



The Insolvency Service

Annual Report and Accounts 2007-08

BERR

A BERR SERVICE

The Insolvency Service

Annual Report and Accounts 2007-08

The Insolvency Service is an executive agency of the Department for Business, Enterprise and Regulatory Reform.

Annual Report presented to Parliament pursuant to Section 7 of the Government Resources and Accounts Act 2000 and Directions thereunder, together with the Report of the Comptroller and Auditor General, thereon.

Ordered by the House of Commons to be printed on 21 July 2008



CUSTOMER SERVICE EXCELLENCE



INVESTOR IN PEOPLE

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Chief Executive's Introduction and Overview



The Service has a committed, talented and highly professional team...

I am delighted to introduce this year's Insolvency Service Annual Report and Accounts – my first as Inspector General and Chief Executive of The Insolvency Service.

The Service has had another very successful year. I am very privileged to have inherited an agency in such good shape. This reflects the excellent work of my predecessor, Desmond Flynn, who retired from The Service at the end of September 2007 after a long and very successful career. It is with great sadness that The Service learned of Desmond's untimely death in March 2008. His wisdom and wit are sorely missed by all who knew him.

Our success, of course is also a tribute to our staff across the country. In my first few months in post I had the pleasure of meeting most of my new colleagues as I visited each of our offices from Plymouth to Edinburgh. The Service has a committed, talented and highly professional team of staff and in their hands, I am confident that we will go from strength to strength. It is a huge tribute to the team spirit in The Service that, in March, I was able to hand over a cheque for £35,000 to Cancer Research UK following a huge fund raising effort by Service staff right across the country stretching over 18 months. Our initial target was to raise £10,000!

The Insolvency Service is an agency of the Department for Business, Enterprise and Regulatory Reform (BERR) which was created in June 2007, bringing together parts of the former DTI and the Better Regulation Executive. BERR is the voice for business across Government and The Service is working closely with BERR to contribute to this key Government agenda.

2007 was the year in which talk about sub-prime mortgages in the US started to turn into talk of a wider credit crunch. Given the sustained high levels of personal debt in the UK economy and the increasing pressure on personal finances as fuel and food prices have increased and house prices have come under pressure, it would have been reasonable in the circumstances to expect the rises in bankruptcies seen in recent years to continue unabated. Unexpectedly, however, the volume of bankruptcies reached a plateau at the start of the year, and began to fall gently later in the year, although the 62,357 new bankruptcies received in the year remains at a historically high level. As we move into 2008-09, there is still no solid evidence of any renewed increase in bankruptcy volumes.

In contrast, there was a drop of nearly 20% to 38,672 in the level of insolvent individuals who entered into Individual Voluntary Arrangements (IVAs) with their creditors. During the year The Service worked with IVA providers, banks, debt advisors and other stakeholders to produce an agreed IVA protocol which would provide greater confidence to consumers and greater certainty to creditors. I was delighted when the protocol was launched in January 2008. Although we will need to monitor its impact closely, I believe that this was an important step forward.

There was some evidence in the final quarter, from increases in administrations, receiverships and company voluntary liquidations, that companies are coming under increasing financial pressure as the economy tightens. But the overall level of compulsory company insolvencies that The Service has dealt with has continued to remain remarkably stable at 4,861.

The Service has recruited heavily during the year to address a shortage of trained examiners in our official receiver offices and elsewhere. We have welcomed around three hundred new trainee examiners. They have embarked on our new examiner development programme, a unique vocational qualification that we have developed for our staff in partnership with Nottingham Trent University.

Although The Service did not meet its target to achieve a year-on-year increase of 7% in the number of enforcement outcomes (director disqualifications, bankruptcy restrictions and cases made for criminal prosecution), we maintained the overall level of enforcement outputs seen in the previous year and were able to investigate all cases put to us by insolvency practitioners that, in our view, merited investigation.

Companies Investigations Branch (CIB) has continued to be active around the country, investigating alleged misconduct of live companies. The work of CIB, together with the investigations work carried out by our official receivers and by our staff who deal with allegations of misconduct brought to our attention by insolvency practitioners, forms a key component of the wider delivery of fair and open markets and confident consumers – a role which we share with BERR and other parts of Government.

The Service's Redundancy Payment Offices deliver highly responsive services to redundant employees whose former employers cannot or will not pay them their statutory redundancy and other entitlements. In large corporate failures involving substantial redundancies, we have developed an admirable reputation for providing a quick and tailored service, often in collaboration with JobCentre Plus and other agencies who can help at this difficult time.

We continue to be very active in the field of policy development as the lead across government for general insolvency policy with a vision of having a world-class insolvency regime. We have a very substantial programme of work in hand that will modernise and streamline insolvency processes and procedures and open up debt relief to those who cannot afford existing remedies. As ever, we carry out extensive research and policy evaluation to help us to ensure that we are able to remain at the cutting edge on the global scene.

As Desmond Flynn noted in his foreword last year, The Service has embarked on a substantial programme of modernisation and change which, among other things will completely overhaul our ageing IT infrastructure and give our staff the tools that they need to provide even better services to our customers in the future. As the year ended, The Service took the first steps to implement this programme in our offices and I am looking forward to an exciting year of change ahead that will open up many new possibilities for The Service, our staff and our customers.

A handwritten signature in black ink that reads "Stephen Speed". The signature is stylized with a large, looping initial 'S' and a horizontal line extending from the end of the name.

Stephen Speed
Inspector General
and Agency Chief Executive
11 July 2008

Our Published Targets

Each year, during our corporate planning process the Minister for Employment Relations and Postal affairs sets The Service a number of published targets, which are announced in Parliament.

These targets span a number of The Service's key business areas and are aimed at improving the delivery of our services to our customers and improving the efficiency of our processes.

Performance against these targets is monitored throughout the year by The Service's Steering and Directing Boards. Table 1 below details our performance against our published targets in 2007-08.

Table 1

2007-08 Published Targets	Achieved
Maintain satisfaction levels of bankrupts and directors at 91%	92.1%
Increase satisfaction level of insolvent creditors to 84%	80.3%
Increase the level of public confidence in The Service's enforcement regime to 65%	65.3%
Reduce the average time from insolvency order to the instigation of disqualification proceedings in appropriate cases to 22 months	18.5 months
Increase the quantity of enforcement outputs in 2007-08 from the 2006-07 baseline by 7%	0.1%
Complete consideration of 90% of vetting complaints cases within 2 months	92.6%
Complete 90% of internal section 447 investigations* within 6 months	95.7%
Action redundancy payment claims	
• 78% within 3 weeks	78.7%
• 92% within 6 weeks	93.7%
Maintain the cost of redundancy payment processing at the 2006-07 baseline	96.6% of 2006-07 costs
Increase satisfaction levels of redundant employees to 78%	75.2%

* CIB considers complaints about the conduct of companies (or the company's officers) to determine whether there are grounds for a statutory enquiry into the company affairs, and carries out such enquiries. The power of enquiry used is almost exclusively section 447 of the Companies Act 1985.

Management Commentary

Agency Review and Governance

The Insolvency Service operates under a statutory framework – mainly the Insolvency Acts 1986 and 2000, the Company Directors Disqualifications Act 1986, the Employment Rights Act 1996 and the Companies Act 1985.

We:

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

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

Steering Board

The Steering Board has no executive functions. Its role is to advise the Secretary of State, through the Director General, Fair Markets Group on the strategies that The Service will adopt in line with 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.

Members of the Agency Steering Board

Philip Wallace, Chairman

Philip joined The Service's Steering Board in September 2006 and has since been appointed as Chairman of The Service's Audit Committee. He recently retired as a partner in KPMG where he specialised in Corporate Recovery. Before retiring, he was vice-chairman of KPMG in the UK. He was a founder member of the Insolvency Practices Council, a former chairman of the Insolvency Practitioners' Committee of the Institute of Chartered Accountants in England and Wales (ICAEW), and a member of the councils of ICAEW and R3, The Association of Business Recovery Professionals.

Rosalind Wright CB

Rosalind is the chairman of the Fraud Advisory Panel and the chairman of the Supervisory Board of OLAF, the European Anti-Fraud Office, based in Brussels. She was Director of the Serious Fraud Office and before that she was a General Counsel and an Executive Director in the Securities and Futures Authority. She joined The Insolvency Service Steering Board in May 2006 and has also been an external member of the BERR Legal Services Group Board since 2002.

Louise Brittain

Louise joined The Service's Steering Board in September 2006. She is the partner in charge of the Proceeds of Crime Act, the Crown Prosecution Service contact, a National Bankruptcy partner, and head of Special Investigations London with Baker Tilly. She is a lecturer for BERR company inspectors training courses and R3 personal insolvency introductory courses.

John Alty

BERR. Director General, Fair Markets Group.

Stephen Speed

Inspector General and Agency Chief Executive (from 29 October 2007). Desmond Flynn was Inspector General and Agency Chief Executive until 30 September 2007 and Graham Horne was appointed as Acting Chief Executive between 1 October and 28 October 2007.

Les Cramp

The Insolvency Service Deputy Inspector General (Operations).

Graham Horne

The Insolvency Service Deputy Inspector General (Headquarters).

Robert Burns

The Insolvency Service Inspector of Companies

Lesley Beech

The Insolvency Service Director of Finance, Resources and Estate Accounts

Terry Hart

The Insolvency Service Director of Human Resources

Robert Willer

BERR. Director, Finance, Policy and Support.

Audit Committee

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

Directing Board

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

Auditors

The Insolvency Service annual accounts have been audited by the Comptroller and Auditor General (C&AG). The notional cost of the audit work for 2007-08 was £36,500. The cost is in respect of the audit services relating to the statutory audits of Agency Accounts and the Insolvency Services Account (ISA). There were no other services provided or assurance work undertaken by the C&AG during the year.

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

Insolvency Case Administration

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

During the year official receivers dealt with 67,218 new compulsory insolvency cases (62,357 bankruptcies and 4,861 companies), an overall decrease of 3.9% against the 69,939 new cases received during 2006-07. The decrease in the level of new bankruptcies was 3.5% and the fall in the number of company cases was 8.8%. In 2007-08 85% of new bankruptcies were made by way of debtor's petition. See charts 1 & 2.

Interim receiver and provisional liquidator* appointments of official receivers totalled 54 compared with 26 in 2006-07.

Chart 1 Insolvency Service monthly new compulsory insolvency cases inputs

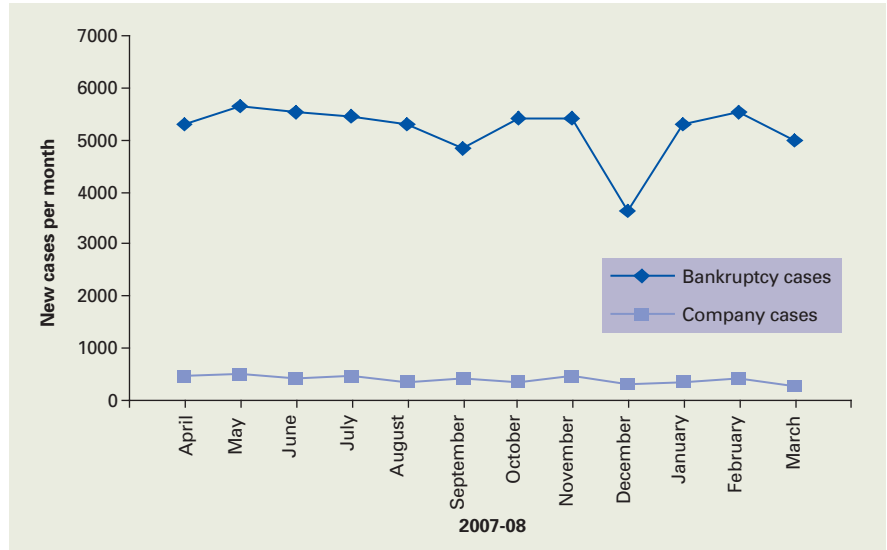
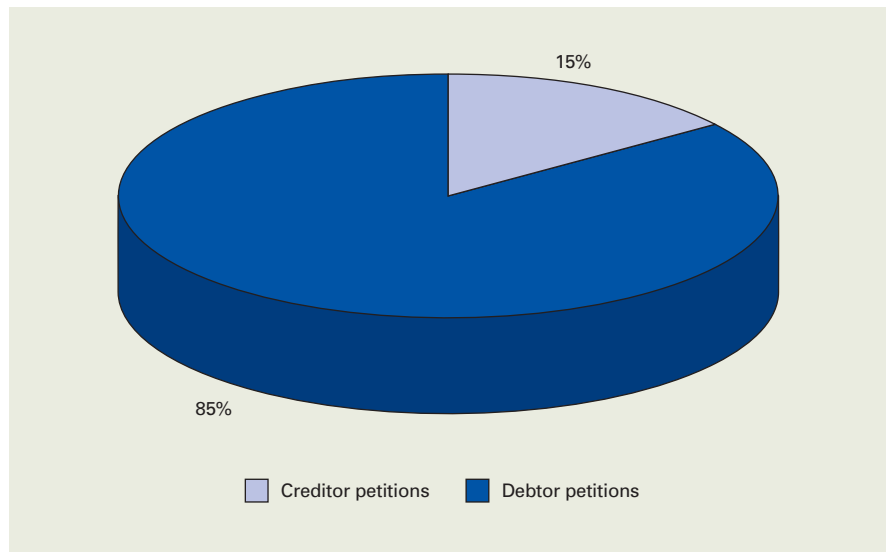


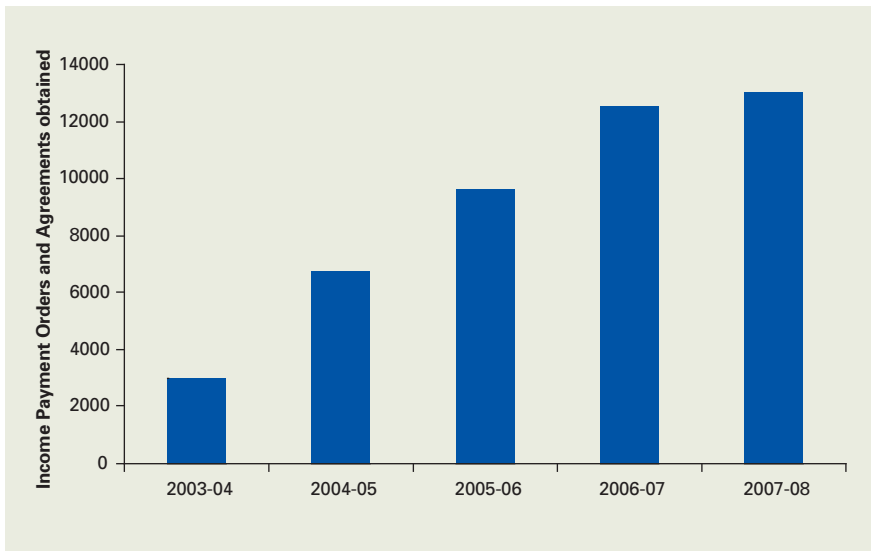
Chart 2 Split between debtor and creditor bankruptcy petitions 2007-08



* The court can appoint an official receiver as a provisional liquidator to take control of a company to protect the company's assets and records until the court makes a ruling on a winding-up petition. An official receiver is usually appointed provisional liquidator following an investigation by the Companies Investigation Branch which leads to a petition to wind-up a company in the public interest.

