



The Insolvency Service Annual Report and Accounts 2011-2012



The Insolvency Service

Annual Report and Accounts 2011-12

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

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Chief Executive's Introduction and Overview



Welcome to The Insolvency Service's Annual Report and Accounts for 2011-12. Stephen Speed made reference in his foreword to last year's accounts to 2010-11 being perhaps the most challenging year The Service had faced as an agency, and the 12 months covered by this report have come close to that bar if not exceeded it.

2011-12 continued a fast decline in bankruptcy case numbers. This meant that overall, The Service handled 25% fewer insolvency cases than in 2010-11 (which itself saw a quarter reduction in the cases handled as compared to the 2009-10 financial year). The fall has continued to have a significant impact on The Service's income.

We have continued the cost-cutting measures begun towards the end of the previous year and, although around 18% of our permanent workforce had left as a result of The Service's first ever voluntary exit scheme at the end of 2010-11, we took the difficult decision to run a second exit scheme this year. We are once again grateful to BIS for agreeing to fund the payments to the 67 staff who took up the terms offered under the Civil Service Compensation Scheme.

As a result of our various cost-reduction measures The Service has delivered a further reduction in spend of approximately £23m against 2010-11, an overall reduction of around £60m since December 2009.

In the previous year's report and accounts we referred to the reduction in the value of assets in insolvent estates, which has in turn reduced the overall value of estates and our ability to recover the balance of our case administration fee. The changes made to the structure of the fees we charge and the Secretary of State fee on realisations now appear to be bearing fruit, with a falloff in the percentage of fees being written off for new cases. A further small amount has been written off in this year's accounts in respect of older cases where the insolvency occurred prior to the changes.

The number of applications for Debt Relief Orders increased by 14.4% over the previous year and The Service continued to provide a low cost, efficient debt relief mechanism for those members of the public who are unable to access other debt relief mechanisms. I am pleased to say the Debt Relief Order unit met all of its performance targets.

Not least due to the significant staff reductions we have experienced and the operational disruption that this has caused, but also directly due to the fall in compulsory insolvencies, we have seen a slight fall in investigation output this year. The final outturn is however within the range that we had planned at the start of the year. There were also some noticeable successes which are mentioned in the report, and I would particularly mention our work on closing down fraudulent land banking companies which often target vulnerable members of society; this work should not be overshadowed by the withdrawal in June 2012 from disqualification proceedings against the directors of Farepak Food and Gifts Limited and European Home Retail Group PLC. Litigation always carries some risk, and while it was in the public interest to seek the disqualification of Farepak's directors on the basis of the information available at the time, it was equally correct to withdraw in the light of the way the case progressed. I would stress that The Service remains

committed to maintaining an effective enforcement regime and is seeking to increase the confidence of our stakeholders in this area.

The demographic of redundancy claim cases received this year continued to be one of smaller cases with fewer employee claims, with the exception of a number of large high-profile cases. Our Redundancy Payments Offices in Birmingham, Edinburgh and Watford dealt with 11,643 new cases. This represents a fall of 6% from last year. At the same time there were 108,730 new claims for redundancy payments entitlement in total, a drop of 7%. The total payments made to redundant employees were in excess of £390 million. Claims handling efficiency dropped below the targets of 78% of claims being paid within 3 weeks and 93% being paid within 6 weeks, as staff adjusted to using a new claims processing system. It is nevertheless highly commendable that the Redundancy Payments staff have successfully paid over 14,500 protective awards to former Woolworths employees following a tribunal judgement, distributing some £14.5m in the largest protective award case to date.

On a further positive note, confidence in our insolvency regime was underlined during the year by our continued high rating in the World Bank report on Doing Business, where we rank 6th in the world for the efficiency of our insolvency procedures. During the year, work has taken place to improve confidence in the regulatory regime for insolvency practitioners, with particular focus on complaints handling and pre-pack administrations. We are proud of our work in the international context, where we have been at the forefront of efforts to improve legislative guidance on director duties and liabilities in the pre-insolvency period.

Consultations have been held on potential changes to improve access to bankruptcy and company winding up, and to improve access to bank accounts for undischarged bankrupts. Work has also been ongoing with representatives of the debt management industry, where concerns remain about the best way to ensure vulnerable debtors get the most appropriate advice.

A challenging year all round but I must pay tribute to the efforts of our staff whose commitment and professionalism have continued to enable us to provide high quality services to the stakeholders and the users of our services. They have my thanks.

A handwritten signature in black ink, appearing to read "GR Horne".

Graham Horne
Interim Chief Executive
3 July 2012

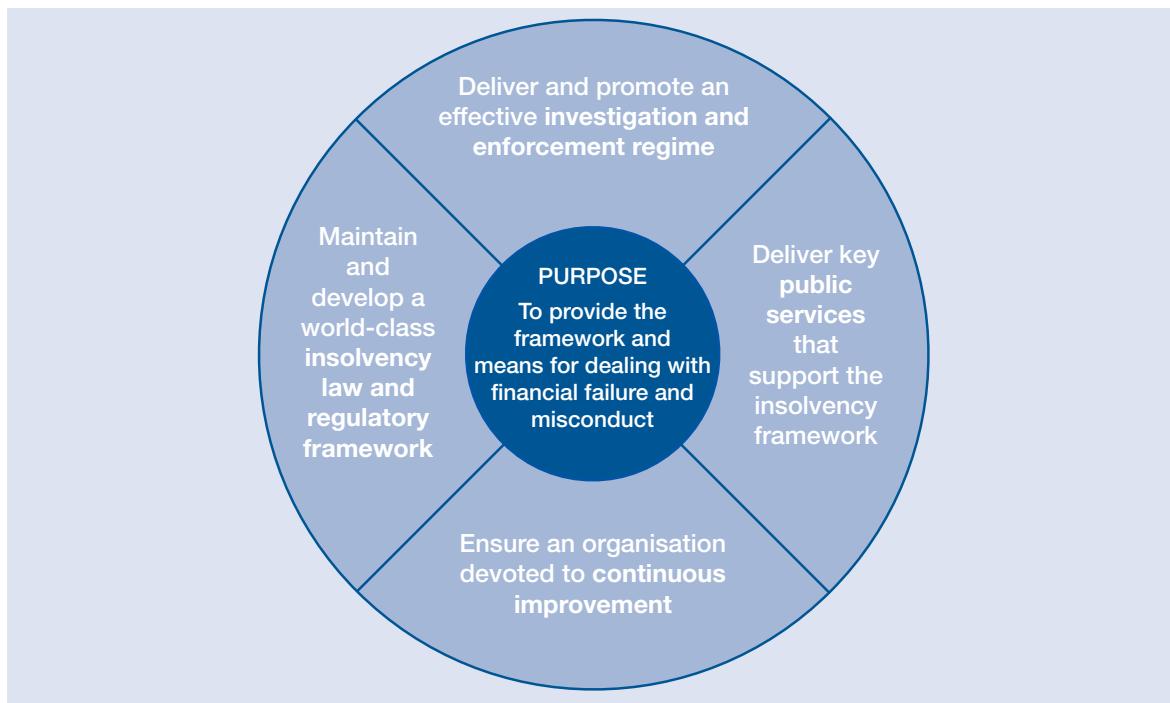
1 Introduction and Agency Overview

The Insolvency Service is an executive agency of the Department for Business, Innovation and Skills (BIS). The Insolvency Service fulfils a range of statutory functions and delivers a range of public services on behalf of the Secretary of State. It exercises powers and duties on behalf of the Secretary of State from the Insolvency Acts 1986 and 2000, the Company Directors Disqualifications Act 1986, the Employment Rights Act 1996 and the Companies Acts 1985 and 2006, as well as from a range of secondary legislation relating to these acts.

The role of The Insolvency Service

The Insolvency Service exists to provide the framework and the means for dealing with financial failure and misconduct. It has four main goals:

- to maintain and develop a world-class insolvency law and regulatory framework, see chapter 2;
- to deliver key public services that support the insolvency framework, see chapter 3;
- to deliver and promote an effective investigation and enforcement regime, see chapter 4; and
- to ensure an organisation devoted to continuous improvement, see chapter 5.



In fulfilment of these goals, The Insolvency Service:

- administers and investigates the affairs of bankrupts, individuals subject to debt relief orders, companies, and partnerships wound up by the court, and establishes why they became insolvent;
- acts as trustee or liquidator where no private sector insolvency practitioner is appointed;
- acts as nominee and supervisor in fast-track individual voluntary arrangements;
- acts on reports of bankrupts', individuals subject to debt relief orders and directors' misconduct;
- deals with the disqualification of unfit directors in all corporate failures;
- deals with bankruptcy and debt relief restrictions orders and undertakings;
- authorises and regulates the insolvency profession;
- assesses and pays statutory entitlement to redundancy payments when an employer cannot or will not pay its employees;
- provides estate accounting and investment services for bankruptcy and liquidation estate funds;
- conducts confidential fact-finding investigations into companies where it is in the public interest to do so;
- advises BIS Ministers and other government departments and agencies on insolvency, redundancy and other related issues; and
- provides information to the public on insolvency, redundancy and investigation matters via our website, the Insolvency Enquiry Line and the Redundancy Payments Helpline.

Insolvency Service published targets

BIS Ministers determine the policy framework under which The Service operates. They 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 BIS ministers on the execution of policy, our progress towards targets, and our plans and proposals for future developments. Ministers do not become involved in the administration of individual cases, which falls under the jurisdiction of the courts.

Each year BIS Ministers announce in Parliament the targets that they are setting The Insolvency Service. These targets span The Service's main business areas and are aimed at driving continuous improvement in the value for money and quality of service that we deliver.

Performance against these targets is monitored throughout the year by The Service's Steering Board and Directing Board. Table 1 shows The Service's performance against these published targets for 2011-12.

TABLE 1: PUBLISHED TARGETS 2011-12

Published targets 2011-12	Target	Achieved
User Satisfaction levels as measured through our Agency User Satisfaction Index	90	87.5
Level of real term reduction in fees for insolvency case administration	2.5%	2.2%
Percentage of reports issued to creditors within 8 weeks <ul style="list-style-type: none"> • for bankruptcy cases • for company cases 	92% 80%	93.1% 80.4%
Stakeholder confidence in The Insolvency Service's enforcement regime	68%	65.0%
The average time from insolvency order to the instigation of disqualification proceedings in appropriate cases	19.0 months	19.0 months
Process redundancy payment claims for payment <ul style="list-style-type: none"> • within 3 weeks • within 6 weeks 	80% 93%	68.2% 84.7%
Process payments to suppliers within 30 days	100%	98.9%

The Insolvency Service's governance arrangements

Steering Board

The role of the Steering Board is to advise the Secretary of State, through the Director General, Markets and Local Growth on the strategies that The Service proposes to pursue, the development of its strategic and corporate plans, the targets to be set for quality of service and financial performance (and monitoring and advising on performance against these) and the resources needed to meet those targets. The Steering Board comprises an independent chair, four independent members, The Director General, Fair Markets, BIS and the senior executives of The Service.



Philip Wallace, Chairman

Philip joined The Service's Steering Board in September 2006. He retired as a partner in KPMG in 2005, where he had specialised in Corporate Recovery. Before retiring, he was a 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. He is a non-executive director of the Financial Services Compensation Scheme.



Peter Holmes

Peter retired in 2008 from Accenture, a global management consultancy, IT systems integrator and outsourcing company. During his time with Accenture, Peter undertook a number of senior management roles in their public service practice. He worked closely with clients in the UK, Canada, Southern Africa and the Nordic region on large IT enabled change programmes. Peter is a director and Vice President of Operations at Intellect, the trade association representing the UK information technology, telecommunications and electronics industries. He is also an independent non-executive director of a number of software and IT services companies. Peter joined The Service's Steering Board in May 2008.



Derek Morrison

Derek joined The Service's Steering Board in May 2008 and subsequently took up the role of chairman of The Service's Audit Committee in October 2008. Derek worked for over 30 years in the automotive industry and has held a number of senior executive positions within Ford Motor Company, including Chief Financial Officer for Volvo Car Corporation. He has had board experience with Volvo and also two other international companies. In the public sector, he has been Audit Chair for a large Strategic Health Authority and is Chairman of an NHS Trust.



David Ereira

David is a partner in Linklaters LLP specialising in banking, restructuring and insolvency. He is a member of the City of London Law Society Financial Law Committee, INSOL Europe and the Editorial Board of the Law and Financial Markets Review. He has assisted as a legal expert with the work of HM Treasury's Banking Liaison Committee on resolution of failing banks and investment firms. He is a trustee of Marie Curie Cancer Care. He joined the Service's Steering Board in November 2010.



Pat Boyden

Pat retired from PricewaterhouseCoopers (PwC) in December 2011, having made partner in 1994. During his time with PwC, Pat took control of the national personal insolvency business, becoming the firm's authority on technical matters, particularly concerning proposed and actual new law. Pat served on the IPA Investigation Committee, reviewing complaints made against IPs. He is a licensed insolvency practitioner and a member of the R3 Personal Insolvency Discussion Group. Pat joined The Service's Steering Board in March 2012.



Rosalind Wright CB
(Until 31 December 2011).



Lesley Beech
Director of Finance, Governance
and Accounting Services (until 16
December 2011).



Bernadette Kelly
Director General, Markets and
Local Growth, BIS.



Ian Grattidge
Interim Director of Finance,
Governance and Accounting
Services (from 19 December 2011).



Stephen Speed
The Service's Inspector General
and Agency Chief Executive.



Terence Hart
Director of Human Resources.



Les Cramp CBE
Deputy Chief Executive and Head
of Corporate and Business Services.



Marian Joyce
Director of Strategy, Planning and
Communications.



Graham Horne
Deputy Inspector General,
Senior Official Receiver and
Head of Official Receiver Services.



Robert Burns
Head of Investigation and
Enforcement Services and
Inspector of Companies.



Anne Willcocks
Director of Policy and Regulation
(until 14 March 2012).

Audit Committee

The Audit Committee is a sub-committee of the Steering Board. It comprises 3 independent members, one of whom is chair, currently Derek Morrison. Philip Wallace and David Ereira are the other independent members of the committee. Meetings of the Audit Committee are usually attended by The Service's Finance Director and its external and internal auditors. The Chief Executive also has the right to attend.

The committee advises the Chief Executive (in his capacity as Agency Accounting Officer) and the Steering Board on risk management, internal control, the annual financial statements and on any other issues on which they might request. As part of this, the committee agrees the scope and priorities for annual and longer-term audit work.

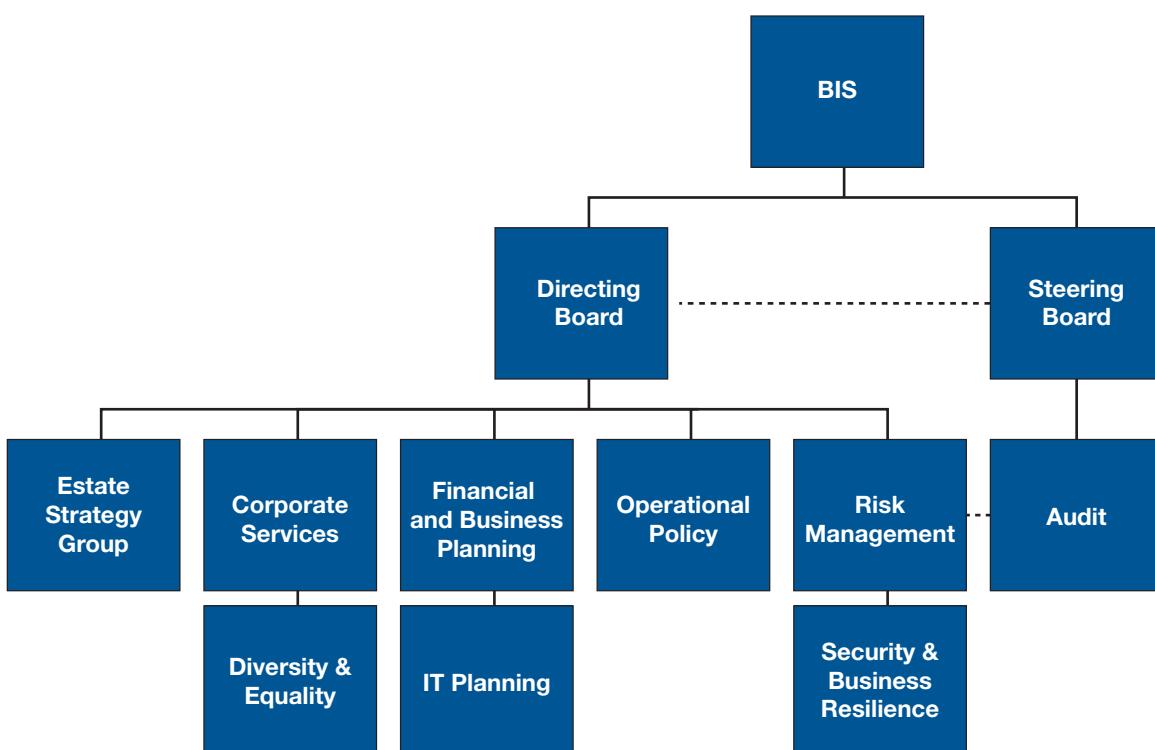
Directing Board

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, The Service's executive committee, comprising senior managers from The Service, who also provide him with advice and support on policy and strategic issues.

The Service has a corporate governance committee structure below its Directing Board. These committees provide oversight and monitoring, as well as, in some cases, a professional opinion on the development of new approaches and procedures. The Committees escalate issues to the Directing Board where they raise significant Service-wide questions.

Diversity & Equality Consultation Group

Our staff Diversity & Equality Consultation Group (DECG) helps ensure that diversity and equality underpin what we do and how we do it. The DECG is made up of staff members who bring diverse perspectives, based on their grade, work and life experiences, knowledge and own characteristics, such as gender, age, disability, ethnicity, sexual orientation, and religion or belief. One of the DECG's key activities is acting as an internal consultative body within The Service's equality analysis framework.



Auditors

The Insolvency Service's annual accounts have been audited by the Comptroller and Auditor General (C&AG). The notional cost of the audit work for 2011-12 was £70,000. 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 Agency 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.

Organisational restructuring

Over the last decade, traditional insolvencies dealt with by The Service rose steadily to all-time record levels. In particular, bankruptcies, where the individual debtor petitions the Court to be made bankrupt, more than trebled in the ten years to 2009-10.

However, since 2009-10 there has been a significant drop in volume (currently about 45%), particularly in debtor petitions. The scale and pace of this change emphasised the relative inflexibility in the structure under which we, in particular Official Receiver Services, operate. These issues emphasised the importance of reducing our fixed overhead costs and realising the benefits of a new ICT infrastructure, and came amid other significant financial constraints, including the Government's austerity measures.

The Service has adapted quickly to these issues, including reducing its costs by terminating contracts for almost all non-permanent staff, followed by the release of over 500 permanent staff through two voluntary exit schemes.

Following consultations with staff, Trade Unions, and key stakeholders during the summer of 2011, we announced our intention to reshape the organisation. Various options were considered, including those based around the existing structure as well as others based on different approaches. The Service focused on a new centralised model for delivering our services; which was designed to provide greater flexibility in adapting to increases and decreases in our workload.

Further work is required to determine the next steps in introducing a new delivery strategy. As an initial step, however, we are considering closing a small number of offices, focusing on where the limited face to face work could be reasonably absorbed into neighbouring offices. In March 2012 we issued public consultations regarding the proposed closure of three offices, Bournemouth, Medway and Stockton. These consultations closed on 22 June 2012.

In February 2012, Atkins Consultants were appointed to work with The Service and BIS, over a four month period, to assist us in introducing a new delivery strategy going forward. Their work has been underpinned by three work streams:

1. Reforming the Official Receivers Services funding model to provide a more sustainable income stream;
2. development of a costed investment plan for the implementation of the Delivery Strategy; and
3. reviewing the size and function of the corporate centre to ensure that the costs not directly under the control of the front line businesses are set at an affordable level and consistent with the size and scale of The Service in future.

This project is due to report in the summer 2012.

2 *The Legislative and Regulatory Framework*

This section covers the work of The Service during the year on policy development and delivery, technical information, statistics and insolvency practitioner regulation.

Policy

The Service advises BIS Ministers on how to ensure that insolvency law is kept up-to-date and fit for purpose, in line with our commitment to operating a world class insolvency law and regulatory framework contributing to BIS' strategic objective of building a dynamic and competitive UK economy. In accordance with Government policy making more generally, we look first to implement change by way of non-regulatory means. Where legislation is required, close attention is paid to the assessment of the impact of policies on those who might be affected by them. We consult on all significant changes.

Reforms to the regulation of insolvency practitioners

Work took place during the year to strengthen the transparency of the insolvency practitioner (IP) regulatory framework. It is vital that the regulatory regime has the confidence of those who are its ultimate customers, creditors and debtors, and this can best be achieved by making sure the regime is transparent, consistent, accessible, independent and accountable.

