



# Annual Report and Accounts 2008–09

# The Insolvency Service

## Annual Report and Accounts 2008-09

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

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

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CUSTOMER SERVICE EXCELLENCE



INVESTOR IN PEOPLE

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# Chief Executive's Introduction and Overview

Welcome to the Annual Report and Accounts for The Insolvency Service for 2008-09. This has been, in many ways, a very challenging year for all of us at The Service, but one in which we have once again demonstrated our ability to raise our game. The recession has had a very significant impact on our work this year.

Unlike previous recessions, in this one, debt was a significant factor. In spite of this, for the first few months of the reporting year, The Service experienced broadly stable levels of new bankruptcy cases, following the slow decline we had seen the previous year, but confounding our own projections that new case inputs would rise. It was not until the end of the calendar year that case numbers started to accelerate and we are now seeing considerably higher volumes than last year. This is reflected in the National Statistics on insolvency that The Service issues quarterly which show bankruptcies, seasonally adjusted, reaching an all-time high.

While bankruptcy brings immediate relief from debt, there were some who had been excluded from using it on the grounds of cost. During the year, we worked closely with the debt advice sector and others to put in place a new form of insolvency aimed at just such people. The debt relief order, available at very low cost through an authorised intermediary for debtors overwhelmed by relatively low levels of debt and with few assets and low income, came into force on 6 April 2009.

In the immediate aftermath of the banking crisis that shook financial markets following the collapse of Lehman Brothers, there was a rash of high profile corporate failures, with the retail sector being especially hard hit. This gave rise to a lively public debate about the effectiveness of our corporate insolvency framework, undergoing its first serious test



since the Enterprise Act put administration and company rescue centre-stage in 2003. There were frequent calls for moves for the legislation to reflect the US Chapter 11 law. The Government's view is that our insolvency laws are among the best in the world and certainly up to the job. But it is important at the time of a recession that we continue to move forward and quite rightly the Government considered whether more could be done to facilitate company rescue. That is reflected in a public consultation we are currently undertaking on aspects of company voluntary arrangements and administration.

Also very much in the spotlight was the practice of pre-packaged administration (especially the "phoenix" form of this practice in which the original owners retain some control over the business that emerges from insolvency). The Government's view is that when used properly, pre-packs offer the prospect of saving jobs and preserving economic value that might otherwise be needlessly lost. But in response to the very real public concern over this, we undertook to police compliance with the new regulatory standard on pre-packs for insolvency practitioners Statement of Insolvency Practice 16 (SIP 16). The Service will be publishing a report on the first six months of operation of SIP 16 in July 2009. The Service is also working with the profession and its regulatory bodies in other ways, in the light of the Hampton Review of our regulatory role, published in July 2009, to improve both the quality and confidence in the regulation of insolvency practitioners, itself a cause of some public concern in recent months.

The high-profile retail and other corporate failures had a very significant impact on the Redundancy Payments Service, which has seen its case volumes more than double in the last year. Most of that increase took place during

the last few months of the reporting year and a significant component of that was some 22,500 cases from the collapse of Woolworths. Our staff did a magnificent job, exceeding our agency targets for timeliness of payments and averaging payouts to former Woolworths staff in just four days. We are very proud of our achievements in this regard.

It is against this backdrop that in the autumn, the Business and Enterprise Committee of the House of Commons decided to open an inquiry into the work of The Service, the first such inquiry in The Agency's 19-year history. I was pleased that, while expressing some concerns about pre-packs, Insolvency Practitioner (IP) fees and enforcement funding, the Committee's report, praised The Service for the work that we do.

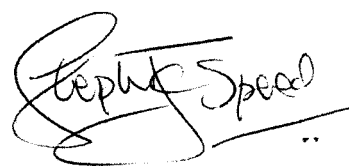
Our overall performance against our agency targets set last year is shown in Table 1. In a very challenging year, The Service met or exceeded five of its eight targets, narrowly missed two, and missed one by a wider margin (though still exceeding the outturn for the previous year). This is a creditable outcome in a year in which many of our business plan forecasts proved to be especially unreliable in the light of the recession, and in which The Service continued to train some 300 trainee examiners and investigators who are undertaking our in-house Examiner Development Programme.

The Service's work on maintaining and developing the framework of insolvency legislation continued apace this year with considerable progress being made on the project to modernise the insolvency rules. This is due to come to fruition in April 2010 and will bring insolvency procedures fully up to date saving creditors very considerable sums.

We pursued our strategy of change, through the Enabling the Future programme which will, later this year, deliver a fully refreshed and modernised IT platform and a completely new set of business applications for our staff. We will be using the fruits of this substantial programme of investment to drive down our costs (and hence our fees) and further drive up customer service quality in years to come.

Around nine out of ten of our customers tell us that the service they receive from us is good or very good. This would be a respectable figure for any business, but where the customers are mainly bankrupts or newly redundant people getting a statutory payment that is often a lot less than they would have expected from their company, I believe that this is a very significant achievement indeed. It is entirely consistent with this that The Service once again retained its Charter Mark status and Investors in People accreditation – which have been held continuously since 1998 and 1999 respectively.

We are privileged in The Insolvency Service to have a magnificent team of highly professional and dedicated people both delivering services to and for the public and the wider economy and providing top class support to those who do. I am most grateful to all of them for the contribution that they have each made to another year of progress and achievement in very testing circumstances.



**Stephen Speed**  
Inspector General and  
Agency Chief Executive  
14 July 2009

# 1. Introduction and overview

The Insolvency Service is an executive agency of the Department for Business, Innovation and Skills (BIS)<sup>1</sup>. 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 Act 1985 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 framework, see section 2;
- to deliver key public services that support the insolvency framework, see section 3;
- to deliver and promote an effective investigation and enforcement regime' see section 4; and
- to ensure an organisation devoted to continuous improvement.

In fulfilment of these goals, The Insolvency Service:

- administers and investigates the affairs of bankrupts, companies, and partnerships wound up by the court, and establish 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' and directors' misconduct;
- deals with the disqualification of unfit directors in all corporate failures;
- deals with bankruptcy 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 BERR 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 its website, leaflets, Insolvency Enquiry Line and Redundancy Payments Helpline.

<sup>1</sup> The Department for Business, Innovation and Skills was formed on 5 June 2009 by the merger of the former Departments for Business, Enterprise and Regulatory Reform (BERR) and Innovation, Universities and Skill (DIUS). Throughout this report references are to BERR which was The Service's parent Department throughout the reporting year.

BERR 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 BERR 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 courts' jurisdiction.

## Insolvency Service Targets

Each year BERR 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 below sets out The Service's performance against its published targets for 2008-09.

The Insolvency Service met five of its eight published targets in full and narrowly missed two targets: for user satisfaction and confidence levels in our enforcement regime. One target, for enforcement outputs, was missed by a wider margin. This is discussed further in Section 4.

Table 1: **2008-09 Published Targets**

Measures	Target	Achieved
Increase user satisfaction levels	92%	89.8%
Reduce bankruptcy and company administration fees by 2010-11 from 1 April 2007 baseline	15%	N/a
Increase the level of public confidence in The Service's enforcement regime	66%	64.0%
Reduce the average time from insolvency order to the instigation of disqualification proceedings in appropriate cases	20 months	19.7 months
Increase the quantity of enforcement outputs in 2008-09 from the 2007-08 baseline	7%	1.1%
Complete consideration of vetting complaints about live companies within 2 months	90%	91.3%
Complete internal Section 447 investigations into live companies within 6 months	90%	92.7%
Process redundancy payment claims for payment		
• within 3 weeks	78%	81.9%
• within 6 weeks	92%	94.8%



## 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, Fair Markets 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, BERR 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.

#### Rosalind Wright CB



Rosalind is the chairman of the Fraud Advisory Panel and the chairman of the Supervisory Board of OLAF, the European Anti-Fraud Office, based in Brussels. She was Director of the Serious Fraud Office from 1997 until April 2003. Before that she was a General Counsel and an Executive Director in the Securities and Futures Authority. She joined The Service's Steering Board in May 2006 and has also been an external member of the BERR Legal Services Group Board since 2002.

#### Louise Brittain

Louise is head of Baker Tilly's Special Investigations Team and National Head of court work. She is an R3 lecturer and a member of the Fraud Advisory Panel (asset trading).

#### 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.

#### 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 currently Chairman of an NHS Trust.



**John Alty** is Director General, Fair Markets Group, BERR.



**Stephen Speed** is Inspector General and Agency Chief Executive.



**Graham Horne** is the Deputy Chief Executive and Head of Corporate and Business Services.



**Les Cramp** is the Deputy Inspector General, Senior Official Receiver and Head of Official Receiver Services.



**Robert Burns** is the Head of Investigation and Enforcement Services and Inspector of Companies.



**Lesley Beech** is the Director of Finance, Governance and Estate Accounts.



**Terence Hart** is the Director of Human Resources.



**Marian Joyce** is the Director of Strategy, Planning and Communications (From 16 June 2008).

## Audit Committee

The Audit Committee is a sub-committee of the Steering Board. It comprises three independent members, one of whom is chair. During the year, Philip Wallace stood down from the chair and was replaced by Derek Morrison. Philip Wallace and Louise Brittain are the other members of the committee. Meetings of the Audit Committee are usually attended by The Service's Finance Director, 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 its advice. 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 responsible for the day-to-day running of The Service. He is assisted in this by the Directing Board, comprising senior managers from The Service, who also provide him with advice and support on policy and strategic issues.

## Programme Board

The Programme Board is a sub-committee of the Directing Board and supports the delivery of a programme of work identified in The Service's Corporate Plan aimed at improving The Service's infrastructure, quality of service and operational efficiency and effectiveness. The Board is chaired by the Deputy Chief Executive and is comprised of senior management and senior responsible owners (SROs) of projects within the programme.

## 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 2008-09 was £54,000 which includes £14,500 in relation to work carried out towards the adoption of International Financial Reporting Standards in 2009-10 and £39,500 in respect of the audit services relating to the statutory audits of Agency Accounts and the Insolvency Services Account (ISA). During

2008-09 audit work was carried out on the first and second trigger points in relation to The Service's move to International Financial Reporting Standards (IFRS) based accounts in 2009-10 in line with HM Treasury's requirements. 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.

