b>	<b>94,928</b>	<b>109,259</b>	<b>142,094</b>	<b>(33,212)</b>	<b>(47,166)</b>
<b>Total of all Activities</b>	<b>84,906</b>	<b>104,128</b>	<b>122,808</b>	<b>157,864</b>	<b>(37,902)</b>	<b>(53,736)</b>



The costs of £65,650,102 (2011-12: £92,659,028) in relation to Insolvency Case Administration includes Bad Debt write back of £2,105,854 (2011-12: write-off of

£14,523,729) in relation to fees charged in previous years that are now considered uncollectable. Common costs are apportioned largely on the basis of staff employed on the main activities.

## 7.2 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.

The accounts include the Administration costs and associated income (see Note 7.1) of administering the NI Fund; and the Fund payments and receipts will be published in the Consolidated Resource Accounts of BIS.

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 2012-13 year was £1,529 (2011-12: £2,712). An average amount of £1,301 was paid during 2012-13 for RP2 (2011-12: £1,283).

The receipts related to this scheme 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:** BIS 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.

Most of the payments made from the NI Fund are in respect of employees of insolvent companies and therefore most of the debt is unrecoverable.

## 8 Property, plant and equipment

2012-13	Information Technology £'000	Plant & Machinery £'000	Property Leasehold Enhancements £'000	Assets under Construction £'000	Total £'000
<b>Cost or valuation</b>					
At 1 April 2012	16,195	1,194	430	242	18,061
Additions	92	35	–	1,026	1,153
Disposals	–	–	(176)	–	(176)
Reclassifications	66	–	176	(242)	0
<b>At 31 March 2013</b>	<b>16,353</b>	<b>1,229</b>	<b>430</b>	<b>1,026</b>	<b>19,038</b>
<b>Depreciation</b>					
At 1 April 2012	14,914	481	405	–	15,800
Charged in year	1,178	163	25	–	1,366
At 31 March 2013	16,092	644	430	–	17,166
<b>Carrying value at 31 March 2013</b>	<b>261</b>	<b>585</b>	<b>–</b>	<b>1,026</b>	<b>1,872</b>
<b>Asset financing:</b>					
Owned	261	585	–	–	846
Service concession arrangement	–	–	–	1,026	1,026
<b>Carrying value at 31 March 2013</b>	<b>261</b>	<b>585</b>	<b>–</b>	<b>1,026</b>	<b>1,872</b>

2011-12	Information Technology £'000	Plant & Machinery £'000	Property Leasehold Enhancements £'000	Assets under Construction £'000	Total £'000
<b>Cost or valuation</b>					
At 1 April 2011	15,921	1,260	1,706	366	19,253
Additions	104	190	–	436	730
Disposals	(24)	(38)	–	–	(62)
Impairments	–	(359)	(1,501)	–	(1,860)
Reclassifications	194	141	225	(560)	0
At 31 March 2012	16,195	1,194	430	242	18,061
<b>Depreciation</b>					
At 1 April 2011	11,147	504	850	–	12,501
Charged in year	3,792	173	193	–	4,158
Disposals	(24)	(38)	–	–	(62)
Impairments	–	(158)	(638)	–	(796)
<b>At 31 March 2012</b>	<b>14,915</b>	<b>481</b>	<b>405</b>	<b>–</b>	<b>15,801</b>
<b>Carrying value at 31 March 2012</b>	<b>1,280</b>	<b>713</b>	<b>25</b>	<b>242</b>	<b>2,260</b>
<b>Asset financing:</b>					
Owned	591	713	25	242	1,571
Service concession arrangement	689	–	–	–	689
<b>Carrying value at 31 March 2012</b>	<b>1,280</b>	<b>713</b>	<b>25</b>	<b>242</b>	<b>2,260</b>

## 9 Intangible Assets

2012-13	Software licences £'000	Internally developed system £'000	Asset under construction £'000	Total £'000
<b>Cost or valuation</b>				
At 1 April 2012	2,023	10,305	3	12,331
Additions	168	–	1,267	1,435
Reclassifications	3	293	(296)	–
<b>At 31 March 2013</b>	<b>2,194</b>	<b>10,598</b>	<b>974</b>	<b>13,766</b>
<b>Amortisation</b>				
At 1 April 2012	1,788	1,914	–	3,702
Charged in year	101	1,890	–	1,991
<b>At 31 March 2013</b>	<b>1,889</b>	<b>3,804</b>	<b>–</b>	<b>5,693</b>
<b>Carrying value at 31 March 2013</b>	<b>305</b>	<b>6,794</b>	<b>974</b>	<b>8,073</b>
<b>Asset financing:</b>				
Owned	305	5,199	974	6,478
Finance leased	–	1,595	–	1,595
<b>Carrying value at 31 March 2013</b>	<b>305</b>	<b>6,794</b>	<b>974</b>	<b>8,073</b>