A Ministerial statement issued in December 2011 made clear that the Government felt more could be done to improve the effectiveness of the regulatory regime. A key element of our proposed reforms relates to the complaint handling processes, particularly improving the ability of creditors to complain when they feel excessive fees have been charged. We have been exploring with interested parties how to achieve this. Whilst the Ministerial statement noted strong support across all stakeholder groups for the idea of a single regulator, the Government decided against pursuing this option at this stage.

The statement also confirmed the intention for the Secretary of State (SoS) to withdraw from the direct authorisation of IPs; to reform the powers of the SoS as oversight regulator to make them more effective; and to introduce regulatory objectives to the regime. This is all dependent on finding Parliamentary time. Changes to the charging structure of the oversight regulation function could include consideration of a fixed element to the fee to ensure that regulatory costs are apportioned fairly between each of the regulators.

The Government made clear it did not see a future role for the Insolvency Practices Council (IPC), and the IPC has since announced its disbandment.

Personal Insolvency Issues

Debt relief orders (DROs) and Bankruptcy

Following the Supreme Court ruling in the case of Secretary of State for Work and Pensions (Appellant) v Payne and another (Respondents) [2011], the Insolvency Rules have been amended to put discretionary Social Fund loans (budgeting loans and crisis loans) outside the scope of a DRO and to make them non-provable debts in bankruptcy. The amendment came into force on 19 March 2012.

The amendment results from a legal challenge against the right of the SoS to recover Social Fund debts from ongoing benefit payments during the moratorium period of a DRO. The amendment means that in the future such debts will not be affected by a Debt Relief Order or bankruptcy, enabling the SoS to continue to recover outstanding loans. The Social Fund is a finite fund and loans repaid are recycled and loaned to other individuals in financial distress. This change will help to preserve the value of the Social Fund for the benefit of others in need of financial help.

Petition reform

A consultation exercise was run from November 2011 to January 2012 looking at streamlining the process leading up to bankruptcy and compulsory winding up. The consultation proposed that the role of the courts should be to focus on those matters which involved a genuine dispute, leaving more straightforward bankruptcy and winding up applications to be dealt with via an administrative process, with orders being made by an Adjudicator. Earlier consultation on debtor petition reform showed that interested parties see benefits in removing the court from the bankruptcy process where the debtor had made the application themselves.

The consultation also proposed the introduction of a new pre-action process, to ensure that where a creditor is presenting a petition, every effort is made to get the debtor to engage in the process and to resolve disputes at the earliest possible stage.

Responses to the consultation are now being considered and a Government announcement outlining the proposed way forward will be made shortly.

Debt management

Responses to the review of consumer credit and personal insolvency focused on ensuring debtors received the best possible debt advice, and that standards should be raised for those commercial players involved in providing debt management services.

The Government announced that Money Advice Service¹ would be responsible for ensuring the quality of debt advice provision from 1 April 2012. Discussions have also commenced, aimed at preparing a Protocol for the debt management industry to encapsulate best practice and drive up standards. The aim is to ensure that all debtors end up in a solution that best meets their needs, and that creditors have confidence that they will receive the best possible return.

Bank accounts for bankrupts

A consultation was launched on this issue which closed a short while ago. The consultation paper asked whether more should be done to increase the access bankrupts currently have to bank accounts, whether by regulatory or non-regulatory action. Responses are currently being reviewed.

Corporate Insolvency Issues

Pre-pack administrations

The Service has continued to monitor compliance by IPs with SIP 16, a professional standard which practitioners are required to follow when appointed office-holder of a pre-pack administration. During the year we produced guidance and conducted a web-based seminar to help clarify requirements. Our latest report on the results of our monitoring has recently been issued and shows that a substantial majority of SIP 16 reports were fully compliant with the standard. There were 29 cases (7% of our sample, involving 21 IPs), where disclosure was of a poor standard, and these were referred to the relevant authorising body to consider the matter from a regulatory and disciplinary perspective.

¹ The Money Advice Service is a free, independent service aimed at helping everyone manage their money better. The Money Advice Service was set up by the Government and is funded by a levy on the financial services industry.

The use of pre-pack sales, particularly those to connected parties (such as the existing management team), continues to attract criticism from creditors and the public. Proposals were worked up over the year aimed at giving creditors more confidence in the pre-pack sale process. The proposals included a mandatory 3 day notice period for creditors, giving them the opportunity to object to the sale. However, following consultation, the Government was not convinced that the benefits of the proposals were sufficient to outweigh the overall benefit to business of adhering to the moratorium on new regulations affecting micro-businesses, and the proposals will not now be taken forward. We are instead working with stakeholders to look at non-statutory means by which confidence in the pre-pack process can be improved.

The Minister recently hosted a meeting of stakeholders, and ideas for improvement were suggested which are now being considered.

Administration expenses

We have been considering the implications of a Court of Appeal decision which upheld an earlier High Court decision in ruling that the cost of complying with a Financial Support Direction issued by the Pensions Regulator after a company goes into administration ranks as an expense (rather than an unsecured claim) in the administration. Stakeholders have suggested that legislative change should be made to change this position and clarify the expense regime more generally, as the judgment has created uncertainty as to what is and is not an administration expense and might have damaging impacts upon the operation of the rescue regime.

Insolvency Rules

After the large number of modernisation changes which came into force on 6 April 2010, we are now engaged in a project to re-write and re-order the Insolvency Rules to make them easier to use. Substantial work has been done during the year on this project. We have also been preparing for the finance theme Red Tape Challenge, which includes insolvency and will be launched in the summer. The Red Tape Challenge is part of the Government's deregulatory agenda under which the public are encouraged to participate in identifying which regulations can be simplified, scrapped or merged. Consultation on a new set of draft Rules will take place once issues arising from the Red Tape Challenge have been considered.

Scotland

Considerable support was given to the Scotland Office in relation to the corporate insolvency provisions in its Scotland Bill, though ultimately, these provisions were not taken forward.

International issues

The Service has held a number of meetings with interested parties prior to the European Commission's review of the EC Insolvency Regulation in 2012. UK stakeholders have called for some refinements to the existing Regulation which would help to support cross-border business rescue and restructuring, improve the efficient handling of insolvency cases, and help to maximise returns to creditors. A consultation has been launched by the Commission as part of their review and closes in June 2012. The Service plans to work closely with the Commission and a UK stakeholder group throughout the review process.

Officials from The Service and BIS represented the UK at UNCITRAL, the United Nations body with responsibility for international trade. The UNCITRAL insolvency group has been developing legislative guidance on director duties and liabilities in the pre-insolvency period, and guidance on interpreting key concepts of the UNCITRAL Model Law on cross-border insolvency. This work was commenced at the UN in Vienna in December 2010 and will continue throughout 2012.

Policy funding and costs

The Service's policy work is funded from the administrative budget of BIS. Table 2 shows the costs and funding of our Policy work over the past five years.

TABLE 2: POLICY FUNDING AND COSTS

Funding and costs	2007-08	2008-09	2009-10	2010-11	2011-12
	£'000	£'000	£'000	£'000	£'000
Policy funding from BIS	2,079	2,086	2,025	1,644	1,478
Policy costs	2,079	2,086	2,025	1,644*	1,478

* 2010-11 figures have been restated to reflect changes in The Treasury's classification of administration and programme costs.

Technical Section

The Insolvency Enquiry Line continues to deal with high levels of enquiries from members of the public, both on the telephone and by e-mail (see page 27). Information available on our website, including the technical manual, has also been updated and extended. The section has also ensured that The Service complies with our obligations under the Data Protection and Freedom of Information Acts.

Statistics

Official insolvency statistics have been published on our website every quarter and continue to receive a high level of media coverage. The statistics team has also provided statistical input to policy development and other parts of The Service, including on forecasts of case numbers for business planning; support to the Delivery Strategy; input to the outward-facing work of the press office and official receivers; and the Diversity and Equality team.

Insolvency Practitioner Regulation

The Service is the oversight regulator of insolvency practitioners and ensures that the seven Recognised Professional Bodies (RPBs) permitted by the SoS to authorise their members as insolvency practitioners regulate them effectively. The SoS also directly authorises a number of insolvency practitioners and this function is undertaken at arm's length by The Service's Insolvency Practitioner Unit.

Annual review of IP regulation

The Service has published its annual review of IP Regulation. The Review sets out the essential features of the regulatory regime, what the public and businesses can expect from it and what The Service and the other insolvency regulators are doing to improve it. The Review also contains details of monitoring activities undertaken and provides statistical information about licence authorisations, sanctions and complaints. The latest report showed that the regulatory system generally works well, but that improvements were required in the speed with which cases are transferred to successor IPs and in the provision of copies of insolvency bonds to the RPBs. Specific concerns were also raised about the complaints handling process operated by the Solicitors Regulation Authority.

Sanctions for professional misconduct may occur following a monitoring visit or the investigation of a complaint, and can range from agreeing an action plan for improvement to, in extreme cases, the removal of a practitioner's licence.

Insolvency Practitioner Regulation funding and costs

IP regulation is operated on a cost-recovery basis. Since 6 April 2010 the fees have been:

- Individual Voluntary Agreement (IVA) registration fee, £15;
- for applicants seeking authorisation as an IP from the SoS, an application fee of £850, and a maintenance fee of £2,400 for the first period of 12 months and thereafter.
- a levy raised on each RPB by reference to the number of IPs they authorise, equivalent to £300 per IP.

Table 3 shows IP regulation activity volumes and financial results for the last 5 years.

TABLE 3: **IP REGULATION**

IP activity	2007-08	2008-09	2009-10	2010-11	2011-12
IVAs	38,672	39,981	49,586	49,754	49,934
IPs authorised by SoS	91	92	88	76	66
IPs authorised by RPBs	1,592	1,646	1,658	1,654	1,718*
Fees and costs	£'000	£'000	£'000	£'000	£'000
IP regulation fee income	935	991	1,473	1,547	1,486
IP regulation costs	1,003	1,054	1,307	1,507**	1,264

* As at 1 January 2012

** 2010-11 figures have been restated to reflect changes in The Treasury's classification of administration and programme costs.

3 | Public Service Delivery

Insolvency case administration

The efficient and effective administration of compulsory insolvency cases is one of the principal objectives of The Service.

In carrying out the administration we aim to

- Identify and protect the assets pending the appointment of a trustee or liquidator;
- establish the cause of the failure; and
- if acting as trustee or liquidator realise the assets as efficiently as possible and distribute those assets to the creditors.

During the year official receivers dealt with 43,594 new cases (38,469 bankruptcies and 5,125 companies), an overall decrease of 24.4% against the 57,682 new cases received during 2010-11. There was a 27.7% decrease in the level of new bankruptcies, but a 14.0% increase in the number of company cases. See figure 1.

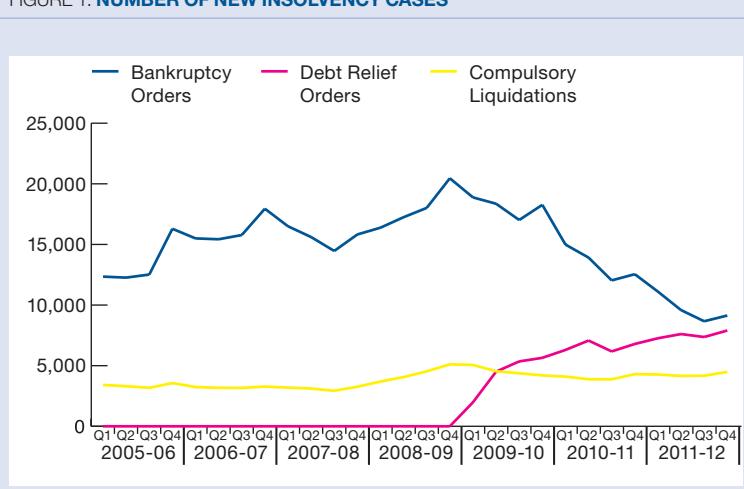
Eighty percent of new bankruptcies received during 2011-12 were made by way of debtors' petitions.

Official receivers were appointed as interim receivers² and provisional liquidators³ on 39 occasions compared with 51 in 2010-11.

Case forecasting and the Consensus Group

Due to the uncertainty of forecasting future levels of bankruptcy and compulsory winding up orders, even against a stable economic environment, The Service has introduced a Consensus Group to consider future insolvency forecasts from a macro-economic model, whilst also giving regard to ongoing case volumes and the local intelligence and views of business managers from across The Service. The overall aim of the Consensus Group is to agree case forecasting ranges on which The Service can set its future corporate, business and financial plans.

FIGURE 1: NUMBER OF NEW INSOLVENCY CASES



² The court can appoint an official receiver as an 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.

³ The court can similarly 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 Company Investigations which leads to a petition to wind-up a company in the public interest.

The Consensus Group is made up of partners and directors from major IP firms, banks, advice organisations, HMRC and senior BIS economists. These members offer us a broader perspective on the insolvency market and the wider economy, offering views on those factors that could push case numbers up or down. The group meets three times a year at key stages in The Service's planning cycle.

CHART 1: NUMBER OF INCOME PAYMENT ORDERS AND AGREEMENTS OBTAINED 2007-2012

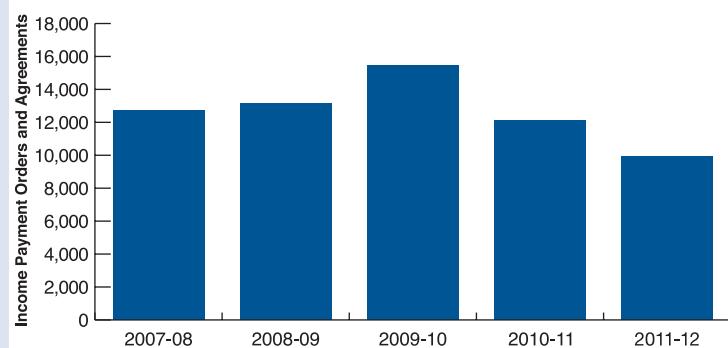


CHART 2: REALISATIONS MADE FROM INCOME PAYMENT ORDERS AND AGREEMENTS 2007-12

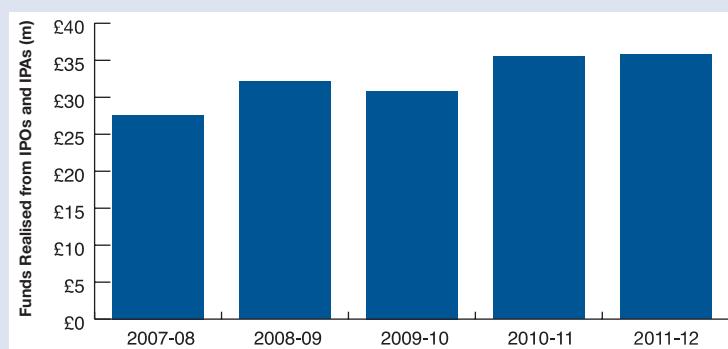
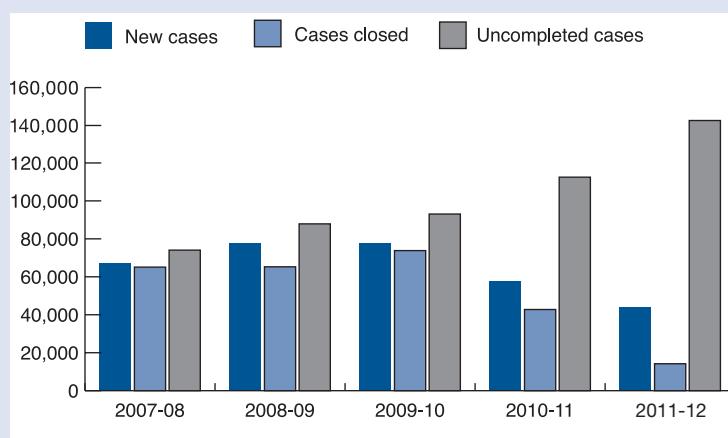


CHART 3: NEW CASES, CASES CLOSED AND UNCOMPLETED CASE ADMINISTRATIONS 2007-12



Income payment orders and agreements

Under an income payments order (IPO) or an income payments agreement (IPA) a bankrupt is required to make contributions towards the bankruptcy debts from their income, where they can afford to. Where a bankrupt appears to have income in excess of what he requires to pay for the reasonable domestic needs of himself and his family the official receiver will seek agreement to an IPA or, if the bankrupt does not agree, application is made to court for an IPO. Such contributions would continue for three years. If the bankrupt has any subsequent increase or decrease in income, the IPO or IPA can be reviewed and varied.

During 2011-12, official receivers secured 10,158 new income payment orders and agreement, a decrease of 18% on the 12,391 secured during 2010-11. In a period when levels of bankruptcies have decreased (28% on 2010-11 levels) and in a continuing economic climate where levels of disposable income available to collect through IPOs and IPAs has reduced, this outturn still clearly demonstrates that official receivers are ensuring that where bankrupts can contribute to their bankruptcy proceedings, they will be made to do so.

Despite the drop in the levels of new IPOs and IPAs being secured, there was a small increase in the amount collected by The Service in respect of IPOs and IPAs during 2011-12, with £35.8m being collected compared to the £35.3m collected during 2010-11. As IPOs and IPAs usually run for a period of 3 years it is anticipated that the amount collected in future years will reduce in line with the lower levels of IPOs and IPAs being secured during the last 2 financial years.

See charts 1 and 2.

Case completions

Official receivers concluded the administration of 13,933 cases during 2011-12, compared with 42,436 case completions achieved in 2010-11. The issues experienced by official receivers completing the final closing transactions on cases, since the introduction

of a new IT system in the second half of 2010-11, have persisted through 2011-12 resulting in a further reduction in the number of case closings completed and a further increase in the levels of open cases held at 31 March 2012. These issues have now been resolved and closings should return to normal levels in 2012-13.

As at 31 March 2012, official receivers held a total of 142,130 uncompleted cases compared with 112,401 as at 31 March 2011. See chart 3.

Issuing reports to creditors

During 2011-12 official receivers issued 39,957 reports to creditors in bankruptcy cases, of which 37,208 (93.1%) were issued within 8 weeks of the date of the bankruptcy order date, which exceeded the published target of 92%.

Official receivers also exceeded the published target to issue reports to creditors in compulsory liquidation cases with 3,964 (80.4%) of the 4,930 reports being issued within 8 weeks against a published target of 80%.

National Dividend Unit

During 2011-12, the National Dividend Unit paid a total of £18.6 million to insolvent creditors on 24,010 separate creditor claims in some 4,227 insolvency cases. This represents significant improvements on the £14.1m paid on 18,365 separate creditor claims in 3,968 insolvent cases during 2010-11.

Debt Relief Orders

During 2011-12, The Service received 30,734 applications for Debt Relief Orders which resulted in 30,118 DROs being made. This represents an increase of 14.4% compared with the 26,326 DROs that were made during 2010-11.

The official receiver can decline DRO applications made in cases where the debtor's circumstances do not warrant a DRO. They can also revoke DROs if they establish that the circumstances of the debtor change to no longer warrant a DRO. The official receiver can also conduct further enquiries into a debtors personal circumstances at the request of creditors if they see fit.

Insolvency case administration income and costs

Fees are set to recover costs in accordance with principles set out in *Managing Public Money*⁴. For case administration we have set a single case administration fee of £1,715 to reflect the average cost of administering a bankruptcy case and another of £2,235 for compulsory company liquidation cases.

Case fees are recovered in part from the deposit paid by the debtor or creditor when presenting a petition for bankruptcy or company liquidation. Table 4 shows the deposit levels since 1 April 2007.

TABLE 4: INSOLVENCY PETITION DEPOSITS

Petition Costs	from 1 April 2007	from 6 April 2008	from 6 April 2009	from 6 April 2010	from 1 June 2011
Debtors bankruptcy petition	£335	£345	£360	£450	£525
Creditors bankruptcy petition	£400	£415	£430	£600	£700
Creditors company petition	£670	£690	£715	£1,000	£1,165

The balance of the case administration fee is recovered from the assets realised in a particular case. Since, however, a significant proportion of cases have little or no assets a second fee, the Secretary of State fee, is

⁴ HM Treasury publication on the proper handling of public money. http://www.hm-treasury.gov.uk/psr_mpm_index.htm

applied to those cases that have assets over £2,000. For cases where petitions were presented before 6 April 2010, the fee was charged at 17%. Since 6 April 2010 and in recognition of the need to improve levels of cost recovery, new bandings for the Secretary of State fee bands were established as set out in table 5. The total Secretary of State fee remains capped at £80,000 in any one case.

TABLE 5: SECRETARY OF STATE FEE

	Bankruptcy	Companies
First £2,000	Nil	N/A
First £2,500	N/A	Nil
Next £1,700	100%	100%
Next £1,500	75%	75%
Next £396,000	15%	15%
Balance	1%	1%

The case administration fee is charged to the insolvency case when the insolvency order is made. However our published financial statements, which are drawn up in accordance with current accounting standards, report income only to the extent to which the costs associated with case administration have been actually incurred. The Service has developed a case profile to allow it to calculate how far, on average, cases have been completed and therefore the amount of the fee that has been earned. In practice the deposit will cover time spent on cases and costs incurred when the case is first taken on but there will then be a delay until assets are recovered. This is reflected in the way reported income is aligned to the time it takes to complete a case. Further information on fees can be found in note 6 of the Agency's annual accounts.