The court can similarly appoint an official receiver to act as interim receiver of a debtor at any time after a bankruptcy petition has been presented and before making a bankruptcy order, if it can be shown to be necessary for the protection of the debtor's property.

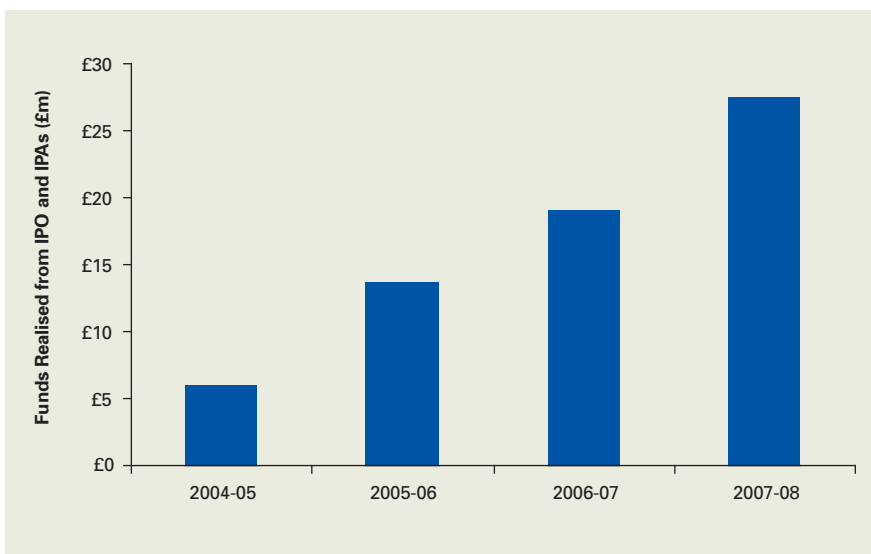
Chart 3 Number of income payment orders and agreements obtained 2003-08



Income payment orders and agreements (IPOs and IPAs) obtained against bankrupts in 2007-08 totalled 13,018, an increase of 4% on the 12,533 gained in 2006-07. Over £27.5 million was collected representing an increase of 45% on the £19 million collected in 2006-07 and 72% of the total value of IPOs and IPAs that was collectable in the period. See charts 3 and 4.

The significant increases in both the number of income payment orders and agreements secured against debtors and the subsequent levels of realisations made from these orders and agreements in recent years, fully support one of the key objectives that we aimed to deliver following the introduction of the individual insolvency provisions of the Enterprise Act in 2004, in that where debtors can pay, they will pay. This significant increase in realisations has therefore led to better returns to creditors in bankruptcy cases.

Chart 4 Realisations made from income payment orders and agreements 2004-08



Following the introduction of the early discharge process in April 2004, official receivers can apply to the court for a bankrupt's early discharge from the proceedings. In 2007-08 42% of bankrupts were granted an early discharge, with an average bankruptcy period of 7.2 months. Early discharge will only be considered where the official receiver is satisfied that the debtor's conduct has been satisfactory and that they have fully complied with the official receiver's enquiries. Early discharge applications are subject to the agreement of the debtor's creditors.

Official receivers completed the administration of 64,913 cases during 2007-08, an increase of 19% on the 53,819 case completions achieved in 2006-07. See chart 5.

Chart 5 New cases and cases closed 2003-08

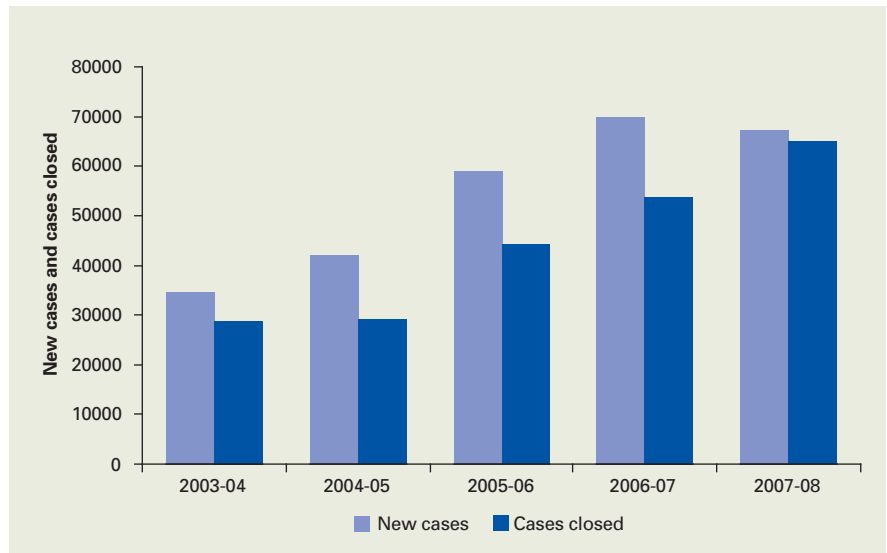


Table 2

Insolvency Case Administration	2003-04	2004-05	2005-06	2006-07	2007-08
New compulsory insolvency cases	34,490	42,039	58,991	69,939	67,218
Complete case administrations	28,907	28,972	44,180	53,819	64,913
Uncompleted case administrations	24,899	37,758	53,191	69,863	73,818
Number of cases where income payment order or agreement obtained by official receiver	2,961	6,741	9,605	12,533	13,018



Case Administration Income and Costs

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

Since 1 April 2004 fees have been set to recover costs. For case administration we have set a single case administration fee £1,715 to reflect the average cost of administering a bankruptcy case and another case administration fee £2,090 for compulsory company liquidation cases. These fees are recovered in part from the deposit paid by the debtor or creditor when presenting a petition for bankruptcy or company liquidation. Table 3 shows the deposit levels since 1 April 2004.

The balance of the case administration fee is recovered from the assets realised in a particular case. However, more than 50% of cases

have few or no assets. A second fee, the Secretary of State (SoS) fee is therefore also applied to those cases that have assets over £2,000. The fee is charged at 17% although it is capped at £100,000 in any one case.

The case administration fee is charged to the insolvency case on the making of the insolvency order but in line with current accounting standards it is only recognised in The Service's accounts when it has been earned. The Service has developed a case profile to calculate how far cases have been completed and therefore the amount of the fee that has been earned each month. In practice the deposit will cover time spent on cases and disbursements incurred in the first to second month but there will then be a delay until assets are recovered. The Secretary of State fee is treated as earned only when it is charged. Further information on fees can be found in note 2 of the Agency's annual accounts on page 60.

Table 4 shows the number of insolvency cases and financial results for the last 5 years although due to the changes made on 1 April 2004, the results since 2004-05 are not directly comparable with those in 2003-04.

Future Developments

The Service's plans are based on an increase of just under 10% in case inputs for 2008-09. Plans are in place for a new case administration system to be introduced during 2008-09, which will provide some benefits in terms of workflow technology and will enable The Service to handle its caseload more efficiently. The new system will incorporate electronic case files, enabling The Service to reduce its dependency on paper files and the cost of storing such files.

From 6 April 2008 the fee for company case administration will be increased in line with inflation to £2,160 (from £2,090) but the bankruptcy case administration fee will remain at the 2007-08 level (£1,715). The cap for the Secretary of State fee will be £80,000 with effect from 6 April 2008. For the period 2008-09 to 2010-11, Ministers have set The Service a target to reduce case administration fees by 15%.

Table 3

Petition Type	from 1 April 2004 and 2005	from 1 April 2006	from 1 April 2007	from 6 April 2008
Debtor's bankruptcy petition deposit	£310	£325	£335	£345
Creditor's bankruptcy petition deposit	£370	£390	£400	£415
Creditor's company petition deposit	£620	£655	£670	£690

Table 4

Case Administration Fees and Costs	2003-04	2004-05	2005-06	2006-07	2007-08
	£'000	£'000	£'000	£'000	£'000
Compulsory insolvency cases	34,490	42,039	58,991	69,939	67,218
Case administration fee income	18,491	59,288	97,332	103,673	125,904
Case administration costs	50,102	59,250	75,174	90,326	125,555

Investigations and Enforcement

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

The Service's Companies Investigation Branch (CIB) has the power under the Companies Act 1985 to investigate live limited companies, in response to complaints from the public, other regulators, prosecuting authorities and others. These investigations are fact-finding and may lead to a number of outcomes including the winding up of the company, disqualification of its directors or disclosure of information obtained to prosecuting authorities or to other regulators.

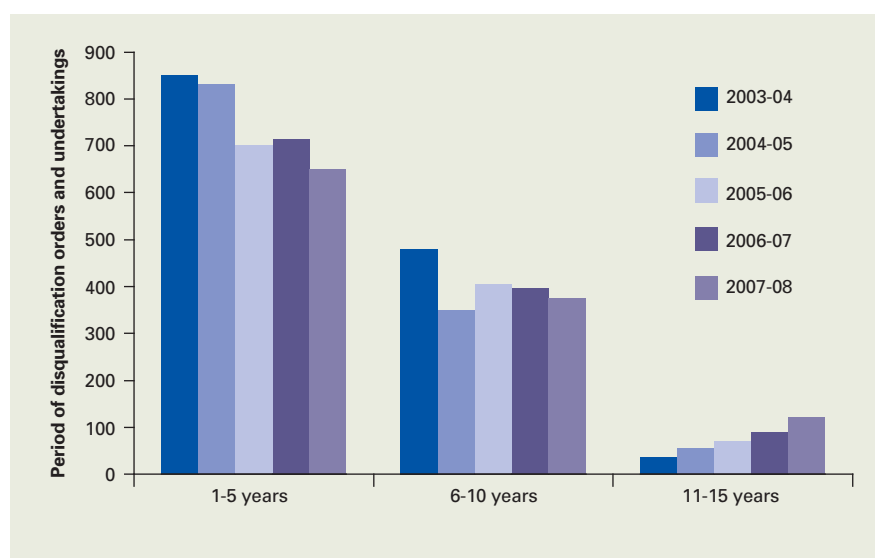
Confidence in our Enforcement Regime

During 2007-08 we again sought to establish the level of confidence amongst investors, businesses and other stakeholders in our enforcement regime. A fourth annual survey, which included questions about the work of CIB, was conducted by NOP Social and Political with 300 interviews being conducted. This resulted in a 65.3% level of confidence being established against a published target of 65% and compared with a level of 62.8% in 2006-07.

Disqualifications

During 2007-08 The Service secured 1,145 disqualification orders and undertakings against directors of failed companies, compared to 1,200 in 2006-07. Of the 1,145 disqualifications 897 (78%) were achieved by way of an undertaking made by directors compared to 954 (80%) in 2006-07. Chart 6 shows details of the period of disqualification orders and undertakings achieved during the last five years.

Chart 6 Period of disqualification orders and undertakings



CASE STUDY *Auctionworld Ltd*

Auctionworld Ltd operated a teleshopping channel, Auctionworld.tv, which began broadcasting on 1 November 2001 on a pay to view basis. The channel eventually built up its broadcasting to 14 hours per day (11am to 1am), 7 days per week. A further channel, Chase-IT tv, was launched on 25 May 2004 as a live and interactive shopping channel. The company also sold DVD players, plasma televisions, mobile phones, electronic consumer items and home furnishings by means of auction.

Due to a failure to comply with the Independent Television Commission's Advertising Code, Ofcom brought proceedings to revoke Auctionworld's broadcasting licence.

Herefordshire Trading Standards also brought proceedings for offences under the Consumer Protection Act 1987 and the Office of Fair trading took proceedings following breaches of Sale of Goods Act 1979 and Consumer Protection (Distance

Selling) Regulations 2000. These resulted in action against Auctionworld and its directors under Part 8 of the Enterprise Act 2002, which sought undertakings from Auctionworld and its officers that they would not breach the provisions of that legislation.

On 23 November 2004, Auctionworld went into administration with a deficiency of £17,751,341. Following an investigation by the official receiver disqualification proceedings were launched against three directors. The three allegations were based on the company's failures to give accurate pricing information, supply goods for which it had been paid, refund purchase money when required and to ensure there was an appropriate person available to handle customer enquiries during normal business hours.

Undertakings were accepted from the three directors for 5 years 10 months, 4 years and 9 years.

Companies Investigation

During 2007-08, CIB received 3,619 new complaints about the actions of live limited companies, which is in line with the 3,595 complaints received during 2006-07. As a result of those complaints, 212 investigations were commenced, a slight drop on the 219 investigations commenced during 2006-07. In 2007-08, 193 investigations were concluded, with 182 winding up orders being obtained against limited companies, an increase of over 90% compared with the 95 winding up orders secured through the courts in 2006-07.

CIB also obtained 27 disqualification orders against directors of limited companies for a combined total of 172 years.

CASE STUDY *Selling plots of agricultural land*

Four companies involved in selling plots of agricultural land to the public were wound up by the High Court following an investigation by CIB.

Agricultural land was acquired at sites at Lyneham and Melksham, Wiltshire and Chicksands, Bedfordshire. The land was divided up into plots of land and altogether, some 470 individuals invested in the scheme, in plots of land being sold for an estimated £10,000 each.

CIB's investigation revealed serious concerns on the manner of the companies' operations. These included the marketing of the land as a viable alternative to traditional forms of investment; the holding out of Land Investment Association (LIA), a company incorporated and run by individuals involved in United Land Holdings (ULH), as the land investment's independent watchdog; the editing of the West Wiltshire District Plan in ULH's material, so as to create a misleading impression of the opportunities for expansion in the Melksham

area and the marketing and sale of land prior to the acquisition of the freehold.

The deputy judge in the High Court commented as follows:

"Taking all these matters together it is clear that the public have been duped into investing in land that is presently of little value...There were fundamentally dishonest misrepresentations



made to investors... and with United Land Holdings being used as a personal money box, there is not the slightest doubt that it is in the public interest that these companies are wound up so that one, they can no longer mistreat the public, two to send a clear message to other companies that such conduct is unacceptable; and three that their activities can be thoroughly and properly investigated..."

Bankruptcy Restrictions

Bankruptcy restrictions orders and undertakings (BROs and BRUs) were introduced on 1 April 2004. In circumstances where the official receiver considers that the conduct of a bankrupt has been dishonest, reckless or blameworthy in some other way, an application can be made to the court for a restriction order to be made against the debtor for a period of 2-15 years. The Service was successful in securing 1,827 BROs and BRUs in 2007-08 with 1,640 (90%) being obtained by way of an undertaking, where the debtor can accept the official receiver's allegations of misconduct and agree to a bankruptcy restrictions undertaking for an appropriate period. This outturn represents a decrease of 2% on the 1,867 bankruptcy restrictions secured in 2006-07. BROs and BRUs can only be sought in relation to a bankrupt's conduct after 1 April 2004. See charts 7 and 8. Table 5 shows a breakdown of the allegations made against debtors in bankruptcy restrictions cases.