2011-12	Software licences £'000	Internally developed system £'000	Asset under construction £'000	Total £'000
<b>Cost or valuation</b>				
At 1 April 2011	2,023	11,888	27	13,938
Additions	–	–	625	625
Impairments	–	(2,232)	–	(2,232)
Reclassifications	–	649	(649)	–
<b>At 31 March 2012</b>	<b>2,023</b>	<b>10,305</b>	<b>3</b>	<b>12,331</b>
<b>Amortisation</b>				
At 1 April 2011	1,309	1,120	–	2,429
Charged in year	478	1,699	–	2,177
<b>Impairments</b>	<b>–</b>	<b>(905)</b>	<b>–</b>	<b>(905)</b>
<b>At 31 March 2012</b>	<b>1,787</b>	<b>1,914</b>	<b>–</b>	<b>3,701</b>
<b>Carrying value at 31 March 2012</b>	<b>236</b>	<b>8,391</b>	<b>3</b>	<b>8,630</b>
<b>Asset financing:</b>				
Owned	236	6,441	3	6,680
Finance leased	–	1,950	–	1,950
<b>Carrying value at 31 March 2012</b>	<b>236</b>	<b>8,391</b>	<b>3</b>	<b>8,630</b>

## 10 Financial Instruments

The object of IAS 32 Financial Instruments: Presentation and Disclosure and IFRS 7 Financial Instruments: Disclosure is to enhance Financial Statement users' understanding of the significance of on-balance sheet and off-balance sheet financial instruments to an entity's financial position, performance and cash flows. The two main categories of disclosures required by IFRS 7 are:

- (i) information about the significance of Financial Instruments
- (ii) information about the nature and extent of risks arising from Financial Instruments.

A Financial Instrument is any contract that gives rise to both a Financial Asset of one entity and Financial Liability or Equity Instrument of another entity.

A Financial Asset is any asset that is cash or a contractual right to receive cash or another Financial Asset from another entity.

A Financial Liability is any liability that has contractual obligations to deliver cash or another Financial Asset to another entity.

### Significance

The Insolvency Service has classified its Case Administration Fee Receivables as Financial Assets. The majority of Case Administration Fees are recovered over a period of 6 years but a small proportion will be recovered beyond 6 years, as the recoveries can only be made when assets are recovered in

an insolvent estate. The receivables therefore play a significant medium to long-term role in the financial risk profile of the agency. The timing of the recoveries exposes the agency to interest rate risk. Accounting estimates and judgements regarding the recoverability of Case Administration Receivables are disclosed (Note 2(c)).

### **Risk**

Interest rate risk is the risk that the value of a Financial Instrument will fluctuate due to changes in market interest rates. The Insolvency Service discounts its Financial Assets at the rate determined by HM Treasury for Financial Assets, currently 3.5%.

As the cash requirements of the Insolvency Service are met through the government Estimates process, Financial Instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of Financial Instruments relate to contracts to buy non-financial items in line with the agency's expected purchase and usage requirements and the agency is therefore exposed to little credit, liquidity or market risk.

## **11 Impairments**

The Insolvency Service carried out an impairment review during the year (as at 31 March 2013) comparing the carrying amounts of PPE and Intangible Assets with their recoverable amount. The carrying amount is the value in the Statement of Financial Position (SoFP), while the recoverable amount is the higher of net realisable value and value in use. If the net realisable value cannot be ascertained then the value in use is taken.

There have been no impairments to The Insolvency Service's PPE or Intangible Assets during 2012-13.

## 12 Trade Receivables, Financial and Other Assets

	2012-13	2011-12
	£'000	£'000
<b>Trade Receivables and Other Assets</b>		
<b>Amounts falling due within one year:</b>		
Prepayments	3,016	3,744
	<b>3,016</b>	<b>3,744</b>
<b>Financial Assets</b>		
<b>Amounts falling due within one year:</b>		
Receivables for Fees – Case Administration	21,119	25,425
Receivables for Disqualification Costs	1,309	1,198
Receivables for Fees – Estate Accounts	799	1,038
VAT receivables	844	909
Staff receivables	216	248
Other receivables	5,785	1,021
	<b>30,072</b>	<b>29,839</b>
<b>Amounts falling due after more than one year:</b>		
Receivables for Fees – Case Administration	11,301	24,448
Receivables for Disqualification Costs	1,793	2,201
Staff receivables	207	210
	<b>13,301</b>	<b>26,859</b>
<b>Total Financial Assets</b>	<b>43,373</b>	<b>56,698</b>
<b>Total</b>	<b>46,389</b>	<b>60,442</b>