Debt Relief Order fees

The fee for an application for a DRO was set at a flat rate of £90. Out of this fee up to £10 is provided to pay the costs of authorised intermediaries who complete the online applications for debtors.

Table 6 shows the number of compulsory insolvency cases and financial results for the last five years.

TABLE 6: INSOLVENCY CASE AND DEBT RELIEF ORDER ADMINISTRATION

Insolvency cases	2007-08	2008-09	2009-10	2010-11	2011-12
Compulsory insolvency cases	67,218	78,029	77,898	57,682	43,594
Debt Relief Orders	N/A	N/A	17,446	26,326	30,118
Fees and costs	£'000	£'000	£'000	£'000	£'000
Case administration fee income	125,904	145,284	152,591	141,821	84,683
Case administration costs	125,555	145,837	149,981	194,960*	92,659
Case administration costs excluding bad debt	110,779	127,630	125,182	100,186	78,135
DRO fee income	N/A	N/A	1,593	2,382	2,725
DRO Administration costs	N/A	N/A	1,345	2,097*	2,725

* 2010-11 figures have been restated to reflect changes in The Treasury's classification of administration and programme costs.

Redundancy payments

The Redundancy Payments Service (RPS) aims to help The Service contribute to achieving the Department for Business Innovation and Skills (BIS) objective of 'delivering free and fair markets, with greater competition, for businesses, consumers, and employees'. We strive for accurate, efficient and quick payment of claims made by people whose employers have become insolvent or who refuse to honour an employment tribunal award.

RPS works closely with IPs and ORs to determine entitlements to redundancy payments and aims to process 80% of claims within 3 weeks and 93% within 6 weeks of receipt of the claim form.

During 2011-12, the general demographic of new redundancy cases dealt with continued to be smaller cases with fewer employee claims. However there have also been some high profile cases (see below). Our Redundancy Payments Offices in Birmingham, Edinburgh and Watford dealt with 11,643 new cases, a fall of 6% on the 12,356 new cases received during 2010-11. RPS received 108,730 new claims (excluding Woolworths protective award claims) for redundancy payments entitlement, a drop of 7% on the 116,972 claims received in the previous year. Total payments made to redundant employees during 2011-12 exceeded £390 million. Chart 4 shows details of the number of claims received, payments made and the amount paid to claimants for the last 5 years.

During the summer of 2011 the RPS launched its new payments processing system, CHAMP, with the Watford office migrating to the new system in August followed by a staggered launch from September through to December for the Birmingham offices and finally the Edinburgh office in February 2012. During the transition some bottlenecks in the work flow have been identified, largely due to the changes in working practices and these have had an adverse effect on the timeliness of processing claims.

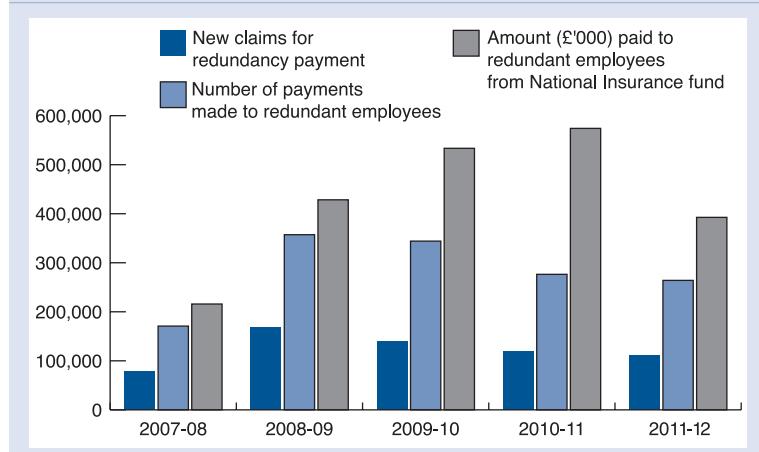
As a result of the migration to the new CHAMP system RPS' claims handling efficiency dropped and only 68.2% of claims were paid within 3 weeks against a published target of 80% (82.8% in 2010-11) and 84.7% of claims being paid within 6 weeks against a published target of 93% (95.3% in 2010-11).

During the latter months of 2011-12 improvements in the timeliness of claims handling were made and during 2012-13 RPS will be aiming to return to the historically high levels of claims being paid with the 3 and 6 week published targets.

During the year RPS again dealt with a number of high profile cases. Among these were Foremost Hotel Services Ltd with 1,600 foreign national employees, Barratts Priceless Ltd with 1,700 employees, Peacocks Group Ltd with over 1,000 employees, TJ Hughes Ltd with 4,000 employees and Focus DIY with over 2,000 employees, all of which were high street retailers. More recently RPS has dealt with Game Group Ltd with over 6,000 employees.

In January 2012, former Woolworths employees have been awarded a protective award judgment by an Employment Tribunal which is being processed by a dedicated team based in Watford. (A protective award is an order made by an Employment Tribunal, that an employer make payments for a protected period in respect of specified employees who have been dismissed as redundant without complying with the statutory

CHART 4: REDUNDANCY PAYMENT CLAIMS RECEIVED, NUMBER OF PAYMENTS MADE AND AMOUNT (£) PAID IN RESPECT OF CLAIMS 2007-12



requirement to consult. The award requires the employer to pay the employees – whether or not they are members of a Trade Union - their normal weekly pay for a period not exceeding 90 days.).

In 2011-12, RPS paid 10,627 protective awards, to a value of £21.4m , 6% of the total value of all payments and a further 13,970 protective award payments valued at £14.5m to former Woolworths employees.

During the year RPS also dealt with 35 requests for financial assistance involving 202 employees at a total cost of £921k.

RPS staff have also continued to work with both JobCentrePlus (JCP) and with IPs via the ERAC (Employment Rights Act Committee) who are based in the south of England and ERAF (Employment Rights Act Forum) who are based in the north of England and R3 meetings to ensure those facing redundancy have all the information and assistance they need at the right time. ERAC and ERAF meet quarterly to discuss any employment issues that have arisen and how public and private sector partnership working can assist those facing redundancy. This helps us to deal with claims more quickly in providing assistance to those in need most.

Communications with IPs during the past year have also increased with a series of newsletters being issued detailing changes and updates to the claims processing system and the implementation of CHAMP.

Redundancy payments funding and costs

The costs for the administration of the Redundancy Payments Scheme are met from the National Insurance Fund. An annual Service Level Agreement is in place between The Service and HM Revenue and Customs (HMRC) under which funding is agreed.

Payments made to employees under the Redundancy Payments Scheme are also met by the National Insurance Fund but are included in BIS accounts.

Table 7 shows the financial results and volumes for redundancy payments.

TABLE 7: REDUNDANCY PAYMENTS

Activity and timeliness	2007-08	2008-09	2009-10	2010-11	2011-12
New redundancy cases	7,593	12,135	13,237	12,356	11,643
Number of new claims for redundancy payment entitlements	76,416	164,083*	138,287	116,972	122,700**
Number of payments made to redundant employees	169,230	352,977	342,593	274,198	275,578**
Action 80% of redundancy payment claims within 3 weeks	78.7%	81.9%	80.5%	82.8%	68.2%
Action 93% of redundancy payment claims within 6 weeks	93.7%	94.8%	93.5%	95.2%	84.7%
Funding and costs	£'000	£'000	£'000	£'000	£'000
RP funding from HMRC	8,782	8,282	11,800	9,800	9,200
RP costs	8,577	8,660	11,466	10,093***	9,752

* Includes 25,000 new claims in respect of Woolworths Plc

** Includes 13,970 claims and payments in respect of the protective award made in the Woolworths case.

*** 2010-11 figures have been restated to reflect changes in The Treasury's classification of administration and programme costs.

Note: RPS costs during 2011-12 were beyond the level of funding provided by HMRC. These extra costs were met by a surplus carried forward from a previous financial year.

Estate accounts

Insolvency practitioners and official receivers are required by statute to use the Insolvency Service Account for both bankruptcy and compulsory liquidations. In April 2004, voluntary liquidators were given the choice to select their provider of banking services. Whilst some continued to use our services the overall level declined. In October 2011 we ceased to take on the banking of any monies in relation to voluntary liquidations following the results of a consultation carried out on the withdrawal of the facility. However we do continue to provide banking services where funds were already held in the ISA. We still deal with all unclaimed funds on voluntary liquidation.

In October 2011, Estate Accounts Service merged with Insolvency Practitioner Unit to form Estate Accounts and Insolvency Practitioner Services (EAIPS). Due to the nature of services provided by both areas it was viable to merge the two areas in order to streamline processes.

During 2011-2012, development work has been carried out in order to strengthen the business service model supporting our financial systems. The most notable deliveries surrounding interest and our fee recovery module to produce figures for the agency and white paper accounts.

All IP Banking Facilities are now undertaken by Government Banking Services. EAIPS are now in the process of planning the move to Government Banking for all OR Banking Facilities. It is planned for this to take place in the latter part of the financial year.

The Service's Estate Accounts Services (EAS) administers the ISA using the Government Banking Service (GBS). 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. Tables 8 to 11 show the number of estates and balances held in the ISA by both IPs and ORs. The figures in tables 8 to 11 are not yet audited. The audited ISA and Insolvency Service's Investment Account (ISIA) are published separately, and will be available from The Stationery Office.

TABLE 8: NUMBER OF IP ESTATES WITH ESTATE ACCOUNTS SERVICES

Number of IP estates with EAS	As at 31 March 2011	As at 31 March 2012
Bankruptcies	21,080	20,477
Compulsory liquidations	4,920	4,792
Voluntary liquidations	2,918	2,103
Total	28,918	27,732

TABLE 9: BALANCES ON IP ESTATES WITH THE ESTATE ACCOUNTS

Balances on IP estates with EAS	As at 31 March 2011	As at 31 March 2012
Bankruptcies	£79.5m	£71.7m
Compulsory liquidations	£127.5m	£91.0m
Voluntary liquidations	£508.4m	£306.7m
Total	£715.4m	£469.4m

TABLE 10: NUMBER OF OR ESTATES WITH ESTATE ACCOUNTS SERVICES

Number of OR estates with EAS	As at 31 March 2011	As at 31 March 2012
Bankruptcies	116,814	148,668
Compulsory liquidations	8,915	13,548
Total	125,729	162,216

TABLE 11: BALANCES ON OR ESTATES WITH ESTATE ACCOUNTS SERVICES

Balances on OR estates with EAS	As at 31 March 2011	As at 31 March 2012
Bankruptcies	(£7.6m)	(£0.6m)
Compulsory liquidations	£0.2m	(£6.6m)
Total	(£7.4m)	(£7.2m)

TABLE 12: EAS TRANSACTION VOLUMES

Transaction volumes (inputs)	2010-11	2011-12
ISA payment requisitions	85,045	56,709
Transaction volumes (outputs)		
Payments issued	176,404	185,863
Bank giro credit receipts	114,037	95,379
Balance statements issued on request	659	0
Total	291,100	281,242

TABLE 13: EAS TIMELINESS

EAS timeliness	2007-08	2008-09	2009-10	2010-11	2011-12
Check and action ISA payment requisitions within 4 days or by the due date	99.5%	99.2%	99.0%	83.7%	96.4%

EAS income and costs

Table 14 shows the number of IP accounts, transactions and financial results for the last five years. The fee income and costs relate only to cases which are being administered by IPs. The costs of carrying out estate account functions on cases being administered by ORs are recovered through the case administration fees.

TABLE 14: ESTATE ACCOUNTS

Transactions	2007-08	2008-09	2009-10	2010-11	2011-12
IP accounts	38,579	35,955	33,406	28,918	27,372
IP transactions	271,274	249,250	242,847	214,713	197,605
Interest rate paid to estate accounts as at 1 April	6.5% ⁵	7.0% ⁶	1.25% ⁷	0.5%	0.5%
Income and Costs	£'000	£'000	£'000	£'000	£'000
Fee income	2,503	2,319	2,498	2,439	2,053
Costs	2,139	3,570	2,354	2,139*	1,904

* 2010-11 figures have been restated to reflect changes in The Treasury's classification of administration and programme costs.

Estate accounts and IP user groups

The Estate Accounts User Group, which was a forum for EAS staff to meet and discuss operational matters with its external customers, has now extended to be the Estate Accounts and Insolvency Practitioner Services User Group in 2011-12 subsequent to Estate Accounts merging with Insolvency Practitioner Unit. As well as EAIPS staff, members of the group include IPs from smaller firms and cashiers or managers from larger operations. The group met for the first time in November 2011.

The IP User Group remains an important interface with a key group of customer representatives of small medium and large firms. They provide frank and honest feedback on service levels as well as providing indications of their business needs, helping The Service to consider appropriate resourcing to maintain or improve our service. They also give feedback on shared performance matters. It is our intention in 2012-13 to invite representatives from Redundancy Payments Service to the meetings too.

Future Developments

During the coming financial year work also continues on further improving our IT in order to provide a better service to customers and an improved user experience for staff.

Service delivery to our customers and stakeholders

It is of paramount importance to The Service that it delivers an excellent and efficient service to all of its customers and stakeholders. In order to achieve this we need to have effective and appropriate methods of communication and listen to our customers in order to address any deficiencies with the levels of service that we provide.

We also collect customer equality data on bankrupts, DRO debtors and employees of insolvent companies, and we have plans to improve our capture of customer equality data where appropriate. We use this information to help us understand our customers' diversity and to conduct meaningful equality analyses for any proposed service delivery changes.

Customer Service Excellence

Our continued customer-focused approach has again been recognised by The Service attaining the Customer Service Excellence (CSE) standard during June 2011. The Service has held this (and the formerly

5 6.75% from 18 May 2007, 7.0% from 10 July 2007.

6 6.25% from 17 October 2008, 4.75% from 11 November 2008, 3.5% from 9 December 2008, 2.75% from 13 January 2009, 2.0% from 9 February 2009, 1.25% from 10 March 2009.

7 0.50% from 13 May 2009.

named Charter Mark accreditation) continuously since 1998. The Service continues to recognise the importance of providing excellent services to all of its customers and intends to build on the progress made over the past 13 years as CSE award holders.

The CSE standard is more targeted at the development and improvement of our understanding of what really is important to our customers so that we can put the customer at the heart of all that we do. The Service continues to use customers' needs as a starting point for designing, delivering and evaluating our policies and service delivery. We have a range of policies and processes in place to ensure our services do not have an unfair impact on any potential users and are accessible to all.

The Service will be reapplying in June 2012.

User satisfaction index

The Service is committed to improving user satisfaction and following a comprehensive review, and consultation with stakeholders and customers, we have revised our methodology and the design of our questionnaires. Alternative ways of measuring satisfaction amongst our user groups were considered and five new questionnaires were introduced to measure user satisfaction for our main stakeholder groups: bankrupts; directors; redundant employees; petitioning creditors; and, insolvency practitioners.

Our methodology was also changed, with bankrupts and directors being asked to delay return of questionnaires until after completion of the initial interview, which, coupled with the introduction of the new questionnaires, has enabled a greater depth of feedback allowing us to understand more about how our users perceive The Service and ensure we are accurately measuring and capturing the drivers of satisfaction. From 1 April 2012, we will be moving from an index scoring approach to calculating a percentage of satisfied responses.

During 2011-12, a total of 8,132 responses were received to our user satisfaction survey across business areas, a decrease of 45% on the previous year where 14,957 responses were received. The decrease reflects the falling number of new cases administered in this period. The requested delay in return of questionnaires from bankrupts and directors is also likely to have caused the overall response rate to decrease.

In 2011-12, the user satisfaction score achieved across all customer groups was 87.5 which did not meet The Service's published target to attain a satisfaction score of 90. However 94% of customers were satisfied with the level of service that they received.

The response rate from bankrupts and directors continued to dominate the overall level of responses to our satisfaction survey, with 7,373 responses coming from this group, representing 91% of the overall responses received.

The user satisfaction score for bankrupts and directors was 88.6, slightly down on the score of 92 achieved in 2010-11.

User satisfaction levels for redundancy payments claimants has increased during 2011-12 to 78.8 from 75 in 2010-11, this has been achieved during another challenging year where staff time has been diverted to testing and implementation of the new CHAMP system.

Satisfaction of The Service's creditors and IPs has achieved relatively small response rates compared to the large size of these customer groups and is not therefore statistically representative.

For 2012-13 our Minister has again set The Service a published target to achieve a user satisfaction score of 90%.

National consultative user group (NCUG)

We confer with user groups as a way of engaging with both user representatives and partners. The NCUG comprises representatives from The Bankruptcy Advisory Service, The Institute of Credit Management, the Federation of Small Business, Citizens Advice and the HM Courts and Tribunal Service, as well as other creditor representatives. This group usually meets twice a year and provides a useful forum for consulting on and disseminating information on policy changes. The group met in April and October 2011. Feedback was sought from the group on a number of issues including the Delivery Strategy, modernisation of The Insolvency Rules, Land Banking and petition reforms.

Charity of the Year – Alzheimer's Society

In line with The Service's commitments under its Community Involvement Strategy, The Service adopted the Alzheimer's Society as its national charity for 2011-12. The Charity of the Year campaign was launched on 1 September 2011 and it will continue to run until 31 December 2012. The aim of adopting a national Charity of the Year is to provide an opportunity for staff and for The Service to feel that, over and above individual local efforts, it is making a joined-up effort to support the community.

Diversity & Equality Consultation Group (DECG)

As detailed on page 7, our staff DECG acts as an internal consultation route in our equality analysis framework. The DECG meets every quarter, and also works through an online forum. This year, the DECG has reviewed equality analysis on a range of customer-related issues, including our proposed new delivery model and the treatment of state benefits in income payment calculations.

Complaints

In 2011-12, The Service received 330 new complaints, of which 300 related to OR offices. The number of complaints for 2010-11, adjusted to include 21 complaints about parts of The Service other than official receiver's offices, was 269. Complaints (as adjusted) have increased this year by 23% on complaints from last year. The number of justified complaints this year was 92 (28%) and for 2010-11 (as adjusted) 76 (28%). In 2011-12, 293 (89%) complaints were answered within 10 working days, against a target of 90%. This compares to 243 (90%) in the previous year.

Independent complaints adjudication and the Parliamentary and Health Service Ombudsman

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 Adjudicator's Office to investigate their complaint about The Service. The Adjudicator's Office is an independent complaints adjudication body and their services are free of charge to the complainant. A member of Parliament may also refer a complaint to the Parliamentary and Health Service Ombudsman for investigation.

During the year the Adjudicator took on 9 complaints for adjudication, compared to 10 in 2011-12. The Adjudicator completed her investigation into 12 complaints during 2011-12. One complaint was withdrawn, 8 were not upheld, 2 were substantially or wholly upheld and 1 was partially upheld.

Of the three cases upheld in some way, the Adjudicator recommended that The Service issue 3 letters of apology and make 2 compensation payments totalling £375, all of which were accepted.

In addition, one case was considered by the Ombudsman, the complaint was partially upheld with a recommendation that The Service apologise for the maladministration identified and pay £5,839 to the complainant by way of compensation which was also accepted by The Service.

Charter Standards

Table 15 shows The Service's performance against our Charter Standards for the last 2 years.

TABLE 15: PERFORMANCE AGAINST CHARTER STANDARDS

Charter standards	2010-11 Actual (Target)	2011-12 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	92.4% (90%)	88.5% (90%)
Visitors with appointments will be seen within 5 minutes of their appointment time	98.5% (95%)	96.5% (95%)
Visitors without appointments will be seen within 10 minutes of arrival	97.5% (90%)	98.4% (90%)
All calls to the insolvency enquiry line will be answered within 20 seconds	96% (90%)	100% (90%)
The official receiver will contact the bankrupt or director within 2 working days of The Service receiving written notification of the court order	95.0% (90%)	93.1% (90%)
Telephone interview to be carried out or the bankrupt to be telephoned within 5 minutes of the agreed interview time	99.3% (95%)	99.5% (95%)

Communications

Media Coverage and Publicity

The Press Office continued to raise the profile of The Service's work in the media and gained more coverage of enforcement action, reassuring the public that there is a robust regime in place for dealing with rogue companies. The coverage also highlighted the penalties for misconduct of bankrupts or company directors, which can be significant and life changing. Interviews and articles publicising The Service's policy work were also placed in the media.

During 2011-12, The Service ran two national public relations campaigns, issued 78 press releases and dealt with approximately 20 calls a week from journalists enquiring about policy, personal and corporate insolvencies, and enforcement. The land banking campaign, which started in October 2011, highlighted land banking scams, urging the public to be vigilant when dealing with land investment companies.

The Press Office also carried out the 'Dealing with your debt campaign' in December 2011, which raised public awareness of the need to deal with debts responsibly by seeking advice early. The publicity drive, which was delivered in-house was successful and received widespread national and regional coverage in both print and broadcast media. It was supported by the Money Advice Trust, Citizens Advice and the Consumer Credit Counselling Service. There were 83 national broadcasts and 283 regional broadcasts on BBC radio and television alone. There was also a large volume of online coverage.