## Personal Data Incidents

In August 2008 four laptop computers were stolen from the Agency's premises in Manchester. One held personal data. Details of the loss are given in the Statement on Internal Control (page 56).



## 2. The legislative and regulatory framework

### Policy

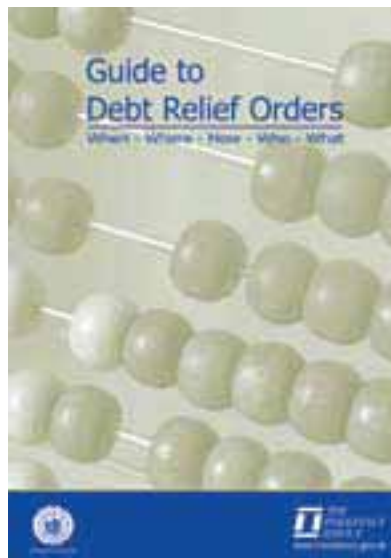
The Service continues to ensure that the legislative framework for insolvency is up to date, fit for purpose and serves the needs of its users. A rolling programme of evaluation and consultation provides both qualitative and quantitative information and evidence to allow us to determine the extent to which insolvency law and practice continues to meet its policy objectives.

### Debt Relief Orders

Work continued throughout the year on the development of debt relief orders (DROs), which were launched on 6 April 2009. This required putting the necessary detail into the secondary legislation, which comprised six statutory instruments. Having already gone through a formal consultation regarding the majority of the legal provisions, liaison continued with representatives from the advice sector to develop and finalise the legislation. This included a busy schedule of presentations delivered to debt advisers and creditors in preparation for the launch of the new procedure.

DROs are aimed at people with few assets and very little disposable income who are overwhelmed by relatively low levels of debt. Accordingly, the DRO process has been designed to be low-cost and fast. Applicants apply for an order through an authorised intermediary who completes a form online that is then submitted to the official receiver electronically.

The involvement of an authorised intermediary (an experienced debt adviser) ensures additionally that there is a high degree of assurance that a DRO is likely to be the most appropriate solution for the debtor.



Authorised intermediaries are licensed by competent authorities (CAs) appointed by the Secretary of State. Six CAs were provisionally in place before April 2009. It is for those CAs to approve intermediaries and to ensure their compliance with the legislation.

Funds were provided by The Service to the Money Advice Trust to provide training for intermediaries.

More than 1,000 intermediaries received training before DROs were launched.

### Insolvency Rules Modernisation Project

Work continued during the year on the project. The Service is undertaking to modernise the insolvency legislation. The project will deliver important changes to the Insolvency Act and a new set of Insolvency Rules.

Work on the first phase of the modernisation changes was completed by the end of the year and came into force on 6 April 2009. Those changes deliver a better targeted advertising regime for publicising insolvency events by giving insolvency office-holders the flexibility to judge on a case-by-case basis whether publicity over and above the mandatory notice that is required to be placed in the London Gazette would be beneficial. This will enable office-holders to take a view as to whether the cost of additional publicity is warranted having regard to the particular circumstances of the case and, if so, what form that should take. Until 6 April, such publicity had to be by newspaper advertisement. These changes have been delivered by amendments to the

Insolvency Rules and to the Insolvency Act by means of a Legislative Reform Order (LRO)<sup>2</sup> and are expected to result in significant savings for creditors of insolvent estates.

### **Individual Voluntary Arrangement Protocol**

The Service chairs the Individual Voluntary Arrangement (IVA) Standing Committee, which brings together representatives from all IVA interest groups including creditors, IVA providers and debt advisers. Among other things, The Committee monitors the operation and effectiveness of the IVA Protocol.

The Protocol was introduced in February 2008 and sets out a standard framework for use in straightforward consumer IVAs. This was intended to reduce the number of modifications being put forward by creditors, and help streamline the IVA process for the benefit of both creditors and debtors. Over the past year an increasing proportion of IVA proposals have been protocol-compliant and it is expected that this proportion will increase further. In the 2009-10. The Standing Committee will carry out an initial review of the operation of the Protocol for 2009 year in order to assess its effectiveness.

### **International Issues**

The Service has continued to take a leading role in various international insolvency and financial sector matters including leading the UK delegation in two of the UNCITRAL<sup>3</sup> working groups and attending the annual plenary sessions in respect of that work. This has included the consideration of how corporate groups should be treated in cross-border insolvency situations and

work on guidance notes on cooperation, communication and coordination in cross border insolvency proceedings. This work will continue during the coming year.

The Service has also played an active part in EU initiatives and has been working on an evaluation of the EC Cross Border Regulations. We have also done some preliminary work on comparing other insolvency regimes and will be completing a detailed comparison of international insolvency regimes in the coming months.

The Service also continues to liaise with other countries on issues relating to their insolvency regimes and with various international organisations including International Association of Insolvency Regulators (IAIR) and INSOL (an international insolvency organisation which draws its membership from all stakeholder groups).

### **Advising Government**

During the year we have provided strategic and technical advice and assistance to policy officials from a range of other departments across Whitehall regarding the insolvency implications of policy and legislative proposals they are developing. For example, we have liaised extensively with officials at HM Treasury in relation to the new modified insolvency regime for banks, enacted through the Banking Act 2009, to help deal with failing banks. This work helped to ensure that this new legislation delivers appropriate variations from normal insolvency law required for financially distressed banks.

2 A LRO is a deregulatory device that can be used to amend primary legislation in certain circumstances. It is an alternative to making changes to statute by way of a Parliamentary Bill but can only be used for non-controversial changes, which have the support of main stakeholders and which lift burdens on business.

3 The United Nations Commission on International Trade Law.

## Policy Funding and Costs

The Service's policy work is funded from the administrative budget of BERR. Table 2 shows the costs and funding over the past five years. From 1 April 2006 certain statisticians' costs were transferred from BERR.

## Future Developments

On 15 June 2009 The Service launched a consultation exercise to seek views on proposed changes to corporate insolvency legislation aimed at improving further the possibility of rescue for struggling companies. There are two main changes proposed:

- an extension of moratoria in Company Voluntary Arrangements (CVAs) to allow their use by medium and large sized companies; and
- a proposal to accord priority to rescue funding in CVAs and administration.

These changes would require primary legislation, and their introduction is dependant on parliamentary time being available.

The Service is also preparing for the introduction on 6 April 2010, subject to parliamentary approval, of the modernisation of insolvency procedures through changes to the Insolvency Act 1986 and the Insolvency Rules 1986. These changes will streamline the administration of insolvency proceedings by, for example, allowing insolvency notices and other documents to be sent to creditors

electronically and via websites, and by removing some of the requirements to file insolvency documents at court. This will be dependant upon the successful passage of a LRO through Parliament along with a series of further amendments to the Insolvency Rules. A consolidation of the Insolvency Rules by way of publication of new Insolvency Rules will follow a little later.

Further work will also be undertaken to develop and consult on the proposal that official receivers take over the courts' role in making bankruptcy orders on debtors petitions. Such a move would free up court time to deal with more complex and contested matters.



Table 2: **Policy Funding and Costs**

<b>Funding and Costs</b>	2004-05 £'000	2005-06 £'000	2006-07 £'000	2007-08 £'000	2008-09 £'000
Policy funding from BERR	1,641	1,858	2,129	2,079	2,080
Policy costs	1,641	1,858	2,129	2,079	2,080

## **Insolvency Statistics**

The Insolvency Service, on behalf of BERR is responsible for the publication of the quarterly UK National Statistics on personal and corporate insolvency. The statistics produced by The Service are widely reported in the national press and are relied on by those in the insolvency industry. We will be looking to improve this service by exploring ways in which we can break down further the information provided to enable geographical and sectoral analysis to be undertaken.

## **Insolvency Practitioner Regulation**

The Secretary of State recognises seven professional bodies to authorise their members as Insolvency Practitioners (IPs). The remaining IPs are authorised directly by the Secretary of State.

On behalf of the Secretary of State The Service ensures that the bodies regulate their practitioners effectively and to standards agreed with the Secretary of State as set out in a Memorandum of Understanding and in accordance with better regulation principles. The Service undertakes a programme of monitoring visits to the Recognised Professional Bodies (RPBs), and to the Secretary of State authorised insolvency practitioners, on a risk management basis.

## **Pre-pack Administration**

Pre-pack administrations (where a sale of all or part of the business is negotiated prior to the Administrator's appointment and the sale executed on or shortly after appointment) continued to be the subject of widespread concern during the year.

The Service has been a leading participant in the work undertaken during the year by the Joint Insolvency Committee<sup>4</sup> (JIC) on revising the Code of Ethics for IPs and the approval of SIP 16 (a statement of insolvency practice setting out the standards individual IPs are required to follow when appointed on a pre-pack administration). Both of these came into effect on 1 January 2009.

SIP 16 is designed to increase the transparency surrounding pre-pack sales and ensure that creditors are informed of details regarding the sale at an early stage in the administration. In the light of public concern about pre-packs and to ensure that IPs are complying with both the spirit and the letter of SIP 16, we have requested that IPs copy their SIP 16 statements to creditors to The Service. We are actively monitoring all statements we receive. Where we find evidence of abuse by either practitioners or directors we are working to ensure that effective action is taken against them. A report on the first six months' monitoring of SIP 16 statements by The Service will be published in July 2009.

The Service has also contributed to plans by the JIC to streamline the production and approval of future SIPs and to introduce public consultation. The implementation of these plans in 2009 will ensure that SIPs are more responsive to the needs of creditors, debtors and regulators.

4 The JIC comprises representatives of the Secretary of State and the Recognised Professional Bodies. It is concerned with professional and ethical standard setting across the insolvency profession, which it achieves through the approval of Statements of Insolvency Practice (SIPs) and an Ethical Code.

## Insolvency Practitioner Regulation Funding and Costs

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

Since 1 April 2008 the fees have been:

- £10 per registration of an IVA;
- £2,550 for applicants seeking authorisation as an IP from the Secretary of State; and
- a levy of £207 per IP authorised raised on each RPB by reference to the number of IPs they authorise, equivalent to £207 per IP.