<b>Intra-Government Balances:</b>	2012-13	2011-12
	£'000	£'000
Department for Business Innovation and Skills	5,011	168
Other Central Government Bodies	844	909
Local Authorities	–	–
Bodies external to Government	40,534	59,365
<b>Total</b>	<b>46,389</b>	<b>60,442</b>

The receivables for Disqualification Costs have been reduced by a Provision for Doubtful Debt of £1,547,169 (2011-12: £1,181,100). The receivables for Estate Accounts Fees have been reduced by a Bad Debt write-off of £686,507 (2011-12: £297,457). Other receivables includes an amount of £4,974,575 due from BIS to recover the costs paid by the Insolvency Service in 2012-13 to complete works on premises at 21 Bloomsbury Street to reflect that the agency was acting as agent for BIS.

Included within the above figures are Receivables for Fees – Case Administration. The balance is £21.119m for amounts expected to be recovered within one year (2011-12: £25.425m) and

£11.301m for amounts expected to be recovered in more than one year (2011-12: £24.448m). This figure represents sums recoverable by the Insolvency Service for Case Administration work undertaken, but not yet received.

As explained in Notes 2(b) and 6, the Insolvency Service, in accordance with IAS18, does not recognise income on the basis of actual fee recoveries. Income is based on the average cost of work undertaken and recognised over a period of 36 months in relation to the work effort expended, regardless of when cash receipts are banked.

The costs of administering bankruptcy or companies winding up are reflected in a case fee. This fee is currently fixed at £1,715 for Bankruptcies and £2,235 for Companies Winding-Up. In practice, the Insolvency Service recovers its fees in part through the receipt of a deposit (£525 for Debtor Petitions, £700 for Creditor Petitions and £1,165 for Companies) with the balance met as assets in bankruptcy or winding up are realised. Cash recoveries from asset realisations lag behind income recognised in the accounts and the difference between the two is therefore reported as a receivable.

Not all individuals who enter bankruptcy or companies being wound up have sufficient assets to cover the case administration fees. This shortfall is in part made good by the addition of a further fee (Secretary of State fee) on cases where there are assets of more than £2,000 (Bankruptcies) and £2,500 (Companies).

As with the Case Administration fee, recoveries from asset realisations which fund the Secretary of State (SoS) fee lag behind the income attributable to Case Administration and so the difference between the two is included as part of receivables.

### **Factors which influence the timing, nature and amount of future fee recoveries**

The determination of future receivables is subject to considerable uncertainty. It has proved difficult to establish reliable estimates of future asset realisations for cases in bankruptcy or liquidation. The Insolvency Service combines evidence of past asset recoveries with statistically-based approaches in order to assess overall fee recoveries.

The main forecasting uncertainties are:

- the period over which assets will be realised to fund fee recoveries;
- the pattern of recovery across the life of any case;
- the average realisable value of assets of Estates entering bankruptcy or liquidation;
- the impact of current and future economic conditions on the value of assets realised in bankruptcy or winding up;
- the impact of current and future economic conditions on the profile of cases received by the agency;
- the impact of changes made to the fee structure on future recoverability of cases;
- the age of a case, where financial risk is greater when outstanding debt is at its highest;
- wider economic factors eg interest rates impacting the value of assets associated with Estates;
- the profile of cases undertaken by the agency. For example, Debtor petition cases have typically low asset values making it more difficult to recover the fee charged.

The Insolvency Service has sought to mitigate risks of under-recovery through significant changes to the fee structure since 2010-11, to better align fees charged to realisable assets.



### Assumptions & sensitivity of reported receivables

The fair value for the case administration receivable has been estimated by basing future fee recoveries on statistical profiles for the case years 2004-05 to 2012-13. Given the uncertainties around eventual fee recoveries in the early years of a case, these statistical profiles are subjected to additional sensitivity tests to assess a range of eventual outcomes.

Receivable figures for case years 2004-05 to 2009-10 are based primarily on historic trends and before new fee structures were put in place. The receivables for these years total £14.9m (undiscounted) and it is considered these are relatively low risk given that the agency has already recognised and written off those fees which it judges will not be recovered.

Receivable figures for case years 2010-11 onwards total £18.204m (undiscounted). In reaching this figure the Insolvency Service recognises that eventual recoveries may vary widely from initial estimates. For these years, 2010-11 recovery data is used as a benchmark on which to make assumptions about recovery trends. These are applied to later case years where less actual recovery data is available.