Chart 7 Number of bankruptcy restrictions orders and undertakings obtained against debtors in 2007-08

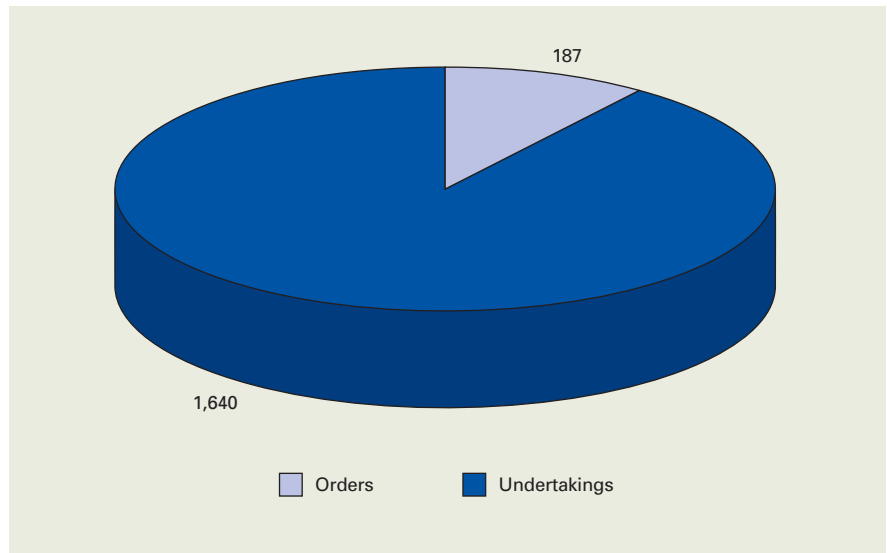


Chart 8 Period of bankruptcy restrictions orders and undertakings

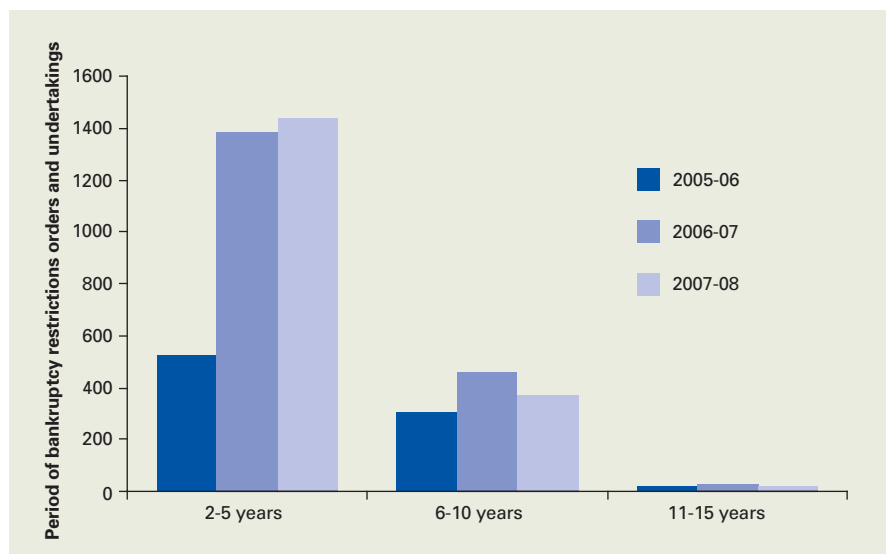


Table 5

Bankruptcy Restriction Orders and Undertakings Allegations	2007-08
Incurring debt without reasonable prospect of payment	890
Preferences or transactions at undervalue	331
Gambling, rash and hazardous speculation or unreasonable extravagance	296
Other	157
Dissipation of assets	127
Failure to account for loss	99
Neglect of business affairs contributing to the bankruptcy	80
Prosecutable matters	54
Failure to keep or preserve proper accounting records	34
Trading at a time when knowingly or unknowingly insolvent	21
Failure to supply goods or services	10
Second bankruptcy	8
Non co-operation	6
Excessive pension contributions	5
Total	2,150

Hotline

The Service operates a 24/7 Hotline, which allows members of the public to provide us with information about suspected breaches of disqualification orders, BROs and BRUs and other matters. In 2007-08 the Hotline received 558 complaints of which 33 resulted in reports alleging possible offences being submitted to the prosecuting authority compared with 26 in 2006-07.

Prosecutions

Our Enforcement Directorate considers reports received from official receivers concerning possible criminal offences committed by insolvent individuals (bankrupts) and directors of companies in compulsory liquidation.

CASE STUDY *London Ticket Shop Limited*

Four companies that operated as ticket touts through internet websites, were wound up in the High Court following an investigation by CIB.

London Ticket Shop Limited, London Ticket Shop Szolgaltato Es Kereskedelmi Korlatolt Felelossegu Tarasarag and MLT Services Limited advertised for sale, tickets for pop and rock concerts, festivals and sporting events.

The companies used the trading styles London Ticket Shop www.londonticketshop.co.uk and London Ticket Market

www.londonticketmarket.com.

As a result of the companies' activities, there had been a considerable number of complaints from members of the public concerning the failure to receive tickets they had paid for in advance, resulting in significant media coverage.

Ticketout Limited was incorporated to provide a bank account for Ticket Tout Limited which had its bank facilities withdrawn. Ticket Tout Limited which is in liquidation with its affairs being dealt with by the official receiver, had also

operated in a similar way as a secondary ticket agency.

The Court heard that the director was behind the operation of the four companies wound up, although he attempted to conceal this involvement from the CIB investigation. The investigation found that tickets had been sold which the companies had not got or in some cases the tickets did not exist. The Registrar said he had read the evidence and was very satisfied that there had been a conspiracy to defraud the public and benefit the particular "gentleman" behind the companies.

In 2007-08, 705 reports were submitted to the prosecutions branch of BERR compared with 606 in 2006-07.

Prosecution Outcomes

During the year 238 defendants were sentenced having been convicted of offences following prosecutions brought by the prosecutions branch of BERR, as a result of referrals from The Service. The convictions were for a range of offences relating to corporate and individual insolvencies.

Of those convicted:

- I** 101 defendants received custodial sentences, ranging from 1 month to 5 years;
- I** 89 defendants were sentenced to community punishment orders, ranging from 60 hours to 300 hours; 2 were sentenced to rehabilitation orders, ranging from 18 months to 2 years;
- I** 34 defendants were fined. The fines imposed ranged from £250 to £6,000;
- I** 12 confiscation orders were made totalling £2,630,503;
- I** 29 compensation orders were made in 17 cases totalling £742,602*;
- I** 85 disqualification orders were made ranging from 12 months to 12 years; and
- I** 131 defendants were ordered to pay total prosecution costs of £369,461.

* Note: some of these amounts of compensation are to be paid out of some of the confiscation orders made: to be specific, £583,348 worth of confiscation is to be paid as compensation.

CASE STUDY *Selling The Ritz*

An unemployed bankrupt who claimed to be selling The Ritz and obtained £1 million by way of deposit from a prospective purchaser was made the subject of a 12 year bankruptcy restrictions order (BRO) in September 2007.

The bankrupt, a former haulage contractor, was initially targeted for a BRO in regard to the unauthorised sale of assets subject to a hire purchase agreement.

The debtor sought to have his bankruptcy annulled but was rather defensive about the source of the funds. Further enquiries by the official receiver led to the discovery of his activities in regard to the putative sale of the well known London hotel.

The debtor, who had no previous experience in this field, led property developers to believe that he was in a position

to deliver a contract for the sale of The Ritz. After a lengthy process of negotiation he advised the developer that he was contemplating selling the



hotel to a rival bidder unless the developer provided him with a £1 million deposit. The deposit was provided but, obviously, no contract ever followed. A further allegation in the BRO was made in regard to this conduct.

In a civil action brought in the High Court by the developer, the bankrupt was found liable for fraudulent misrepresentation and conspiracy to defraud.

CASE STUDY *Fraudulent Trading*

In October 2007, a director was sentenced to five years imprisonment following his guilty plea to two counts of fraudulent trading and a disqualification order under section 2 of the Company Directors Disqualification Act (CDDA) 1986 was made for a period of 10 years. (This was in addition to a 10 year order made under section 6 CDDA 1986 obtained by the official receiver on 15 March 2005.)

The company was set up in October 2000 and advertised in the national press for investors to hand over cash in return for the company purchasing cheap buy-to-let properties in Hull, renovating them, and installing tenants. Investment returns of 17.5% were promised and the company received large sums of cash from wealthy investors, who were shown the prospective properties by the director. However, in many cases the monies invested were withdrawn in cash and the properties were either not refurbished or not even purchased and tenants were rarely found.

Meanwhile the director enjoyed foreign holidays and purchased expensive jewellery for himself and his wife. The company eventually went into creditors voluntary liquidation in January 2002 and there was no return to creditors whose claims totalled over £433,000.

In December 2001 the director set up another company which commenced trading in the construction sector. Capital investment amounted to £1 and the company secured a large contract to refurbish a cinema complex. The work was subcontracted out, but the subcontractors were not paid and instead the director withdrew large sums in cash and purchased expensive motor vehicles for his own and his wife's use. By December 2002 the company was forced to cease trading and was wound up by the court in April 2003 with an estimated deficiency of £577,115.

Although the director attended for interview at the official receiver's office he failed to disclose the existence of motor vehicles worth a total of £60,000.

He also failed to disclose the existence of book debts which he personally collected (including one cheque made out to cash the day after the winding-up order, and another paid into his wife's bank account) and was unable to satisfactorily account for the disposal of the monies. He later attempted to explain away the purchase of the motor vehicles by saying one cash payment of £32,000 was a loan repayment to a car dealer whilst a £29,000 cash withdrawal was to pay wages. He also issued a cheque for £27,598 for goods through a dormant connected company (later wound up with a deficiency of £115,012) whose frozen banking facilities meant that the cheque had no prospect of being honoured.

Sentencing the director the judge stated that he was "a major league fraudulent trader who was living the high life, with expensive holidays abroad, a BMW and a Mercedes" and "caused chaos to the lives of many people".

The director's wife was also fined £2,000 and disqualified as a director for 2 years.

Table 6

Enforcement Activity and Timeliness	2003-04	2004-05	2005-06	2006-07	2007-08
Reduce the unit cost of enforcement activity	N/a	15.0%	11.7%	6.5%	4.2%
Reduce average time (months) from a company's insolvency to conclusion of disqualification proceedings*	22.4	25	27	27.5	N/a
Reduce the average time (months) from the date of insolvency to instigation of disqualification proceedings to 22 months*	N/a	N/a	N/a	N/a	18.5
Percentage of disqualification cases concluded					
within 30 months	80.8%	80.5%	79.1%	81.2%	N/a
within 24 months	54.4%	50.0%	47.6%	47.2%	N/a
Increase the level of public confidence in The Service's enforcement regime to 65%	N/a	51.0%	64.8%	62.8%	65.3%
Number of statements of facts submitted to the prosecutions branch of BERR where there is evidence of criminal behaviour	946	1,227	1,295	606	705
Take proceedings for disqualifications of unfit directors orders and undertakings obtained	1,367	1,240	1,173	1,200**	1,145**
Secure bankruptcy restrictions orders and undertakings against unfit debtors	N/a	22	843	1,867	1,827
Increase enforcement activity outputs (disqualifications, bankruptcy restrictions and statements of facts)	N/a	N/a	33%	10.9%	0.1%
			(over 2 years)		
Complaints about live companies made to CIB	4,734	4,272	3,711	3,595	3,619
Number of Section 447 investigations completed by CIB	204	176	160	174	193
CIB to complete consideration of vetting complaints within 2 months***	N/a	N/a	N/a	94.8%	92.6%
CIB to complete internal Section 447 investigations within 6 months***	N/a	N/a	N/a	93.2%	95.7%

* In 2007-08 we have measured performance against the time taken to instigate disqualification proceedings rather than to the conclusion of disqualification proceedings. This was to remove possible court delays when calculating the efficiency of the disqualification process.

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

*** CIB considers complaints about the conduct of companies (or the company's officers) to determine whether there are grounds for a statutory enquiry into the company affairs, and carries out such enquiries. The power of enquiry used is almost exclusively section 447 of the Companies Act 1985.

Although The Service did not meet its target to achieve a year-on-year increase of 7% in the number of enforcement outcomes (director disqualifications, bankruptcy restrictions and cases made for criminal prosecution), we maintained the overall level of enforcement outputs and were able to investigate all cases put to us by insolvency practitioners that, in our view merited investigation. In addition we lowered the unit cost of our enforcement output by 4.2%. This was achieved in the context of both bankruptcies and compulsory liquidations being broadly at levels seen the previous year. In addition

in the year The Service recruited a large number of staff, and managers had to spend a large amount of time on the training and induction of those staff.

Investigation and Enforcement Funding and Costs

Prior to 1 April 2004 funding for enforcement and investigation was split between a programme budget and an administration budget. Since the introduction of the new financial regime introduced from 1 April 2004, all investigation and enforcement activity is funded through a BERR programme budget.

Funding is therefore agreed as part of the Spending Review process conducted across government. The Service receives an indicative budget allocation covering three years.

Further information on enforcement funding can be found in note 2 of The Service's annual accounts on page 60.

Table 7

Enforcement Outturn, Costs and Recoveries	2003-04	2004-05	2005-06	2006-07	2007-08
Disqualifications, bankruptcy restrictions (since 1 April 2004) and statements of facts	2,313	2,489	3,311	3,673	3,677
Winding up orders and disqualification orders secured by Companies Investigations Branch	400	138	151	116	209
	£'000	£'000	£'000	£'000	£'000
BERR funding*	31,732	26,984	31,879	46,343	37,489
			***Restated £41,640		
Cost recovery from disqualified directors	2,902	2,330	1,862	2,776	2,138
			***Restated £2,295		
Investigation & enforcement costs**	34,634	29,314	33,741	49,319	39,627
			***Restated £46,465		

* BERR funding in 2007-08 includes a reduction of £10m following the decision by Ministers in 2006-07 to include the cost of investigations undertaken by official receivers on compulsory insolvency cases as part of the case administration function covered by the case administration fees.

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

*** Funding and costs since 1 April 2006 include the costs of CIB. Prior to 1 April 2006 CIB was part of DTI but the 2005-06 figures have been restated to include CIB for comparative purposes.

Table 7 shows the financial results and outputs for enforcement, investigations and companies investigation activity including the costs of CIB since 1 April 2006. Results prior to 1 April 2004 cannot, however, be directly compared with 2003-04 due to the changes implemented on 1 April 2004.

Future Developments

Towards the end of 2007-08, The Service commissioned a review of the way that it organises its investigations and enforcement work. This review will look at all aspects of our investigations and enforcement work and make recommendations for improvement.

During 2008-09 we will consider the contents and recommendations in the report and consider whether there are any improvements that we can make to this vital part of The Service's business.

Redundancy Payments

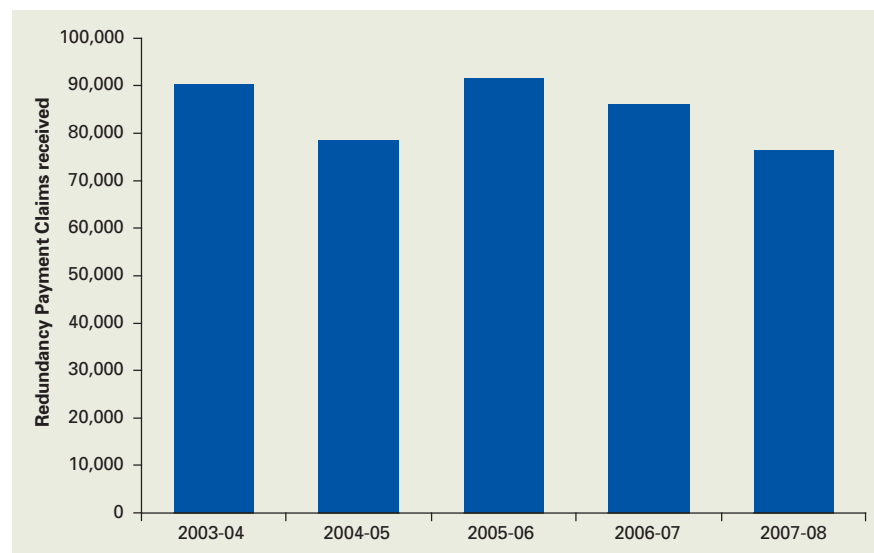
We aim for accurate, efficient and speedy payment of claims made by people whose employers have become insolvent or who refuse to honour an employment tribunal award. In 2007-08 our redundancy payments offices in Watford, Birmingham and Edinburgh dealt with 76,416 new claims for redundancy payments entitlement, a decrease of 11% on the 86,066 claims received during 2006-07. See chart 9.