Of the 78 press releases issued, 69 related to enforcement outcomes such as the winding up a group of companies, including those involved in land banking scams, targeting the elderly or offering bogus recruitment opportunities. Enforcement issues also appeared on the BBC1 You've Been Scammed program on five separate occasions, and on Channel 5's Cowboy Builders again on five different occasions. Official receivers were also interviewed about a variety of issues on a number of different regional radio stations.

Website

In addition to The Service's helplines, customers can access information about our work via The Service's website. At the end of July 2011, The Service's website was transferred to the BIS website platform. The transfer was part of the government's Service Transformation Agreement which set out to improve service delivery by radically reducing the number of government websites by 2011. The Service's web content can now be found at www.bis.gov.uk/insolvency.

Individual Insolvency Register

Use of the Individual Insolvency Register (IIR) remains at a very high level with 3,967,899 searches being conducted by users. This is an increase of 19% compared with the 3,348,240 searches conducted during 2010-11.

Commercial organisations can register to receive data downloads of the IIR and at the end of March 2012 we have 32 subscribers to the service. We recognise the importance of this service to financial service organisations and the wider financial industry, and we work with these stakeholders to understand and meet their needs.

Publications

During 2011-12 The Service completed a review of the publication of its wide range of information leaflets and guides in line with a marketing freeze announced by the Government. As a result of this review The Service decided to cease producing hard copies of the majority of its leaflets and guides, retaining only six key leaflets in hard copy. All of The Service's publications remain available on The Service's website, from where customers and users can download them free of charge. This review and ultimate decision was the subject of a rigorous Equalities Impact Assessment and The Service remains willing to provide printed versions of information leaflets to any users who do not have access to them online.

The Service is currently reviewing the provision of some of its information leaflets in other languages.

As a result of this decision the number of hard copy publications distributed during 2011-12 fell by a further 29% with 638,526 being issued compared to 898,803 during 2010-11.

Helplines



The Service operates two helplines for the public. The Insolvency Enquiry Line (IEL), (0845 602 9848), provides information about general insolvency matters. The Redundancy Payments Helpline, (0845 145 0004), assists employees made redundant as a result of insolvency. Both lines are available from Monday to Friday from 9.00am to 5.00pm.

During 2011-12 the IEL received 36,090 calls, a decrease of 27.5% on the 49,777 calls received during 2010-11. Enquiries by e-mail have also decreased during the period to 6,135 compared with 6,418 in 2010-11 a decrease of 4.4%.

The Service's IEL is a full member of The Helplines Association (THA), an organisation which promotes good practice for email, SMS, internet and telephone-based helplines. The THA promotes good practice by publishing guidelines, running a membership scheme, publishing a Helplines Standard, and providing training and consultancy. The THA also supports helplines to network and share good practice via an online forum and regular meetings across the UK and Ireland.

The Redundancy Payments helpline received 37,487 calls during 2011-12, an increase of 8.9% compared with the 34,425 received during 2010-11.

4 Investigation and Enforcement

“We will deliver and promote an effective investigation and enforcement regime.”

The Service carries out a range of investigation and enforcement activities aimed at supporting fair and open markets and, where necessary, taking steps to safeguard those markets from companies and individuals whose conduct is not conducive to the public interest. The Service undertakes its enforcement activities under the powers available in the Insolvency Acts 1986 and 2000, the Company Directors Disqualifications Act 1986 and the Companies Act 1985. The main activities we conduct are:

- the investigation, following complaints or other intelligence, into corporate abuse where there is suspicion of misconduct including the investigation of live companies;
- the investigation of reports of misconduct by company directors from insolvency practitioners acting under appointments;
- the investigation of misconduct by company directors, bankrupts or individuals subject to debt relief orders by official receivers in compulsory insolvencies;
- securing remedies, including the institution of civil proceedings, where this is in the public interest; and
- reporting allegations of criminality to prosecuting authorities (mainly BIS).

In pursuit of our duties, we can:

- petition the court for the winding up of a company in the public interest;
- accept a disqualification undertaking from a director or seek a disqualification order from the court;
- accept a bankruptcy restriction undertaking from a bankrupt or seek a bankruptcy restriction order from the court;
- accept a debt relief restriction undertaking from an individual subject to a DRO or seek a debt relief restriction order from the court; or
- seek a suspension of a bankrupt’s automatic discharge from the bankruptcy proceedings from the court.

The Service relies on taxpayer funding for all of its enforcement activity, save for the investigation work carried out by ORs.

The impact of The Service’s Voluntary Exit Scheme in December 2010, together with the drive to replace temporary staff with surplus staff from elsewhere in the organisation, has seen a turnover of approx 30% of staff engaged in IES. During the year, these staff have been replaced by examiners from ORs offices.

During November and December 2011, The Service commissioned a further annual survey to measure the confidence that The Service’s various stakeholders (institutional creditors, non institutional creditors, insolvency practitioners, SME company directors, accountants and lawyers) have in it. In particular the telephone survey sought stakeholder’s views on the effectiveness of The Service’s enforcement sanctions and the prioritisation of cases.

Overall confidence with The Service's investigation and enforcement regime was measured at 65%, a small increase compared with the 2010 survey (64%) but marginally below The Service's published target to achieve a confidence level of 68%.

As in 2010, the survey was conducted against a background of press commentary regarding the availability of investigative resource, although this had been anticipated to some extent by the insertion of a question asking stakeholders whether resources should be directed at fewer cases representing maximum harm or at dealing with as many cases as possible. Overall, a little over half (54%) would rather The Service concentrate on more harmful cases, than simply as many as possible. A third (31%) would prefer us to deal with as many cases as possible, with the remaining 15% either unable to choose, or preferring a combination of the two options. Overall confidence that The Service correctly targets and takes action against the culpable has remained at similar levels to last year's study. In 2011, 49% of respondents saw themselves as confident, in line with the 48% seen in 2010.

There were some very favourable comments in the survey about The Service's effective investigations, staff knowledge and ability to investigate. However, there are also some comments about availability of resource which reflect the period of challenge and uncertainty with a high level of staff turnover and staff exits. Some helpful comments were made about communications and low levels of publicity, and we continue to work to improve our communications, working with our stakeholders through a series of outreach events and taking a strategic approach to publicity with themed media campaigns.

The results of the survey continue to provide The Service with an important benchmark and the Minister has again set The Service a published target to achieve a level of confidence greater than 65% in 2012-13.

Director disqualifications

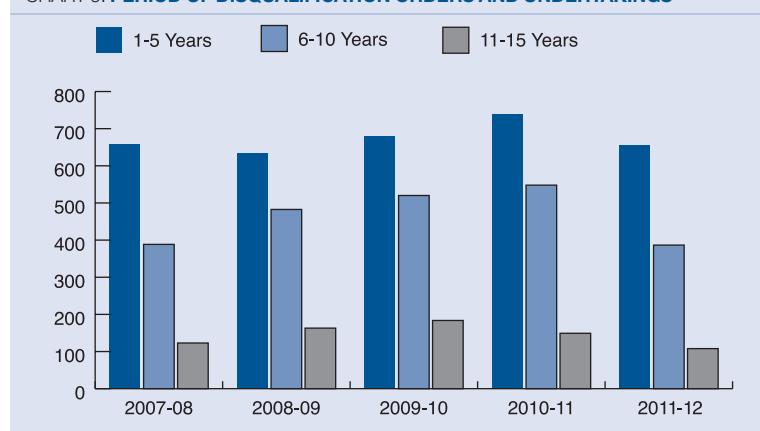
During 2011-12, The Service secured 1,151 disqualification orders or undertakings against directors of failed companies, compared to 1,437 in 2010-11. Eighty percent (920) were achieved by way of an undertaking made by directors, the same proportion as in 2010-11. The average length of disqualification undertakings and orders secured against directors during 2011-12, was 5.9 years. Table 16 shows a breakdown of the allegation types made in disqualification cases during the last 5 years. Multiple allegations can be made against individual directors. Chart 6 shows details of the period of disqualification orders and undertakings achieved during the last five years.

TABLE 16: DISQUALIFICATION ORDERS AND UNDERTAKINGS

Allegation types	2007-08	2008-09	2009-10	2010-11	2011-12
Crown debts	554	563	816	636	635
Accounting matters	250	381	448	342	200
Transaction to the detriment of creditors	161	246	391	392	161
Criminal matters	101	174	258	259	102
Misappropriation of assets	53	49	68	59	56
Technical matters – statutory obligations	37	46	33	70	52
Trading at a time when company knowingly or unknowingly insolvent	36	44	40	35	7
Phoenix companies or multiple failures	13	14	12	7	2
Other	N/A	N/A	98	N/A	N/A
Total	1,205	1,517	2,164	1,800	1,215

Although the number of disqualifications in the lower bracket have increased, The Service remains committed to tackling complex and difficult cases, which is not always reflected in high tariffs.

CHART 6: PERIOD OF DISQUALIFICATION ORDERS AND UNDERTAKINGS



Note for chart 6: The period of disqualification is not known in respect of 5 disqualifications in 2007-08, 1 disqualification in 2008-09 and for 3 disqualifications in 2009-10.

CASE STUDY 1

Director disqualifications

Four former directors of a football club were disqualified from acting as directors for periods between 3 and 7 years following an investigation by The Insolvency Service.

The directors were disqualified for breaching FA and FIFA rules and regulations on payments to football agents and dealing with unlicensed football agents.

The directors also caused or allowed the company to trade at the risk of and ultimate detriment to HMRC which was owed £3,578,661.

In his judgement the Registrar said that this was “*not regarded by this court as a ‘minor misdemeanour’. The allegation is a serious one demonstrating a disregard for rules and regulations with severe consequences for the club and its supporters.*”

Company Investigations

During 2011-12, The Service recorded 3,523 new complaints about the actions of live limited companies. Whilst general levels of complaints are down on recent previous years The Service introduced a new policy for recording complaints in December 2010. Rather than record and report all complaints received The Service has switched to recording only those complaints which passed an initial sift to determine whether there was merit in considering the complaint further. This change was implemented in order to exclude those complaints which are not about an identifiable corporate entity or were otherwise outside our jurisdiction. This means that the basis for counting complaints is no longer consistent with previous years and consequently the number of complaints recorded in 2011-12 appears significantly lower when compared to the previous years levels (4,852 complaints received during 2010-11 and 5,989 during 2009-10).

As a result of those complaints 165 investigations were commenced, an 8% decrease on the 180 investigations commenced during 2010-11.

During 2011-12, 149 company investigations were concluded (compared with 205 in 2010-11), 355 winding up orders were obtained against limited companies compared with the 181 winding up orders secured through the courts in 2010-11.

Because an investigation may be into several companies, there is no direct correlation between the number of cases investigated and the number of companies wound up. Moreover, court proceedings with respect to investigations concluded within a year may well not have reached a conclusion by that year end.

During 2011-12, the total number of windings up orders for the year was inflated as it includes the results of two major investigations concluded in late 2011. These investigations led to the courts making 61 and 106 separate winding up orders in respect of these two investigations.

CASE STUDY 2

Company investigations

Six City of London companies that miss-sold land for investment, commonly referred to as “land banking”, were wound up in the High Court in June 2011 following an investigation by The Insolvency Service.

Four of the six companies traded for less than 12 months and the other two for just over a year.

In these short periods they managed to sell a total of 97 plots of agricultural land to members of the public on six separate sites, generating income of over £1million. Plots on one of the sites were sold with a staggering mark up of 3,372% on their actual value.

The investigation found that false and misleading statements were made to potential investors claiming the land being sold would deliver significant returns once it had obtained planning permission. There was no likelihood of this happening.

One of those involved in four of the companies had been involved in previous land banking companies, also wound up following Insolvency Service investigations. He has been charged by Police with conspiracy to defraud in relation to those previous companies.

Bankruptcy restrictions

Bankruptcy restrictions orders and undertakings (BRO and BRUs) were introduced on 1 April 2004. In circumstances where the OR 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 restrictions order to be made against the bankrupt for a period of 2-15 years.

The Service was successful in securing 873 BROs and BRUs in 2011-12 (1,796 in 2010-11) with 722 (83%) being obtained by way of an undertaking where the bankrupt can accept the official receiver's allegations of misconduct and agree to a bankruptcy restrictions undertaking for an appropriate period (87% in 2010-11). See chart 7.

The decrease in the numbers of bankruptcy restrictions is largely attributable to the decrease in the number of bankruptcy cases (28% on 2010-11 levels which were themselves 27% down on 2009-10) but this area of work has also been impacted by the loss of experienced investigators under the Voluntary Exit Scheme.

Debt relief restrictions

Similar to BROs and BRUs the OR can also apply for restrictions orders or undertakings in relation to DRO cases. During the third year that DROs were available as a form of personal insolvency six Debt Relief Restrictions Orders or undertakings were obtained.

Table 17 shows a breakdown of the allegation types made in bankruptcy restrictions cases for the past 5 years. Multiple allegations can be made against an individual bankrupt.



TABLE 17: BANKRUPTCY RESTRICTIONS ORDERS AND UNDERTAKINGS

Allegation types	2007-08	2008-09	2009-10	2010-11	2011-12
Incurring debt without reasonable expectation of payment	890	713	517	351	136
Preferences or transactions at undervalue	331	474	519	470	285
Other	157	152	Not Recorded	0	0
Gambling, rash and hazardous speculation or unreasonable extravagance	296	150	140	101	40
Neglect of business affairs contributing to the bankruptcy	80	140	367	443	331
Dissipation of assets	127	120	194	144	86
Failure to account for loss	99	72	68	3	5
Fraud	Not Recorded	67	81	105	102
Prosecutable matters	54	67	68	68	36
Failure to keep or preserve proper accounting records	34	40	42	30	18
Trading at a time when knowingly or unknowingly insolvent	21	17	11	10	1
Excessive pension contributions	5	14	5	0	0
Failure to supply goods or services	10	13	71	14	9
Non co-operation	6	13	42	11	12
Second bankruptcy	8	6	9	5	2
Non disclosure of assets	Not Recorded	Not Recorded	Not Recorded	43	63
Disposal of goods subject to hire purchase agreement	Not Recorded	Not Recorded	Not Recorded	24	20
Total	2,150	2,058	2,134	1,822*	1,146

* 29 cases which were given authority to proceed did not have an allegation type recorded.

Suspension of discharge

Official receivers can also take enforcement action through the courts to suspend the automatic discharge of bankrupts who refuse to co-operate, either through non-attendance on the OR or a failure to provide information or a satisfactory account of their financial affairs. This action may sometimes be taken instead of pursuing a bankruptcy restrictions order, as the overall effect is the same. During 2011-12, ORs secured 1,213 suspensions of discharge against bankrupts compared with 1,399 in 2010-11.

CASE STUDY 3

Bankruptcy restriction

An individual trading as a sports therapist and nutritionist from Winchester in Hampshire had a 14 year bankruptcy restrictions order made against her in September 2011.

The misconduct targeted was that she had defrauded an individual and two banks resulting in claims against her of £336,000. She had borrowed from the private individual on over 30 occasions. Despite seeking advice about her financial position and entering into an Individual Voluntary Arrangement she had not disclosed this individual as a creditor in the IVA or informed him of her financial difficulties borrowing at least £193,000 after she had already entered into her IVA. She also produced to him a false bank statement showing a balance of £1.4 million. Of the money obtained she had given £50,000 to relatives. The District Judge in making the order commented on the seriousness of the misconduct and the need for the public to be protected from the bankrupt.

CASE STUDY 4

Suspension of discharge

An individual who was made bankrupt in July 2010, on the petition of the supervisor of her voluntary arrangement has had her discharge from bankruptcy suspended indefinitely, until she fully co-operates with the official receiver.

Whilst the bankrupt was subject to a voluntary arrangement she received a redundancy payment of over £64K, which she failed to declare to the supervisor, and has since dissipated all of these funds.

The bankrupt has provided conflicting information regarding how these funds were disposed of. At her first public examination she said most of the funds were used to repay friends and family for debts that she has also failed to include in the IVA.

Following the official receivers analysis of the bankrupts bank statements and a further public examination, the bankrupt was unable to provide a satisfactory explanation as to what happened to £25k of the money, which had been withdrawn from her bank account within a 7 months period – simply stating that it must have been used for gambling, buying jewellery, clothes, eating out and psychic readings. Despite this the bankrupt also claims to have no jewellery of any value.

When making an order for the indefinite suspension of the bankrupts discharge, the District Judge made it clear to the bankrupt that the ball was in her court in respect of providing the official receiver with a satisfactory explanation as to the transactions in question.

Enforcement hotline

The Service operates an enforcement Hotline, which allows members of the public to provide us with information about suspected breaches of disqualifications and bankruptcy restrictions orders and undertakings and other matters. In 2011-12 the Hotline received 964 complaints a significant increase of 56% on the 617 complaints received in 2010-11. It is likely that this increase is a direct result of the availability of the hotline receiving greater visibility and prominence on The Service's web-pages on the BIS website but one effect of this has been an increase in the number of "complaints" which relate to matters other than those for which the hotline was set up.

67 of these calls resulted in reports alleging possible offences being submitted to the relevant prosecuting authority compared with 45 in 2010-11.

Prosecutions

The Service's Enforcement Directorate also considers reports concerning possible criminal offences committed by insolvent individuals (bankrupts) and directors of insolvent and live companies.

In 2011-12, 466 reports were submitted to the prosecutions branch of the BIS and other prosecuting authorities compared with 674 in 2010-11.

The reduction in numbers is partly attributable to the decrease in bankruptcies and partly to the fact that, following discussions with BIS, adjustments have been made to way in which some cases are handled to ensure that the most deserving are prioritised.

Breaches Rectified – Section 216 of the Insolvency Act 1986

S216 of the IA says that a director of a liquidated company at any time in the period of 12 months ending with the day before the company went into liquidation is prohibited from using any name by which the liquidated company was known, including any trading names, or a name which is so similar as to suggest an association with that company unless certain conditions are met. If directors are found to be in breach of the provision The Service draws it to their attention and, if they do not take appropriate action, it can report the matter as a potential criminal offence. During the year 85 breaches were rectified without the need for further action.

Prosecution Outcomes

During 2011-12, 151 defendants were sentenced having been convicted of offences following prosecutions brought by the Prosecutions Branch of BIS, with whom we work very closely, as a result of referrals from INSS. The convictions were for a range of offences relating to corporate and individual insolvencies.

Of those convicted:

- 86 defendants received custodial sentences, ranging from 1 month to 69 months;
- 23 sentences for community punishment orders, ranging from 60 hours to 12 months;
- 24 were fined ranging from £15 to £3,000;
- 13 curfew orders were issued ranging from 4 weeks to 6 months;
- 17 supervision orders were issued ranging from 6 to 24 months;
- 62 sentences included doing unpaid work ranging from 40 to 300 hours;
- 11 were conditionally discharged ranging from 6 to 24 months;

- 9 compensation orders were made totalling £40,558;
- 49 disqualification orders were made ranging from 12 months to 15 years;
- 66 defendants were ordered to pay total prosecution costs of £137,044; and
- 23 confiscation orders with a value of £827,707.

CASE STUDY 5

Criminal offence

A director of three car sales companies which had total liabilities of £1.4 million was sentenced to a total of six years imprisonment and was disqualified from acting as a director or in the management of a company for 10 years after pleading guilty to three charges of fraudulent trading and six Theft Act offences. The prosecution followed an initial investigation by The Insolvency Service and a full criminal investigation and prosecution by the Department for Business Innovation and Skills.

The investigation showed that the individual's conduct included falsifying VAT claims using false invoices, falsifying management accounts, 'cross-firing' of cheques using family members, causing banks to incur unauthorised overdrafts, diversion of company monies and forging of documents, including obtaining letters from banks and accountants in response to routine inquiries, which were then doctored to create letters with staff signatures to create an air of legitimacy and credit-worthiness. The templates for the forged documents were discovered after the official receiver used a locksmith to open a safe at the former premises of one of the companies.

Shortly prior to the date fixed for his trial, the individual using cheques from a company bank account, which had already closed, stole a Mercedes, furniture and stereo equipment worth £55,000 and used the funds generated to fund a life on the run in France, Cyprus and finally Turkey, where he was arrested for possible offences committed there, following which he voluntarily returned to the UK.

In sentencing the judge described the individual as "*compulsive*", "*a persistent and remorseless fraudster*" and "*a menace to commercial activity*".