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

Fees are reviewed annually. The fee for IPs authorised by the Secretary of State has been increased from 6 April 2009 to £3,250 and the fees charged to RPBs have been increased from 6 April 2009 to £300 per IP authorised by the RPBs. Fee increases have been made to reflect additional activities in relation to SIP 16 monitoring. The fee for registration of an IVA has been increased from £10 to £15. The previous reduction of the fee to £10 from £35 since 2004 reflected higher levels of IVAs and efficiencies in processing. However, the cost of a new IT system and an increase in the number of changes to the Individual Insolvency Register for IVA cases (to reflect cases that are moved between IPs) together with lower levels of IVAs since 2006-07 requires a fee increase to enable full cost recovery of this function.

Table 3: IP Regulation

IP Activity	2004-05	2005-06	2006-07	2007-08	2008-09
IVAs	11,612	24,938	47,975	38,672	39,981
IPs authorised by SoS	92	83	90	91	92
IPs authorised by RPBs	1,575	1,598	1,592	1,592	1,646*
Fees and Costs	£'000	£'000	£'000	£'000	£000
IP regulation fee income	761	1,211	1,155	935	991
IP regulation costs	702	808	835	1,003	1,051

\* As at 1 January 2009



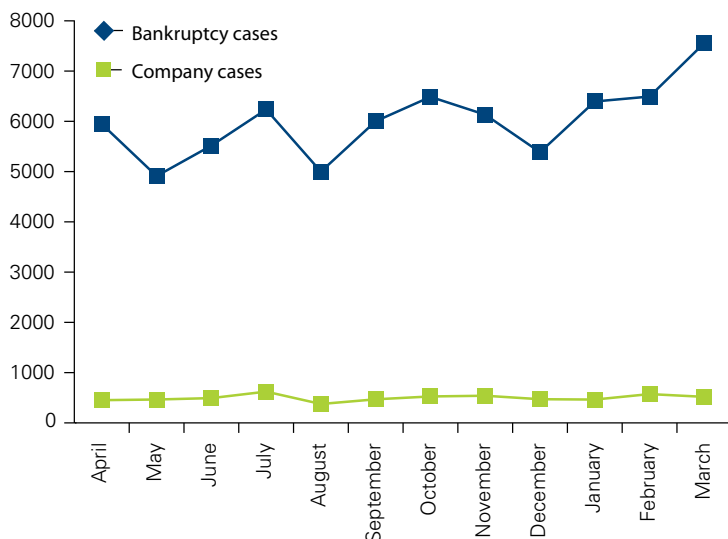
### 3. Public Services

#### Insolvency Case Administration

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

During the year official receivers dealt with 78,029 new cases (72,060 bankruptcies and 5,969 companies), an overall increase of 16% against the 67,218 new cases received during 2007-08. The increase in the level of new bankruptcies was 15.5% and the rise in the number of company cases was 22.8%. See Chart 1.

**Chart 1 Insolvency Service monthly new compulsory insolvency case inputs**



In 2008-09, 85% of new bankruptcies were made by way of debtors petitions, the same as in 2007-08.

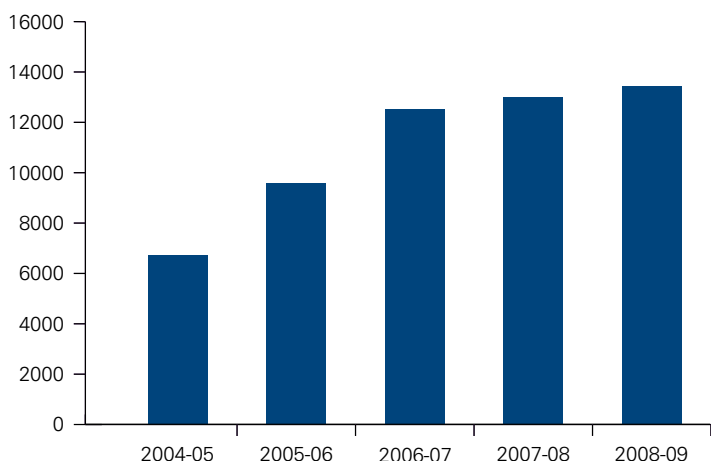
Official receivers were appointed as interim receivers<sup>5</sup> and provisional liquidators<sup>6</sup> on 33 occasions compared with 54 in 2007-08.

An income payments order (IPO) and an income payments agreement (IPA) require the bankrupt to make contributions towards the bankruptcy debts from their income, if 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.

While the volume of new IPOs and IPAs rose by only 3% (from 13,018 to 13,447) during 2008-09 compared with the previous year, the amount collected rose by 17% in the same period. The significant increases in both the volume of IPOs and IPAs and the associated level of realisations will result in increased levels of funds being available for distribution to creditors. This supports one of the key objectives of the Enterprise Act in 2004, which established that where bankrupts can pay, they will pay. See Charts 2 and 3.

5 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.  
 6 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 Companies Investigation Branch which leads to a petition to wind-up a company in the public interest.

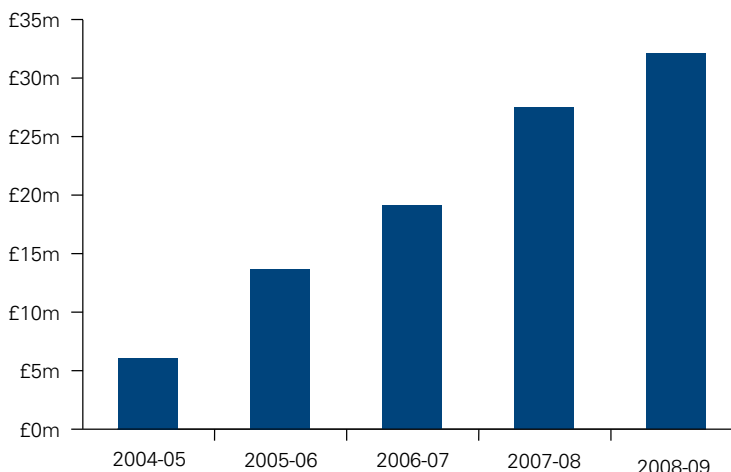
**Chart 2: Number of income payment orders and agreements obtained 2004-09**



2008-09 compared with 42% in 2007-08, with an average bankruptcy period of 7.2 months, the same as in 2007-08. Early discharge will only be considered where the official receiver is satisfied that the bankrupt's conduct has been satisfactory and that he or she has fully complied with the official receiver's enquiries. Early discharge applications are subject to the agreement of the bankrupt's creditors.

Official receivers concluded 64,801 cases during 2008-09. This was fractionally below the 64,913 case completions achieved in 2007-08, but was achieved against a backdrop of substantially increased new insolvency case inputs and a different and more challenging case mix with higher than anticipated levels of creditors petition bankruptcies and compulsory liquidations. See Chart 4.

**Chart 3: Realisations made from income payment orders and agreements 2004-09**



Following the introduction of the early discharge process in April 2004, official receivers can apply to the court for a bankrupt's early discharge from the bankruptcy proceedings. In 2008-09, 38% of bankrupts were granted an early discharge in

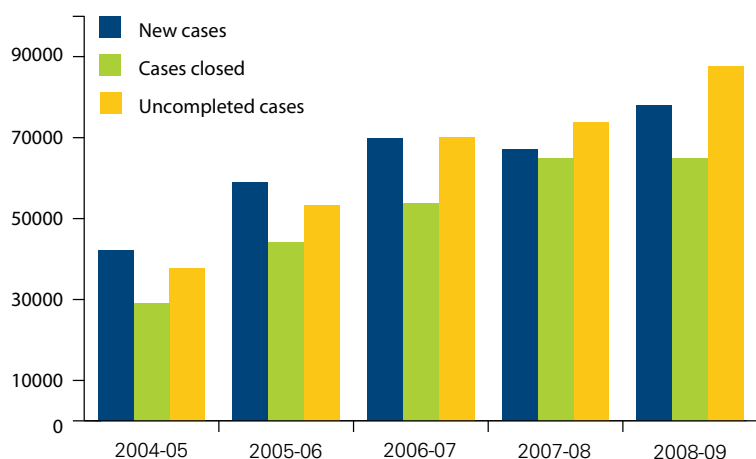
### Insolvency Case Administration Income and Costs

Fees are set to recover costs in accordance with principles set out in *Managing Public Money*<sup>7</sup>. 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 case administration fee of £2,160 for compulsory company liquidation cases. These fees are recovered in part from the deposit paid by the debtor or creditor when presenting a petition for bankruptcy or company liquidation. Table 5 shows the deposit levels since 1 April 2004.

The balance of the case administration fee is recovered from the assets realised in a particular case. However, more than 50% of cases have few or no assets. A second fee, the Secretary of State fee, is therefore also applied to those cases that have assets over £2,000.

<sup>7</sup> HM Treasury publication on the proper handling of public money.

Chart 4: **New cases and cases closed 2004-09**



The fee is charged at 17% and it is capped at £80,000 in any one case.

The case administration fee is charged to the insolvency case when the insolvency order is made but in line with current accounting standards it is only recognised in The Service's accounts when it has been earned.

The Service has developed a case profile to allow it to calculate each month 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 disbursements incurred in the first two months but there will then be a delay until assets are recovered. The Secretary

of State fee is only treated as earned when it is charged. Further information on fees can be found in note 2 of the Agency's annual accounts (see page 67).

The bankruptcy case administration fee for 2009-10 will continue to be held at the 2007-08 level and the company administration fee at the 2008-09 level. This is a real terms reduction. Over the last two years, the bankruptcy case administration fee has been reduced by 3.4% in real terms, contributing to a targeted 15% real terms reduction in the three years to 31 March 2010. Company case administration has not increased in real terms. The majority of savings will be realised in 2010-11 following the introduction of The Service's Enabling the Future (EtF) programme. See page 36.