The sensitivities are summarised below:

- (i) For 2010-11 cases the Insolvency Service has forecast fee recoveries over the life of a case as £92m. However, due to uncertainty a range has been estimated which could be as low as £90m or as high as £97.5m. In percentage terms this means that fee recovery levels could fall within the range of 90% to 97%.
- (ii) For 2011-12 cases the Insolvency Service has forecast fee recoveries over the life of a case as £71m. However due to uncertainty a range has been estimated which could be as low as £70.3m or as high as £77.2m. In percentage terms this means that fee recovery levels could fall within a range of 91% to 100%.
- (iii) For 2012-13 cases the Insolvency Service has forecast fee recoveries over the life of a case as £54m. However due to uncertainty, a range has been estimated which could be as low as £50m or as high as £58.9m. In percentage terms this means that fee recovery levels would fall within a range of 85% to 100%.

Until 2011-12, the Insolvency Service assumed that on average 12% of bankruptcy fees would not be recovered, with further write offs made as necessary. The changes to the fee structure are evidencing enhanced recoveries, therefore for case years 2010-11 and later, an initial write-off of 6% has been implemented. This write-off represents the agency's best approximation of the inherent bad debt in the receivables for fees charged in these years.

Levels of fee recovery will be regularly monitored and if necessary an upward or downwards adjustment to forecast fee recovery levels will be made.

### 13 Cash and Cash Equivalents

	2012-13	2011-12
	£'000	£'000
Balance at 1 April	55,067	22,020
Net change in cash and cash equivalent balances	(21,840)	33,047
<b>Balance at 31 March</b>	<b>33,227</b>	<b>55,067</b>

#### The following balances at 31 March were held at:

Office of HM Paymaster General (ISA account)	20,082	47,480
Office of HM Paymaster General	13,145	7,587
	<b>33,227</b>	<b>55,067</b>

### 14 Trade Payables and Other Current Liabilities

	2012-13	2011-12
	£'000	£'000

#### Amounts falling due within one year:

BIS Inter-entity creditor	44,024	89,095
Trade Payables	33	21
Accruals	10,788	8,582
Deferred Fee Income	1,218	1,165
Current part of Finance Leases	–	36
Service Concession Arrangement	–	1,049
Accrued Employee Benefits	1,497	1,423
<b>Total</b>	<b>57,560</b>	<b>101,371</b>

#### Amounts falling due after more than one year:

Finance Leases	–	–
Other Payables, Accruals and Deferred Income	–	–
Service Concession Arrangement	–	–
<b>Total</b>	<b>–</b>	<b>–</b>

Intra-Government Balances:	2012-13	2011-12
	£'000	£'000
Department for Business Innovation and Skills	44,024	89,169
Other Central Government Bodies	–	–
Local Authorities	–	–
Bodies external to Government	13,536	12,202
	<b>57,560</b>	<b>101,371</b>

Capital commitments due under finance leases are zero (2011-12: £35,518) as per Note 17.2. Capital commitments due under Service Concession Arrangements are £4,952,476 (2011-12: £1,048,927) (Notes 18.1-18.4).

The BIS inter-entity creditor of £44,023,884 (2011-12: £89,095,143) includes the payroll for March 2013 of £5,891,951 (2011-12: £5,963,210) which was paid for directly by BIS and the Insolvency Service re-imbursed this in the following financial year. The larger element of the inter-entity creditor is BIS cash funding of £38,131,933 (2011-12: £83,131,933) which has been retained to meet cash flow requirements. The amount of cash funding required results from the delay in realising assets in cases and collecting the fees charged on those assets. The Insolvency Service forecasts future cashflow requirements and this includes an assessment of the timing of future fee recoveries.

Accruals include £4,033,030 (2011-12: £1,700,971) in respect of the costs of compensation payments to staff under a voluntary exit scheme.

### Deferred income

Deferred income as at 31 March 2013 was £1,218,185 (2011-12: £1,165,692) of which £709,122 (2011-12 £627,853) related to Insolvency Practitioner Regulation Fees. The remaining £509,062 (2011-12 £537,839) related to Case Administration Fee income, for fees recovered on old regime cases (before 1 April 2004) that had not yet been recognised as income in the annual accounts.

The only fee that remained for old regime cases after 1 April 2004 was a SoS fee. The SoS fee was left in place to recover sufficient fees to discharge the cost of completing cases with a pre-1 April 2004 insolvency order (a time and rate fee is used to recover the costs of distribution on old cases). The SoS fee in relation to old regime cases was reduced on 1 April 2006 and revoked on 1 April 2007.

Costs for old regime cases are matched to income in the year they occur. This has resulted in £189,418 (2011-12: £322,013) of deferred income being recognised as income this year. Future costs of old regime cases are unlikely to exceed £0.5m and it is expected that the majority of this cost will be incurred in the next 2 years with minimal annual costs thereafter.