Payments made to redundant employees during 2007-08 were in excess of £200 million. Claims handling efficiency has remained at a very high level with 93.7% of claims paid within 6 weeks against a target of 92% and 78.7% paid within 3 weeks against a target of 78%.

During the year the Redundancy Payments Service has dealt with a number of large, high-profile cases. In particular our Edinburgh office dealt with an initial request for financial assistance from Kwik Save to enable them to make 400 redundancies in mid May 2007.

Work was started on the financial assistance scheme to allow payments to be processed. Despite

Chart 9 Redundancy payment claims received 2003-08



this preparatory work the contractual requirements required to provide financial assistance did not materialise and Kwik Save finally went into administration in July 2007. The office handled over 2,000 claims for redundancy payment, all of which were paid within 3 weeks, with many claims being paid within 3 days of receipt.

The Redundancy Payments Office in Watford handled the redundancy claims in respect of the shoe shop chain Dolcis. The office processed over 600 claims for redundancy payment, 400 of which were paid within one week of the start of processing. A further 400

supplementary claims were also dealt with in a timely manner in respect of Christmas overtime. This was a remarkable achievement particularly with the level of telephone calls that this case attracted and the office received several complimentary letters from former employees.

During the year our Redundancy Payment Service has also investigated the authenticity of claims received in certain insolvencies.

Table 8

Redundancy Payment Activity and Timeliness	2003-04	2004-05	2005-06	2006-07	2007-08
Number of claims for redundancy payment entitlements	90,269	78,397	91,516	86,066	76,416
Increase manpower productivity of processing redundancy payment claims by 11%	N/a	13.0%	N/a	N/a	N/a
Maintain the cost of redundancy payment processing at the 2006-07 baseline	N/a	N/a	N/a	N/a	96.9% of 2006-07 costs
Reduce the unit cost of redundancy payments	N/a	N/a	1.9%	16.3%	N/a
Action 92% of redundancy payment claims within 6 weeks	89.0%	92.5%	92.6%	94.1%	93.7%
Action 78% of redundancy payment claims within 3 weeks	N/a	N/a	78.6%	80.1%	78.7%

CASE STUDY *Fraudulent Claim*

The owner of a small pub became bankrupt. Birmingham Redundancy Payment Office received one legitimate claim for redundancy and insolvency payments which was processed. However, during the course of the next three months, one person submitted a further 12 forms under different identities to claim a total of

£45k, which was paid into a number of different accounts. When the case officer became suspicious an investigation was made and on the strength of the detailed report produced by the Birmingham Redundancy Payment Office, West Midlands Police were able to carry out a dawn raid and went on to charge one person on 12 counts of fraud.

Redundancy Payments Funding and Costs

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

Table 9 shows the financial results and volumes for Redundancy Payments.

Future Developments

The amount of funding under the service level agreement with HMRC will be reduced by £500k in 2008-09, to £8,282k. This follows efficiency gains that have been realised from the payment process for redundancy payments

Work is continuing on the development of a new claims handling system based on workflow technology and will enable claimants to submit claims online or by email. The introduction of a new system will lead to further efficiency savings in future years.

Table 9

Redundancy Payments Funding and Costs	2003-04	2004-05	2005-06	2006-07	2007-08
	£'000	£'000	£'000	£'000	£'000
Redundancy claims	90,269	78,397	91,516	86,066	76,416
RP funding from HMRC	8,782	8,782	8,782	8,782	8,782
RP costs	8,528	8,838	8,991	7,906	8,577

Policy

The Service continues to ensure that the legislative framework is up to date, fit for purpose and serving the needs of stakeholders.

The programme of evaluation and consultation provides both qualitative and quantitative evidence to allow us to determine the extent to which insolvency law and practice meets policy objectives. The main focus in the year was the publication of the final evaluation reports on the provisions of the Enterprise Act 2002 and work was commenced on the evaluation of the EC Regulation on Insolvency Proceedings 2000. The Service publishes details of all of its evaluation work, including independent academic research and internal analysis reports, on the website.

Responses to Changes in Case Law

Over the last year or so judgments in two cases – First Independent Factors and Finance Limited v Churchill and Exeter City Council v Bairstow and Others – have raised significant implications for the prospects of business rescue out of insolvency proceedings. In response to the first of these decisions, last summer The Service brought forward a legislative change to the relevant provision within the Insolvency Rules to reverse what had been an unintended consequence in the way the relevant rule was drafted, a rule that had dated back to 1986. In response to the second of these decisions, we persuaded the department for Communities and Local Government to make a change to ensure that legislation covering

non-domestic business rates in England treats companies in liquidation and administration in the same way. The Scottish Executive has made an equivalent change in the legislation that applies in Scotland.

Additionally, the new section of the Insolvency Act to reverse the effects of the House of Lords decision in *Buchler and another v Talbot and another and others* (the “Leyland Daf case”) which had been legislated for through the Companies Act 2006, was commenced on 6 April 2008. In most cases this will deliver the policy aim of giving priority to liquidation expenses out of any floating charge assets where there are no other assets available to meet such expenses.

Rules Modernisation Project

Further work was undertaken during the year on the project to consolidate and modernise the insolvency secondary legislation, a project that will deliver new Insolvency Rules to replace those that have been in force since 1986.

During the last year we have finalised draft versions of the new rules taking account of comments that have been made by a number of key stakeholder groups. The Lord Chancellor’s Insolvency Rules Committee is now considering those rules that, amongst other things, will modernise the way in which insolvency proceedings may be administered by introducing initiatives to allow electronic communication. Subject to that consideration, we expect to be in a position to start the process of laying the new Rules before Parliament over the coming year. Over the

course of the last year we have also consulted on a number of parallel changes that we propose to make to the insolvency primary legislation by way of a legislative reform order (LRO)*, changes that are expected to reduce burdens on users of the insolvency legislation.

Debt Relief Orders

Debt relief orders (DROs) form part of the provisions of the Tribunals Courts and Enforcement Act 2007. They are aimed at the minority of debtors who owe very little, have few assets and have little or no surplus income. Such people are currently unable to access other forms of debt relief because they have no assets or income with which to make payments to their creditors, and often they cannot afford the deposit to petition for bankruptcy.

DROs will be administered by an official receiver, who will make the order without the involvement of the courts, although there will be the facility to involve the courts in disputes. Debtors will make their application via an intermediary, who will be a trained, experienced debt advisor. The intermediary will ascertain that a DRO is a suitable procedure for the debtor and that they meet the entry criteria, and will assist the debtor to make their application to the official receiver. All DROs will be received and processed online.

* An LRO is a deregulatory legislative device that can be used to amend primary legislation in certain circumstances. It is an alternative to making changes to statute by way of a parliamentary bill but can only be used for non-controversial changes, which have the support of key stakeholders and which lift burdens on business.

Once the order is made, the debtor will be bound by restrictions similar to those applied in bankruptcy. There will be a moratorium, usually lasting 12 months, during which creditors will be unable to take action against the debtor. At the end of the moratorium the debtor will be discharged from those debts which comprised the DRO. There will be obligations on the debtor to cooperate with the official receiver, and the official receiver will have the power to revoke the order if the conditions are not met or if the debtor receives a windfall. There will also be a regime, similar to the Bankruptcy Restrictions Order regime, to deal with debtors who have been dishonest or reckless.

We expect DROs, the first new insolvency procedure since 1986, to be introduced in April 2009 and we are currently working closely with stakeholders, particularly with the debt advice agencies, who we expect to provide the intermediaries. There is also a project board to ensure that The Service and its partners will have adequate systems set up for implementation of the proposals.

Individual Voluntary Arrangements (IVA) Reform

The Service continued to work closely with the industry to identify and implement improvements to the IVA regime. IVAs were introduced by the Insolvency Act 1986, and at that time they were targeted at debtors whose affairs were quite complex e.g. traders, company directors and professionals. Now, over 80% of IVAs are very simple cases, usually involving a regular payment from

income, and perhaps some equity in a property. Such cases do not need the full rigour of the original regime and we have identified a number of changes which are aimed at streamlining the regime and making it cheaper, quicker and more transparent for simple cases.

Some of the reforms need legislative change. These are being taken forward by means of a LRO which will be introduced into parliament this year. These proposals formed the basis of a consultation to stakeholders last year, and have become known as the SIVA reforms (Simple IVAs).

Some of the reforms are better dealt with by means of best practice and industry protocols. In January 2008 The Service published the IVA Protocol, aimed at standardising and streamlining simple cases, and improving transparency, both for debtors and creditors. This was the culmination of a year's work with stakeholder groups in the IVA industry, and the involvement of over 170 IVA providers, creditors, debt advisors, regulators and academics. The Service continues to monitor the operation of the protocol, through an IVA Standing Committee consisting of representatives from each of the interest groups, chaired by The Service.

Potential Reforms to Debtor Petition Bankruptcies

At the end of 2007 we published a consultation paper on potential reforms to the process by which an individual petitions for bankruptcy. The increase in debtor petition

bankruptcies has had a knock-on effect on HM Court Service. The increase in their workload has seen long delays in some parts of the country between the debtor filing a petition and that petition being heard. The Ministry of Justice asked The Service to consider alternative ways of dealing with these cases, arguing that such cases are not consistent with the court's role of dispute resolution, and are having a knock-on effect on the courts' ability to deal with other types of case.

The consultation document proposed that debtor petitions could be made directly to the official receiver, either by post or electronically. The official receiver could consider them and, if appropriate, make the order and refer it to the nearest office for processing. The consultation document emphasised that we are not proposing any change to the way bankruptcy orders are dealt with, or the effects of bankruptcy; just to the process by which a debtor is made bankrupt on their own petition.

Responses to the consultation were mixed. Some creditor groups argued that removing the courts from the process would remove the gravitas of bankruptcy, and make the process too easy. Debt advice groups pointed out that in many courts the judge does not see the debtor, and that the current waiting times only result in greater stress and an escalation of the debts.

Responses are being analysed and a formal response will be issued in summer 2008.

International Issues

The Service has continued to take a leading role in various international insolvency and financial sector matters including leading the UK delegation in two of the UNCITRAL, (The United Nations Commission on International Trade Law) working groups and attending the annual plenary sessions in respect of that work. This has included the consideration of how corporate groups should be treated in insolvency situations and the completion of a guide to secured transactions. This work will continue into the coming year.

The Service has also played an active part in EU initiatives, the International Association of Insolvency Regulators (IAIR) and in INSOL (an international insolvency organisation which draws its membership from all stakeholder groups).

Statistics

Evidence-based policy-making is supported by the production and development of regular statistical series and by statistical analysis in support of policy evaluation.

The quarterly Insolvency Statistical Press Release published on The Service's website reports trends in corporate and personal insolvency procedures in England and Wales and includes series for Scotland and Northern Ireland. Much work has been done in the year in developing a system for geographical mapping of insolvency data.

Policy Funding and Costs

The policy function is financed from the administrative budget of BERR. Table 10 shows the costs and funding over the past five years. From 1 April 2006 certain statisticians' costs were transferred from BERR to The Service and funding was increased to reflect this:

Future Developments

As set out above we are working on a number of projects which will ensure that the insolvency regime is modern and flexible and meets the needs of stakeholders. The Rules modernisation project and the associated LRO will deliver significant reductions in the costs of administering insolvency procedures, we presently estimate these savings to be in excess of £20 million per year. This will help us to deliver our key objective of keeping insolvency law up to date and fit for purpose.

Table 10

Policy Funding and Costs	2003-04	2004-05	2005-06	2006-07	2007-08
	£'000	£'000	£'000	£'000	£'000
Policy funding from BERR	1,817	1,641	1,858	2,129	2,079
Policy costs	1,817	1,641	1,858	2,129	2,079

Insolvency Practitioner Regulation

Most insolvency practitioners are authorised by one of seven professional bodies recognised by the Secretary of State to authorise their members as insolvency practitioners. The remainder, just under one hundred, are authorised directly by the Secretary of State. A key part of The Service's role is to ensure that those bodies regulate their practitioners effectively and to standards agreed with the Secretary of State as set out in a Memorandum of Understanding and in accordance with Better Regulation principles. Work was undertaken during the year to update and improve the Memorandum and to create a regulatory environment which will

help to identify areas of risk and ensure that monitoring resources are targeted accordingly. We undertake a regular monitoring programme of the Recognised Professional Bodies (RPBs) and undertake monitoring visits to the Secretary of State authorised insolvency practitioners on a risk management basis.

Individual voluntary arrangements (IVAs) and the practitioners that specialise in providing them remained a key influence on the regulatory work of The Service. Whilst the number of IVA registrations were below the levels of the previous year, consolidation in the number of specialist volume providers led to a significant increase in the number of transfers of appointments between practitioners. Concern about the

effect of the failure of a volume provider led to The Service and the recognised professional bodies agreeing a protocol for dealing with such a failure. Although it has not been necessary to use the protocol to deal with the consequences of a volume provider's formal insolvency, the principles that underlie it have been applied in circumstances where a provider's business has been transferred ahead of a formal insolvency appointment being made.

October 2007 saw the transposition of the Recognition of Professional Qualifications Directive into national law. Information about the Directive and how qualified EU nationals can work as insolvency practitioners in Great Britain is published on The Service's website.



Table 11

IP Regulations Fees and Costs	2003-04	2004-05	2005-06	2006-07	2007-08
IVAs	8,210	11,612	24,938	47,975	38,672
IPs authorised by SoS	N/a	92	83	90	91
IPs authorised by RPBs	N/a	1,575	1,598	1,592	1,592
	£'000	£'000	£'000	£'000	£'000
IP regulation fee income	342	761	1,211	1,155	935
IP regulation costs	514	702	808	835	1,003

Insolvency Practitioner Regulation Funding and Costs

Following the introduction of the Enterprise Act on 1 April 2004, new fees reflecting the cost of authorising and monitoring insolvency practitioners (IPs) and recognised professional bodies (RPBs) were introduced and insolvency practitioner regulation is now operated on a cost recovery basis.

As from 1 April 2007 the fees have been:

- IVA registration fee £10;
- authorisation and maintenance fee for those applicants seeking their authorisation as an insolvency practitioner from the SoS £2,500; and
- levy raised on each RPB by reference to the number of insolvency practitioners they authorise, equivalent to £200 per insolvency practitioner.

Table 11 shows the financial results and volumes for the IP regulation activity. Results since 2004-05 cannot, however, be directly compared with 2003-04 due to the changes implemented on 1 April 2004.

Future Developments

Fees are reviewed annually and the fees for IPs authorised by the SoS have been increased from 6th April 2008 to £2,550 and the fees charged to RPBs have been increased from 6th April 2008 to £207 per IP authorised by the RPBs. The fee for registration of an IVA has been kept at £10 per registration.

The IP regulation fee income has reduced due to a reduction in the number of IVAs and reduction in the IVA registration fee from £15 to £10 with effect from 1 April 2007.