For 2009-10 the Secretary of State fee will remain at its current level of 17% however, no further Secretary of State fees will be charged in relation to receipts paid into the Insolvency Services Account (ISA) on or after 6 April 2009 for cases with an insolvency order between 1 April 2004 and 31 March 2005. The fees are currently set at a level which includes a bad debt provision of 12%.

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

Table 5: **Insolvency Petitions**

<b>Petition Costs</b>	from 1 April 2004 to 31 March 2006	from 1 April 2006	from 1 April 2007	from 6 April 2008	from 6 April 2009
Debtors bankruptcy petition	£310	£325	£335	£345	£360
Creditors bankruptcy petition	£370	£390	£400	£415	£430
Creditors company petition	£620	£655	£670	£690	£715

Table 6: **Case Administration**

<b>Insolvency Cases</b>	2004-05	2005-06	2006-07	2007-08	2008-09
Compulsory insolvency cases	42,039	58,991	69,939	67,218	78,029
<b>Fees and Costs</b>	£'000	£'000	£'000	£'000	£'000
Case administration fee income	59,288	97,332	103,673	125,904	145,284
Case administration costs	59,250	75,174	90,326	125,555	145,351

## Future Developments

For 2009-10, The Service has put in place plans for dealing with bankruptcy and winding-up cases over a range from 85,900 to 92,600. Increases in case numbers will be dealt with by the employment of some additional permanent staff and the use of a greater number of agency staff, so as to retain a high degree of flexibility in the event that volumes decline in future years.

### Debt Relief Orders

Legislation relating to a new personal insolvency remedy, the debt relief order (DRO), was brought into force on 6 April 2009 (see page 10). Applications for DROs are made on behalf of debtors by approved intermediaries via a newly developed web-based application form. The details that are contained within each application are automatically fed into The Service's new case management system, ISCIS (Insolvency Service Case Information System). See Section 5.

Applications are dealt with and administered by a unit co-located with the official receiver's office in Plymouth.

From 6 April 2009 a new fee was introduced to cover the cost of administering DROs. The fee of £90, payable upon the application, includes up to £10 per case for work carried out by the approved intermediary.

### Insolvency Service Case Information System (ISCIS)

ISCIS is a new, web and Windows based case information system for use by official receivers and The Service's investigation and enforcement teams. It will replace the current, ageing case information systems for official receivers and for non-compulsory investigations carried out by The Service's Investigations Directorate.

ISCIS has been developed through a project within The Service's EtF programme (see Section 5). Development was completed in October 2008 but full implementation is now awaiting the completion of systems being developed by other projects which need to be fully integrated with ISCIS and implemented at the same time. Full implementation of ISCIS is scheduled for October 2009.

ISCIS contains workflow applications which will assist staff in completing tasks more efficiently. It integrates case administration, investigation and enforcement work across The Service instead of the constituent parts being dealt with by different systems.

The combination of ISCIS with the outcome of the Information Capture Management project (ICM) will enable The Service to move rapidly to fully electronic case files, which will reduce storage requirements and enable more staff to work flexibly, two factors which will lead to savings on accommodation and storage.



Total payments made to redundant employees during 2008-09 exceeded £400 million reflecting a significant rise in the number of claims being paid. Despite the large increase in workload which predominantly

## Redundancy Payments

We aim 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. In 2008-09, our Redundancy Payments Offices in Birmingham, Edinburgh and Watford dealt with 164,083 new claims for redundancy payments entitlement – more than double the 76,416 claims received the previous year. See Chart 5.

arose in the last 6 months of the year, claims handling efficiency remained at a very high level with 81.9% of claims being paid within 3 weeks against a target of 78.0% (78.7% in 2007-08) and 94.8% of claims being paid within 6 weeks against a target of 92.0% (93.7% in 2007-08). See Table 7.

During the year the Redundancy Payments Service dealt with a number of large and high profile cases. Among these our Watford office dealt with XL Leisure and Barratts shoe shops and our Birmingham office dealt with Adams Childrenswear, Land of Leather, and Waterford Wedgwood. However, none of these were as significant as Woolworths, dealt with by our Edinburgh office, where over the Christmas and New Year period around 27,000 staff were made redundant. Our Edinburgh office dealt with 22,500 of those claiming redundancy and other payments. Despite the scale of the task the average time taken to make a payment for redundancy in this case was just four days. Together with record levels of telephone calls being handled, and claim numbers at all offices far above expectation, this was a remarkable achievement for the Redundancy Payments Service.

**Chart 5: Redundancy payment claims received 2004-09**

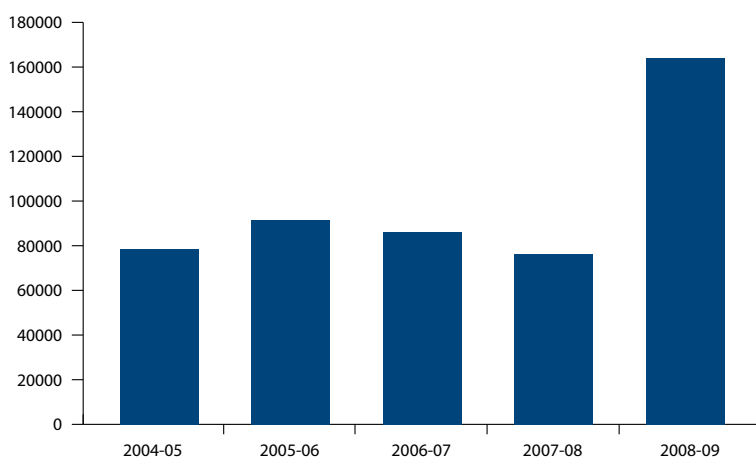


Table 7: **Redundancy Payments**

<b>Activity and Timeliness</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
Number of claims for redundancy payment entitlements	78,397	91,516	86,066	76,416	164,083
Action 78% of redundancy payment claims within 3 weeks	N/a	78.6%	80.1%	78.7%	81.9%
Action 92% of redundancy payment claims within 6 weeks	92.5%	92.6%	94.1%	93.7%	94.8%
<b>Funding and Costs</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
RP funding from HMRC	8,782	8,782	8,782	8,782	8,282
RP costs	8,838	8,991	7,906	8,577	8,628

### **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 Her Majesty's 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 BERR accounts.

Table 7 shows the financial results and volumes for Redundancy Payments.

### **Future Developments**

The amount of funding that The Service receives under the service level agreement with HRMC will increase to £11.8m in 2009-10. This will allow the Redundancy Payments Service to maintain its timeliness targets while dealing with rising claim numbers. Some £3 million of this funding will be used for the development of a new

claims-handling system which will enable claimants to submit claims online or by email. The new system will be introduced in mid-2010 and will lead to efficiency savings in future years.

### **Estate Accounts**

Insolvency Practitioners (IPs) and official receivers are required by statute to use the Insolvency Services Account (ISA) for estate banking and investment in relation to both bankruptcies and compulsory liquidations. Since April 2004 voluntary liquidators may choose their provider of banking services. Many continue to use our services, particularly for high value voluntary cases, as we provide competitive interest rates in comparison to other financial institutions and offer services specifically tailored to insolvency estate account management.

The Service's Estate Accounts Services (EA) administers the ISA at the Bank of England. Funds in excess of daily requirements are transferred to The Insolvency Service's Investment Account managed by the

Commissioners for the Reduction of the National Debt.

Tables 8 to 11 show the number of estates and balances held in the ISA by both insolvency practitioners and official receivers. The number of bankruptcy and compulsory liquidation cases retained by official receivers has increased while the number of cases with insolvency practitioners has declined. This reflects the fact that official receivers are retaining cases with straightforward realisations as such cases can be administered within the limits of the case administration fee and the money realised will mostly go to creditors by way of dividend.

The figures in the 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.

During 2008-09, EA dealt with 134,612 ISA payment requisitions from Insolvency Practitioners making 225,887 payments. EA were able to action 99.2% of these payment requisitions within four days. Tables 12 and 13 show EA's transaction volumes and timeliness of processing payments.

Usage of our online services by insolvency practitioners rose by 20% in the reporting period, contributing to a further 11% fall in the number of statements we issued in addition to the fall of 25% recorded last year.

Table 8: **Number of IP Estates with EA**

<b>Number of Insolvency Practitioner Estates with EA</b>	As at 31 March 2008	As at 31 March 2009
Bankruptcies	28,883	26,055
Compulsory liquidations	5,449	5,581
Voluntary liquidations	4,247	4,319
<b>Total</b>	<b>38,579</b>	<b>35,955</b>

Table 9: **Balances on IP Estates with EA**

<b>Balances on Insolvency Practitioner Estates with EA</b>	As at 31 March 2008	As at 31 March 2009
Bankruptcies	£138.6m	£99.6m
Compulsory liquidations	£148.0m	£137.7m
Voluntary liquidations	£1,077.2m	£981.1m
<b>Total</b>	<b>£1,363.8m</b>	<b>£1,218.4m</b>

Table 10: **Number of OR Estates**

<b>Number of Official Receiver Estates</b>	As at 31 March 2008	As at 31 March 2009
Bankruptcies	72,312	82,820
Compulsory liquidations	7,562	7,462
<b>Total</b>	<b>79,874</b>	<b>90,282</b>

Table 11: **Balances on OR Estates**

<b>Balances on Official Receiver Estates</b>	As at 31 March 2008	As at 31 March 2009
Bankruptcies	£40.9m	£48.7m
Compulsory liquidations	£5.2m	£5.5m
<b>Total</b>	<b>£46.1m</b>	<b>£54.2m</b>

Table 12: **Transaction Volumes**

<b>Transaction Volumes</b>	2007-08	2008-09
<b>ISA payment requisitions</b>	<b>137,720</b>	<b>134,612</b>
Payments issued	229,868	225,887
Bank giro credit receipts	137,554	128,056
Balance statements issued on request	2,244	2,008
<b>Total</b>	<b>369,666</b>	<b>355,951</b>

Table 13: **Estate Accounts Timeliness**

<b>Timeliness</b>	2004-05	2005-06	2006-07	2007-08	2008-09
Check and action ISA payment requisitions within 4 days or by the due date	97.9%	98.5%	99.1%	99.5%	99.2%



Table 14: **Estate Accounts Transactions, Income and Costs**

<b>Transactions</b>	2004-05	2005-06	2006-07	2007-08	2008-09
Insolvency Practitioner Accounts	52,522	49,770	44,324	38,579	35,955
Transactions	305,563	281,416	260,691	271,274	249,250
Interest rate paid to estate accounts as at 1 April	4.25% <sup>8</sup>	4.5% <sup>9</sup>	5.25% <sup>10</sup>	6.5% <sup>11</sup>	7.0% <sup>12</sup>
<b>Income and Costs</b>	£'000	£'000	£'000	£'000	£'000
Fee income	3,867	3,291	2,894	2,503	2,319
Costs	2,641	3,362	4,411	2,139	3,559

### Estate Accounts Income and Costs

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

From 6 April 2009, banking and investment fees for insolvency practitioner estate accounting were increased to maintain full cost recovery for these activities including recovering a deficit carried forward from 2008-09 arising out of the development of the new Estate Accounting System. These are the first increases in fees since April 2004. The cheque fee will increase from £0.80 to £1, banking fees will increase from £15 to £18 per

quarter for compulsory insolvencies and £20 to £23 per quarter for voluntary insolvencies. The investment fee will also be restructured to cover the actual costs incurred under the contract held by The Service for this work and a new fee of £25 will be introduced for unclaimed dividends in voluntary liquidations to bring it into line with the same fee introduced for administration cases in April 2008.