	2012-13	2011-12
	£'000	£'000
At 1 April	538	844
Additions in year:		
(a) Fees recovered	160	16
Utilised in year:		
(a) Before 1 April 2004	(189)	(322)
(b) Deficits	–	–
<b>At 31 March</b>	<b>509</b>	<b>538</b>

## 15 Provisions for Liabilities and Charges

	Fruitless Payments £'000	Pre 1996 Debit Balance Write Offs £'000	Early Departure Cost £'000	Lease Dilapidations £'000	Onerous Leases £'000	Other £'000	Total £'000
<b>Balance at 1 April 2012</b>	124	157	–	3,998	–	5,976	10,255
Provided in the year	339	–	–	809	417	784	2,349
Provisions utilised in the year	(17)	–	–	(232)	–	(5,172)	(5,421)
Provisions not required written back	(4)	(15)	–	(190)	–	(928)	(1,137)
Borrowing costs (unwinding of discount)	–	–	–	397	–	–	397
<b>Balance at 31 March 2013</b>	<b>442</b>	<b>142</b>	<b>–</b>	<b>4,782</b>	<b>417</b>	<b>660</b>	<b>6,443</b>

### Analysis of expected timing of discounted flows

	Fruitless Payments £'000	Pre 1996 Debit Balance Write Offs £'000	Early Departure Cost £'000	Lease Dilapidations £'000	Onerous Leases £'000	Other £'000	Total £'000
Not later than one year	442	24	–	578	105	660	1,809
Later than one year and not later than five years	–	118	–	2,200	312	–	2,630
Later than five years	–	–	–	2,004	–	–	2,004
<b>Balance at 31 March 2013</b>	<b>442</b>	<b>142</b>	<b>–</b>	<b>4,782</b>	<b>417</b>	<b>660</b>	<b>6,443</b>

	Fruitless Payments £'000	Pre 1996 Debit Balance Write Offs £'000	Early Departure Cost £'000	Lease Dilapidations £'000	Onerous Leases £'000	Other £'000	Total £'000
<b>Balance at 1 April 2011</b>	70	180	3,830	130	–	1,179	5,389
Provided in the year	129	–	–	3,998	–	6,816	10,943
Provisions utilised in the year	(55)	(22)	(3,830)	(49)	–	(35)	(3,991)
Provisions not required written back	(20)	–	–	(81)	–	(1,985)	(2,086)
Borrowing costs (unwinding of discount)	–	–	–	–	–	–	–
<b>Balance at 31 March 2012</b>	<b>124</b>	<b>158</b>	<b>–</b>	<b>3,998</b>	<b>–</b>	<b>5,975</b>	<b>10,255</b>

#### Analysis of expected timing of discounted flows

	Fruitless Payments £'000	Pre 1996 Debit Balance Write Offs £'000	Early Departure Cost £'000	Lease Dilapidations £'000	Onerous Leases £'000	Other £'000	Total £'000
Not later than one year	124	26	–	1,038	–	5,975	7,163
Later than one year and not later than five years	–	132	–	1,133	–	–	1,265
Later than five years	–	–	–	1,827	–	–	1,827
<b>Balance at 31 March 2012</b>	<b>124</b>	<b>158</b>	<b>–</b>	<b>3,998</b>	<b>–</b>	<b>5,975</b>	<b>10,255</b>

#### Fruitless payments

Fruitless payments are those losses that relate to acts or omissions in insolvency cases where the loss would otherwise result in the non-recovery of insolvency fees or be suffered by creditors or third parties. Of the balance of £442,227 as at 31 March 2013 (2011-12: £124,000), £250,021 (2011-12: £120,000) relate to the introduction of section 283A of Insolvency Act 1986 by Section 261 of the Enterprise Act 2002 which changed the way in which the bankrupt's home is to be dealt with post 1 April 2004. There are a number of cases where, following the introduction of this provision, property interests in homes may have been lost to bankruptcy estates and the Official Receiver may be liable to compensate the bankruptcy estate by making fruitless payments based on the value of any assets lost.

### **Pre 1996 Debit Balance Write Offs (DBWO)**

Prior to 1 April 1996 fees were handed over to BIS regardless of whether there was enough money in the insolvency estate to pay them. This gave rise to debit balances being created where estates did not realise sufficient monies to pay fees and disbursements charged to them. When these cases were completed these debit balances had to be recovered from BIS. This was achieved by a write off against current year fees. As at 31 March 2013 the balance of the DBWO on cases which have not yet been completed was £141,529. An amount of £15,541 has been written back as not required (2011-12: no write-back, however provision utilised was £22,225). The annual amount of outflow for this provision remains uncertain, therefore an annual estimated outflow has been calculated based on the decrease in this provision over the next six years. The above estimated outflows have been calculated on a straight line basis.