TABLE 18: ENFORCEMENT ACTIVITY AND TIMELINESS

Activity and timeliness	2007-08	2008-09	2009-10	2010-11	2011-12
Reports alleging misconduct received from insolvency practitioners	3,991	4,752	7,030	5,373	5,401
Take proceedings for disqualifications of unfit directors, orders and undertakings obtained	1,173*	1,281*	1,388*	1,437*	1,151
Secure bankruptcy restrictions orders and undertakings against unfit bankrupts	1,827	1,781	1,950**	1,804**	879
Criminal referrals submitted to the prosecutions branch of BIS or other prosecuting authority where there is evidence of criminal behaviour	705	793***	943***	674***	466***
Section 447 investigations completed by Company Investigations ('CI')	193	240	268	205	149
Maintain enforcement outputs (disqualifications, bankruptcy restrictions, criminal referrals and concluded company investigations)	N/a	4,095	4,549	4,120	2,645
Suspensions of bankrupts discharge secured	1,815	1,970	2,024	1,399	1,213
Winding up orders secured by CI	182	115	251	181	355
Hotline complaints	558	769	605	617	964
Section 216 IA(1986) breaches rectified	Not Recorded	Not Recorded	140	124	85
Reduce the average time (months) from the date of insolvency to instigation of disqualification proceedings to 20 months	18.5	19.7	18.7	18.7	19.0
Complaints about live companies made to CI	3,619	4,153	5,989	4,852	3,523
CI to complete consideration of 90% of vetting complaints within 2 months****	92.6%	91.3%	83.7%	95.1%	92.1%
CI to complete internal Section 447 investigations within 6 months****	95.7%	92.7%	93.8%	94.9%	86.5%
Increase the level of public confidence in The Service's enforcement regime	65.3%	64.1%	68.0*****	64%	65%

* Includes disqualifications under Section 2 and Section 8 of the Company Directors Disqualification Act 1986.

** Includes Debt Relief Restrictions Orders and undertakings, which were introduced as part of the DRO process on 6 April 2009.

*** Includes criminal referrals and disclosures made by Company Investigations, which were not measured prior to 1 April 2008

**** CI 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.

***** A revised survey was designed in conjunction with the Central Office of Information (COI) and used in 2009-10. This survey, with minor modifications, was repeated in 2010-11. See page 29 for further information.

Investigation and enforcement costs

The majority of investigation and enforcement activity is funded through a BIS programme budget, with a small amount funded from costs recovered from disqualified directors. Since April 2007 investigation work carried out by official receivers has been met by raising the case administration fee. However, enforcement action taken by the official receiver following such investigation continues to be funded by BIS.

Table 19 shows the financial results and outputs for enforcement, investigations and companies investigation activity.

TABLE 19: INVESTIGATION AND ENFORCEMENT

Costs and recoveries	2007-08 £'000	2008-09 £'000	2009-10 £'000	2010-11 £'000	2011-12 £'000
BIS funding	37,489	40,228	37,583	33,558	38,372
Cost recovery from disqualified directors	2,138	3,022	2,506	2,731	2,269
Investigation and enforcement costs	39,627	43,250	39,969	36,289	40,641

* 2008-09 figures have been restated as The Service has implemented International Financial Reporting Standards. The date of transition was 1 April 2008.

** 2009-10 figures have been restated to exclude the cost of capital. The Treasury no longer requires cost of capital to be included in the operating costs in government accounts.

5 | Corporate Services

For The Service to deliver to a very high standard for its customers it requires high quality internal service provision to its front-line staff and operations. This has been another year in which the corporate service delivery sections have striven to improve the quality and efficiency of the support they give to the rest of The Service. This section highlights some of the more significant developments in the year across the range of corporate services.

Human resources

This has been a very challenging year for The Service and its staff. Whilst The Service aims to ensure that employees feel motivated and engaged in the work they do, the levels of staff engagement, as measured by the staff survey, fell and yet staff still performed their jobs effectively as evidenced by the achievement of most targets. This achievement demonstrates the pride and professionalism of our staff in the work that they do.

Shared Services

To deliver HR services more efficiently across the BIS family, arrangements were made during the year to transfer The Service's HR transactional work to BIS. This work was transferred on a phased basis, with both sides working collaboratively, to help ensure a smooth and seamless transfer of work. This forms part of a wider programme of work designed to establish further HR activities that can be shared.

During this year, HR policy development, training and development, and resourcing processes also changed due to the introduction of centres of expertise in Civil Service Employee Policy (CSEP), Civil Service Learning and Civil Service Resourcing (CSR). The aim of the centres is to remove duplication of work, ensure consistency of approach, and make more effective and efficient use of HR expertise and resources.

Voluntary exit scheme

Despite running our first ever Voluntary Exit Scheme (VES) in December 2010, resulting in a reduction of staff levels by 18% and savings of over £17 million, The Service continued to run at a deficit in 2011-12 because its case numbers continued to decline.

In order to further reduce costs, a subsequent, but targeted, VES was launched on 13 December 2011. Its aim was to reduce staff numbers by around 100 (7%) in Official Receivers Services due to falling case numbers and in parts of Corporate Business Services, where a small number of surpluses had arisen as a consequence of the shared services agenda. The scheme will exit 68 staff, with realisation of salary (and related) savings estimated at £1.63 million in 2012-13.

Recruitment and staffing levels

Due to the targeted VES (see above), the average number of full time equivalent staff in post (table 20 below) fell during 2011-12. To further reduce costs, all casual staff were released, although there was a minor increase to our administrative agency workers complement from last year to meet business needs.

We continue to adhere to the Civil Service freeze on external recruitment. Limited external recruitment has taken place where there was a need to fill frontline posts. Eight A2 permanent staff were recruited, of which six are female and two are male.

TABLE 20: **WORKFORCE, INCLUDING PERMANENT, CASUAL STAFF AND AGENCY WORKERS**

Workforce	Number of staff as of 31 March 2011	Number of staff as of 31 March 2012
Permanent staff	2,582	2,101
Casual staff	2	0
Technical agency workers	19	13
Admin agency workers	79	114
Loanees & secondees	1	1
Total	2,683	2,229

The average number of full time equivalent staff in post has therefore decreased during 2011-12 (see table 21).

TABLE 21: **STAFF IN POST (AVERAGE FOR THE YEAR)**

Average staff in post*	2007-08	2008-09	2009-10	2010-11	2011-12
Number	2,529	2,484	2,567	2,448	2,048

*Staff in post (full time equivalent) includes permanent and casual staff but does not include agency workers or sandwich students.

The Civil Service Commission require that all recruitment to The Civil Service is on the basis of fair and open competition, except in limited circumstances where flexibility is required to meet genuine business needs. We did not exercise any of the exceptions during 2011-12.

Staff sickness

The Service's sickness absence data is collated using the agreed Cabinet Office methodology and is reported by our parent Department (Business Innovation and Skills) to the Cabinet Office on a quarterly basis. As at 31 March 2012, the average working days lost per employee during the year 2011-12 was 9.2.

Staff engagement

Last year, a corporate level staff engagement plan was developed, which drew together key corporate issues following the 2010 Civil Service People survey (a cross-Civil Service employee engagement survey, which is open to all permanent staff and temporary workers). This year has seen the implementation of this plan including staff consultation on strategic decisions such as The Service's future vision and delivery strategy and leadership behaviours.

The 2011 Civil Service People Survey provided some evidence of the benefits of the staff engagement plan, for example, responses to the question "*I have the opportunity to contribute my views before decisions are made that affect me*" within the area of *Leadership and Managing Change* showed an increase of 14 points compared to 2010. This is also 5 points above the Civil Service benchmark.

Disappointingly, the 2011 People Survey had a lower response rate than in the previous year (69% compared to 75%), and there was also a reduction in the Engagement Index (a calculation based on responses which indicates how engaged staff feel in their organisation) from 51% to 47%. This is likely to be reflective of the challenges and pressures that The Service has faced over the last year and continues to face, and demonstrates that there is an ongoing need to focus on increasing staff engagement.

Long Service Award

The Service was keen to ensure that those staff who had provided long service were formally acknowledged for all their hard work. Therefore, 118 staff who had completed 20 years service in the Civil Service were recognised through The Service's Long Service Award scheme.

Diversity and Equality

We aim to provide policies and services that reach everyone that needs them, both staff and customers, in a way that is accessible. We recognise that we must engage with and understand the needs of the diverse communities we serve, and plan and deliver our services to take account of those needs. Diversity and equality is therefore central to the effective development and delivery of our services.

We have a diversity and equality strategy and supporting delivery plan in place for 2009-12, and have continued to make good progress throughout the year, including:

- Further development of our equality analysis work, with supporting evidence base and consultation channels. Our evidence base includes analysis of our customer and staff equality data, and internal and external research findings. We have environmental scanning processes in place to ensure that we are aware of issues arising that may be relevant to the equality impacts of our work.
- Setting up a dedicated reasonable adjustments team and rolling out a new reasonable adjustments process to ensure we can meet our disabled staff's needs in a more efficient and effective manner
- Launching a new diversity and equality information guide for all staff, to help them understand The Service's diversity and equality work – why we do it, what we do and how we do it – and the legal equality framework within which we operate.

All this work is underpinned by diversity and equality communications and stakeholder engagement work.

We have also developed a new diversity and equality strategy and supporting delivery plan for 2012-2015, which was launched in April 2012 http://www.bis.gov.uk/assets/insolvency/docs/about_us/diversity_and_equality/dande-sandd-plan2012-2015.doc.

Due to our continued efforts and commitment in this area, The Service was well placed to meet the new Public Sector Equality Duty that came into force in April 2011. As part of The Service's specific equality duties, we published information demonstrating how we are complying with the three aims of the general equality duty, i.e. the need to eliminate unlawful discrimination, advance equality of opportunity, and foster good relations between people with different characteristics., including information relating to people who share a relevant protected characteristic and who are our employees and customers. <http://www.bis.gov.uk/insolvency/About-us/diversity-and-equality>.

We also recognise that in order to achieve accessible services, our workforce should, as far as practicable, reflect the communities that we serve. During 2011-12, the representation of women in The Service has increased slightly from 56.7% to 57.5% as at 31 March 2012. Overall, The Service has a good representation of most age groups, religions and beliefs, which reflects the ethnicity of the population it serves and over 14.1% of staff classify themselves as having a disability. We have continued to make good progress on our trans-equality action plan and achieved 5th place in the 2011 Trans-Equality Index. We have also entered Stonewall's Workplace Equality Index 2011 and are developing a resultant sexual orientation action plan.

Finance

The main focus during the year has been on improved budgetary management, closer monitoring of financial performance and stronger forecasting as we looked to make significant reductions in The Service's cost base. To help us strengthen routines for planning and financial monitoring a new online budgeting tool for senior budget holders was introduced during 2011-12. This helped support a thorough review of costs as

part of the work undertaken to set budgets for 2012-13. The introduction of the new Fee Recovery Module, which is linked to our case management system, is another significant step forward since this will give us greater insights into current levels of case fee income and the emerging trends that can help us develop a more informed process for financial planning and resource allocation.

Finance have participated with BIS colleagues on the department's Corporate Servicers Programme and in particular on the development of the finance function across BIS through its Finance for the Future Programme. Many aspects of this Programme will help shape the development of The Service's Finance Directorate over the next 2-3 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 2011-12, 98.9% were paid within 30 days and 90.4% of invoices were paid within eight days, see table 22.

Since April 2011, The Service has published details of all payments over £500, which goes further than the Cabinet Office's guidance on transparency which requires The Service to publish details of all monthly payments over £25,000.

TABLE 22: PAYMENT OF INVOICES

Timeliness of payment	2007-08	2008-09	2009-10	2010-11	2011-12
Within 30 days of receipt	99.0%	99.0%	98.7%	99.1%	98.9%
Within 8 days of receipt	N/A	87.9%	90.1%	90.4%	90.4%

The finance team also make the payments in respect of the claims handled by the Redundancy Payments Services. The team maintained their 24 hour turnaround target to enable the overall payments targets to be met. The team have also worked with the IT project team who are delivering the new CHAMP claims handling system in 2011 to ensure the financial system changes arising from CHAMP are in place.

Internal Audit and Governance

The Service has a corporate governance team who work in partnership with BIS Internal Audit to deliver an annually agreed internal audit programme. The team provide training and guidance in risk management and internal control to managers and staff across The Service. Additionally in 2011-12 the corporate governance team continued to implement the Managing Risk of Financial Loss directive from the Cabinet Office. Further information on government and control is included in the Governance Statement (see page 51).

Estate management, environment and sustainability

The Insolvency Service are currently subject to the Greening Government Commitments, which stipulate a reduction of 25% in energy consumption by 2014-2015, from a 2009-2010 benchmark. The Insolvency service were successful in reducing energy consumption as part of the 10% energy reduction campaign across government in 2011-12. Increased monitoring and management of The Service's use of resources will assist with reaching this target, along with increased staff awareness, integration of sustainable procurement and further quick win project. As a result, current energy consumption data shows The Insolvency Service to be on target to meet the 25% energy reduction target set out in the Greening Government Commitments and The Service continues to implement initiatives to further reduce energy consumption.

The Service is now benefiting from a number of these initiatives within its London premises that were put in place just over a year ago, e.g. the installation of voltage reduction equipment and secondary glazing and in addition, increased staff awareness, space reduction, and increased management of building plant are now helping to bring about real savings in energy reduction and reduced emissions.

The Service now sources its energy from a single supplier for all offices where there is a sole responsibility for our energy needs, and 11% of the energy supplied is classified as Green Energy, being energy that can be extracted, generated, and or consumed without any significant negative impact to the environment.

During 2011-12, The Service installed video conferencing in a further 7 offices. The use of video conferencing will bring about travel cost savings for staff who would otherwise need to travel to attend meetings. This initiative will also benefit the environment and aid with reduced CO₂ emissions.

The Service continued to make progress in a number of the areas targeted by the Sustainable Operations on the Government Estate (SOGE) programme. For the last reporting year these included a 14% improvement in energy efficiency and a 3% reduction in water consumption (where we are able to collect data). Recycling arrangements are in place within all our offices, and The Service recycled 479 tonnes of waste, (which represents 45% of the Service's waste) and this has significantly reduced the amount of our waste going to landfill.

The Service continues to utilise 'closed loop' recycling for its paper products, this ensures that waste paper removed from office premises is made into re-usable paper and returned for use by a single supplier upon collection of further waste – reducing carbon emissions from vehicles.

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.

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

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

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

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

Service Contracts

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

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

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk

Remuneration (including salary) and pension entitlements (audited)

The following sections provide details of the remuneration and pension interests of the Ministers and most senior management (i.e. Board members) of the department.

Remuneration (salary and payments in kind)

	2011/12	2011/12	2011/12	2010/11	2010/11	2010/11
	Officials Salary £'000	Bonus Payments £'000	Benefits in Kind £'000	Officials Salary £'000	Bonus Payments £'000	Benefits in Kind £'000
Mr Stephen Speed <i>Inspector General and Agency Chief Executive</i>	95-100	10-15	Nil	95-100	Nil	Nil
Mr Les CRAMP <i>Deputy Chief Executive – Corporate and Business Services</i>	95-100	Nil	Nil	95-100	Nil	Nil
Mr Graham HORNE <i>Deputy Inspector General and Senior Official Receiver</i>	90-95	Nil	Nil	90-95	Nil	Nil
Mr Robert Burns <i>Inspector of Companies and Head of Investigation and Enforcement Services</i>	85-90	Nil	Nil	85-90	0-5	Nil
Mrs Anne WILLCOCKS <i>Director of Policy (Joined on 1 April 2010 until 14 March 2012 – part-time)</i>	70-75¹	Nil	Nil	70-75 ²	Nil	N/A
Miss Lesley BEECH <i>Director of Finance, Governance & Accounting Services (Left on 30 December 2011)</i>	55-60	Nil	Nil	75-80	Nil	Nil
Mr Terence HART <i>Director of Human Resources</i>	70-75	Nil	Nil	70-75	Nil	Nil
Mrs Marian JOYCE <i>Director of Strategy, Planning and Communications</i>	70-75	Nil	Nil	70-75	Nil	Nil
Mr Ian GRATTIDGE <i>Interim Chief Finance Officer (Joined on 5 December 2011)</i>	60-65³	Nil	Nil	N/A	N/A	N/A

¹ Mrs Anne WILLCOCKS salary band reflects her part-time pay

² Mrs Anne WILLCOCKS salary band reflects her part-time pay

³ Mr Ian GRATTIDGE is not directly employed by The Service, he joined as an interim Chief Finance Officer on 5 December 2011, as a 'bridge' between the exiting director (Miss Lesley BEECH, left on 30 December 2011) and incoming Director of Finance, Governance & Accounting Services (Mrs Sharon BURD, joined on 2 April 2012).

Descriptor	2011/12	Restated	Restated
Band of Highest Paid Director's Total	95k-100k	Band of Highest Paid Director's Total	95k-100k
Median Total Remuneration	22,256	Median Total Remuneration	21,360
Ratio	4.4	Ratio	4.6

Remuneration of Steering Board members (audited)

The Agency Steering Board comprises 15 members, ten of whom are civil servants. The Inspector General and Agency Chief Executive, Deputy Chief Executive, Deputy Inspector General, Inspector of Companies, Director of Policy, the Director of Finance, Governance & Accounting Services, Director of Human Resources, the Director of Strategy, Planning and Communications are eight of these members and their remuneration is borne by the Agency and disclosed above. The costs of two other civil servant members is borne by the Department for Business, Innovation and Skills (BIS), they do not receive any additional amount for Board duties. The Service pays the external members and remuneration for the year ended 31 March 2012 is £26,274 (total remuneration in 2009-10 was £24,961).

Non-executive Board Members	Salary 2011-12	Salary 2010-11
Mr Phil WALLACE	5-10	5-10
Mr Derek MORRISON	5-10	5-10
Mrs Louise BRITTAINE (left 19/9/2010)	N/A	0-5
Mrs Rosalind WRIGHT (left on 8/12/2011)	0-5	0-5
Mr Peter HOLMES	0-5	0-5
Mr David Ereira (joined 9/11/2010)	0-5	0-5
Mr Pat Boyden (joined 1/3/2012)	0-5	N/A

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

Salary

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

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

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by The Service and treated by HM Revenue and Customs as a taxable emolument. No director received a benefit in the year 2011-12 chargeable to tax under s163 of the Income and Corporation Taxes Act 1988.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. The appraisal process does not allow enough time to accrue for individual bonuses. Bonuses therefore relate to the performance in the previous year to that in which they become payable to the individual. The bonuses reported in 2011-12 relate to performance in 2010-11 and the comparative bonuses reported for 2010-11 relate to the performance in 2009-10.

Pension benefits (audited)

Officials

	Accrued pension at pension age as at 31/3/12 and related lump sum £'000	Real increase in pension and related lump sum at pension age £'000	CETV at 31/3/12 £'000	CETV at 31/3/11 ⁴ £'000	Real increase in CETV £'000
Mr Stephen SPEED <i>Inspector General and Agency Chief Executive</i>	35-40 plus lump sum of 105-110	No increase plus lump sum of No increase	599	561	No Increase
Mr Les CRAMP <i>Deputy Chief Executive – Corporate and Business Services</i>	50-55 plus lump sum of 145-150	No increase plus lump sum of No increase	1,118	1,111	No increase
Mr Graham HORNE <i>Deputy Inspector General and Senior Official Receiver</i>	45-50 plus lump sum of 90-95	0-2.5 plus lump sum of No increase	884	807	6
Mr Robert BURNS <i>Inspector of Companies and Head of Investigation and Enforcement Services</i>	40-45 plus lump sum of 130-135	No increase plus lump sum of No increase	1,009	956	No increase
Mrs Anne WILLCOCKS <i>Director of Policy (Joined on 1 April 2010 until 14 March 2012 – part-time)</i>	35-40 plus lump sum of 105-110	No increase plus lump sum of No increase	737	692	No increase
Miss Lesley BEECH <i>Director of Finance, Governance & Accounting Services (Left on 30 December 2011)</i>	30-35⁵ plus lump sum of 95-100	No increase plus lump sum of No increase	591	562	No increase
Mr Terry HART <i>Director of Human Resources</i>	25-30 plus lump sum of 85-90	0-2.5 plus lump sum of 0-2.5	504	464	No increase
Mrs Marian JOYCE <i>Director of Strategy, Planning and Communications</i>	25-30 plus lump sum of 85-90	0-2.5 plus lump sum of 0-2.5	545	500	3

Civil Service Pensions

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

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2012. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member’s earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

⁴ The actuarial factors used to calculate CETVs were changed in 2011/12. The CETVs at 31/3/11 and 31/3/12 have both been calculated using the new factors, for consistency. The CETV at 31/3/11 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

⁵ Miss Lesley Beech retired in year, and has received a lump sum pension entitlement. See further detail in Compensation for Loss of Office.

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

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

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

Cash Equivalent Transfer Values

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

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

Real increase in CETV

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

Compensation for loss of office

Lesley Beech was working a notice period and left under Voluntary Exit terms on 30 December 2011 as part of the voluntary exit scheme⁶ run for all staff in the Insolvency Service below Senior Civil Servant grade between December 2010 and March 2011. She elected to take early retirement. The cost to the Service of buying out the actuarial reduction on her pension was £200,000 – £250,000 and was accrued for in the accounts for the year ending 31 March 2011. She did not receive any additional compensation.

Graham Horne
Interim Chief Executive
3 July 2012

⁶ Departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972.