### Future Developments

The new Estate Accounting System (EAS) is planned to be an integral part of The Service's ISCIS case management system. It is currently undergoing final development with a prospective delivery date of October 2009. EAS will add to the ability of The Service to meet future challenges and deliver the benefits to be realised under the EtF programme (see Section 5).

<sup>8</sup> 4.5% from 1 August 2004

<sup>9</sup> 5.0% from 1 August 2005, 5.25% from 1 December 2005

<sup>10</sup> 6.0% from 2 October 2006, 6.5% from 5 February 2007

<sup>11</sup> 6.75% from 18 May 2007, 7.0% from 10 July 2007

<sup>12</sup> 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

## 4. Investigation and Enforcement

The Service carries out a range of investigation and enforcement activities aimed at supporting fair and open markets and, where necessary, taking steps to remove from those markets individuals whose conduct is not in the public interest. The main activities we undertake are:

- the investigation, following complaints or other intelligence, into directors of companies 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 and bankrupts by official receivers in cases they are handling;
- the securing of remedies, including the institution of civil proceedings where this is in the public interest; and
- reporting allegations of criminality to prosecuting authorities (mainly BERR).

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; or
- seek a suspension of a bankrupt's automatic discharge from the bankruptcy proceedings from the court.

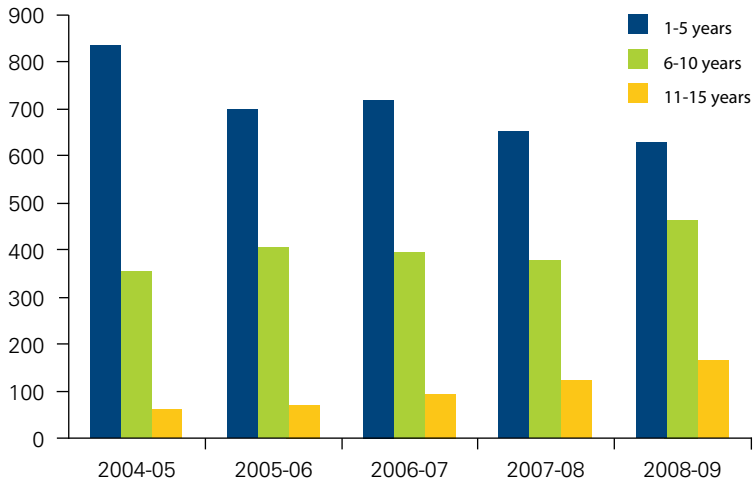
### Director Disqualifications

During 2008-09, The Service secured 1,252 disqualification orders and undertakings against directors of failed companies, compared to 1,145 in 2007-08. Of these, 997 (80%) were achieved by way of an undertaking made by directors compared to 897 (78%) in 2007-08. The average length of disqualification undertakings and orders secured against directors during 2008-09 was

Table 16: **Disqualification Orders and Undertakings**

Allegation Types	2007-08	2008-09
Crown debts	554	563
Accounting matters	250	381
Transaction to the detriment of creditors	161	246
Criminal matters	101	174
Misappropriation of assets	53	49
Technical Matters – statutory obligations	37	46
Trading at a time when company knowingly or unknowingly insolvent	36	44
Phoenix companies or multiple failures	13	14
<b>Total</b>	<b>1,205</b>	<b>1,517</b>

**Chart 6: Period of disqualification orders and undertakings**



6.5 years. Table 16 shows a breakdown of the allegation types made in disqualification cases. 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.

## CASE STUDY 1

### DIRECTOR DISQUALIFICATION

**On 27th March 2009 disqualification undertakings for periods of 10 years and 15 years respectively were accepted by two directors, a husband and wife team, for their conduct in a flooring company.**



Both directors were involved in a highly profitable flooring company which was put into administration following the misappropriation of £1.2million from the company over a three year period.

The wife, who was the company's bookkeeper and finance director, created fictitious purchase invoices and used the company's bank account to pay personal expenses. She also wrote 154 cheques either for personal use or to pay personal creditors, in breach of the Company Directors Disqualification Act. In addition three cheques totalling approximately £54k were written in favour of both directors and banked in their joint account.

Although the husband was not directly involved in the misappropriation he equally enjoyed, through his and his wife's lavish lifestyle, the benefit of conduct. Furthermore it was not reasonably possible for him to have been unaware of the conduct of his wife as the joint

income ordinarily was not such as to afford the lifestyle enjoyed by them.

The company's other directors were informed of the lavish lifestyle led by the couple at a meeting held after the company had been put into administration where the finance director confessed to her conduct. An application for a freezing order of the couple's assets was made which meant all assets owned by the couple equal to or exceeding £2000 were transferred to the company for the benefit of the creditors.

## Bankruptcy Restrictions

Bankruptcy restrictions orders and undertakings (BROs and BRUs) were introduced on 1 April 2004. In circumstances where the official receiver considers that the conduct of a bankrupt has been dishonest, reckless, or blameworthy in some other way, an application can be made to the court for a restrictions order to be made against the bankrupt for a period of 2-15 years. The Service was successful in securing 1,781 BROs and BRUs in 2008-09 (1,827 in 2007-08). Ninety per cent were obtained by way of an undertaking, in which the bankrupt can accept the official receiver's allegations

of misconduct and agree to a bankruptcy restrictions undertaking for an appropriate period. See Chart 7.

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

**Chart 7: Period of bankruptcy restrictions orders and undertakings**

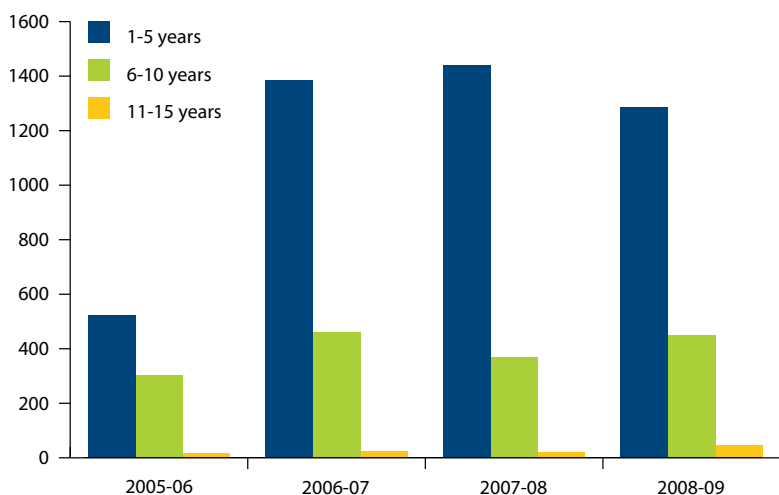


Table 17: **Bankruptcy Restrictions Orders and Undertakings**

<b>Allegation Types</b>	<b>2007-08</b>	<b>2008-09</b>
Incurring debt without reasonable prospect of payment	890	713
Preferences or transactions at undervalue	331	474
Other	157	152
Gambling, rash and hazardous speculation or unreasonable extravagance	296	150
Neglect of business affairs contributing to the bankruptcy	80	140
Dissipation of assets	127	120
Failure to account for loss	99	72
Fraud	Not Recorded	67
Prosecutable matters	54	67
Failure to keep or preserve proper accounting records	34	40
Trading at a time when knowingly or unknowingly insolvent	21	17
Excessive pension contributions	5	14
Failure to supply goods or services	10	13
Non co-operation	6	13
Second bankruptcy	8	6
<b>Total</b>	<b>2,150</b>	<b>2,058</b>

### **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 official receiver 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 the year official receivers secured 1,970 suspensions of discharge against bankrupts.

## CASE STUDY 2

### BANKRUPTCY RESTRICTION

**In January 2009 a bankrupt received a 15 year bankruptcy restrictions order for obtaining more than £5000 of credit whilst failing to disclose her status as an undischarged bankrupt and making false claims to obtain additional credit of £235,000.**



The bankrupt had used her reputation from a former business venture to obtain a loan from a private investor of £235,000 to invest in micro biology products.

The official receivers investigation found that the bankrupt lived a lavish lifestyle. None of the funds from the private investor were used to develop or promote innovative products. Instead the money was principally used for living expenses, the purchase of jewellery, antiques and a stable of racehorses, and to cover the high losses of her racehorse business.

Throughout the period of the official receiver's investigation the bankrupt failed to cooperate with the official receiver who was forced to obtain warrants for both the bankrupt's arrest and the seizure of records. The bankrupt was questioned in great depth about her affairs in a public examination which was attended by a large number of her creditors. These

efforts, as well as the copious third party enquiries which followed from them, led to the evidenced conclusion that the products had no basis beyond concepts, ideas and marketing and that the representations to investors had been false.