### **Lease Dilapidations**

During 2012-13 the Insolvency Service developed a strategy which envisaged work that would over time reduce the Estate footprint by one third, operating from a smaller network of offices augmented where necessary with separate small interviewing facilities. Whilst the approach to future site location will be framed around a set of principles, roll out will in practice take account of those offices where opportunities for lease breaks or terminations became available earliest.

The Insolvency Service's Annual Plan for 2013-14 outlines the priorities for the next 12 months and includes determining the Estates needs for the medium term. This will include deciding which properties to retain, at a time when there are inherent uncertainties in the commercial property market. Such decisions will need to consider the ability to surrender leasehold buildings before the lease has expired and the possibility of sharing office space with other government departments. The evaluation of such decisions will be done in full consultation with Government Property Unit (GPU) and not in isolation.

On entering the lease for office buildings, the Insolvency Service became obliged to restore the building to an agreed condition on exiting. Pending decisions on each of the leasehold properties, a reliable estimate for dilapidations costs has been included in these accounts. The provision for dilapidations represents the estimated settlement cost of this obligation. The provision is discounted using the general provision discount rates set by HM Treasury. The value of the provision as at 31 March 2013 is £4,782,422 (31 March 2012: £3,997,974). The undiscounted liability for the Insolvency Service as at 31 March 2013 is £4,519,729 (31 March 2012: £4,265,946).

### **Onerous Leases**

During the year as part of the Estates strategy (see Lease Dilapidations note above), the Insolvency Service took decisions to exit 3 properties before the lease end date. A Provision of £417,013 has been made which relates to the remaining obligations under the leases following the expected exit dates.

### **Early Departure Costs**

The provision for Voluntary Early Retirement / Voluntary Exit Scheme / Retirement Scheme was fully utilised in 2011-12 (£3.830m). During 2012-13 no further provision has been created for this purpose, resulting in a balance of zero as at the end of 2012-13.

### **Other Provisions**

Other provisions included £5,975,879 brought forward which included amounts related to amounts for potential adverse cost claims in disqualification proceedings and a potential Employment Tribunal claim.

Provisions provided in the year total £784,400 and include an amount related to an Employment Tribunal claim; amounts for legal costs in respect of court cases from which the Insolvency Service has withdrawn; and amounts for potential adverse costs claims in disqualification proceedings. Provisions utilised during the year total £5,172,257 which predominantly related to legal costs in disqualification proceedings, plus £4,000 for an Employment Tribunal claim. Provisions not required written back total £928,371.

All amounts provided for in the year and all provisions not required and written back are recorded as non-cash Programme costs (Note 5).

## 16 Capital Commitments

	2012-13 £'000	2011-12 £'000
<b>Contracted Capital Commitments at 31 March 2013 not otherwise included in these Accounts</b>		
PPE – Service Concession Arrangement	4,952	–
	<b>4,952</b>	<b>–</b>

The total contracted capital commitments as at 31 March 2013 are for the ATOS contract as detailed in Note 18.

## 17 Commitments under Leases

### 17.1 Operating Leases

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

	2012-13 £'000	2011-12 £'000
<b>Obligations under operating leases comprise:</b>		
Buildings		
Not later than one year	6,697	7,252
Later than one year and not later than five years	19,557	21,924
Later than five years	15,304	19,795
<b>Total</b>	<b>41,558</b>	<b>48,971</b>
Other		
Not later than one year	310	3,775
Later than one year and not later than five years	103	318
Later than five years	–	–
<b>Total</b>	<b>413</b>	<b>4,093</b>

Operating lease disclosures for 2012-13 exclude the Service Concession Arrangement element for an IT contract which is now reported separately (Note 18).

## 17.2 Finance Leases

Total future minimum lease payments under Finance Leases are given in the table below for each of the following periods.

	2012-13	2011-12
	£'000	£'000
<b>Obligations under Finance Leases comprise:</b>		
Not later than one year	–	39
Later than one year and not later than five years	–	–
	<b>–</b>	<b>39</b>
Less interest element	–	(3)
<b>Total</b>	<b>–</b>	<b>36</b>

The final Finance Lease payment of £18,935 was settled during 2012-13, with the remaining £16,583 being credited to the SoCNE.

## 18 Commitments under Insolvency Service Concession Arrangements

### IBM

The Insolvency Service entered into a contract dated 29 June 2007 for the provision of a desktop infrastructure managed agency solution delivering the agency's applications to the agency's staff. The agency's requirement was to refresh and upgrade its then current IT infrastructure, which included desktops, servers and networks. Any changes to the main contract are provided for in contract change notes. The infrastructure was constructed and/or acquired by the operator for the purpose of the agency arrangement.