Accounts

Statement of Accounting Officer's responsibilities

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

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

- observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgments and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Financial Reporting Manual, have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

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

Governance Statement

1. Scope of Responsibility

1.1. As acting Accounting Officer I have primary responsibility for reviewing the effectiveness of governance, risk management and internal control processes for my organisation and internal control and for ensuring that the public funds and assets for which I am responsible are properly managed and accounted for and used economically, efficiently and effectively.

2. The Purpose of the Governance Statement

2.1. The Governance Statement, for which I take personal responsibility, sets out the framework for assurance, risk management and management control which has been established within The Service to ensure that decision-making and control are exercised within a properly regulated environment. The Governance statement describes the key elements of the framework and assesses its contribution to and effectiveness in supporting the delivery of key organisational goals.

2.2. The statement explains how The Insolvency Service has complied with the principles of the UK Central Government Corporate Governance Code, in so far as these principles are applicable to The Insolvency Service and reviews the effectiveness of these arrangements. With the exception of having in place arrangements for the evaluation of Steering Board and Audit Committee effectiveness, I am satisfied that The Insolvency Service operates in all material respects with the requirements of the Code. Arrangements for the evaluation of Board effectiveness will be considered as part of a wider review of Corporate Governance, currently being led from within BIS.

3. The Organisation's Governance Framework/Structure

Framework

3.1. The Insolvency Service is an Executive Agency of BIS. It is accountable to Ministers for its performance and to the public through Parliament for its stewardship of public funds.

3.2. Oversight of The Insolvency Service is exercised through a Steering Board whose role is to advise the Secretary of State, generally through the Director General, Markets and Local Growth, on governance of the agency, its corporate plan, targets and performance. The Steering Board meets at least five times a year to review the plans, strategic direction, targets and performance of the agency. The Board comprises senior officials from the agency, BIS, as well as up to five independent members, one of whom chairs it.

3.3. Operational management is exercised through the Agency's Directing Board which is The Insolvency Service's executive committee chaired by the Chief Executive. A system of Directing Board sub-committees is in place to support the Directing Board. These sub-committees deal with Operational Policy, Finance and Business Planning, Risk Management and Corporate Services. The Directing Board meets twice a month to review progress against key targets, financial performance, risk and other issues of strategic significance.

3.4. The Insolvency Service Audit Committee is a sub-committee of the Steering Board. It is chaired by an independent member of the Steering Board and its membership is completed by two further independent board members. The Audit Committee meets four times a year and receives reports from both internal and external auditors, and the chair of the Risk Committee. The Audit Committee reviews the annual financial statements prior to publication. The Audit Committee provides support to the Chief Executive as Accounting Officer and provides assurance to the Steering Board on Controls and Risk.

3.5. The Annual Audit Programme conducted jointly by The Service's Corporate Governance Team and BIS Internal Audit is developed via an annual Audit Universe exercise, through scrutiny of the Governance Submissions prepared by Directors, by reference to The Service's Risk Register and in conjunction with Directing Board members. The plan is reviewed and approved by the Audit Committee and subsequent outcomes are monitored by them.

Steering Board

3.6. The Board advises the Secretary of State and other ministers, through the Director General, on matters relating to The Service but does not take executive decisions. It also advises the executive on strategic matters, reviews and advise on risk and risk management and otherwise provides challenge and support to the executive in their work of managing The Service. The independent members, who have been chosen because of the relevance of their experience and knowledge of the work of The Service, provide guidance to the Chief Executive and his senior team on the operation and development of The Service and whether The Service continues to apply best practice for corporate governance as set out in relevant codes.

3.7. During the year the Steering Board met six times. Attendance during 2011/12 was:

	Start Date	End Date	No of Meetings held	No. of meetings attended
Phil Wallace	Mar-07	Sep-12	6	6
Derek Morrison	May-08	May-14	6	6
Peter Holmes	May-08	May-14	6	4
David Ereira	Nov-10	Sep-12	6	5
Ros Wright	Mar-06	Dec-11	5	3
Pat Boyden	Jan-12	Jan-15	0	0

Main areas of the Steering Board's work included:

- a review of the strategic direction of The Service including our Delivery Strategy proposals;
- a review of our Corporate Plan, annual budgets and associated delivery targets including consideration of the degree of alignment between INSS targets, Departmental and wider Government aims;
- consideration of the funding review established to provide options for future stabilisation of INSS income in the light of falling case levels;
- the regular assessment of The Service's exposure to and management of risk;
- the monitoring of performance against key targets and financial allocations.

3.8. No formal assessment of Board performance was carried out during 2011/12. Arrangements in this respect are currently under review.

Audit Committee

3.9. The Committee met four times over the course of the year. On one occasion the committee was not quorate and so an additional meeting was held in March to formally approve the decisions of that meeting as well as to review work on production of the 2011/12 financial statements.

3.10. Details of attendance during 2011/12 were:

	Start Date	End Date	AC Attended 2011/12
Phil Wallace	Mar-07	Sep-12	4
Derek Morrison	May-08	May-14	4
David Ereira	Nov-10	Sep-12	2

3.11. The main areas of the Committee's work included:

- oversight of the work on the case management system (ISCIS) and in particular the basis on which reports on Fee Income and Debtors were produced via a specially commissioned script. The Audit Committee maintained a close watch on the subsequent implementation of the Agresso Fees Module;
- a review of the work undertaken by the Risk Management Committee with particular reference to the handling of significant risks around skills and capacity of The Service's staff following a major VES exercise and emerging issues round Estates and IT;
- the lessons learned from a recent fraud and measures being put in place by management to ensure that the risk of future similar incidents had been properly mitigated;
- reviewing the Gateway report on The Service's Enabling the Future Programme and the management changes being put in place in the light of the report to improve management of major investment programmes;
- the Agency Annual Report and Accounts and ISA (White Paper) Accounts. Work on both was regularly reviewed by the Audit Committee and incorporated both financial performance and the scope and coverage of the Governance Statement. The Committee reviewed work undertaken in connection with the Clear Line of Sight Programme (CLOS) and reviewed plans to ensure that the faster reporting deadlines put in place by BIS could be delivered by The Service.

3.12. No formal assessment of Audit Committee performance was carried out during 2011/12. Arrangements in this respect are currently under review.

4. The Risk and Internal Control Framework

4.1. The Insolvency Service has an established business planning process. All Directorates have clear business plans linked to the Corporate Business Plan which are considered by the Finance and Business Planning Committee and reviewed and updated as necessary at the mid-year stage. Directorate plans in turn are supported by team plans and individual performance agreements. The Service's budgets are similarly allocated at Director level and monitored by the Directing Board and Director Management teams.

4.2. A system of delegations and approvals is in place throughout the organisation to ensure that proper processes exist for the assessment of new expenditure and once approved is properly authorised. The Accounting Officer's delegations are set by BIS and sub-delegated to Directors.

4.3. The Service maintains an Agency Risk Register which captures current financial, reputational, operational or legal risks to the Agency and then details the controls put in place to mitigate those risks. Each risk is owned by an individual Directing Board member who assesses the risk by reference to likelihood, impact and organisational appetite. Information risks are included in the agency-wide risk management identification and evaluation process which is supplemented by quarterly reporting from the information asset owners assigned to each main agency business area.

4.4. A Security and Business Resilience Forum meets on a regular basis to ensure the security of information and other assets and to ensure the maintenance of plans for the prompt and efficient recovery from any incident or physical disaster. It reports to the Risk Management Committee.

4.5. The Agency Risk Register is managed through the Risk Management Committee which reviews the scoring and control of individual risks. The Register is also scrutinised by the Directing Board and the Audit Committee to ensure that the correct risks are included and that controls are consistent with Risk appetite. The Agency Risk Register links to Directorate Risk Registers and is used to inform the annual Audit Plan.

4.6. The Directing Board continues to look for ways of strengthening risk management. Over the last quarter of 2011/12 risk workshops were held in collaboration with BIS Internal Audit and the Government Actuary's Department to improve the identification and mitigation of key external strategic risks.

5. Review of Effectiveness

5.1. As Accounting Officer I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the joint work of BIS Internal Audit and The Service's Corporate Governance team together with 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. Managers are responsible for drawing up plans to address weaknesses and ensure that systems are strengthened as part of a process of continuous improvement.

5.2. The effectiveness of the system of internal control is reviewed by Directors who provide a Statement of Governance together with an assessment of effectiveness against a number of key indicators (Leadership, Governance Structures, Culture, Stakeholder Management and Risk Management) for the areas of the business for which they have responsibility. The Chair of the Audit Committee together with the Director of Internal Audit and the Chief Executive review these statements, meeting a sample of Directors to discuss key issues.

5.3. I have considered the evidence provided with regards to the production of the Annual Governance Statement. The conclusion of the review is that the overall governance and internal control structures are sound.

Internal Audit Programme

5.4. Internal Audit and Corporate Governance's audit programme is substantially informed by the agency's key risks. They submit regular reports on the adequacy 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.

5.5. For 2011/12 the assessment was scored as 'Satisfactory'. This was recognition that management had considerably strengthened controls and risk management around the tendering and award of contracts. Among the improvements put in place were revised policies and procedure and guidance on The Service's intranet. Revised arrangements for improved management of contracts are also in place.

5.6. Considerable attention continued to be focused in 2011/12 on the implementation of the ISCIS case management system and associated accounting functionality. After some delay the General Ledger Module that provides automated fee recovery and reporting was implemented. The tests and controls put in place together with the subsequent reliability of the module itself were subjected to an audit review in March. The Audit report concluded that the system was operating satisfactorily.

5.7. The most significant incident in year concerned losses resulted from internal incidents which involved the alleged theft by an Insolvency Service manager of £126,444.84, resulting in fruitless payments of £155,343.48 to compensate estate account losses. Solicitors have been instructed to take civil recovery action in this case and £88,000 of the losses have been secured against the property of the member of staff. Details of the incident have also been reported to the police. Changes have been effected to improve the systems of internal control and there is an increased level of local audit in place across The Service.

5.8. This incident has reinforced the need for The Service to ensure that robust anti-fraud measures are in place. New guidance to managers in this respect has been produced and a programme of audits to local offices was started. In 2011/12, too, The Service in common with other government organisations began work in connection with the introduction of Managing the Risk of Financial Loss. During the year we undertook and reported on 3 process areas:

- OR Payments
- Government Procurement Cards
- Rail Travel

The audit concluded that these areas were generally well controlled. Increased resource will be allocated to this work in 2012/13 in order to recover some slippage in the delivery of this initiative.

Key Risk Issues

5.9. The Insolvency Service has experienced considerable fluctuations in the demand for its services in recent years. Bankruptcy levels rose between 2006 and 2009 reaching 80,000 new cases a year at their peak, only to fall away just as rapidly as the effects of the credit crunch began to be felt. Last year there were 43,594 new cases and in 2012/13 we expect around 35,000.

5.10. As a net funded agency, The Service is expected to flex resources in response to rises and falls in caseloads. As caseloads have fallen so staff numbers have been reduced, partly through the release of temporary staff and partly through running voluntary exit schemes for permanent staff. Over the past two years over 500 staff have exited the Agency through the latter. The exit schemes have resulted in the loss of a number of experienced managers and staff and a consequential weakening of the control environment. Our audit plans in 2011/12 and 2012/13 have therefore sought to address this specific area of risk as a priority. Managers across the business are monitoring the position ensuring that service delivery and quality are not adversely impacted.

5.11. Over the past 4 -5 years The Service has invested considerably in the development of IT systems designed to modernise and streamline key areas of front-line services. Last year we reported on key risks and issues around the implementation of a new case management system (ISCIS), some of which were overcome by the development of work-rounds. Problems with completing the work on the financial elements of ISCIS continued through much of the year although the final implementation of the necessary functionality was completed in March 2012. Work aimed to further strengthen the functionality and performance of ISCIS will continue in 2012/13.

5.12. During 2011/12 levels of activity round business change increased markedly. The Directing Board developed a new Delivery Strategy, aimed at improving the efficiency and effectiveness of agency services. The Strategy includes a reduction in the number of sites and the creation of new structures with increased emphasis on centralisation of back office services whilst continuing to ensure public facing services are located close to the point of delivery. This complex process of change brings with it increased levels of financial, technological and organisational risk. More rigorous management of business change risk has been established and The Service has also recently recruited a Change Director to bring greater focus and professional rigour to managing change, for example by improving programme and project management. The Service routinely uses external reviews (eg OGC Gateways) of major programmes and projects.

Data Handling and Data Security

5.13. The Agency working closely with BIS's security and information management teams has continued to make progress in embedding the requirements of The Security Policy Framework, which incorporates the recommendations of the Data Handling Review, including:

- Information Asset Owners representing each main Business Area to meet on a quarterly basis to review and update information asset risks and the implementation of systems and guidance within The Service
- Quarterly review of IT and data risks by the Risk Management Committee
- Information Asset Owners and senior managers have undertaken levels 1, 2 and 3 "Protecting Information" training and all other staff have undertaken at least the level 1 training
- Incident logging and reporting
- Embedding of policy and guidance on protective markings to ensure that access to information and other assets is correctly managed and safeguarded.

There were no significant incidents in 2011/12.



Graham Horne
Interim Chief Executive
3 July 2012

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 2012 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statements of: Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on Regularity

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

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the Agency's affairs as at 31 March 2012, and of the net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Introduction and Overview, Legislative and Regulatory Framework, Public Service Delivery, Investigation and Enforcement and the Corporate Services sections of the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

4 July 2012

STATEMENT OF COMPREHENSIVE NET EXPENDITURE

for the year ended 31 March 2012

	Note	Staff Costs	Other Costs	Income	re-stated 2011-12 £'000	2010-11 £'000
Administration Costs						
Staff costs	3	6,506				6,514
Other administrative costs	4		9,264			10,052
Operating income	5(a)			(9,200)		(9,800)
Programme Costs						
Staff costs	3	70,478				104,601
Programme costs	4		71,616			146,669
Income	5(a)			(94,928)		(152,755)
Totals		76,984	80,880	(104,128)		105,281
Net Operating Cost	5(b)				53,736	105,281
Other Comprehensive Expenditure						
Total Comprehensive Expenditure for the year ended 31 March 2012						
					53,736	105,281

All income and expenditure is derived from continuing operations. 2010-11 has been re-stated to reflect the changes in government grant accounting (note 14) and also the classification of administration and programme costs (note 1(d)). There is no other comprehensive expenditure.

STATEMENT OF FINANCIAL POSITION

for the year ended 31 March 2012

re-stated

	Note	2012 £'000	2011 £'000
Non-current assets:			
Property, plant and equipment	6	2,260	6,752
Intangible assets	7	8,630	11,509
Financial assets	9	26,859	35,500
Total non-current assets		37,749	53,761
Current assets:			
Other current assets	9	3,744	3,585
Financial assets	9	29,839	46,363
Cash and cash equivalents	10	55,067	22,020
Total current assets		88,650	71,968
Total assets		126,399	125,729
Current liabilities			
Trade and other payables	11	(101,371)	(104,923)
Total current liabilities		(101,371)	(104,923)
Non-current assets plus net current assets		25,028	20,806
Non-current liabilities:			
Provisions	12	(10,255)	(5,389)
Other payables	11	–	(1,084)
Total non-current liabilities		(10,255)	(6,473)
Assets less liabilities		14,773	14,333
Taxpayers' equity:			
General fund	SoCTE	14,773	14,333
Total taxpayers' equity		14,773	14,333

Graham Horne
Interim Chief Executive
3 July 2012

STATEMENT OF CASH FLOWS

for the year ended 31 March 2012

		Re-stated
	2011-12 £'000	2010-11 £'000
Note		
Cash flows from operating activities		
Operating deficit before interest	SoCNE	(53,736)
Depreciation and amortisation charge	6, 7	6,335
Operating cost impairment of non-current asset	8	2,391
Audit fee	4	70
Loss on disposal of non-current assets	4	–
Movement in provisions	12	4,866
(Increase) / Decrease in trade receivables	9	25,006
Increase / (Decrease) in trade payables	11	(4,636)
Net cash outflow from operating activities	(19,704)	(63,311)
Cash flows from investing activities		
Purchase of property, plant and equipment	6	(730)
Purchase of intangible assets	7	(625)
Net cash outflow from investing activities	(1,355)	(1,829)
Cash flows from financing activities		
BIS Request for Resource allocation		60,916
BIS – Inter entity Creditor		–
VAT recovered by BIS		(4,145)
Capital element of payments in respect of finance leases and service concession arrangements		(2,665)
Net financing	54,106	75,350
Net increase in cash and cash equivalents in the period	33,047	10,210
Cash and cash equivalents at the beginning of the period	10	22,020
Cash and cash equivalents at the end of the period	10	55,067
		22,020

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

for the year ended 31 March 2012

	Note	Re-stated	General Fund £'000	Total Reserves £'000
Balance at 1 April 2010			44,605	44,605

Changes in taxpayers' equity for 2010-11

Provided in year for Government Grant	6	(119)	(119)
Transfer from Govt Grant reserve for disposals	6	(298)	(298)
Non-cash charges – auditor's remuneration	4	76	76
Net operating cost for the year	SoCNE	(105,281)	(105,281)
Total recognised income and expenses for 2010-11		(105,622)	(105,622)

BIS Request for Resource Allocation		46,154	46,154
BIS – Inter entity Creditor		37,571	37,571
Capital element of payments in respect of finance leases and service concession arrangements		(3,877)	(3,877)
VAT recovered by BIS		(4,498)	(4,498)
Balance at 31 March 2011		14,333	14,333

Changes in taxpayers' equity for 2011-12

Non-cash charges – auditor's remuneration	4	70	70
Net operating cost for the year	SoCNE	(53,736)	(53,736)
Total recognised income and expenses for 2011-12		(53,666)	(53,666)

BIS Request for Resource Allocation		60,916	60,916
Capital element of payments in respect of finance leases and service concession arrangements		(2,665)	(2,665)
VAT recovered by BIS		(4,145)	(4,145)
Balance at 31 March 2012		14,773	14,773

For 2010-11, the net operating cost has been increased by £31,884 (previously £105,248,904) to reflect the changes in government grant accounting (note 14).

Notes to the Agency's Accounts

1. Statement of accounting policies

1(a) Basis of preparation

These financial statements have been prepared in accordance with the 2011-12 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of The Service for the purpose of giving a true and fair view has been selected. The particular policies adopted by The Service are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1(b) Accounting pronouncements

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

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

1(c) Accounting convention

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

1(d) Administration and programme expenditure

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

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

As a net funded regime, the resource expenditure and income of The Service will form part of BIS Request for Resources and count against BIS's Departmental Expenditure Limit (DEL).

The Statement of Comprehensive Net Expenditure is analysed between administration and programme income and expenditure. Administration costs reflect the costs of The Service as defined under the Administration Cost-Control Regime, together with the associated operating income.

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

The Service has classified administration costs in accordance with HM Treasury Consolidated Budgeting Guidance 2011-12. The Service has developed a detailed profile of administrative costs (including overhead cost and the basis of its apportionment) which forms the basis for budgeting, monitoring, control and reporting of such costs. Methodologies used for the apportionment of costs are recorded to provide a robust audit trail.

1(e) Management judgements and estimation uncertainties

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

1(f) Property, plant and equipment (PPE)

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

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

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

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

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

1(g) Depreciation

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

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

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

Computers unless otherwise stated	3 to 5 years
Office machinery	3 to 15 years
Property leasehold enhancements	10 years or life of lease if shorter

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

1(h) Intangible assets and amortisation

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

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

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

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

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

1(i) Impairments

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

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

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

1(j) Provisions

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

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

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

1(k) Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependents' benefits. The 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(l) Early departure costs

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

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

The Civil Service Compensation Scheme (CSCS) was revised in December 2010 so that early leavers are entitled to lump sum compensation depending on their number of years' service. Leavers over the minimum early retirement age (usually 50) have the option to apply their lump sum to enable them to draw their pension without the usual actuarial reduction. The compensation lump sum by itself will often be insufficient for this purpose and departments have the option to top up the leaver's lump sum payment to ensure a complete buyout of the actuarial reduction. Under the old scheme the legal substance of this arrangement was that the actuarial liability rested with the department not the CSCS. Therefore from an accounting perspective departments had:

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

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

1(m) Contingent liabilities

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

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

1(n) 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 for the administration of debt relief orders; fees generated from insolvency practitioner regulation activities; amounts recovered in respect of costs awarded by the court in directors' disqualification proceedings; property rental income and other miscellaneous income. Amounts received by The Service under a service level agreement with HM Revenue & Customs for the administration of the Redundancy Payments Scheme are also treated as operating income. Operating income does not include funding received from BIS under a programme allocation for investigation and enforcement activities carried out by The Service or administration funding for policy activities.

Operating income is stated at its fair value. In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is delayed, the fair value of the consideration may be less than the nominal amount of cash received or receivable. In relation to insolvency case administration fee income the fair value of the consideration is determined by discounting all future receipts using the discount rate for financial assets set by HM Treasury, currently 3.5%.