Estate Accounts

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

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

During the reporting period, the total value of estates held in the ISA increased by 9%, while there was a 13% fall in the number of estates held. This continues a trend reported in last year's annual report and is the result of large IP firms

Table 12

Number of Insolvency Practitioner Estates	As at 31 March 2007	As at 31 March 2008
Bankruptcies	33,977	28,883
Compulsory liquidations	5,624	5,449
Voluntary liquidations	4,723	4,247
Total	44,324	38,579

Balances	As at 31 March 2007	As at 31 March 2008
Bankruptcies	£149.8m	£138.6m
Compulsory liquidations	£139.4m	£148.0m
Voluntary liquidations	£966.3m	£1,077.2m
Total	£1,255.5m	£1,363.8m

Transaction Volumes	2006-07	2007-08
ISA payment requisitions	117,339	137,720
Payments issued	199,663	229,868
Bank giro credit receipts	134,932	137,554
Balance statements issued on request	2,994	2,244
Total	337,589	369,666

using our services for high-value voluntary cases. As a result this part of the fund increased by 44% in 2005-06 and 27% in 2006-07.

Total number of transactions increased by 4% on the previous reporting period, with the number of payments rising by 8%, and the number of payment requisitions rising by 17%. This continues to be the result of more voluntary liquidation money being placed with the ISA.

Usage of our online services increased by 13% in the reporting period, contributing to a further 25% fall in the number of paper statements we issued and following the fall of 43% recorded last year.

The above figures are not yet audited. The audited Insolvency Services Account and Insolvency Services Investment Account is published separately, and will be available from The Stationery Office.

Table 13

Estate Accounts Timeliness	2003-04	2004-05	2005-06	2006-07	2007-08
Check and action Insolvency Services Account payment requisitions within 4 days or by the due date	97.4%	97.9%	98.5%	99.1%	99.5%

Table 14

Estate Accounts Transactions, Income and Costs	2003-04	2004-05	2005-06	2006-07	2007-08
Insolvency Practitioner Accounts	69,192	52,522	49,770	44,324	38,579
Transactions	338,985	305,563	281,416	260,691	271,274
Interest rate paid to estate accounts as at 1st April	3.5%	4.25% ¹	4.5% ²	5.25% ³	6.5% ⁴

	£000	£000	£000	£000	£000
Fee income	151	3,867	3,291	2,894	2,503
Costs	1,930	2,641	3,362	4,411	2,139

¹ 4.50% from 1 August 2004

² 5.0% from 1 August 2005, 5.25% from 1 December 2005

³ 6.0% from 2 October 2006, 6.5% from 5 February 2007

⁴ 6.75% from 18 May 2007, 7.0% from 10 July 2007

Estate Accounts Income and Costs

Table 14 shows the number of insolvency practitioner accounts, transactions and financial results for the last 5 years although due to the changes made on 1 April 2004 the results for 2004-05 onwards are not directly comparable with those in 2003-04. The fee income and costs relate only to cases which are being administered by insolvency practitioners. The costs of carrying out estate account functions on cases being administered by official receivers are recovered through the case administration fees.

Future Developments

Following a feasibility study of the requirements and options for a future IT system a new financial estate accounting system (EAS) has been purchased and is currently being developed with a prospective delivery late in 2008. This is hoped to further enhance the improvements gained through the 2006 restructuring and rebranding initiative to add to the ability of the organisation to meet future challenges and enjoy benefits to be realised under the Enabling the Future programme.

Customers and Stakeholders

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

User Satisfaction Index

We measure the satisfaction of our customers via a User Satisfaction Index.

During 2007-08 a total of 21,288 responses were received across the business areas an increase of 11% on the 19,184 responses received during 2006-07.

The index score achieved for bankrupts and directors in 2007-08 was 92.1% against a target of 91%. The response rate from bankrupts and directors continued to dominate the overall level of responses to our user satisfaction survey, with 19,658 responses coming from this customer group representing 92.3% of the overall responses received.

We failed to achieve the published target to increase satisfaction levels of redundant employees, achieving 75.2% against a target of 78%. We also had a target to increase satisfaction levels of creditors of an insolvency to 84%. We achieved a satisfaction level of 80.3% for this group but the response was at such a low level that performance against this target cannot be viewed as statistically representative. For 2008-09 we will return to calculating a combined user satisfaction score and we have set a challenging published target of 92%.

National Consultative User Group

As well as seeking our customers' views directly, we consult with specific representative groups. The Service's National Consultative User Group (NCUG), comprising representatives from the Bankruptcy Advisory Service, The Institute of Credit

Management, the Federation of Small Businesses, the Consumer Credit Counselling Service, Citizens Advice and the Court Service Agency. The group met twice during the year and considered among other things updates to the online forms service, policy changes and The Service's Charter Mark application. The group also contributed to various consultations on the proposed introduction of Debt Relief Orders and the potential reforms to debtors petition bankruptcy.

Estate Accounts User Group

The Estate Accounts User Group, which met twice during the year in Birmingham continues to grow in customer attendance, comprising of day-to-day customers of Estate Accounts who represent insolvency practitioners from smaller firms and cashiers or managers from larger organisations together with representatives who supply or support the customer's case management systems. The User Group is a forum where we learn from each other to understand how we can improve our services for the benefit of creditors and other stakeholders in insolvency cases. Issues discussed this year were:

- concepts to improve the speed of estate payments;
- enhancements delivered to improve our online services;
- legislative changes and associated updates in procedure for handling unclaimed dividends;



- our Enabling the Future programme – specifically the Estate Accounts System that will replace our legacy system involving broad discussions about benefits to stakeholders and a review of the future of online services;
- redistribution of certain duties internally within Estate Accounts;
- review of customer survey outcomes;
- reviewing Estate Accounts' service delivery and performance;
- service issues regarding cut-off times for receipt of electronic funds; and
- updates to current in-house legacy system.

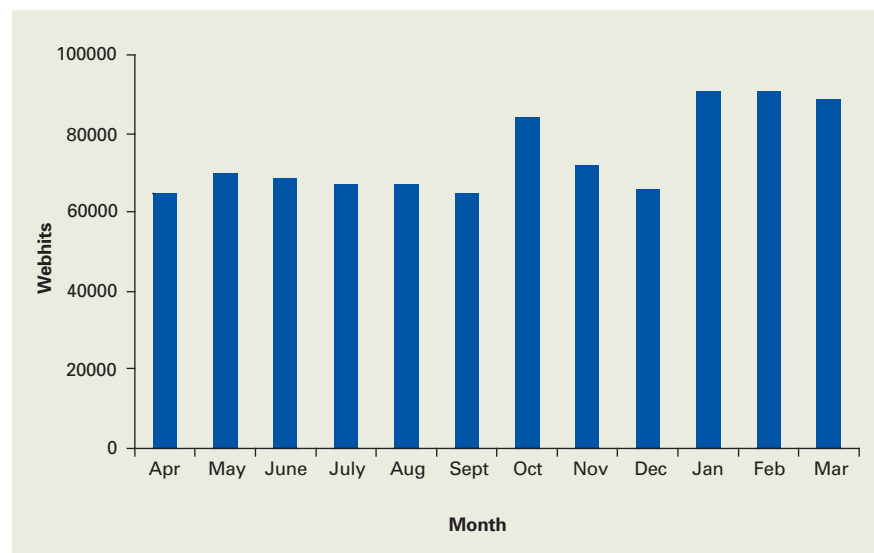
The Service continues to be grateful to the members of the NCUG and Estate Accounts user group, for the contributions they have made in helping us improve our service over the last year.

Helplines

The Service operates two helplines, one providing information about general insolvency matters, the other assisting employees made redundant as a result of insolvency. Our helplines are available Monday to Friday from 9.00am to 5.00pm.

During 2007-08 the helplines received 73,167 calls, an increase of 4% on the 2006-07 figure of 70,658.

Chart 10 Number of unique website visitors 2007-08



Enquiries by e-mail have also increased during the period to 6,790 as against 6,397 in 2006-07, an increase of 6%.

From the calls received by our helplines we have been able to identify where we could improve the provision of information in certain areas to our customers. As a result we have added more questions and answers to the FAQ (frequently asked questions) section of our website and we are also in the process of producing a new leaflet to add to our extensive range of information leaflets and guides.

Website

In addition to our helplines, customers can access information about our work via The Service's website. Use of the website increased during the year with 896,173 unique visitors, an increase of 31% compared to the 683,585 unique visitors in 2006-07. See chart 10.

Use of the online insolvency register has continued to grow dramatically with 3,731,956 searches undertaken in the year compared with 2,515,400 in 2006-07, an increase of 48%.

A further 16 commercial organisations have registered with us to receive data downloads of the insolvency register during 2007-08. This service is provided to organisations for a small fee.

The Service's publications can be downloaded from the website free of charge but to ensure our customers have a choice in accessing our services, printed copies are also available.

Demand for our printed publications fell in 2007-08 with 744,122 distributed as against 818,668 in 2006-07 a decrease of 9%.

Complaints

In 2007-08 The Service received 267 new complaints a decrease of 126 complaints on the 2006-07 figure of 393. The Service found 78 (29%) complaints to be justified in whole or part against 93 (24%) in 2006-07.

Two hundred and thirty (86%) complaints received in 2007-08 were answered within 10 working days, against a target of 90% and compared with 333 (85%) in the previous year.

To assist us in our aim of improving our services to our users we analyse complaints received to ensure that we address any recurring problems. Complaints are therefore categorised into one of five specific areas. See Table 15.

Independent Complaints Adjudication

The Service aims to resolve all complaints received to the satisfaction of the complainant. However there are occasions when complainants remain unhappy with our response to their complaint.

In such cases the complainant may be able to ask the Adjudicators Office to investigate their complaint about the service. The Adjudicators Office is an independent complaints adjudication body and their services are free of charge.

During the year the Adjudicator has taken on 7 new complaints for investigation, compared to 12 in 2006-07.

Table 15

Nature of Complaint	Viewed as justified	Viewed as non-justified	Total
Efficiency	18 (50%)	18 (50%)	36
Quality of service	58 (29%)	141 (71%)	199
Legislation	0 (0%)	20 (100%)	20
Third party	1 (9%)	10 (91%)	11
Other	1 (100%)	0 (0%)	1
Total	78	189	267

Table 16

Charter Standard	2006-07	2007-08
	Actual (Target)	Actual (Target)
Correspondence requiring a reply will be acknowledged within 5 working days with a specified reply date or replied to within 15 working days of receipt	86.5% (95%)	87.7% (90%)
Visitors with appointments will be seen within 5 minutes of their appointment time	95.5% (95%)	95.1% (95%)
Visitors without appointments will be seen within 10 minutes of arrival	90.4% (95%)	92.6% (90%)
All calls to offices or sections between 9am and 5pm, Monday to Friday, will be answered within 16 seconds	95.2% (95%)	95.2%* (95%)
All calls to the insolvency enquiry line will be answered within 20 seconds	96.9% (95%)	See Note*
The official receiver will contact the bankrupt or director within 2 working days of The Service receiving written notification of the court order	90.1% (90%)	92.6% (90%)
Telephone interview to be carried out or the bankrupt to be telephoned within 5 minutes of the agreed interview time	99.3% (95%)	99.2% (95%)

* During the year we have experienced problems with our call monitoring software and some replacement telephony. We have therefore been unable to report performance against the target to answer calls received by the insolvency enquiry line. Similarly we have not been able to record performance for all of our offices and sections timeliness in answering telephone calls.

The Adjudicator concluded her investigation into 8 complaints, one of which was substantially upheld and another was partially upheld.

Improvements Made as a Result of Feedback

During this year various improvements have been made as a result of feedback received by The Service, either by way of complaints, surveys, customer comments cards or through user groups.

These included the following:

■ as a result of feedback from users, we have included details of the newly introduced prepaid debit cards in our Bank Account leaflet. These cards can be used in the same way that an ordinary debit or credit card can be used, including paying bills, transferring money and withdrawing cash from an ATM. There are no credit checks. With a prepaid card you are limited to spending only the amount you put on your card;

Table 17

Action Invoices for Payment	2003-04	2004-05	2005-06	2006-07	2007-08
Within 30 days of receipt	99.1%	99.2%	99.1%	99.2%	99.0%

- following a large number of queries about statutory demands being received by our Insolvency Enquiry Line, we have decided to create a new guidance leaflet about Statutory Demands, which should be available in the autumn of 2008; and
- following a large number of queries from individuals living outside the UK but in other EU member states enquiring whether they can apply for bankruptcy in England and Wales, The Service has posted a FAQ (frequently asked question) on its website for users and issued a technical guidance notice to staff on this subject.

Charter Standards

Table 16 shows our performance against our Charter Standards for the last 2 years.

Payments to Suppliers

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

The prompt payment of invoices is a key Agency target and in 2007-08 99% were paid within 30 days. See table 17.

Corporate and Social Responsibility

Our Community Involvement Strategy (CIS) sets out The Service's commitment to conduct itself as a responsible corporate citizen; and to meeting and delivering its responsibilities to the needs of its employees, stakeholders and the wider community and environment. The Service's Directing Board reviewed and updated the CIS, in consultation with staff and stakeholders during the autumn 2007 and further details of the ways in which The Service supports its local and wider communities were added to the strategy.

The Service's CIS can be found on our website at www.insolvency.gsi.gov.uk

Charity of the Year

In line with the commitments detailed in our CIS, The Service decided to adopt a national charity of the year for a period of 18 months from 1 September 2006 to 31 March 2008, which aimed to bring together the considerable charitable efforts which were already taking place on a local basis. After a consultation exercise with staff across The Service, Cancer Research UK was chosen as The Service's inaugural national charity of the year.

During this campaign The Service managed to raise in excess of £35,000 for Cancer Research UK, which was well in excess of the initial target of raising £10,000. The importance and significance of this campaign was unfortunately brought home to staff across The Service following the news that Desmond Flynn, the former Chief Executive of The Service had been diagnosed with cancer. Desmond unfortunately lost his battle with cancer earlier in the year.

A special presentation was made to Cancer Research UK at a ceremony in Bloomsbury Street and current chief executive Stephen Speed handed over the cheque. He described it as a "poignant" ceremony at a time when "so many staff were still coming to terms with the recent death of Desmond."

Cancer Research regional manager Sam White congratulated the fundraisers on their "magnificent achievement" in raising "a huge amount of money" and said their efforts were "vital" to raising much needed research funds. She added: "You have completed such a phenomenal challenge over the past 18 months and should feel immensely proud of your achievements."

During the year staff supported this campaign by participating in a number of centrally and locally driven fundraising initiatives. A selection of the types of activities follows.

The Cancer Research UK Just Giving Campaign

Staff throughout The Service were encouraged to donate the money they would usually spend on Christmas cards for colleagues to Cancer Research UK and pass festive messages to colleagues by writing them on posters provided by Cancer Research UK. This campaign also contributed to The Service's environmental policy.

Cancer Research Big Ker-ching Thing and Donation Station Campaigns

In January 2007 and March 2008 staff across The Service supported Cancer Research UK's 'Big Ker-ching Thing' project, which aimed to turn good quality second hand goods into money for cancer research. Staff donated items including unwanted Christmas gifts, home wares and clothing to books and CDs.

Staff throughout The Service donated in excess of 800 bags of goods to this campaign, which have since been passed to Cancer Research UK charity shops throughout the country.



North West Region Annual Football Tournament

The North West Region's Annual 5-a-side Football Tournament was held at the JJB Soccer Dome, Manchester. Official receiver offices throughout the region, local Insolvency practitioners, solicitors and agents participated in the event which consisted of male and female competitions. £1,400 was raised for Cancer Research UK during this event.