In January 2009 the bankrupt was issued with the maximum tariff for a bankruptcy restriction. The official receiver is currently assisting the police in their enquiries in this matter.

### CASE STUDY 3

#### SUSPENSION OF DISCHARGE – FINANCIAL ADVISOR

**In February 2009, the official receiver obtained the suspension of a bankrupt's automatic discharge.**



A bankruptcy order was made in April 2008 on a creditors petition against an individual, who was a financial advisor and former company director.

In June 2008, whilst still having failed to attend on the official receiver, the bankrupt made an application to court for the annulment of the bankruptcy order. This was dismissed by the judge.

The bankrupt eventually attended an appointment with the official receiver in July 2008 and signed the statutory form acknowledging his duties and responsibilities as a bankrupt. However, he failed to mention legal action about the improper use of a trademark co-owned by him, which the official receiver became aware of in September 2008, following the submission of a claim by a third party for £95,000.

Documents submitted revealed that a third party wished to settle the trademark dispute for a figure of £5 million, to which the debtor was entitled.

Investigations by the official receiver revealed that the bankrupt had assigned his rights in the trademark to the co-owner, five days before the making of the bankruptcy order.

The official receiver successfully applied for an order suspending the bankrupt's discharge. The judge accepted that the failure to co-operate had not allowed the official receiver to carry out his statutory duty to investigate the full causes and circumstances of the bankruptcy. This will allow the official receiver to investigate fully the causes and circumstances of the bankruptcy..



## Hotline

The Service operates a Hotline, which allows members of the public to provide us with information about suspected breaches of disqualifications and bankruptcy restrictions and other matters. In 2008-09, the Hotline received 769 complaints; an increase of 38% on the 558 complaints received in 2007-08. However only 18 of these calls resulted in reports alleging possible offences being submitted to the prosecuting authority compared with 33 in 2007-08.

## Prosecutions

The Service's Enforcement Directorate considers reports about possible criminal offences committed by bankrupts and directors of insolvent companies. In 2008-09, 686 reports were submitted to the prosecutions branch of the BERR compared with 705 in 2007-08.

### Prosecution Outcomes

During 2008-09, 186 defendants were sentenced having been convicted of offences following prosecutions brought by the prosecutions branch of BERR, as a result of referrals from The Service. The convictions were for a range of offences relating to corporate and individual insolvencies.

### Of those convicted:

- 93 defendants received custodial sentences, ranging from 2 weeks to 2 years;
- 27 defendants were sentenced to Community Punishment Orders, ranging from 40 hours to 300 hours; 1 was sentenced to a combined Community Punishment Order and Rehabilitation Order of 104 hours;
- 26 defendants were fined. The fines imposed ranged from £100 to £8,000;
- 28 Confiscation orders were made totaling £2,307,406;
- 12 Compensation Orders were made in 11 cases totaling £121,326;
- 48 Disqualification Orders were made ranging from 12 months to 12 years; and
- 98 defendants were ordered to pay total prosecution costs of £179,766.

## CASE STUDY 4

### BANKRUPTCY CRIMINAL OFFENCE

**A 54-year-old woman who petitioned for bankruptcy has given a 10-year bankruptcy restrictions undertaking and been sentenced to 18 months' imprisonment for criminal and insolvency offences which came to light during investigations by the official receiver.**

The bankruptcy order was made on 19 January 2005. The bankrupt claimed she was unable to pay £37,000 of debts and disclosed no assets other than a vehicle. In fact, she had £29,000 in a joint bank account at the time of the bankruptcy order. The account was in a different name, which she had adopted by deed poll in 2004.

The official receiver had concerns that £19,707 had been received by the debtor from a 77-year-old woman for whom she was acting as a paid part-time carer and reported the case to BERR. Subsequent BERR investigations led to the debtor being prosecuted for offences under the Insolvency Act and Theft Acts.

A jury at Luton Crown Court unanimously found the bankrupt guilty on both counts, having heard how the official receiver had discovered the existence of the account during the investigation into whether she had been honest in the declaration of her assets. £19,707 was traced to withdrawals in April 2004 from two accounts in the name of the elderly woman for whom the debtor worked as a carer.

The bankrupt was sentenced in November 2008 to 15 months for the theft and a further three months for the Insolvency Act offences.

## Investigations into Live Companies

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

During 2008-09, CIB received 4,153 new complaints about the actions of live limited companies, which represents a 15% increase on the 3,619 complaints received during 2007-08.

As a result of those complaints 275 investigations were commenced, a 30% increase on the 212 investigations commenced during 2007-08. In 2008-09, 240 investigations were concluded compared with 193 in 2007-08, and 115 winding up orders were obtained against limited companies during 2008-09 compared with the 182 winding up orders secured through the courts in 2007-08.

CIB also obtained 23 disqualification orders against directors of limited companies for a combined total of 150 years.

## CASE STUDY 5

### COMPANY INVESTIGATION

**A Sheffield-based company offering advice and services to those in financial hardship was wound up following an investigation by Companies Investigation Branch. The company, which operated throughout England & Wales had commenced trading in 2003; purportedly carrying on business as “Insolvency Specialists” offering insolvency advice to individuals and directors of limited companies. During its trading it gave insolvency advice to around 530 clients.**



The company claimed that it would deal with a debtor's creditors, complete the bankruptcy petition, attend at court with the debtor and attend with the debtor at any subsequently arranged meeting with the official receiver, all for a minimum fee of £1,500 plus VAT. In practice, the company charged individuals up to £44,000 for these services and, in the period of its trading, took fees in excess of £2 million.

CIB's investigation found that there was a lack of commercial benefit to the company's clients, that the company charged excessive fees and lacked any clear charging structure. It was also found that the company operated an inappropriate banking structure and the business model operated by the company was unsustainable. In addition, the company operated with a lack of probity involving inappropriate transactions and advice and there was a lack of transparency as to who was controlling the company. Following CIB's investigation the company was wound up in the public interest.

## Creation of Investigation and Enforcement Services

In February 2008, Grant Thornton were contracted to conduct a short review of The Service's investigation and enforcement activity and, in particular, the organisation of such activity, the staffing resource and The Service's reliance on external resources.

Grant Thornton's report, which was published on 4 July 2008, commended the quality of investigation and enforcement operations across The Service. Their report made a number of recommendations, relating to the enhancement of cross-team relationships, career development, mix of cases, increased publicity for enforcement outcomes and contracts with outsourced solicitors.

Table 18: **Enforcement Activity and Timeliness**

<b>Activity and Timeliness</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
Take proceedings for disqualifications of unfit directors, orders and undertakings obtained	1,240	1,173	1,200*	1,145*	1,252*
Secure bankruptcy restrictions orders and undertakings against unfit bankrupts	22	843	1,867	1,827	1,781
Number of criminal referrals submitted to the prosecutions branch of BERR where there is evidence of criminal behaviour	1,227	1,295	606	705	686
Suspensions of bankrupts discharge secured	1,363	1,581	1,743	1,815	1,970
Increase enforcement activity outputs (disqualifications, bankruptcy restrictions and criminal referrals) by 7%	33%	over 2 years	10.9%	0.1%	1.1%
Reduce the average time (months) from the date of insolvency to instigation of disqualification proceedings to 20 months	N/a	N/a	N/a	18.5	19.7
Complaints about live companies made to CIB	4,272	3,711	3,595	3,619	4,153
Number of Section 447 investigations completed by CIB	176	160	174	193	240
CIB to complete consideration of 90% of vetting complaints within 2 months**	N/a	N/a	94.8%	92.6%	91.3%
CIB to complete internal Section 447 investigations within 6 months**	N/a	N/a	93.2%	95.7%	92.7%
Increase the level of public confidence in The Service's enforcement regime	51.0%	64.8%	62.8%	65.3%	64.1%

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

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

One recommendation related to the organisation of investigation and enforcement activities so that they could be conducted more effectively and efficiently. In response to this, on 1 January 2009, The Service formed Investigations and Enforcement Services (IES), bringing together Investigations and Enforcement directorates and Companies Investigation Branch (CIB) into a single national structure working alongside The Service's official receivers.

The vision going forward is that IES, working closely with the official receivers will deliver a proportionate and responsive Investigation and Enforcement capability through professional, flexible and motivated staff, engaging with stakeholders and achieving high-impact outcomes that reflect the public interest and BERR objectives.

## Investigation and Enforcement Performance

The Insolvency Service was set a target in 2008-09 to increase the overall number of enforcement outputs by 7% compared with 2007-08. Enforcement outputs comprise bankruptcy restrictions, director disqualifications and criminal reports. Overall, The Service delivered a 1.5% increase in outputs, but fell short of its overall target.

Levels of disqualifications and criminal referrals were above the expected levels, but The Service fell short of its expectations in relation to bankruptcy restrictions. There were several reasons for this.

First, bankruptcy restrictions is a relatively new area of enforcement law where there is little core law to guide us. Consequentially The Service is still having to refine its thinking

as to the types of cases in which it is appropriate to seek restrictions.

Second, during the year, this overall mix of new insolvency cases received by official receivers was different from what we expected. There was a higher level of more complex cases with the result that resource originally earmarked for further investigation had to be reassigned.

Third, as part of a longer-term strategy to address this issue, The Service had recruited 300 trainee examiners. Absorbing this many trainees into The Service proved to be a considerable – albeit very worthwhile challenge to the maintenance of normal businesses.

## Investigation and Enforcement Costs

Between 1 April 2004 and 31 March 2006 all investigation and enforcement activity was funded through a BERR programme budget. With effect from April 2007 ministerial agreement was obtained that investigation work carried out by official receivers should be met from raising the case administration fee. However, enforcement action taken by the official receiver following such investigation continues to be funded by BERR.

Table 19 shows the financial results and outputs for enforcement, investigations and companies investigation activity including the costs of CIB since 1 April 2006.