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

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

1(o) Deferred income

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

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

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

1(p) Operating leases

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

1(q) Finance leases

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

Charges are made to the income and expenditure account in respect of:

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

1(r) Service Concession Arrangements

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

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

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

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

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

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

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

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

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

1(s) Non-cash charges

In accordance with Treasury guidance the following non-cash item is charged to the statement of comprehensive net expenditure account:

- (i) Audit fee (note 4).

1(t) Financial instruments

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

1(u) Financial assets

The Service has classified its case administration receivables, estate account receivables, and receivables for disqualification costs as financial assets. Case administration receivables are stated at the amount earned and carried at expected realisable values. Bad debts are written off when it is established that they are irrecoverable. All receivables are reviewed as at the balance sheet date. Receivables are discounted to reflect the time value of money. The discount rate used is 3.5% which is recommended by HM Treasury to be used for financial assets.

1(v) Value Added Tax (VAT)

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

Where VAT is recoverable by The Service the expenditure shown in the statement of comprehensive net expenditure account is net of VAT. Outstanding recoverable VAT on expenditure is included in VAT receivables and is shown in note 9 to the accounts.

1(w) Cash and cash equivalents

Cash and cash equivalents comprises cash at bank.

2 Significant areas of judgement

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

The Service believes that the most critical accounting policies and significant area of judgement and estimation arise from accounting for service concession arrangements under IFRIC 12; the method of revenue recognition in relation to case administration fee income and accounting for case administration receivables.

2(a) Service concession arrangements

In assessing the fair value of assets associated with service concession arrangements, certain indicative assessments have been received from the operator. These assessments cannot be corroborated independently. The Service is satisfied that the assessments are reasonable in that the fair value has been tested against the calculation of the interest rate implicit in the service concession arrangements (note 6).

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

2(b) Case administration revenue recognition

For case administration income 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 (note 5(a)).

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

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

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

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

The reasonableness of these assumptions is tested by:

- (iii) Reviewing the weightings for business planning purposes, which determine the average time spent by each grade of staff.
- (iv) Reviewing the time-recording data.
- (v) Communicating and confirming assumptions with senior managers, Official Receivers and their staff.

2(c) Case administration receivables

The Service must make accounting estimates and judgements regarding the recoverability of its case administration receivables (note 9). Information is provided here to allow users to understand how The Service has arrived at its estimates. For all of these estimates, it should be noted that future events rarely develop exactly as forecast, and estimates require regular review and adjustment.

The measurement of case administration receivables requires analysis of past trends of recoveries and a review of asset levels in insolvency cases. Asset values can be affected by economic factors e.g. property prices. Employment rates can affect the ability of bankrupts to make a financial contribution to the estate. Economic factors can determine the proportion of cases that have assets and will impact on the recoverability of fees. Judgement is also required in determining the timing of the case administration receivables. To the extent that it is not expected to recover the debt a bad debt write off will be made (note 9).

3. Staff numbers and related costs

3(a) Staff costs

	2011-12		2010-11			
	Total £'000	Permanently employed £'000	others £'000	re-stated £'000	Permanently employed £'000	others £'000
Wages and salaries	60,435	56,659	3,776	76,529	68,433	8,096
Social security costs	4,334	4,334	–	4,953	4,953	–
Other pension costs	10,624	10,624	–	12,484	12,484	–
Voluntary Exit Scheme – compensation payments	1,701	1,701	–	17,257	17,257	–
Sub Total	77,094	73,318	3,776	111,223	103,127	8,096
Less recoveries in respect of outward secondments	(110)	(110)	–	(108)	(108)	–
Total net costs	76,984	73,208	3,776	111,115	103,019	8,096

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

For 2011-12, employers' contributions of £10,570,028 were payable to the PCSPS (2010-11, £12,413,582) at one of four rates in the range 16.7 to 24.3 per cent (2010-11: 16.7 to 24.3 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2013-14 the rates will be in the range 16.7 to 24.3 percent. The contribution rates are set to meet the cost of the benefits accruing during 2011-12 to be paid when the member retired and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £46,086 for 2011-12 (2010-11, £59,623) were paid to the three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent (2010-11, 3 to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £3,113 (2010-11, £4,346) 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the reporting period date were £4,205 (2010-11, £6,881). Contributions prepaid at that date were nil (2010-11, £nil).

1 person (2010-11, 1 person) retired early on ill-health grounds. The total additional accrued pension liabilities in the year amounted to £3,471 (2010-11, £975).

3(b) Average number of persons employed

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

Number	2011-12			2010-11		
	Total	Permanent staff	Others	Total	Permanent staff	Others
Directly Employed	2,253	2,253	–	2,565	2,536	29
Other	147	147	–	359	359	–
Total	2,400	2,400		2,924	2,895	29

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

Exit package cost band £	Number of Compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<10,000	–	12 (49)	12 (49)
10,001 – 25,000	–	34 (203)	34 (203)
25,001 – 50,000	–	12 (105)	12 (105)
50,001 – 100,000	–	8 (83)	8 (83)
100,001 – 150,000	–	0 (25)	0 (25)
150,001 – 200,000	–	1 (3)	1 (3)
200,001 – 250,000	–	0 (2)	0 (2)
Total number of exit packages by type	–	67 (470)	67 (470)
Total Resources costs / £'000s	–	1,701 (17,257)	1,701 (17,257)

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

All other departures were under a voluntary exit scheme based on the terms of the CSCS which was open to all of The Service's staff below Senior Civil Service grade.

In 2010-2011, The Service's Voluntary Early Retirement/Voluntary Exit Scheme resulted in resource costs of £17m which included a provision of £3.8m for the pension entitlement. In 2011-12 the Service pre-paid £3.8m to settle the liability to the CSCS and expected, on an annual basis to release elements of both the prepayment and the provision to reflect the passage of time such that when normal retirement age was reached both were eliminated.

During 2011-12, HM Treasury advised that under the new scheme CSCS Departments and other entities do not have an ongoing obligation, so a provision is not required in the accounts of the employing entity when individuals take these voluntary early departure packages. The entity needs to recognise the expense and the payment. HM Treasury advised that existing prepayments and creditors should be eliminated and any difference between the carrying values should be taken through the SoCNE. As the net charge to the performance statement (which is also the net change in assets) is nil, it is not material and therefore a prior period adjustment is not required.

4. Other operating charges

	Note	2011-12 £'000	re-stated 2010-11 £'000
Administration Costs			
General administrative expenses		646	698
IT infrastructure expenses		1,826	2,507
Other costs		689	1,057
Accommodation		1,429	1,333
Operating leases – accommodation		1,241	1,247
Operating leases – computers		1,170	1,290
Operating leases – office machinery		84	85
BIS overhead including provision of shared services		849	621
Travel and subsistence		277	329
		8,211	9,167
Non-cash items			
Audit fee		70	76
Depreciation	6	822	724
Amortisation	7	161	85
		1,053	885
		9,264	10,052
Other administrative cost			
Programme Costs			
Legal and other costs of investigation and enforcement		9,861	8,656
General administrative expenses		2,637	3,340
IT infrastructure expenses		3,537	7,649
Other costs		1,882	3,042
Accommodation		6,132	6,084
Operating leases – accommodation		7,326	7,397
Operating leases – computers		3,202	4,259
Operating leases – office machinery		424	448
Disbursements funded from case administration fees		1,869	4,108
BIS overhead including provision of shared services		1,586	1,594
Travel and subsistence		990	1,126
		39,446	47,703
Non-cash items			
Write offs bad debt for Investigation and Enforcement		1,758	1,057
Write offs bad debt for estate accounting fees		297	487
Write offs for case administration fees		14,524	94,731
Bad debt provision for Investigation and Enforcement		124	478
Provision for lease dilapidations	12	3,917	153
Provision for fruitless payments	12	109	(307)
Other provision including adverse costs for disqualification proceedings	12	4,831	947
Depreciation	6	3,336	3,304
Amortisation	7	2,016	1,273
Loss on disposal of non-current assets		–	254
Impairment of non-current assets	8	2,391	–
		33,303	102,377
		72,749	150,080
Other costs			
Case admin – unwind discounting of receivables for fees		(1,133)	(3,411)
Programme other costs			
Total		71,616	146,669
		80,880	156,721

Balances for 2010-11 have been restated to reflect the classification of administration costs in accordance with HM Treasury Consolidated Budgeting Guidance 2011-12.

5. Income

5(a) Administration income

	2011-12 £'000	2010-11 £'000
Redundancy payments administration	9,200	9,800
	9,200	9,800
Programme income		
Insolvency case administration	84,496	113,543
Case administration income accrued from deferred income	322	26,800
Discounting costs	(135)	1,478
Estates accounts	2,053	2,439
Regulation of Insolvency Practitioners	1,486	1,547
Debt relief order administration	2,725	2,382
Investigation and enforcement	2,269	2,731
Rental income	1,712	1,835
Fees recoverable in the period	94,928	152,755

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

Case administration income accrued from deferred income of £322,013 (2010-11, £26,800,000), has been transferred from deferred income in accordance with The Service's deferred income accounting policy (note 1(o) and note 11)

Case administration income has been decreased in 2011-2012 by £135,343, (2010-2011, increased by £1,477,582) to ensure the income is stated at its fair value, in accordance with our financial instruments accounting policy (notes 1(t) and 1(u)).

Debt relief orders (DRO), which were introduced from 6 April 2009, are for those who would otherwise be financially excluded from debt relief solutions such as bankruptcy. They are intended to provide cheap and easy access to debt relief for those on low incomes, with no assets of value, who are overwhelmed by relatively low levels of debt. A flat fee of £90 is paid by the debtor.

5(b) Segmental reporting

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

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

Administration Costs	Income		Cost of Service		Surplus/(Deficit)	
	2011-12 £'000	2010-11 £'000	2011-12 £'000	re-stated 2010-11 £'000	2011-12 £'000	re-stated 2010-11 £'000
Activities funded from BIS financing						
Policy advice and development	–	–	1,478	1,638	(1,478)	(1,638)
Investigation and enforcement	–	–	4,540	4,835	(4,540)	(4,835)
Activities funded by HMRC						
Redundancy payments administration	9,200	9,800	9,752	10,093	(552)	(293)
Total Administration costs	9,200	9,800	15,770	16,566	(6,570)	(6,766)
Programme Costs						
Activities funded from fee income	2011-12 £'000	2010-11 £'000	2011-12 £'000	re-stated 2010-11 £'000	2011-12 £'000	re-stated 2010-11 £'000
Insolvency case administration	84,683	141,821	92,659	194,960	(7,976)	(53,139)
Estate accounts	2,053	2,439	1,904	2,139	149	300
Regulation of insolvency practitioners	1,486	1,547	1,264	1,507	222	40
Debt relief order administration	2,725	2,382	2,726	2,097	(1)	285
Other	1,712	1,835	1,741	1,834	(29)	1
Total fee funded programme	92,659	150,024	100,294	202,537	(7,635)	(52,513)
Activities funded from BIS financing						
Investigation and enforcement	2,269	2,731	36,101	31,476	(33,832)	(28,745)
Provision for lease dilapidations	–	–	3,998	–	(3,998)	–
Voluntary exit scheme	–	–	1,701	17,257	(1,701)	(17,257)
Total BIS funded programme	2,269	2,731	41,800	48,733	(39,531)	(46,002)
Total Programme costs	94,928	152,755	142,094	251,270	(47,166)	(98,515)
Total of all activities	104,128	162,555	157,864	267,836	(53,736)	(105,281)

The costs of £92,659,028 in relation to insolvency case administration include an additional bad debt write off of £14,523,729 in relation to fees charged in previous years that are now considered uncollectable (note 9). Common costs are apportioned largely on the basis of staff employed on the main activities.

BIS agreed financing for the voluntary exit scheme but as the scheme was not completed until late March these accounts do not include the cash funding which will be received in June 2012.

5(c) 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 5(b)). The NI Fund payments and receipts will be published in the consolidated resource accounts of BIS.

Claims processed under the Scheme fall into two categories: RP1 (which covers redundancy pay, holiday pay and arrears of pay) and RP2 (pay in lieu of notice). The average payment for RP1 during the 2011–12 year was £2,712 (2010–11, £2,771). An average amount of £1,283 was paid during 2011–12 for RP2 (2010–11, £1,289).

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

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

6. Property, plant and equipment

2011-12	Information Technology £'000	Plant & Machinery £'000	Property Leasehold Enhancements £'000	Assets under Construction £'000	Total £'000
Cost or valuation					
At 1 April 2011	15,921	1,260	1,706	366	19,253
Additions	104	190	–	436	730
Disposals	(24)	(38)	–	–	(62)
Impairment	–	(359)	(1,501)	–	(1,860)
Reclassification	194	141	225	(560)	(0)
At 31 March 2012	16,195	1,194	430	242	18,061
Depreciation					
At 1 April 2011	11,147	504	850	–	12,501
Charged in year	3,792	173	193	–	4,158
Disposals	(24)	(38)	–	–	(62)
Impairment	–	(158)	(638)	–	(796)
At 31 March 2012	14,915	481	405	–	15,801
Net book value at 31 March 2011	4,774	756	856	366	6,752
Net book value at 31 March 2012	1,280	713	25	242	2,260
Asset financing:					
Owned	591	713	25	242	1,571
Service concession arrangement	689	–	–	–	689
Net book value at 31 March 2012	1,280	713	25	242	2,260
2010-11	Information Technology £'000	Plant & Machinery £'000	Property Leasehold Enhancements £'000	Assets under Construction £'000	Total £'000
Cost or valuation					
At 1 April 2010	16,744	1,706	1,706	–	20,156
Additions	651	–	–	366	1,017
Disposals	–	(446)	–	–	(446)
Disposals of PPE funded by Government Grant	(1,474)	–	–	–	(1,474)
At 31 March 2011	15,921	1,260	1,706	366	19,253
Depreciation					
At 1 April 2010	8,499	544	679	–	9,722
Charged in year	3,705	152	171	–	4,028
Provided in year for Government Grant	119	–	–	–	119
Disposals	–	(192)	–	–	(192)
Disposals of PPE funded by Government Grant	(1,176)	–	–	–	(1,176)
At 31 March 2011	11,147	504	850	–	12,501
Net book value at 31 March 2010	8,245	1,162	1,027	–	10,434
Net book value at 31 March 2011	4,774	756	856	366	6,752
Asset financing:					
Owned	1,328	756	856	366	3,306
Service concession arrangement	3,446	–	–	–	3,446
Net book value at 31 March 2011	4,774	756	856	366	6,752

7. Intangible assets

2011-12	Software licences £'000	Internally developed system £'000	Asset under construction £'000	Total £'000
Cost or valuation				
At 1 April 2011	2,023	11,888	27	13,938
Additions	–	–	625	625
Impairment	–	(2,232)	–	(2,232)
Reclassification	–	649	(649)	–
At 31 March 2012	2,023	10,305	3	12,331
Amortisation				
At 1 April 2011	1,309	1,120	–	2,429
Charged in year	478	1,699	–	2,177
Impairment	–	(905)	–	(905)
At 31 March 2012	1,787	1,914	–	3,701
Net book value at 31 March 2011	714	10,768	27	11,509
Net book value at 31 March 2012	236	8,391	3	8,630
Asset financing:				
Owned	236	6,441	3	6,680
Finance leased	–	1,950	–	1,950
Net book value at 31 March 2012	236	8,391	3	8,630
 2010-11				
2010-11	Software licences £'000	Internally developed system £'000	Asset under construction £'000	Total £'000
Cost or valuation				
At 1 April 2010	1,466	1,264	10,396	13,126
Additions	557	9	246	812
Reclassification	–	10,615	(10,615)	–
At 31 March 2011	2,023	11,888	27	13,938
Amortisation				
At 1 April 2010	890	181	–	1,071
Charged in year	419	939	–	1,358
At 31 March 2011	1,309	1,120	–	2,429
Net book value at 31 March 2010	576	1,083	10,396	12,055
Net book value at 31 March 2011	714	10,768	27	11,509
Asset financing:				
Owned	714	8,464	27	9,205
Finance leased	–	2,304	–	2,304
Net book value at 31 March 2011	714	10,768	27	11,509

8. Impairments

(a) Intangibles

The Service carried out an impairment review as at 31 March 2012 and compared the carrying amounts of its PPE and intangible assets with their recoverable amount. The carrying amount is the value in the statement of financial position, while the recoverable amount is the higher of net realisable value and value in use. If the net realisable value cannot be ascertained then the value in use is taken.

The Service has reviewed the carrying amount of its ISCIS Case Management system and determined that there is sufficient evidence to recognise impairment of the system in 2011-12. The expected economic benefits of the system have not materialised in that the system has not been utilised to the original capacity expected, and therefore the value in use of the system has declined significantly. The system had been intended to be able to run at a capacity of 100,000 cases which was the forecast capacity required. However, the number of cases has declined. In 2009-10, Official Receivers had 77,898 new cases to administer. This reduced to 58,029 in 2010-11, and 43,594 in 2011-12 reducing the required capacity of the system, specifically in terms of case management.

In accordance with the FReM, the ISCIS system has been impaired and the impairment reflects the permanent diminution in the value of an asset as a result of a clear consumption of economic benefits or service potential. The impairment of ISCIS is measured as the difference between depreciated cost, which is a proxy for fair value as set out in The Service's accounting policy, and the net realisable value of ISCIS. This is the recoverable amount, which is derived from value in use. The impairment is £1,327,290.48.

(b) PPE

The Service will relocate its headquarters from 21 Bloomsbury Street, London to premises leased by BIS at Abbey Orchard Street, London on 1 June 2012.

The premises at 21 Bloomsbury Street were occupied under an operating lease, and not recognised as PPE in line with IAS 17 leases. However, there were several assets within the building such as conference centre, telephone system, and a proxy system which will remain in the building and no longer provide future economic benefits to The Service after vacating the building on 1 June 2012.

In accordance with IAS 16 Property Plant and Equipment as no future economic benefits will be received by The Service from the assets after vacating the premises, these assets have been impaired, to the extent to which future economic value has declined.

The total net book value of the assets associated with the Bloomsbury Street building at 31 March 2012 is £1,099,016. The remaining depreciation for the assets combined for April and May 2012 is £34,203. Therefore, the impairment value is £1,064,813. BIS have confirmed to the Service that any obligations under the terms of the lease post 1 June 2012 will be met by BIS (note 13(a)).

The total impairment charge for the year, charged direct to the Statement of Comprehensive Net Expenditure was £2,391,494.

9. Trade receivables, other current assets and financial assets

	2011-12 £'000	2010-11 £'000
Trade receivables and other current assets:		
Amounts falling due within one year:		
Prepayments	3,744	3,585
Total other current assets	3,744	3,585
Financial assets		
Amounts falling due within one year:		
Receivables for fees – case administration	25,425	41,990
Receivables for disqualification costs	1,198	1,547
Receivables for fees – estate accounts	1,038	1,004
VAT receivables	909	1,367
Staff receivables	248	190
Other receivables	1,021	265
	29,839	46,363
Amounts falling due more than one year:		
Receivables for fees – case administration	24,448	32,384
Receivables for disqualification costs	2,201	2,843
Staff receivables	210	273
	26,859	35,500
Total financial assets	56,698	81,863
Total	60,442	85,448
Intra-government balances:	2011-12 £'000	2010-11 £'000
Department for Business, Innovation and Skills	168	4
Other Central Government Bodies	909	1,366
Local Authorities	–	–
Bodies External to Government	55,621	80,493
	56,698	81,863

The receivables for disqualification costs have been reduced by a provision for doubtful debt of £1,181,100 (2010-11 £1,056,997). The receivables for estate accounts fees have been reduced by a bad debt write off of £297,457 (2010-11 £487,385).

Included within the figure for financial assets are Receivables for Fees – Case Administration. The balance is £25.425m for amounts expected to be recovered within one year (2010/11 £41.990m) and £24.448m for amounts expected to be recovered in more than one year (2010/11 £32.384m). This figure represents sums recoverable by the Insolvency Service for case administration work undertaken but not yet received.

As explained in Notes 2(b) and 5(a), The Service, in accordance with IAS18, does not recognise income on the basis of actual fee recoveries. Income is based on the average cost of work undertaken and recognised over a period of 36 months in relation to the work effort expended, regardless of when cash receipts are banked. Income is therefore recognised on the basis of percentage of work completed by the Official Receivers Service, which is reflected in the case fee.

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

Cash recoveries from asset realisations and the repayment of the SoS fee lag behind income recognised in the accounts, and the difference is therefore reported as a receivable.

Observations

The Service has observed that the majority of Case Administration Fees are recovered between years one and three of a case, with SoS fees continuing to provide the most significant recoveries beyond year three. Should recoveries of Case Administration Fees be low in years 1 – 3, this informs us of the increased risk of irrecoverability of fees charged in this case year.

The rate of recovery (the profile of recovery across the life of a case) can vary between case years and is also dependent upon the case mix with differing levels of asset realisations being generated from different categories of cases.

The profile of fee recovery has been adversely affected when:

- a disproportionately high number of low asset or asset-less cases are taken on by the Service;
- where asset values prove to be lower than originally expected; or
- where unemployment rates affect the ability of bankrupts to make a financial contribution to the costs of administering bankruptcy from future earnings.