Southend Official Receivers Annual Golf Tournament

This event saw 54 golfers, including staff from The Service, insolvency practitioner firms, and high street banks play an 18 hole competition with prizes for 1st, 2nd and 3rd place plus a nearest the pin hole, longest drive, and best personal round. Over £2,500 was raised for Cancer Research UK at this event from the

entrance fee and a raffle that was held on the day.

Cancer Research Race for Life and 10k Runs

A number of staff in The Service raised funds for this campaign by participating in Cancer Research UK Race for Life and 10K run events across the country with funds being raised through sponsorship from colleagues, friends and families.

Numerous other local fundraising events were held, which all contributed to the total raised during this campaign.

Our People

To enable our staff to achieve their objectives we must maintain an efficient work place where optimal use is made of resources. We need to ensure that we recruit the right people to get the job done as well as providing staff with the skills and knowledge to enable them to carry out the tasks to which they are assigned.

Recruitment

Continuing the foundations that were laid during 2006-7, where our recruitment policies and practices were reviewed and revised as part of the Enabling the Future programme, new recruitment and selection methods were designed and developed, particularly, but not exclusively for, Examiner recruitment.

The changes to recruitment and selection policies were introduced from April 2008, and will ensure that the processes are more cost-effective and streamlined, reducing the amount of assessment time and resources required, whilst still maintaining the ability to appoint high calibre employees with the competencies, skills, knowledge and ability required that allow The Service to continue to deliver its service to meet its customer's needs.

The key change to the recruitment and selection process is the replacement of centralised or regional assessment centres with a more flexible set of in-basket exercises (typical items of work that may cross an examiner's desk during a day, with any technical components removed), that are electronic and capable of being

administered at any location, and can be assessed remotely. This is supplemented by a competency-based interview. A bespoke literacy and numeracy test is also administered to the first level of examiner and B1 grade non-examiner vacancies, whilst the testing of these elements has been incorporated into the in-basket exercises at higher levels. A self-assessment test has been designed to enable all potential applicants for The Service's vacancies to determine their own suitability for positions.

During the financial year 2007-08, The Service appointed 394 new recruits to the following posts detailed in Table 18.

Table 18

New External Recruitment Range	Permanent		Casual		Total
	Male	Female	Male	Female	
A1	29	67	4	5	105
A2	65	119	2	3	189
B1	10	6	0	0	16
B2	2	4	0	0	6
B3 examiner	33	43	0	0	76
Bands C and above	1	1	0	0	2
Total	140	240	6	8	394

Table 19

Average Staff in Post	2003-04	2004-05	2005-06	2006-07	2007-08
Number	1,635*	1,680*	1,825*	2,146 *	2,529*

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

The Civil Service Commissioners require that all recruitment to The Civil Service is on the basis of fair and open competition, except in limited circumstances where flexibility is required to meet genuine business needs. The Service exercised this exception on just three occasions in 2007-08.

Qualifications and Training and Development

During the year, 82 training courses were run, providing necessary training and development for 907 staff, including Leadership and Management Development. In addition 34 staff attended external training courses and over 111 staff were supported through either the LifeLong Learning or Open Learning schemes.

An induction programme for administrative staff was designed and implemented during the year. This programme combines a blend of technical and generic training to enable new entrants to quickly get up to speed regarding the requirements of their post. Local office trainers, who have been specially trained for the task, deliver much of the technical training on site.

We have also started to create our own e-learning modules and this will enable us to move away from the

traditional classroom approach towards blended learning. The first of our new e-learning modules covers training for staff in the new IT system, enabling staff to learn at their desks in short, bite-size activities.

Our technical development programme was also reviewed during the year and a new in house qualification for three levels of examiners was launched in October. The new programme, like its predecessor, is accredited by Nottingham Trent University, and it will run alongside the original qualification programme until the original programme is phased out in 2010.

For those staff who had completed the old programme but wished to progress to a higher level of the new programme conversion courses were designed and delivered.

Investors in People (IiP)

The Service has held IiP status continuously for 9 years and as the year ends, is gearing itself up for another assessment visit. The Service is committed to ensuring that its staff are trained and developed and that they as individuals and The Service as a whole continuously learn. IiP provides us with a robust and up

to date framework for assessing whether we are meeting those commitments.

Diversity

The Service continues to move towards a more diverse workforce and is committed to pursuing equality of opportunity.

There have been further positive advances in delivering workforce diversity across The Service in 2007-08. Staff from an ethnic minority background now makes up 18% of our workforce and there continues to be an increasing number of women at the management level. The Service also continues its commitment to the terms of the Department of Work and Pensions' Positive about Disabled People 'Two Ticks' symbol, with 14% of staff indicating through self-declaration that they have a disability or long term health condition.

The Service's internal independent diversity group meets several times a year to discuss a wide range of diversity issues that are of particular relevance to staff. The diversity group act in an advisory capacity to the Diversity Board which is chaired by The Service's Chief Executive in his role as Diversity Champion.

Flexible Working Patterns

The Service continues to support staff in balancing work with outside commitments by providing a number of alternative working arrangements. All staff have access to the flexible working hours scheme which enables them to vary their times of arrival and departure from work, vary the length and timing of their lunch break, and take time off if they work extra hours.

Twenty seven percent of staff adopt flexible working arrangements, which include:

- part time working;
- home working: staff spend their entire working week at home;
- compressed Hours: staff work full time hours over a 4 or 9 day week;
- flexible working: staff spend part of their week working in the office and part of the week from home; and
- ad-hoc flexible working arrangements made under the Flexible Working arrangements 2002.

The Service will be introducing term-time working in the summer of 2008 as a valuable addition to its flexible working practices. In addition, in the past year we have revised our existing flexible working scheme, so that it can be made available to more of our staff following an upgrade of our IT systems.

Performance Management Process

We have reviewed our performance management process and made changes that reflect the introduction

of a new competency framework, which contains a uniform set of key organisational competencies and behavioural indicators that The Service sees as being fundamental to all its work.

The revision of the performance management process also ensures consistency across a number of our human resources policies, with a strong emphasis on training and development and continuous improvement. Staff are also encouraged to undertake their own self assessment to facilitate their continued involvement and commitment to the performance management process.

Recognition Awards

As part of its pay deal The Service will be introducing a recognition award which will enable line managers to reward staff who have shown exceptional performance, attitude or behaviour in undertaking a particular piece of work, activity or event. This award will serve as a recognition or "thank you" for one-off activities and will enable line managers greater flexibility to recognise and reward meritorious activity.

Staff Attitude Survey

In July 2007 staff were given the opportunity to complete an online staff attitude survey questionnaire and participate in a regional focus group. The overall level of staff satisfaction across The Service was 65.1% satisfaction against a target to increase satisfaction to 65%.

This result showed that The Service compared very favourably against

other Government departments, and there was an overall increase in the level of staff satisfaction since the previous two surveys. Further work is however being undertaken in some areas where it is felt that improvements can be made.

Sick Absence

The Service seeks to promote a safe and healthy working environment, through its policies and provision of services for example:

- flexible working patterns allow staff to better balance their personal and work lives and therefore promote good health;
- staff counselling service;
- occupation health provision; and
- ergonomic workplace assessment.

During 2007-08, The Service's average level of sick absence was 8.5 working days per person-year against a target of reducing the level of absences to 7.5 working days per person-year. Despite missing this challenging target The Service's sick absence levels still compare favorably across the wider Civil Service.

To support a reduction of sick absence levels in 2008-09, a review of best practice techniques employed across other organisations and analysis of absence patterns has indicated that proactive intervention by line management would be key in managing absence levels. Consequently, our procedures have been revised to facilitate earlier intervention and occupational health referral to facilitate earlier and better-informed decision-making.

Environment and Sustainability

During 2007-08 we have introduced a number of initiatives to reduce our carbon footprint and promote sustainable development, while continuing to build on other measures introduced in previous years.

Amongst new developments, 2007-08 saw the start of the rollout for a major refresh of the IT equipment used throughout the agency. This will have a number of environmental benefits over the existing system. The desktop equipment used will be more energy efficient than the previous hardware. The use of servers at a central facility of our IT partner will also allow us to dispense with servers and accommodation for them at our individual offices.

The IT refresh will additionally enable us to increase the numbers of staff taking advantage of opportunities for flexible working, again helping us to reduce our carbon footprint. A further benefit will be the opportunity to extend the use of videoconferencing, thus reducing the need for travel between offices.

Another key development is the decision to re-locate our Birmingham headquarters building from Ladywood House to Cannon House. The new premises have a BRE Environmental Assessment Method (BREEAM) environmental assessment of 'very good', reflecting its energy efficient design and use of energy.

In addition during 2007-08 we have achieved the following:

- I** installed more energy efficient chillers in our London building to replace their ageing predecessors. The new installation also utilises environmentally preferable refrigerants;
- I** maintained our policy of, wherever possible, locating offices near public transport facilities. This again applies in the case of Cannon House, where there has been a significant reduction in the number of places leased for car parking; and
- I** ended the provision of bottled water to all offices, whether for general consumption or use at meetings, replacing it with environmentally preferable alternatives.

The Insolvency Service Remuneration Report

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

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

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

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

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

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

Service Contracts

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

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

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

Salary and pension entitlements (audited)

The following sections provide details of the remuneration and pension interests of the most senior officials of the agency.

Remuneration

Officials	2007-08		2006-07	
	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
Mr Desmond FLYNN Inspector General (Until 30 September 2007)	50 – 55 (105 – 110 full year equivalent)		105 – 110	
Mr Stephen SPEED Inspector General (Joined 29 October 2007)	35 – 40 (95 – 100 full year equivalent)			
Mr Les CRAMP Deputy Inspector General – Operations	95 – 100		85 – 90	
Mr Graham HORNE Deputy Inspector General – Headquarters	85 – 90		80 – 85	
Mr Robert BURNS Inspector of Companies	85 – 90		80 – 85	
Miss Lesley BEECH Director of Finance, Resources & Estate Accounts	75 – 80		70 – 75	
Mr David CHAPMAN Director of OR London Operations	65 – 70		60 – 65	
Mr Terry HART Director of Human Resources	65 – 70		60 – 65	
Mr Stephen LEINSTER Director of Policy – Technical, Legislative and Professional Regulation	60 – 65		60 – 65	
Mrs Sharon Lewis Director of Redundancy Payments (From 12 July 2006)	60 – 65		45 – 50 (60 – 65 full year equivalent)	
Mr Mike LOWELL Director of Redundancy Payments (Until 26 June 2006)			10 – 15 (60 – 65 full year equivalent)	
Mr Mike NORRIS Director of Policy Development, Review and International Issues (Until 20 Jan 2008)	50 – 55 (60 – 65 full year equivalent)		60 – 65	
Mr Steve QUICK Director of Investigations	65 – 70		60 – 65	
Mr Mark SAVIGAR Director of Change Programme	65 – 70	2,500	60 – 65	2,100
Mr Tony WILKIN Director of Enforcement	70 – 75		70 – 75	

Remuneration of Steering Board members (audited)

The Agency Steering Board comprises 11 members, eight of whom are civil servants. The Inspector General and Agency Chief Executive, two Deputy Inspector Generals, the Director of Finance, Resources & Estate Accounts, the Inspector of Companies and the Director of Human Resources are six of these members and their remuneration is borne by the Agency and disclosed above. The costs of the two other civil servant members are borne by the Department for Business, Enterprise and Regulatory Reform (BERR). They do not receive any additional amount for Board duties. The Service pays the external members and remuneration for the year ended 31 March 2008 is £14,400 (total remuneration in 2006-07 was £20,196).

Salary

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

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

Benefits in kind

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

Non- executive board members	Salary	Salary
	2007-08	2006-07
	£'000	£'000
Mrs Louise BRITTAIN	NIL	NIL
Mr Stephen GALE	N/A	NIL
Mrs Elizabeth McMEIKAN	N/A	0 – 5
Mr Graham OATES	N/A	5 – 10
Mr Philip WALLACE	10-15	0 – 5
Mrs Rosalind WRIGHT	0 – 5	0 – 5

None of the non-executive board members received any benefits in kind.

Pension Benefits (audited)

Officials	Real increase in pension	Real increase in lump sum	Pension at 31/3/08 To nearest £'000	Lump sum at 31/3/08 To nearest £'000	CETV at 31/3/07 To nearest £'000	CETV at 31/3/08 To nearest £'000	Employee contributions and transfers in To nearest £'000	Real increase in CETV funded by employer To nearest £'000
Mr Stephen SPEED Inspector General (from 29 October 2007)	0-2.5	5-7.5	25-30	80-85	382	462	0.9	27
Mr Desmond FLYNN Inspector General (until 30 September 2007)	0-2.5	0-2.5	40-45	125-130	945*	957	0.9	12
Mr Les CRAMP Deputy Inspector General – Operations	0-2.5	2.5-5	40-45	125-130	904*	1042	1.4	21
Mr Graham HORNE Deputy Inspector General – Headquarters	0-2.5	0-2.5	35-40	85-90	570*	688	3.0	33
Mr Robert BURNS Inspector of Companies	0-2.5	0-2.5	35-40	115-120	750	865	1.3	9
Miss Lesley BEECH Director of Finance, Resources & Estate Accounts	0-2.5	0-2.5	25-30	80-85	426*	501	1.1	7
Mr David CHAPMAN Director of OR London Operations	0-2.5	0-2.5	20-25	60-65	304*	366	1.3	12
Mr Terry HART Director of Human Resources	0-2.5	2.5-5	20-25	65-70	323	389	1.0	11
Mr Stephen LEINSTER Director of Policy – Technical, Legislative and Professional Regulation	0-2.5	2-5-5	15-20	50-55	266*	325	1.0	16
Mrs Sharon LEWIS Director of Redundancy Payments	0-2.5	2.5-5	15-20	50-55	222*	285	1.0	22
Mr Mike NORRIS Director of Policy Development, Review and International Issues (until 20 January 2008)	0-2.5	0-2.5	15-20	50-55	261	311	0.8	6
Mr Steve QUICK Director of Investigations	0-2.5	2.5-5	20-25	70-75	378	454	1.0	18
Mr Mark SAVIGAR Director of Change Programme	0-2.5	2.5-5	20-25	70-75	366	441	1.1	16
Mr Tony WILKIN Director of Enforcement	0-2.5	0-2.5	30-35	90-95	510	594	0.7	10

* These figures have been updated since publication of the 2007-08 Remuneration Report.

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 changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' 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 in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated 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 updated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

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

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure

applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It 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.

A handwritten signature in black ink that reads "Stephen Speed". The signature is stylized with a large, looping initial 'S' and a horizontal line underlining the name.

Stephen Speed
Chief Executive
11 July 2008

Accounts

Statement of The Agency's and Chief Executive's responsibilities

Under section 7 of the Government Resources and Accounts Act 2000 the Treasury have directed The Insolvency Service to prepare a statement of accounts for each financial year in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year-end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing accounts the Agency is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- I** observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- I** make judgements and estimates on a reasonable basis;
- I** 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;
- I** prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

The Accounting Officer for the Department for Business, Enterprise and Regulatory Reform has designated the Chief Executive of The Insolvency Service as the Accounting Officer for the Agency. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in Managing Public Money issued by the Treasury.