## Future Developments

As a result of some of the recommendations made by Grant Thornton in their review of The Service's Investigation and Enforcement work, The Service is committed to the following activities during 2009-10:

Table 19: **Investigation and Enforcement**

<b>Outturn</b>	2004-05	2005-06	2006-07	2007-08	2008-09
Disqualifications, bankruptcy restrictions and criminal referrals	2,489	3,311	3,673	3,677	3,719
Winding up Orders and Disqualifications Orders secured by Companies Investigations Branch	138	151	116	209	138
<b>Costs and Recoveries</b>	£'000	£'000	£'000	£'000	£'000
BERR funding*	26,984	31,879 Restated 41,640	46,343	37,489	40,151
Cost recovery from Disqualified Directors*	2,330	1,862 Restated 2,295	2,776	2,138	3,022
Investigation and Enforcement Costs*	29,314	33,741 Restated 46,465	49,319	39,627	43,173

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

- **developing a single investigations career stream** with the objective of cultivating, through high quality training and continuous professional development, the ability of its staff of to deliver against challenging targets and expectations;
- **developing outcome-based performance measures** to reduce the current reliance on simply counting outputs and to move towards qualitative measures which reflect the broad objectives of The Service's enforcement regime; and
- **reviewing outsourcing contracts**  
The Service will undertake a tendering exercise to improve the efficiency and value for money of its outsourced investigations work.

## Confidence in the Enforcement Regime

During 2008-09, we again sought to establish the level of confidence amongst investors, businesses and other stakeholders in our enforcement regime. A fifth annual survey was conducted by NOP Social and Political with 300 interviews being conducted resulting in a 64% level of confidence being established against a published target of 66% and compared with a level of 65.3% in 2007-08.

During 2009-10, The Service will also be commissioning a new stakeholder survey with a view to setting a new stakeholder satisfaction target for confidence in its enforcement regime for 2010-11.

## 5. Corporate Services

To enable our staff to provide the best possible service to their customers, provision must be made for high quality support from our corporate centre. The corporate service delivery sections have striven to improve the quality and efficiency of the support they give to the rest of The Service.

### Enabling the Future

The Service is in the latter stages of a major programme of investment in its systems and the way that it works, aimed at:

- giving us modern tools and processes to support the highest quality of customer service;
- reducing costs and so improving the value for money we offer; and
- making The Service a better and more rewarding place for our staff to work.

Enabling the Future (EtF) is a £75 million programme which is designed to realise benefits of over £120 million over the next few years. At its heart is the complete replacement of our ageing IT infrastructure (“Technical Refresh”) with a modern thin client architecture which delivers enhancements to our environmental sustainability and to the security surrounding our use of personal data. Also at the heart of the programme is the development of a completely new and up to date set of main business applications. Despite some significant problems during the year with regard to the Technical Refresh, by the end of the year, much of the work was complete and work on the development and integration of the business applications that will sit on the Technical Refresh platform was well advanced with the prospect of go-live in late October 2009 for most of them.

In addition to the bulk of the Technical Refresh there were a number of other significant programme milestones delivered during 2008-09, including:

- debt relief orders (see page 8) – the supporting IT system was ready and in place to enable the DRO system to go live on time and within budget on 6 April 2009;
- new environment project – the introduction of new ways of working in our Birmingham, Manchester and London offices to enable a proportion of staff in those offices to work flexibly and to allow The Service to make better use of our accommodation;
- human resources project. The introduction of a new grading structure for our examining staff, supported by a revised qualification system; a new management development programme; and the development of a revised recruitment and promotion process.

In 2009-10, we expect to see the bulk of the rest of the programme delivered and we expect the programme itself to draw to a conclusion by the end of December 2009. Key deliverables between now and then will be:

- our case administration system, ISCS and the associated new estate accounting system, which should be in place by the end of October 2009;
- the new information capture and management system which comprises a new electronic data records management system and the scanning and filing of all incoming documents. Over time, we are confident that this project will deliver considerable savings in terms of space as



we will no longer need physical storage areas for paper records in our offices; and

- the introduction of improved corporate reporting facilities to enable the best possible use of management information.

The project to replace CHIRPS, our redundancy payments application, is now under way, although it will not be delivered until 2010.

## Estate Management, Environment and Sustainability

As mentioned in last year's Annual Report and Accounts, the move of our Birmingham site from Ladywood House to Cannon House took place in the summer. The new premises has a BRE Environmental Assessment Method (BREEAM) rating of 'very good', reflecting its energy efficient design and use of energy. We also brought our two Manchester offices into new premises at 3 Piccadilly Place, which have a BREEAM rating of 'Excellent'. Our new official receiver's office in Blackpool has the same 'Excellent' rating.

The Service, together with the Office of Government Commerce (OGC), is playing a leading role in the Government's 'green lease' programme. This entails the development of closer relationships with landlords, and our offices in Reading and Exeter are



piloting this initiative. We expect to conclude a Memorandum of Understanding with the landlords, tasking us with taking the sustainability agenda forward in partnership. These pilots will form the basis for a move towards green leases across The Service's estate.

We have implemented measures designed to reduce the amount of our waste going to landfill. Under-desk bins have been removed at our London, Birmingham and Manchester premises. This immediately did away with the great bulk of the 1,200 plastic bin liners previously used each day, representing an annual saving of 300,000 bin liners. It has also encouraged staff to increase the amount of waste that is recycled, and reduced the amount going to landfill by around two-thirds. The programme will be extended to other offices in the coming year.

## Finance

As well as undertaking monthly financial monitoring and reporting and producing annual financial accounts the finance team have also undertaken the preparatory work for the move to International Financial Reporting Standards in 2009-10. The first two trigger points were met in 2008-09 in line with the targets set by HM Treasury. The annual fees review was also undertaken and statutory instruments laid for the introduction of new fee levels and the new DRO fee in April 2009.

The finance team has also undertaken the payments in respect of the claims handled by the Redundancy Payments Services. The team handled the significant increases in the second half of the year and maintained their 24 hour turnaround target to enable the overall payment targets to be met. See Table 7.

As well as implementing the new fee for DROs the finance team also implemented the processes to allow cash payment through local outlets and the receipt and notification processes to enable DRO applications to be considered as soon as the fee had been received.

### 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 2008-09, 99% were paid within 30 days see Table 20.

During the year the Government also instructed departments and agencies to maximise the levels of payments, particularly to small and medium sized enterprises within eight days. During 2008-09, The Service paid 88% of invoices within eight days.

### 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 we also need to listen to our customers in order to address any

deficiencies with the levels of service that we provide.

We ask our customers wherever possible for feedback, interacting with them in a variety of different ways. Having got the information, we use it to improve everything that we do.

### Charter Mark

Our customer-focused approach is recognised by the Charter Mark accreditation which The Service has now held continuously for 10 years since 1998-99. The Charter Mark standard is currently being phased out and replaced by a new Customer Service Excellence (CSE) standard, which was launched by the Cabinet Office in March 2008.

CSE accreditation will build on the progress made over the years by The Service in order to achieve the Charter Mark standard. It is more targeted at the development and improvement of our understanding of what is really important to our customers and improving their experience of our service.

### User Satisfaction Index

During 2008-09, a total of 18,529 responses to our customer satisfaction survey were received across the business areas, a decrease of 13% on the 21,288 responses received during 2007-08.

A challenging target of 92% was set for 2008-09, up from an aggregated target of approximately 90% in 2007-08. In 2008-09 the index score achieved across all customer groups was 89.9%.

Table 20: **Payment of Invoices**

<b>Timeliness of Payment</b>	2004-05	2005-06	2006-07	2007-08	2008-09
Within 30 days of receipt	99.2%	99.1%	99.2%	99.0%	99.0%

The response rate from bankrupts and directors continued to dominate the overall level of responses to our satisfaction survey, with 17,014 responses coming from this group representing 91.8% of the overall responses received. The index score for bankrupts and directors was 91.1%. This was slightly lower than the 2007-08 score of 92.1% but still reflects a consistently high level of service.

We were unable to increase satisfaction levels of redundant employees, achieving 72.3% compared to 75.2% in 2007-08. Satisfaction of The Service's creditors has increased from 80.3% in 2007-08 to 81.8% in 2008-09 however the response rate was relatively small compared to the large size of the customer group and is not therefore statistically representative. Satisfaction of customers commenting on the response to general enquiries coming primarily through the internet was 86.8% with comments reflecting favourably on the quality and speed of response.

For 2009-10, we have been set a combined user satisfaction score of 90%.

### **National Consultative User Group**

As well as seeking our customers' views directly, we consult with specific representative groups. The National Consultative User Group, comprising representatives from the Bankruptcy Advisory Service, The Institute of Credit Management, the Federation of Small Businesses, the Consumer Credit Counseling Service, Citizens Advice and Her Majesty's Courts Service met twice during the year and issues considered by the group included Debt Relief Orders, IVA reform, simplified IVAs, the creation of a pensions realisation unit, service

transformation, and The Service's Charter Mark application.

### **Estate Accounts User Group**

The Estate Accounts User Group (EAUG) is comprised of customers of Estate Accounts who represent IPs from smaller firms, and cashiers or managers from larger organisations, together with representatives who supply or support the customer's case management systems. EAUG also met twice during the year. Specific issues discussed included EA service delivery, legislative changes, EA relocation to Cannon House in Birmingham, and the Enabling the Future programme – specifically the estate accounting component of ISCIS.

### **Complaints**

In 2008-09, The Service received 192 new complaints, which is a decrease of 75 complaints on the 2007-08 figure of 267.

The Service found 56 (29%) complaints to be justified in whole or part compared to 78 (29%) in 2007-08.

In 2008-09, 168 (88%) complaints were answered within 10 working days, against a target of 90%. This compares to 230 (86%) in the previous year.

### **Independent Complaints Adjudication**

During the year the Adjudicator has taken on nine complaints for investigation, compared to seven in 2007-08.

The Adjudicator completed her investigation into seven complaints, one of which was wholly upheld. The Service fully accepted this adjudication which recommended making a payment to the complainant of £2,711.33 in respect of losses incurred due to our mistakes

and a consolatory payment of £250 in respect of the manner in which we dealt with the complaint.

On 20 April 2009, following a ten year period as Adjudicator, Dame Barbara Mills stepped down. The Service would like to records its thanks to Dame Barbara for her support for our work through her role as Adjudicator. Dame Barbara's successor is Judy Clements OBE, formerly the Director of the Customer Services and Communication Directorate at the Independent Police Complaints Commission.