The core contract was let to IBM with an initial agreed term of 5 years to the end of June 2012. Before this date, The Insolvency Service began the procurement process for a new desktop. If a new operator is appointed, the agency has an option to sell the equipment as agent of the operator, on arms length terms at the market value and to receive 99% of the proceeds of the sale. Alternatively, the agency could renew the contract with the agreement of the operator. As the agency has the option to sell the equipment as agent, it has been concluded that any significant residual interest in the infrastructure at the end of the agency arrangement is controlled by the agency and therefore it has been accounted for it as a agency Concession Arrangement.

The infrastructure was recognised as property, plant and equipment (PPE) from 18 March 2008 being the date of completion of the Project Acceptance Phase which included User Acceptance Testing (UAT) and has been depreciated from 1 April 2008. The infrastructure includes intangible items related to software. As the software is inextricably linked to the hardware, all infrastructure has been classified as information technology assets within PPE. Under IFRIC 12, these assets are treated as Assets of the Insolvency Service and shown on the agency's Statement of Financial Position.

Assets under the core contract and the contract change notes are depreciated over their useful life in a pattern reflecting the consumption or loss of rewards embodied in the assets. Where the asset is to be returned to the operator, then its useful life is the Insolvency Service concession term. To date, the agency has assumed that there will not be any material residual value.



The IBM contract has been extended twice from 29 June 2012 to 28 December 2012 and from 29 December 2012 to 31 March 2013 with the option to extend for a further 3 months thereafter until 30 June 2013.

## ATOS

On 12 November 2012, the Insolvency Service entered into a contractual agreement with ATOS for the provision of IT hardware, software and related services under the Desktop 21 framework. The contract runs for an initial term of 5 years from the point at which the 'IBM exit' is complete.

The contract incorporates scheduled 'milestone' payments, as well as ongoing 'fixed charges.' Further to these, 'resources charges' will be charged on use of additional resources (expected to be predominantly printing charges); 'catalogue item charges' are triggered on purchase of additional goods and 'time and material charges' relate to additional staffing and related costs.

The contract is deemed to fall within the scope of IFRIC 12 – Service Concession Arrangements and therefore the IT infrastructure made available under the contract is recognised as a service concession asset by the Insolvency Service. This includes IT Hardware and Software as well as any directly attributable costs. As all assets are considered to be inextricably linked, i.e. they are all critical to the provision of IT infrastructure, they are recognised together as PPE.

Aside from the capital elements included in the contract, service charges are to be paid by The Service on a monthly basis. These are to cover, amongst other things, the maintenance and ongoing support of the IT infrastructure. In accordance with IFRIC 12 and the FReM, these payments are to be recognised as revenue expenditure when they are incurred and charged to the SoCNE.

Included within PPE Assets under construction (Note 8) is £1,026,280 related to the IT infrastructure which will be made available under the contract and will be recognised as a service concession asset.

### 18.1 Total obligations under on-balance sheet Service Concession Arrangements for the following periods comprises:

	2012-13	2011-12
	£'000	£'000
<b>IBM</b>		
Not later than one year	–	1,055
Later than one year and not later than 5 years	–	–
Later than five years	–	–
	<b>–</b>	<b>1,055</b>
Less interest element	–	(6)
<b>Total</b>	<b>–</b>	<b>1,049</b>

Interest on the Service Concession Arrangement charged in the year was £5,736 (2011-12: £139,929).

## 18.2 Total obligations under on-balance sheet Service Concession Arrangements for the following periods comprises:

	2012-13 £'000	2011-12 £'000
<b>ATOS</b>		
Not later than one year	3,992	–
Later than one year and not later than 5 years	1,144	–
Later than five years	174	–
	<b>5,310</b>	
Less interest element	(358)	–
<b>Total</b>	<b>4,952</b>	<b>–</b>

Interest on the service concession arrangement charged in the year is £82,159 (2011-12: nil).

## 18.3 Charge to the Statement of Comprehensive Net Expenditure and future commitments

The total amount charged in the Statement of Comprehensive Net Expenditure in respect of the service element of on-balance sheet (SoFP) Service Concession

Arrangement transactions was £4,729,705 (2011-12: £4,232,267) and the payments to which The Insolvency Service is committed is as follows:

	2012-13 £'000	2011-12 £'000
<b>IBM</b>		
Not later than one year	1,421	3,314
Later than one year and not later than 5 years	–	–
Later than five years	–	–
	<b>1,421</b>	<b>3,314</b>

## 18.4 Charge to the Statement of Comprehensive Net Expenditure and future commitments

	2012-13 £'000	2011-12 £'000
<b>ATOS</b>		
Not later than one year	1,346	–
Later than one year and not later than 5 years	7,461	–
Later than five years	690	–
	<b>9,497</b>	<b>–</b>

## 19 Other Financial Commitments

The Insolvency Service has not entered into any non-cancellable contracts (which are not leases or PFI [and other Insolvency Service concession arrangement] contracts).