Uncertainties

The determination of future receivables is subject to considerable uncertainty. It has proved difficult to establish reliable estimates of future asset realisations when cases first come into bankruptcy or liquidation and the Service instead relies on a statistically based approach assessing trends of fee recovery from past case years to assess future receivable levels.

Fee levels are set in the expectation that a proportion of fees recoverable will not be covered in all cases. Historically this fee level has been based on 12% of overall case income although this is routinely monitored and may be adjusted if actual patterns of recovery vary. The financial impact of this is that 12% of all recoverable fees recovered are immediately written off.

In building upon the trend assessment of prior year recoveries, the Service's estimates of future recoverable debts remain subject to a number of forecasting uncertainties:

- the period over which assets will be realised to fund fee recoveries;
- the pattern of recovery across the life of any case;
- the average realisable value of assets of Estates entering bankruptcy or liquidation;
- the impact of current and future economic conditions on the value of assets realised in bankruptcy or winding up;
- the impact of current and future economic conditions on the profile of cases received by the Service;
- the impact of changes made to the fee structure on future recoverability of cases.

The uncertainties can vary according to the age of the case. Financial risk is theoretically greater in the earlier years of a particular case (case year refers to the period in which a case was taken into bankruptcy or liquidation) since at this stage the level of outstanding debt is at its highest.

Wider economic factors will represent a significant risk to case receivables in earlier years since the assets associated with the Estates will fluctuate in value. Assumptions about asset values in such cases may over time need to change. In some circumstances these may lead to write off of receivables since the true value of the asset has considerably diminished.

The profile of cases undertaken by the Service in any one year can be reflective of potential recoveries. Debtor petition cases typically involve a fee being charged to a low value estate where it is less likely to be recovered, with similarly poor anticipation for recoveries of the SoS fee. Years where the case profile has been heavily weighted towards these types of cases have typically shown worse recoveries.

The Service has sought to mitigate risks of under-recovery through significant changes to the fee structure since 2010/11, to better align fees charged to realisable assets. The greatest uncertainty here relates to the fact that estimated receivables in these more recent case years are based off imperfect forecasting where previous actual are from case years with a different fee structure.

Assumptions & Sensitivity of Reported Receivables

Factors which the Service has considered in reaching the balance reported in the accounts are:

- Historically the levels of irrecoverable fees have been subject to considerable variation. Between 2004/05 and 2011/12 case write offs have been between 12% and 31% of case income and on average have been 23%. The peaks were associated with the higher caseloads and in particular debtor petitions received during the 2008 recession. The Service has assumed that case levels of this magnitude will not recur since implementing cheaper alternatives for individuals e.g. debt relief orders.
- If the new fee rates from 2010/11 onwards prove to be effective fee write off could fall to as low as 7% for these most recent two years. On this basis recoverable receivables would have been 15% (£8m) higher than reported. The Service has assumed greater recoveries for these periods but tempered this to recognise the uncertainties of limited data available.
- Receivable figures for case years 2009/10 – 2011/12 are based primarily on historic trends and before new fee structures were put in place, would have been valued some 30% (£14m) lower than we have reported in these accounts.

If the profile of fee recovery in more recent case years (2009/10 onwards) follows the trends of earlier years, this would result in a reduction in reported receivable levels of £2.1m. Conversely, if the profile of fee recoveries reflects the profiles of other earlier case years it would have led to an increase of approximately £20m in reported receivables.

The Service has concluded that at present it is too early to judge whether recent case year profiles have been materially affected by the fee changes implemented in 2010/11, and have assumed that the trends of more recent case years are a better indicator of future receivables.

The Service will monitor actual recoveries over the coming year to assess whether a potential write-back – and prospective downwards adjustment – of the 12% write off is necessary.

10. Cash and cash equivalents

	2011-12 £'000	2010-11 £'000
Balance at 1 April	22,020	11,810
Net change in cash and cash equivalent balances	33,047	10,210
Balance at 31 March	55,067	22,020

The following balances at 31 March were held at:

Office of HM Paymaster General (ISA account)	47,480	19,175
Office of HM Paymaster General	7,587	2,845
	55,067	22,020

11. Trade payables and other current liabilities

	2011-12 £'000	2010-11 £'000
Amounts falling due within one year:		
BIS Inter-entity creditor	89,095	79,183
Trade payables	21	394
Accruals	8,582	20,170
Deferred fee income	1,165	1,003
Current part of finance leases	36	315
Service concession arrangement	1,049	2,306
Accrued employee benefits	1,423	1,552
Total	101,371	104,923
Amounts falling due after more than one year:		
Finance leases	-	35
Service concession arrangement	-	1,049
	-	1,084
Total	101,371	106,007
	2011-12 £'000	2010-11 £'000
Intra-government balances:		
Department for Business Innovation and Skills	89,169	79,250
Other Central Government Bodies	-	-
Local Authorities	-	-
Bodies external to Government	12,202	26,757
Total	101,371	106,007

Capital commitments due under finance leases are £35,518 (note 13(b)) (2010-11, £347,746). The finance charge payable under finance leases and charged to the statement of comprehensive net expenditure is £39,746. Capital commitment due under Service concession arrangements are £1,048,927 (note 13(c)) (2010-11, £3,354,849). The finance charge payable under Service concession arrangements and charged to the statement of comprehensive net expenditure is £139,929.

The BIS inter-entity creditor of £89,095,143 (2010-11, £79,183,170) includes the payroll for March 2012 of £5,963,210 (2010-11, £7,051,238) which was paid for directly by BIS and The Service re-imbursed this in the following financial year. The larger element of the inter-entity creditor is BIS cash funding of £83,131,933 (2010-11, £72,131,932) which has been retained to meet cash flow requirements. The amount of cash funding required results from the delay in realising assets in cases and collecting the fees charged on those assets. The Service forecasts future cashflow requirements and this includes an assessment of the timing of future fee recoveries.

Accruals include £1,700,971 (2010-11, £13,426,707) in respect of the costs of compensation payments to staff under a voluntary exit scheme.

Deferred income

Deferred income as at 31 March 2012 was £1,165,000 of which £538,000 related to case administration fee income. This related to fees recovered on old regime cases (before 1 April 2004) that had not yet been recognised as income in the annual accounts.

The only fee that remained for old regime cases after 1 April 2004 was a 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 SoS fee in relation to old regime cases was reduced on 1 April 2006 and revoked on 1 April 2007.

Costs for old regime cases are matched to income in the year they occur. This has resulted in £322,000 of deferred income being recognised as income this year. Future costs of old regime cases are unlikely to exceed £0.5m and it is expected that the majority of this cost will be incurred in the next 2 years with minimal annual costs thereafter.

	2011-12 £'000	2010-11 £'000
At 1 April	844	27,993
Additions in year:		
(a) Fees recovered	16	169
Utilised in year:		
(a) Before 1 April 2004 costs	(322)	(518)
(b) Deficits	-	(26,800)
At 31 March	538	844

12. Provision for liabilities and charges

	Fruitless payments £'000	Pre 1996 debit balance write offs £'000	Early departure cost £'000	Lease dilapidations £'000	Other £'000	Total £'000
Balance at 1 April 2011	70	180	3,830	130	1,179	5,389
Provided in the year	129	–	–	3,998	6,816	10,943
Provisions utilised in the year	(55)	(22)	(3,830)	(49)	(35)	(3,991)
Provisions not required written back	(20)	–	–	(81)	(1,985)	(2,086)
Balance at 31 March 2012	124	158	–	3,998	5,975	10,255

	Fruitless payments £'000	Pre 1996 debit balance write offs £'000	Early departure cost £'000	Lease dilapidations £'000	Other £'000	Total £'000
Analysis of expected timing of outflows						
In the period 2012-13	124	26	–	1,038	5,975	7,163
Between 2013-18	–	132	–	1,133	–	1,265
Thereafter	–	–	–	1,827	–	1,827
Balance at 31 March 2012	124	158	–	3,998	5,975	10,255

	Fruitless payments £'000	Pre 1996 debit balance write offs £'000	Early departure cost £'000	Lease dilapidations £'000	Other £'000	Total £'000
Balance at 1 April 2010	429	201	–	36	764	1,430
Provided in the year	34	–	3,830	174	1,292	5,330
Provisions utilised in the year	(52)	(21)	–	(59)	(532)	(664)
Provisions not required written back	(341)	–	–	(21)	(345)	(707)
Balance at 31 March 2011	70	180	3,830	130	1,179	5,389

	Fruitless payments £'000	Pre 1996 debit balance write offs £'000	Early departure cost £'000	Lease dilapidations £'000	Other £'000	Total £'000
Analysis of expected timing of outflows						
In the period 2011-12	70	30	881	130	1,179	2,290
Between 2012-17	–	150	2,518	–	–	2,668
Thereafter	–	–	431	–	–	431
Balance at 31 March 2011	70	180	3,830	130	1,179	5,389

Provisions – dilapidations

The number of new cases administered by The Service has decreased significantly since 2009-10 (77,898) to 2011-12 (43,594). The scale and pace of change, along with a decline in the value and volume of assets in bankruptcy estates, has demonstrated the relative inflexibility of The Service's current organisational and geographical structures in reducing direct and indirect costs in line with falling case numbers and fee income.

In recognition of this inherent inflexibility, in early 2010 The Service's Directing Board decided to look closely at how The Service might deliver services more flexibly in the future, by exploring a number of options for restructuring the organisation, including the potential closure of a number of offices. The Board expressed its preferred option of separating out front and back facing functions undertaken by The Service and centralising the former in fewer locations and announced to staff in September 2011 its intention to adopt a new Delivery Strategy, with back-office work focused in fewer locations and the maintenance of a network of local offices across the country for necessary face-to-face customer work.

The new Delivery Strategy proposes the creation of centres to deal with the back office administration of insolvency case work, and the non face to face interactions with insolvents. Over 80% of debtor petition bankruptcies, the more volatile workload, are currently dealt with without the need for face to face contact, at least in the first instance, although much of this is currently based locally. By centralising this activity The Service will increase process efficiency and more importantly limit the impact of any future caseload volatility on its network. In contrast, a network of smaller local offices will focus on the necessary face-to-face interactions with bankrupts and company directors, including any relevant investigations.

The Service is developing a firm and practical 3-5 year business plan, which will be agreed with BIS, and will underpin the business case for the investment needed to restructure. A team of consultants are taking forward this work in partnership with The Service and BIS and will conclude their work by the end of June 2012. The development of the overall business plan will include a costed investment plan for the implementation of the Delivery Strategy.

Since April 2010 The Government Property Unit (GPU) has been leading the work across government to transform the way the public sector uses its estate. There is a freeze on departments acquiring new properties or extending leases without GPU permission. GPU is facilitating interdepartmental planning and future property co-ordination.

During 2012-13 The Service will need to consider which properties to retain, at a time when there are inherent uncertainties in the commercial property market. Such decisions will need to consider the ability to surrender leasehold buildings before the lease has expired and the possibility of sharing office space with other government departments. The evaluation of such decisions will be done in full consultation with GPU and not in isolation.

The Service has reviewed its accommodation operating leases and has considered the risks and uncertainties related to the obligation to settle dilapidations. Whilst The Service may remain in a particular location there is no certainty that it will be in the same premises. The Service has therefore provided for dilapidations on all its accommodation operating leases and the discounted cost is £3.9m.

Fruitless payments

This has arisen as a result of the introduction of section 283A of Insolvency Act 1986 by Section 261 of the Enterprise Act 2002 which changed the way in which the bankrupt's home is to be dealt with post 1 April 2004. There are a number of cases where, following the introduction of this provision, property interests in homes may have been lost to bankruptcy estates and the Official Receiver may be liable to compensate the bankruptcy estate by making fruitless payments based on the value of any assets lost. The majority of these cases have now been agreed and the remaining provision is expected to be utilised in 2012-13.

Pre 1996 debit balance write offs

Prior to 1 April 1996 fees were handed over to BIS regardless of whether there was enough money in the insolvency estate to pay them. This gave rise to debit balances being created where estates did not realise sufficient monies to pay fees and disbursements charged to them. When these cases were completed these debit balances had to be recovered from BIS. This was achieved by a write off against current year fees. In 2011-12 the amount of the provision utilised was £22,225 and therefore the debit balance write-off provision as at 31 March 2012 is £158,000.

The annual amount of outflow for this provision remains uncertain, therefore an annual estimated outflow has been calculated based on the decrease in this provision over the next six years. The above estimated outflows have been calculated on a straight line basis.

Early departure costs

The provision for Voluntary Early Retirement/ Voluntary Exit Scheme Retirement Scheme run in 2010/11 has been eliminated in 2011/12. The discounted costs of the VER/VES scheme were £3.8m. The provision represented the pension entitlement and it was intended to release elements of the creditor on an annual basis to reflect the passage of time up to normal retirement age (notes 1(l) and 3).

Other provisions

Other provisions included £1,179k brought forward which included an amount of £1,100k related to an Employment Tribunal claim and other amounts for potential adverse cost claims in disqualification proceedings. Provisions provided in the year total £6,816k and include £840k related to the Employment Tribunal claim which increased the provision to £1,940k. On 31 May 2012 The Service received the dismissal judgement from the Employment Tribunal stating that the Employment Tribunal claim had been withdrawn by all 51 claimants. As this related to an uncertainty that existed at the end of the reporting period the provision of £1,940k has been written back.

Provisions provided in the year also include amounts for legal costs in respect of court cases from which The Service has withdrawn and other amounts for potential adverse cost claims in disqualification proceedings. On 20 June 2012 The Service decided to discontinue the proceedings in a disqualification case and this led to an order to pay costs. As this related to an uncertainty that existed at the end of the reporting period, the adverse cost provision was increased by £5,864k.

All amounts provided for in the year and all provisions not required and written back are recorded as non-cash programme costs (note 4).

13 Commitments under leases

13(a) Operating leases

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

Obligations under operating leases comprise:	2011-12 £'000	2010-11 £'000
Buildings		
Not later than one year	7,252	8,593
Later than one year and not later than five years	21,924	29,368
Later than five years	19,795	32,352
Total	48,971	70,313
Other		
Not later than one year	3,775	5,307
Later than one year and not later than five years	318	1,600
Later than five years	-	-
Total	4,093	6,907

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. Operating lease disclosures exclude the service concession arrangement element which is reported separately (note 14(c)) but include charges for 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. A further contract change note proposed on 5 January 2009 supports additional users up to 3,700. 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 contract was extended from 29 June 2012 to 28 December 2012 by means of a Contract Change note signed on 22 December 2011.

The Service entered into an operating lease for its headquarters building at 21 Bloomsbury Street, London in 1988. The lease was renewed in 2002 and is due to expire in November 2022. The Service is due to vacate 21 Bloomsbury Street on 1 June 2012 and will move to premises leased by BIS at Abbey Orchard Street, London. BIS have confirmed to The Service that any obligations due under the terms of the lease post 1 June 2012 will be met by BIS. As it is not probable that an outflow of resources by The Service will be required to settle the obligations under the lease, no provision for an onerous lease as been made as detailed in IAS37 Provisions.

The obligations under operating leases include 2 months rental costs for 21 Bloomsbury Street, being the costs until The Service vacates the building on 1 June 2012. The obligations under operating leases also include estimated rental costs at Abbey Orchard Street from 1 June 2012 to September 2019.

13(b) Finance leases

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

Obligations under finance leases comprise:	2011-12 £'000	2010-11 £'000
Other		
Not later than one year	39	352
Later than one year and not later than five years	—	41
	39	393
Less interest element	(3)	(45)
Total	36	348

Interest on finance leases charged in the year is £39,746 (2010-11, £86,147). The capital commitments due under finance leases are £35,518 (2010-11, £347,746) (note 11).

13(c) Commitments under service concession arrangement

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

The core contract term is for a period of 5 years to the end of June 2012. At that stage The Service has an option to sell the equipment as agent of the operator, on arms length terms at the market value and to receive 99% of the proceeds of the sale. Alternatively, The Service could renew the contract with the agreement of the operator. As The Service has the option to sell the equipment as agent, we have concluded that we control any significant residual interest in the infrastructure at the end of the service arrangement and we have therefore accounted for it as a service concession arrangement (note 6).

The infrastructure was recognised as property, plant and equipment from 18 March 2008 being the date of completion of the Project Acceptance Phase which included User Acceptance Testing (UAT) and has been depreciated from 1 April 2008. The infrastructure includes intangible items related to software. As the software is inextricably linked to the hardware, all infrastructure has been classified as information technology assets within PPE.

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

	2011-12 £'000	2010-11 £'000
Not later than one year	1,055	2,446
Later than one year and not later than 5 years	-	1,055
	1,055	3,501
Less interest element	(6)	(146)
Total	1,049	3,355

Interest on the service concession arrangement charged in the year is £139,929 (2010-11, £355,218).

14 Taxpayers' equity

General Fund – Government Grants

Previously, the value of the financing provided for assets financed by a government grant, was taken to reserves and released to the Statement of Comprehensive Net Expenditure over the life of the asset. For 2011-12, the option to recognise Capital Government Grants (IAS 20 Accounting for Government Grants) received in reserves has been removed from the FReM.

The FReM has interpreted IAS 20 and SIC 10 for the public sector context and states that (i) the option provided in IAS 20 to offset the grant against the cost of the asset has been withdrawn and (ii) where assets are financed by government grant the funding element is recognised as income and taken through the Statement of Comprehensive Net Expenditure.

Changes to grant accounting for 2011-12 is accounted for as a change in accounting policy in accordance with IAS 8. This requires the SoCNE and the SOFP to be restated as if the new policy had always existed. The Statement of Changes in Taxpayer's Equity as at the beginning of the earliest reported period shows the balance on reserves at 31 March 2010, the adjustments due to changes in the accounting policy and the revised balance at 1 April 2010, including the restatement.

For 2009-10 the government grant reserve was included in the brought forward balances for general reserves. For 2010-11 the SoCNE has been charged depreciation which related to an asset which was funded by a government grant. The impact is that in 2010-11 depreciation charges increased by £31,884 (2009-10, £3,185). However, whilst this increased the deficit in those years it did not affect the reserves as government grant depreciation was previously charged to the general reserve (fund) and therefore the impact on the general reserve is nil.

15. Financial Instruments

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

- (i) Information about the significance of financial instruments
- (ii) Information about the nature and extent of risks arising from financial instruments.

A financial instrument is any contract that gives rise to both a financial asset of one entity and financial liability or equity instrument of another entity.

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

A financial liability is any liability that has contractual obligations to deliver cash or another financial asset to another entity.

Significance

The Service has classified its case administration fee receivables as financial assets. The majority of case administration fees are recovered over a period of 6 years but a small proportion will be recovered beyond 6 years, as the recoveries can only be made when assets are recovered in an insolvent estate. The receivables therefore play a significant medium to long-term role in the financial risk profile of the Service. The timing of the recoveries exposes The Service to interest rate risk (note 9). Accounting estimates and judgements regarding the recoverability of case administration receivables are disclosed (note 2(c)).

Risk

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

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

16 Fast Track Voluntary Arrangements

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

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

During the year 2011-12 no individuals attempted to enter into a FTVA (2 individuals in 2010-11). The fees received by The Service were £4,483 (2010-11, £9,634) and are included in these accounts under the case administration business. The balance of funds held in FTVA estates as at 31 March 2012 was £87,052 (2010-11, £82,070). These amounts are not included in these accounts as they represent trust monies.

17 Related party transactions

The Insolvency Service is an executive agency of BIS. BIS 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 (being the Advisory Conciliation Arbitration Service (ACAS); and 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.

18 Losses and Special payments

During the year The Service made 100 fruitless payments totalling £247,232. Fruitless payments are those losses that relate to acts or omissions in insolvency cases where the loss would otherwise result in the non-recovery of insolvency fees or be suffered by creditors or third parties. During the year The Service made 4 special payments totalling £4,949 (including 2 compensation payments for loss of office and 2 compensation payments for personal injury). In all cases, The Service sought formal approval for its proposals and actions in regard to these matters from either HM Treasury direct or indirectly through BIS.

19 Commitments

There are no capital expenditure commitments for 2012-13.

20 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.

21 Financial exposure

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

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

Interest rate risk

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

The Service discounts its financial assets at the rate determined by HM Treasury, currently 3.5%. The Service does not face significant medium to long-term financial risks in respect of its financial instruments.

Liquidity and foreign currency risk.

The Service has no exposure to significant liquidity risks.

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

22 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 commitment agreed with BIS to break-even in each of these activities over a three year period.

23 Events after the Reporting Period

There were two events (the dismissal of an Employment Tribunal claim and the decision to withdraw from disqualification proceedings) which both related to uncertainties that existed at the end of the reporting period. Both of these events required adjustments to be made to provisions in the financial statements (note 12).

The Insolvency Service's financial statements are laid before the House of Commons by the Secretary of State of the Department of Business, Innovation and Skills. IAS10 requires The Insolvency Service to disclose the date on which the accounts are authorised for issue.

The Interim Chief Executive authorised these accounts to be issued on July 2012.



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