Statement on Internal Control

1. Scope of responsibility

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

The Agency supports the Department for Business, Enterprise and Regulatory Reform's (BERR's) ambition of creating the conditions for business success through competitive and flexible markets that create value for businesses, consumers and employees. BERR also drives regulatory reform, and works across Government and regions to raise the level of UK productivity. We support BERR by ensuring that financial failure is dealt with fairly and effectively and that we detect and deter fraud and financial misconduct. I am advised and supported by:

- the Agency Steering Board, whose role is to advise the Secretary of State, generally through the Director General for Fair Markets Group (BERR), on governance of the Agency, its corporate plan, targets and performance. It meets at least four times a year to review the plans, strategic direction and performance of the Agency. The Board comprises senior officials

from the Agency and BERR, as well as up to five independent members;

- the Directing Board, which meets twice monthly to consider strategic direction, plans, and continuing activity in support of them and progress and performance against them. I receive advice and support on policy, strategic and operational issues;
- an Audit Committee chaired by an independent member of the Steering Board that meets four times a year and receives reports from both internal and external auditors on risk and other audit issues; and
- the Corporate Governance Group considers the overall risks to the Agency's objectives, the management and control of those risks, and the review and monitoring of the Agency's risk register and reports to the Audit Committee.

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

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Agency policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in The Insolvency Service for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

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

The Corporate Governance Section and Internal Audit operate to Government Internal Audit Standards. The work of the Corporate Governance Section and Internal Audit is informed by an analysis of the risks to which the Agency is exposed. The analysis of risk, the Corporate Governance Section plans and Internal Audit plans are endorsed by the Agency's Audit Committee and approved by me.

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

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

4. The risk and control framework

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

All key risks have been evaluated and allocated to appropriate managers. All directorates and regions and offices and sections maintain their own risk registers, which are reviewed, as a minimum, twice per year.

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

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, the work of the Agency's Corporate Governance Section and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter

and other reports. I have been assisted in my review of the effectiveness of internal control by the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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

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

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

A key risk for the Agency since 2004-05 has been the delivery of an IT system to replace two legacy systems on which the Agency manages its estate accounting functions for official receivers and insolvency practitioners. In 2006-07 a decision was taken not to proceed with the Cameo IT system and the contract was brought to an end. An interim solution ensures the performance and reliability of the existing systems. During 2007-08 a Feasibility Project was undertaken to identify options for a new replacement system. In October 2007 a decision was made on a replacement system and work is now well underway on the new project. The replacement system is currently planned to be ready for deployment in late 2008-09 but the final deployment date will be agreed in conjunction with the Enabling the Future (EtF) programme as the new system has a number of interdependencies with other projects within the EtF programme.

The 2006-07 review of the effectiveness of internal control highlighted some control issues where further improvement was required. The following progress has been made:

- business case training was provided to all project managers and SROs and improvements have been made in the internal arrangements to monitor finances on projects and programmes. The programme board has also agreed the governance policy and procedures for the programme;

- case inputs did not increase in 2007-08 as was originally anticipated; in fact, case numbers decreased slightly, although they are still running at a high level. Recruitment plans in 2007-08 were cut back slightly but recruitment has taken place across official receivers' offices.

There were some significant internal control issues identified during the course of 2007-08 but action to strengthen these controls has been taken or is planned. These significant internal control issues were identified during Internal Audit and Corporate Governance audits of the effectiveness of internal control. The significant control issues where further improvement is required during 2008-09 are as follows:

- business continuity plans and critical activities / recovery times are under review throughout Headquarters and the Regions. A new Business Resilience structure is being set up to co-ordinate Business Continuity and Disaster Recovery issues, comprising the Security Forum as main command, and sub-groups of the Business Continuity Forum and Crisis Response Team and the Architecture Working Group. A Business Resilience meeting was held in January 2008 to develop the Terms of Reference for the new structure, and will convene every 4-6 weeks thereafter.

- planning and reporting of progress on The Service's EtF programme to the Programme Board is being improved to include clear baselines and key milestones with summaries of key issues. A further audit of the financial controls and governance for the programme will be undertaken during 2008-09.

Additional priority areas where some weaknesses were identified and further improvement is required during 2008-09 are as follows:

- the high levels of recruitment in 2007-08 have resulted in an increase in inexperienced staff. Planning and target setting has been improved to take into account analysis of the effectiveness of the numbers of inexperienced staff across official receivers' offices. Additional resource has been provided by agency staff and, in places, temporary additional management resource has been put in place to assist with the impact of high numbers of trainees. Support for training has been given centrally and extensively at local level;
- a second audit on the leasing arrangements for IT projects indicated improved controls at local level, however some further work is still required, particularly in relation to audit and assurance on these leases. In addition further audits are planned that focus on the management of assets acquired via these leases and the allocation of costs to IT projects.

Data handling and data security

The cross Government review of data handling procedures has resulted in The Service taking a number of steps to ensure best practice is understood and embedded across the Agency. Data governance arrangements have been strengthened so that all identified data systems have a suitable senior identified data owner in place to ensure the security of data. BERR has established a network of Group Data Champions to work with data owners and BERR's delivery partners including The Service. BERR will disseminate centrally produced security information, ensure minimum standards covering electronic and paper data are applied, and also be responsible for reporting all data losses to Ministers. BERR have also identified all the personal and sensitive data sets across the Department, its Agencies and NDPBs. The top six in terms of size and scope have been flagged to the Cabinet Office. Internal Audit are undertaking a Departmental review, including Agencies and NDPBs, of the more material holdings of sensitive data, including personal data, in order to provide the Department's Accounting Officer specific assurance regarding the security of the Department's information.

Following the loss of an MOD laptop in January 2008, and the Cabinet Secretary's instructions that no unencrypted material containing personal data should be taken outside secured office premises, The Service took the following steps:

- a lockdown of all back up tapes to prevent any personal and sensitive data being moved between sites;
- imposed an immediate ban on the transmission of removable media such as CDs to third parties;
- urgently reviewed the arrangements with contractors in relation to the transmission of paper files and records;
- imposed an immediate ban on the movement of unencrypted laptops and removable data to and from The Service's offices and home working locations; and
- loaded approved encryption onto non-encrypted laptops.

The Service had no personal data incidents to report in 2007-08.



Stephen Speed
Chief Executive
11 July 2008

The certificate and report of the Comptroller and Auditor General to The House of Commons

I certify that I have audited the financial statements of The Insolvency Service Executive Agency for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Agency, the Chief Executive and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information which comprises the Management Commentary, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

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

Basis of audit opinion

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

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

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

Opinions

In my opinion:

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

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

T J Burr
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS
17 July 2008

Income and Expenditure Account

For the year ended 31 March 2008

	Notes	2007-08 £'000	2006-07 £'000
Income			
Fee income	2(a)	129,342	107,722
Other operating income	2(b)	13,711	14,257
Gross income	2(c)	143,053	121,979
Expenditure			
Staff costs	4(a)	82,931	72,776
Depreciation	6	1,147	388
Other operating charges	3	96,626	84,448
Finance lease charges	11(b)	192	-
Total expenditure		180,896	157,612
Operating deficit before interest*	2(c)	(37,843)	(35,633)
Cost of capital	7	772	435
Deficit for the year	12(c)	(38,615)	(36,068)

All income and expenditure is derived from continuing operations.

*This deficit does not include BERR financing of £39,568,000 (2006-07 £48,672,000) as shown in note 2(c) to these accounts.

The notes on pages 58 to 74 form part of these accounts.

Statement of Total Recognised Gains and Losses

For the year ended 31 March 2008

	2007-08 £'000	2006-07 £'000
Deficit for the year	(38,615)	(36,068)
Fixed asset revaluation – unrealised profit	26	5
Government Grant revaluation – unrealised profit	5	4
Total recognised loss for the year	(38,584)	(36,059)

Balance Sheet

as at 31 March 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Tangible fixed assets	6	6,765	2,361
Current assets			
Debtors	8	86,537	57,282
Cash at bank	9	23,603	42,534
Creditors – amounts falling due within one year	10	(74,369)	(72,751)
Net current assets		35,771	27,065
Total assets less current liabilities		42,536	29,426
Creditors – amounts falling due after more than one year	10	(1,755)	-
Provisions for liabilities and charges	5	(4,048)	(2,080)
Assets less liabilities		36,733	27,346
Taxpayers' equity			
Revaluation reserve	12(a)	78	52
Government Grant Revaluation Reserve	12(b)	39	34
General fund	12(c)	36,616	27,260
Total taxpayers' equity		36,733	27,346



Stephen Speed
Chief Executive

11 July 2008

The notes on pages 58 to 74 form part of these accounts.

Cash Flow Statement

For the year ended 31 March 2008

	Notes	2007-08 £'000	2006-07 £'000
Operating activities			
Net cash outflow from operating activities	13	(60,512)	(44,571)
Capital expenditure			
Net cash outflow from purchase of fixed assets	6	(5,872)	(880)
Net cash outflow before financing		(66,384)	(45,451)
Financing			
Net cash inflow from financing	13	47,453	46,597
Change in cash and cash equivalents	9	(18,931)	1,146

The notes on pages 58 to 74 form part of these accounts.

Notes to the Accounts

For the year ended 31 March 2008

1. Accounting Policies

1(a) Basis of preparation

The financial statements have been prepared in accordance with the 2007-2008 Government Financial Reporting Manual issued by HM Treasury. The particular accounting policies adopted by The Service are described below. They have been applied consistently in dealing with the items considered material in relation to the accounts.

1(b) Accounting convention

The accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

1(c) Tangible fixed assets

Fixed assets have been stated at current cost using appropriate indices. The minimum level for capitalisation of a tangible fixed asset is £2,000.

1(d) Depreciation

Depreciation is provided on tangible fixed assets, at rates calculated to write-off the cost or valuation, less any residual value, of each asset evenly over its expected useful life, as follows:

Computers unless otherwise stated	3 to 5 years
Software Development	7 to 10 years or life of system if shorter
Office machinery	3 to 10 years
Property Leasehold Enhancements	10 years or life of lease if shorter

Assets held that are in the course of construction are not depreciated until they are commissioned.

1(e) Stocks

There are no stocks: items such as consumables are charged to the Income and Expenditure Account in the year in which they are purchased.

1(f) Administration expenditure

Administration expenditure reflects the cost of running The Service under the net cost control regime.

1(g) Non cash charges

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

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

1(h) Operating leases

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

1(i) Finance leases

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

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

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

1(j) Pensions

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

1(k) Early departure costs

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

1(l) Operating income

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

Since 1 April 2004 The Service has operated under a net regime. 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(m) Value Added Tax (VAT)

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

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

1(n) Cost of capital

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

2. Income

2(a) Fee income

	2007-08 Fees earned £000	2006-07 Fees earned £000
Insolvency case administration	125,904	103,673
Estate accounting	2,503	2,894
Regulation of Insolvency Practitioners	935	1,155
Fees recoverable in the period	129,342	107,722
Debit balances credited back (note 3)	–	97
Net fee income	129,342	107,819

The case administration fee is charged to the estates on the making of the insolvency order but FRS5 (Financial Reporting Standard 5) only allows fee income to be recognised 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.

It is the performance of the official receiver's obligations, which gives The Service the right to recognise both income and assets, and The Service 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 Service uses these profiles to calculate the amount of fees charged that should be recognised as income.

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 2004-2005; 2005-2006 and 2006-2007 the same agreed casework profile was used on the basis that it reflected casework undertaken in each of these years and reflected how costs were incurred. There were no significant changes to work processes, which required the case profile to be adjusted. Nor were there any significant changes to the legislation during this 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 BERR 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 apply:

- (a) The work undertaken on cases is front loaded i.e. a large proportion is undertaken in the first 6 months.
- (b) 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:

- (a) Reviewing the weightings for business planning purposes, which determine the average time spent by each grade of staff.
- (b) Reviewing the time recording data.
- (c) Communicating and confirming assumptions with senior managers, official receivers and their staff.

2(b) Other operating income

	2007-08 £000	2006-07 £000
Investigation and Enforcement	2,138	2,776
Administration of Redundancy Payments	8,782	8,782
Rental income	2,775	2,689
Miscellaneous income	16	10
Total	13,711	14,257

2(c) Segmental reporting

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

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

	Turnover		Cost of Service		Surplus/(Deficit)	
	2007-08 £000	2006-07 £000	2007-08 £000	2006-07 £000	2007-08 £000	2006-07 £000
Activities funded from fee or other income						
Case Administration	125,904	103,673	125,555	90,326	349	13,347
Estate Accounts	2,503	2,894	2,139	4,411	364	(1,517)
Regulation of Insolvency Practitioners	935	1,155	1,003	835	(68)	320
Other	2,791	2,699	2,688	2,686	103	13
Redundancy Payments	8,782	8,782	8,577	7,906	205	876
Total	140,915	119,203	139,962	106,164	953	13,039

	Turnover		Cost of Service		(Deficit)	
	2007-08 £000	2006-07 £000	2007-08 £000	2006-07 £000	2007-08 £000	2006-07 £000
Activities funded from BERR financing						
Investigation and Enforcement	2,138	2,776	39,627	49,319	(37,489)	(46,543)
Policy advice and development	–	–	2,079	2,129	(2,079)	(2,129)
Total	2,138	2,776	41,706	51,448	(39,568)	(48,672)
Total of all activities	143,053	121,979	181,668	157,612	(38,615)	(35,633)

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

2(d) National Insurance Fund

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

These accounts include the administration costs and associated income (see note 2(c)). The NI Fund payments and receipts will be published in the consolidated resource accounts of BERR.

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 2007–08 year was £1,370 (2006–07 £1,448). An average amount of £676 was paid during 2007–08 for RP2 (2006–07 £690).

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

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

Insolvent Recovery – BERR 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.

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

	2007-08 £000	2006-07 £000
Outstanding debt at start of year	103,097	93,128
Plus payments in year	212,624	245,404
Less receipts in year	(38,852)	(40,761)
Less debt written off in year	(168,935)	(194,674)
Outstanding debt at end of year	107,934	103,097

3. Other operating charges

The other operating charges comprise:

	2007-08 £000	2006-07 £000
Cash costs		
Legal and other costs of investigation and enforcement	19,968	19,528
General administrative expenses	16,956	12,854
Other costs	7,711	5,478
Accommodation	8,255	6,665
Operating leases – accommodation	8,633	8,004
Operating leases – computers	8,049	5,548
Operating leases – office machinery	427	161
Disbursements funded by BERR	48	21
Disbursements funded from case administration fees	5,018	5,082
BERR overhead	2,439	2,377
Travel and subsistence	3,426	2,388
Hospitality	–	4
	80,930	68,110
Non cash costs		
Debit balances credited back against fees	–	(97)
Adjustment to bad debt provision	451	567
Bad debt provision for case administration fees	14,776	12,043
Bad and doubtful debt provision for banking fees	399	352
Other bad debt write offs	–	1
Audit fee	37	35
Loss on disposal of fixed assets	13	3,365
Loss on revaluation of fixed assets	20	72
	15,696	16,338
Total other operating charges	96,626	84,448

4. Staff costs and employee information

4(a) Staff costs

	2007-08 £000	2006-07 £000
Wages and salaries	67,506	58,876
Social security costs	4,333	3,915
Pension costs	11,089	9,828
Early retirement costs	3	157
	82,931	72,776

The wages and salaries cost includes £9,736,000 (2006-07 £7,759,000) for short term appointments and agency staff.

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. The scheme actuary valued the scheme as at 31 March 2003. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (<http://www.civilservice-pensions.gov.uk>).