## 20 Contingent Liabilities disclosed under IAS 37

The Insolvency Service has the following Contingent Liabilities: Banking liabilities

Following the enactment of the Cheques Act 1992, the Secretary of State for Business, Enterprise and Regulatory Reform has indemnified the Insolvency 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 Insolvency Service.

## 21 Losses and Special Payments

During the year, the Insolvency Service made the following payments. In all cases, the Insolvency Service sought formal approval for its proposals and actions in regard to these matters from either HM Treasury direct or indirectly through BIS.

### 21(a) Losses Statement

Fruitless Payments are those Losses that relate to acts or omissions in Insolvency cases where the loss would otherwise result in the non-recovery of Insolvency fees or be suffered by creditors or third parties. During the year the Insolvency Service made 55 Fruitless Payments totalling £172,560 (2011-12: 100 payments totalling £247,232).

	2012-13	2011-12
	£'000	£'000
<b>Total Fruitless Payments</b>	<b>173</b>	<b>247</b>
Number of cases	55	100

### Claims Abandoned

Costs are awarded to the Secretary of State when disqualification orders have been made or undertakings given after proceedings have been issued. Such costs would ordinarily cover legal costs. In some cases it is not possible to collect the debts and the Insolvency Service has to write off some or all the amounts awarded. During the year the Insolvency Service wrote off 153 cases totalling £564,625 (2011-12: 304 cases totalling £1,758,306).

	2012-13	2011-12
	£'000	£'000
<b>Total claims abandoned</b>	<b>565</b>	<b>1,758</b>
Number of cases	153	304

## 21(b) Special Payments

During the year the Insolvency Service made 3 Special Payments totalling £14,500; comprising 1 compensation payment for loss of office and 2 compensation payments for personal injury (2011-12: 4 Special Payments totalling £4,949 comprising 2 compensation payments for loss of office and 2 compensation payments for personal injury).

	2012-13 £'000	2011-12 £'000
<b>Total Special Payments</b>	<b>15</b>	<b>5</b>
Number of payments	3	4

## 22 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 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 official receiver acts as nominee and supervisor. The official receiver fee to act as nominee is £300, and as supervisor the official receiver also charges 15% of all sums realised. Registration fees of £15 are payable to ensure the FTVA is on the public register of all individual voluntary arrangements.

During the year 2012-13, no individuals attempted to enter into a FTVA (also no individuals in 2011-12). The fees received by the Insolvency Service were £15 (2011-12: £4,483) and are included in these accounts under Case Administration. The balance of funds held in FTVA Estates as at 31 March 2013 was £87,846 (2011-12: £87,052). These amounts are not included in the agency's Accounts as they represent trust monies.

## 23 Related-Party Transactions

The Insolvency Service is an Executive Agency of BIS; BIS is regarded as a Related-Party. During the year, the Insolvency Service has had various material transactions with the Department and with other entities for which the Department is regarded as the parent Department (being Companies House).

In addition, the Insolvency 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 Insolvency Service during the year.

## 24 Third-Party Assets

The Insolvency Service does not hold any Third-Party Assets, as defined by the FReM 2012-13.

## 25 Financial Exposure

International accounting standards 32 and 39 govern the presentation, measurement, recognition and disclosure of financial instruments. Disclosures are required in relation to the financial instruments which give rise to risks that affect the entity's overall financial position, performance or cash flows.

Due to the largely non-trading nature of its activities and the way in which it is financed, the Insolvency Service is not exposed to the degree of financial risk faced by business entities. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Insolvency Service in undertaking its activities.

### **Interest rate risk**

The Insolvency Service's case administration receivables are financial assets in that there is a contractual right to receive cash. The specific risk that needs to be considered is the interest rate risk i.e. the risk that the value of a financial instrument will fluctuate due to changes in interest rate.

The Insolvency Service discounts its financial assets at the rate determined by HM Treasury, currently 3.5%. The agency recognises that its Case Administration receivables play a significant medium to long term role in the financial risk profile and believe that by discounting at 3.5% this is an appropriate method to calculate the level of risk faced.

### **Liquidity and foreign currency risk.**

The Insolvency Service has exposure to significant liquidity risks due to the timing of the recoveries of the Case Administration receivables. This risk is managed by the provision of inter-entity cash funding from BIS which allows the agency to retain inter-entity balances to meet cashflow requirements.

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

## **26 Events after the Reporting Period Date**

There have been no events after the Statement of Financial Position and up to the date the Accounts were authorised for issue requiring an adjustment to the Financial Statements. The date the Accounts were authorised for issue is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

The Chief Executive authorised these accounts to be issued on 9th July 2013.



Dr Richard Judge  
Inspector General and Chief Executive

9th July 2013



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