For 2007-08, employer's contributions of £11,090,960 were payable to the PCSPS (2006-07 £9,828,488) at one of the four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2006-07 were the same). The Scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2008-09, the salary bands will be revised but the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2007-08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of 0.8 per cent of pensionable pay are payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. There were no partnership pension accounts during 2007-08 (2006-07 none).

4(b) Staff numbers

	2007-08	2006-07
Service Delivery	2,172	1,897
Corporate Services	308	199
Policy advice and Development	49	50
	2,529	2,146

Staff numbers are averages for 2007-08 and include permanent and casual staff but exclude 499 loanees, short term appointees and agency staff (2006-07: 418).

The total gross remuneration, including bonuses but excluding pension costs, of the Chief Executive Stephen Speed for the period 29th October 2007 to 31st March 2008 was £38,590. He is an ordinary member of the PCSPS. The total gross remuneration, including bonuses but excluding pension costs, of the previous Chief Executive Desmond Flynn was £51,549 to 30th September 2007 (2006-07 £106,337). He was an ordinary member of the PCSPS. During the period 1 October 2007 to 28 October 2007, Graham Horne was appointed as Acting Chief Executive. His gross remuneration was £6,538. He is an ordinary member of the PCSPS.

5. Provisions

The movements in provisions are shown below:

	Pre 1996 Debit Balance Write Offs £000	Early Departure Costs £000	Lease Dilapidations £000	Other £000	Total £000
Balance at 1 April 2007	235	56	70	1,719	2,080
Provided in the year	–	–	1,125	2,299	3,424
Provisions not required written back	–	–	(25)	(233)	(258)
Provisions utilised in the year	(227)	(29)	(45)	(817)	(1,118)
Unwinding of discount	–	–	–	(80)	(80)
Balance at 31 March 2008	8	27	1,125	2,888	4,048

Other Provisions

A provision of £239,136, being the refund of previously recovered fees following the decision in the Leyland DAF Limited case, was included in the opening provision of £1,719,000 above. None of the provision was utilised in the year. The provision is being unwound over five years and the balance at 31 March 2008 is £159,425 with two years left to unwind. The remainder of the opening balance of £1,719,000 largely relates to provisions for adverse costs in disqualification proceedings.

The cost of legal and other costs of investigation and enforcement (note 3) includes adverse costs on proceedings where the Secretary of State fails to secure a disqualification order. An estimate of these adverse costs of £342,083 is included in the provision made in the year of £2,299,000 above.

Section 261 of the Enterprise Act 2002 introduced section 283A into the Insolvency Act 1986 which changed the way in which the bankrupt's home is to be dealt with. There are a number of cases where, following the introduction of this provision, property interests in homes may have been lost to bankruptcy estates. The official receiver may be liable to compensate the bankruptcy estate by making fruitless payments based on the value of any assets lost. An amount of £944,242 is included in the provision made in the year of £2,299,000 above.

The service entered into leases for the development of both ISCIS and CHAMP projects (see note 17). The general administrative expenses (note 3) includes costs relating to the commitment on leases in respect of these payments totalling £977,360 which have been provided for in these accounts and are included in the provision made in the year of £2,299,000 above.

6. Tangible fixed assets

Cost or valuation	Assets under construction £000	Property Leasehold Enhancements £000	Office Machinery £000	Computers £000	Total £000
At 1 April 2007	312	814	560	2,865	4,551
Additions	2,890	207	204	2,571	5,872
Revaluation	–	23	52	(124)	(49)
Disposals	–	–	(29)	–	(29)
Impairments	–	–	–	–	–
Transfers	(312)	–	–	312	–
At 31 March 2008	2,890	1,044	787	5,624	10,345

Depreciation	£000	£000	£000	£000	£000
At 1 April 2007	–	305	324	1,561	2,190
Provided in the year	–	59	58	1,030	1,147
Provided in year for Government Grant	–	26	–	266	292
Revaluation	–	11	32	(76)	(33)
Disposals	–	–	(16)	–	(16)
At 31 March 2008	–	401	398	2,781	3,580
Net book value at 31 March 2007	312	509	236	1,304	2,361
Net book value at 31 March 2008	2,890	643	389	2,843	6,765

The computer system to manage IVAs was brought into use in April 2007 and will be depreciated over 21 months. This is shorter than the normal depreciation policy for computers, but reflects that the system will be replaced in January 2009.

The net book value for leased property under finance leases is £2,352,458.

7. Cost of capital

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

8. Debtors

	2008 £000	2007 £000
Prepayments	3,193	2,319
Debtors for disqualification costs	4,259	4,043
VAT debtor	1,412	1,772
Staff debtors	658	676
Debtors for fees – case administration	75,550	47,202
Debtors for fees – estate accounts	759	974
Other debtors	706	296
	86,537	57,282

An analysis of other debtors is given below:

	2008 £	2007 £
Department for Business, Enterprise and Regulatory Reform	511,197	2,078
Ministry of Defence	–	38,727
Department of Health	–	119
Bodies external to government	194,611	254,879
	705,808	295,803

The debtors for fees are in relation to fees charged and earned on insolvency cases but not yet realised because asset realisations in insolvency cases have not yet been completed. Debtors for case administration fees have increased in line with the increase in fees and additionally in 2007-08, by the change in the casework profile (note 2a).

The debtors for estate accounts fees have been reduced by a provision for doubtful debts of £399,246 (2006-07 £351,929). The debtors for case administration fees have been reduced by a provision for doubtful debts of £14,755,634 (2006-07 £12,042,677). The debtors for disqualification costs have been reduced by a provision for doubtful debts of £521,256 (2006-07 £694,003). The staff debtors figures includes £446,650 (2006-07 £520,916) which is repayable after more than one year.

9. Cash and cash equivalents

	2008 £000	2007 £000
Cash held at ISA	16,654	36,457
Cash held at the Office of the Paymaster General	6,949	6,077
	23,603	42,534

	2008 £000
Cash movements in year	
Cash at bank as at 1 April 2007	42,534
Cash movement in year	(18,931)
Cash at bank as at 31 March 2008	23,603

10. Creditors

	2008 £000	2007 £000
Amounts falling due within one year		
Trade creditors	2,665	896
Accruals	6,053	4,041
Deferred fee income	46,666	48,156
Current part of finance leases	739	-
BERR Inter-entity creditor	18,019	18,301
CFER payable to the Consolidated Fund	227	1,357
	74,369	72,751
Amounts falling due after more than one year		
Finance leases	1,755	-

Capital commitments due under finance leases are £2,494,469 (note 11b) (2006-07: Nil). The finance charge payable under finance leases and charged to the Income and Expenditure Account is £192,345.

The BERR Inter-entity creditor of £18,019,000 includes BERR cash funding of £9,733,802 which has been retained to meet cashflow requirements. It also includes the payroll for March 2008 of £7,814,388 which was paid for directly by BERR and The Service reimbursed BERR when invoiced in the following month.

The CFER payable to the Consolidated Fund is in respect of £227,250 for old regime cases debit balance write offs.

The annual accounts for 2006-07 recorded deferred income of £47.2m. This related to fees recovered on old regime cases (pre 1 April 2004) that had not yet been recognised as income in the annual accounts

The only fee that remained for old regime cases post 1 April 2004 was a Secretary of State (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 level of over recovery on old regime cases meant it was possible to reduce the SoS fee on 1 April 2006 and revoke the fee on 1 April 2007. Therefore, the level of deferred income is not expected to increase.

The deferred income is retained for 3 reasons:

- (i) To discharge the cost of completing cases with a pre 1 April 2004 insolvency order
- (ii) To be available to cross subsidise current cases if a shortfall should arise, although this is not expected
- (iii) To cover any shortfall in fees arising from the change in policy on 1 April 2007, which switched some £7.5m of investigation costs on pre 1 April 2007 cases to case administration.

Costs for old regime cases are matched to income in the year they occur. This has resulted in £1.1m of deferred income being recognised as income this year. Future costs of old regime cases are unlikely to exceed £3m. The level of deferred income needed to match the cost of old regime cases, is greater than that required.

The SoS fee (and therefore the deferred income) is also available to cross subsidise current cases although the intention was for current case costs to be met from new fees including the new SoS fee. The deferred income has therefore been retained to match a proportion of the debtor for fees on new regime cases. This is reviewed annually.

From 1 April 2007 the costs of completing investigations for 2005-06 and 2006-07 cases needed to be met from fee income where the fee was not originally set to meet this cost. The Service estimated that the likely cost of completing investigation work in hand was £7.5m. The Service ensured that deferred income from pre 1 April 2004 cases includes sufficient to cover any shortfall in fees arising as a result of the change but no deferred income has been recognised as income in 2007-08 to cover the cost of investigation work.

For 2007-08 deferred income for Case Administration Fees of £46.1m is included in the total deferred income of £46.7m.

11. Lease obligations

11(a) Operating leases

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

	2008 £000	2007 £000
Land and buildings		
Expiry within 1 year	342	142
Expiry within 2 to 5 years	1,484	2,483
Expiry thereafter	5,051	4,356
	6,877	6,981
Other		
Expiry within 1 year	3,669	5
Expiry within 2 to 5 years	5,571	153
Expiry thereafter	–	5,548
	9,240	5,706

The Service entered into a contract dated 29 June 2007 for the provision of a new desktop infrastructure. The charges include hardware, software, design and implementation services and support services. It was agreed that 2,750 users would be supported. A contract change note dated 31 January 2008 was agreed to provide support for an additional 317 users, giving a total of 3,067 users as at 31 March 2008. The first tranche of hardware has an initial term of 39 months from July 2007 and the second tranche of hardware has an initial term of 39 months from December 2007. The initial term for the software is 60 months from July 2007. The initial term of the installation services varies between 48 months and 60 months due to the fact that the services are performed over a period of time commencing July 2007. All installation services have the same end of initial term date of July 2012. The total cost over 5 years is £10,139,622 plus an annual cost for support services of £2,537,192.

The Service is liable for termination charges relating to the current ELGAR desktop services to be paid on 22 May 2008 of £1,692,856. Additionally the costs to support the current infrastructure pending the completion of the new infrastructure roll out is £1,180,408.

11(b) Finance leases

Obligations under finance lease are as follows:

	2008 £000	2007 £000
Computers		
Rentals due within 1 year	976	–
Rentals due after 1 year but within 5 years	1,964	–
Rentals due thereafter	–	–
Sub-Total	2,940	–
Less interest element	(360)	–
	2,580	–

Interest on finance leases charged in the year is £192,345. Included in the figure of £2,580,000 is expenditure of £85,563 which has not been capitalised, as the costs are not directly attributable to bringing the assets into working condition. The capital commitments due under finance leases are £2,494,469 (note 10).

12. Movement on reserves

12(a) Revaluation reserve

	2008 £000	2007 £000
At 1 April	52	47
Revaluation of fixed assets	26	5
Fixed assets – general reserve transfer	–	–
At 31 March	78	52

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

12(b) Government Grant Revaluation Reserve

	2008 £000	2007 £000
At 1 April	34	30
Revaluation of Government Grant Reserve	5	4
At 31 March	39	34

12(c) General fund

	2008 £000	2007 £000
At 1 April	27,260	16,049
Financing (Note 13)	47,453	46,597
Movement on Invest to Save (ISB)	(279)	–
Movement on Government Grant Reserve	(12)	(26)
Non cash financing	809	708
Deficit for the year	(38,615)	(36,068)
At 31 March	36,616	27,260

The general fund represents the value of the net assets employed by The Service in its operations.

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

	2008 £000	2007 £000
Government grant reserve		
At 1 April	208	234
Depreciation released to Income & Expenditure account	–	–
Historical Cost Depreciation released to Income & Expenditure account	(12)	(26)
At 31 March	196	208

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

13. Cashflow statement notes

	2008 £000	2007 £000
Reconciliation of operating deficit to net cash outflow from operating activities		
Operating deficit before interest	(37,843)	(35,633)
Depreciation charge	1,147	388
Depreciation charge on Invest to Save (ISB) assets	–	191
Audit fee	37	35
Loss on disposal of fixed assets	13	3,365
Loss on revaluation of fixed assets	20	72
Loss on revaluation of ISB assets	28	63
Movement in provisions	1,968	452
Increase in debtors	(29,255)	(16,049)
Increase in creditors	3,373	2,308
Adjustment required for movement in CIB debtors/creditors	–	237
Net cash outflow from operating activities	(60,512)	(44,571)

	2008 £000	2007 £000
Sources of financing		
Cash financing		
BERR Request for Resource allocation	51,858	52,864
ISB Request for Resource allocation	634	402
VAT recovered by DTI	(5,039)	(6,669)
Net cash inflow from financing	47,453	46,597

14. Fast Track Voluntary Arrangements

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

A FTVA is a binding agreement between the bankrupt and his/her creditors to pay all or part of the money owed to them. In a FTVA the official receiver acts as nominee and supervisor. The OR fee to act as nominee is £300, and as supervisor the OR also charges 15% of all sums realised. Registration fees of £10 (2006-07, £15) are payable to ensure the FTVA is on the public register of all individual voluntary arrangements.

During the year 2007-08, 13 individuals attempted to enter into a FTVA (2006-07: 14). The fees received by The Service were £7001 (2006-07 £17,619) and are included in these accounts under the case administration business.

The balance of funds held in FTVA estates as at 31 March 2008 was £51,949 (31 March 2007 £94,592).

These amounts are not included in these accounts as they represent trust monies.

15. Related party transactions

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

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

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

16. Commitments

There are capital commitments of £8.2m authorised or contracted for at 31 March 2008 (2006-07 £Nil). Capital commitments largely relate to major IT systems being developed under The Service's Enabling the Future (EtF) programme.

17. Losses

During 2007-08 a decision was made to move development of the ISCIS IT project to the same product acquired to implement an estate accounting solution. This solution had already been implemented, albeit on a much smaller scale, for the official receiver Northern Ireland and offered a number of advantages over the original product chosen for ISCIS including integration between case and estate management, an earlier delivery date and reduced overall cost taking account of the development costs already incurred. The new solution is planned to be trialled in a number of official receivers offices in mid 2008 with a view to full implementation in late 2008

Additionally, a decision was taken to pause development of CHAMP. CHAMP was being developed using the same product that was being used to develop ISCIS prior to the switch of product mentioned above. The pause enabled The Service to evaluate whether this product still offered the best solution. Following an evaluation a decision was made to stop the current CHAMP development and to tender for an alternative solution.

In both cases costs have been incurred on both developments that have been treated as constructive losses in these accounts on the basis that the development is no longer of material value to the new solution. For CHAMP it may be possible to reuse some development but this will not become clear until an alternative solution is procured and the total expenditure has therefore been treated as a constructive loss.

The total losses are:

	ISCIS £	CHAMP £
Already expensed in 2006-07 accounts	59,598	34,134
Included in 2007-08 accounts	712,832	516,584
	772,430	550,718

18. Contingencies

Banking liabilities

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

19. Financial exposure

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

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

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

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

The Service had no other financial assets or liabilities at any time during the current or prior financial year.

Liquidity, Interest Rate and Foreign Currency risk.

The Service has no exposure to significant liquidity risks.

The Service is not exposed to interest rate risk.

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

20. Performance target

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

21. Post balance sheet events

The Insolvency Service's financial statements are laid before the House of Commons by the Secretary of State of the Department of Business, Enterprise and Regulatory Reform. FRS21 requires The Insolvency Service to disclose the date on which the accounts are authorised for issue.

The Chief Executive authorised these accounts to be issued on 17 July 2008.

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