### **Improvements Made as a Result of Feedback**

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

- production of a new leaflet providing information on Statutory Demands;
- amendment of the 'How to wind up your own company' leaflet to show how a contributory can wind up a company;
- the introduction of FAQs about our Online Forms Service;
- production of FAQs on third-party administrator functionality that will be added to The Service's website;
- publication of some general Frequently Asked Questions (FAQs) on bankruptcy on The Service's website; and
- a 'New Idea' from a member of staff that will lead to the production of a new leaflet providing further information about motor vehicles and bankruptcy, which will be available in 2009-10.

### **Charter Standards**

Table 21 shows The Service's performance against our Charter Standards for the last two years.

### **Corporate and Social Responsibility**

The Insolvency Service's Community Involvement Strategy (CIS) sets out our commitment to conduct ourselves as responsible corporate citizens, and to meet and deliver our responsibilities to the needs of our employees, customers and other users, the wider community and the environment. The Service's CIS can be found on our website at [www.insolvency.gsi.gov.uk](http://www.insolvency.gsi.gov.uk)

### **Communications**

#### **Website**

In addition to The Service's helplines, customers can access information about our work via The Service's website. Use of our website has increased steadily during the year to an average of 115,418 visitors per month at 31 March 2009. See Chart 8.

#### **Electronic Individual Insolvency Register (eIIR)**

Use of the eIIR remains at a high level with around 3.6 million searches being undertaken during the year compared with 3.7 million in 2007-08, a decrease of 4%.

A further six commercial organisations have registered with us during 2008-09 to receive data downloads of the eIIR, a service which we provide for a small fee. The total number of organisations receiving data downloads is now 32.

Table 21: **Performance against Charter Standards**

<b>Charter Standards</b>	<b>2007-08 Actual (Target)</b>	<b>2008-09 Actual (Target)</b>
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	<b>87.7%</b> (90%)	<b>89.1%</b> (90%)
Visitors with appointments will be seen within 5 minutes of their appointment time	<b>95.1%</b> (95%)	<b>98.1%</b> (95%)
Visitors without appointments will be seen within 10 minutes of arrival	<b>92.6%</b> (90%)	<b>96.0%</b> (90%)
All calls to offices or sections between 9am and 5pm, Monday to Friday, will be answered within 16 seconds	<b>95.2%*</b> (95%)	<b>See Note*</b>
All calls to the insolvency enquiry line will be answered within 20 seconds	<b>See Note*</b>	<b>See Note*</b>
The official receiver will contact the bankrupt or director within 2 working days of The Service receiving written notification of the court order	<b>92.6%</b> (90%)	<b>95.8%</b> (90%)
Telephone interview to be carried out or the bankrupt to be telephoned within 5 minutes of the agreed interview time	<b>99.2%</b> (95%)	<b>99.3%</b> (95%)

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

### **Publications**

The Service's publications can be downloaded from our website free of charge but to ensure our customers have a choice in accessing our services, printed copies are also available. Eight of our most popular leaflets are available in MP3 audio format and have also been translated into Welsh, Traditional Chinese, Urdu, and Sylheti, all of which are available on our website.

Demand for our publications increased in 2008-09 with 1,325,258 distributed in 2008-09 as against 744,122 in 2007-08, an increase of 78%.

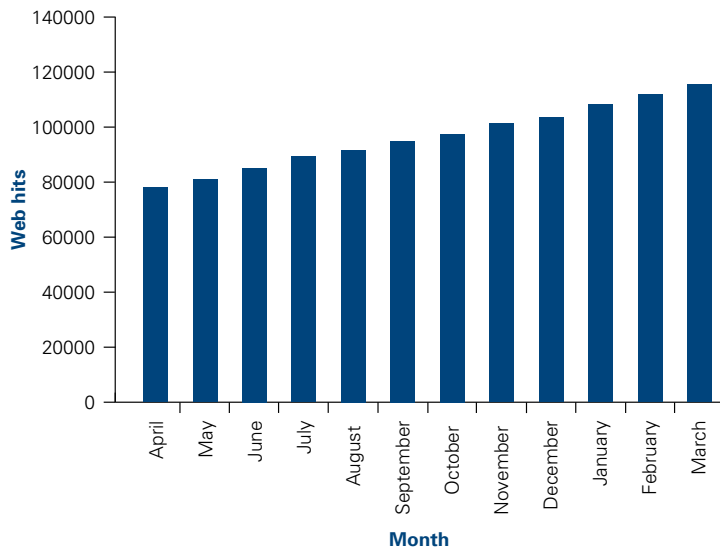
### **Helplines**

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 2008-09, the IEL received 51,382 calls, an increase of 47% on the previous year. Enquiries by e-mail have also increased during the period to 6,827 as against 6,790 in 2007-08 an increase of 5%. In line with the huge increase in the number of claims received for redundancy payment during the year, the Redundancy Payments helpline had to deal with a 100% increase in call volumes on the previous year. During 2008-09, 77,415 calls were received compared with 38,304 received during 2007-08.

**Chart 8: Insolvency Service website visitors 2008-09 (12 month rolling average)**



## Human Resources

We need to ensure that we recruit the right people to get the job done as well as providing all our staff with the skills and knowledge they need to enable them to carry out the important and complex job that the The Service does. The Service aims to ensure that employees feel fully motivated and engaged in the work they do, so that the organisation can continue to improve and maximise effectiveness.

### Investors in People (IiP)

To reinforce its commitment to learning and development, The Service underwent an Investors in People assessment visit during June 2008. The assessment report noted, “there is clear evidence that top managers met the necessary criteria and demonstrated a strategy and planning process for the organisation. There are no major weaknesses, and only minor areas for improvement”. The assessor found much good practice to celebrate, and

concluded that “The Service continues to meet the Investors in People Standard”.

### Recruitment and Staffing Levels

During the financial year 2008-09, The Service appointed 206 new recruits and had an average of 2,484 staff in post. The details are set out in Tables 22 and 23.

The Civil Service Commissioners require that all recruitment to The Civil Service be on the basis of fair and open competition, except in limited circumstances where flexibility is required to meet genuine business needs. The Service exercised this exception on seven occasions in 2008-09.

As Table 24 illustrates, The Insolvency Service draws on the experience of a number of agency workers who provide The Service with the flexibility to cope with fluctuating case numbers and workloads, and to fill gaps in staffing caused by permanent staff taking unexpected leave (such as sick leave). The Service aims to ensure that agency workers are deployed in the most effective way possible, and that their numbers are kept to a minimum consistent with the achievement of our goals.

### Staff Survey

During January and February 2009, The Service surveyed its permanent staff and agency workers to assess staff attitudes, satisfaction and engagement (the willingness and ability to invest their personal effort in the success of the organisation) around a range of work related issues. Trend comparisons with the 2007 employee survey and benchmark analysis with other public and private sector organisations was also undertaken to place the results of the survey into a wider context.

Table 22: **New recruits in 2008-09**

Range	Permanent		Casual		Total
	Male	Female	Male	Female	
A1	8	26	5	12	51
A2	29	30	12	12	83
B1	4	6	0	0	10
B2	0	4	0	0	4
B3	1	1	0	0	2
L1	6	6	0	0	12
L2	2	2	0	0	4
L3	12	21	0	0	33
Bands C and above	6	1	0	0	7
<b>Total</b>	<b>68</b>	<b>97</b>	<b>17</b>	<b>24</b>	<b>206</b>

Just under 2,600 permanent staff and agency workers completed questionnaires, which represented a response rate of 82%. The

survey results are being followed up by the development of action plans to improve performance in priority areas.

Table 23: **Staff in Post (average for the year)**

Average Staff in Post	2004-05	2005-06	2006-07	2007-08	2008-09
Number	1,680*	1,825*	2,146 *	2,529*	2,484*

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

Table 24: **Workforce, including permanent and casual staff and agency workers**

Workforce	No. of Staff as of 31 March 2008	No. of Staff as of 31 March 2009
Permanent staff	2,455	2,473
Casual Staff	5	33
Technical Agency Workers	261	258
Admin Agency Workers	223	339
Sandwich Students	14	14
<b>Total</b>	<b>2,958</b>	<b>3,117</b>

# Organisational Values



## People

We value and appreciate all our colleagues and customers, treating them with dignity and respect, and we act towards others in a way that is fair, considerate and appropriate to their needs and circumstances.



## Pride

We take pride in our work, taking responsibility for our actions and behaving with integrity in everything we do.



## Professionalism

We operate to the highest professional, ethical and personal standards; seeking opportunities for improvement in everything we do and adapting to meet changing needs.



Our values have been incorporated into our performance management and pay systems and provide the foundation on which we carry out our work and engage with colleagues, our customers and others with an interest in our work.



## Wellbeing

Sick absence within The Service has steadily fallen since reaching a peak of 9.4 days lost per employee per year in September 2008 to 8.7 days per employee per year as of 31 March 2009. One third of The Service's directorates have reduced their sick absence levels to under six days per employee per year and, across The Service sickness absence continues to be the subject of management focus.

A new occupational health provider has been appointed who will help enable us to be more proactive on occupational health issues by providing employees with information on health and lifestyle topics, aiding the improvement of the health and wellbeing of our workforce.

## Diversity

The Service is committed to creating and retaining a diverse workforce that reflects the communities from which we are drawn and the customers that we serve and which provides equality of opportunity for all. We design our insolvency policies and our customer services in ways that ensure that the needs of all groups in society are reflected as far as possible. During 2008-09:

- 14.3% of our workforce were recorded as having an ethnic minority background;
- 56.2% of our workforce were women and encouragingly, 40.5% of roles at Bands C and B were filled by female applicants; and
- 13.7% of our workforce indicated through self declaration that they have a disability or long term health condition.

An important addition to The Service has been the creation of the Diversity and Equality Team, which will review The Service's



diversity and equality strategy and develop a structured framework for mainstreaming diversity throughout the organisation. The team will also act as a centre of excellence for diversity issues, and provide help and support to managers throughout The Service in fulfilling their responsibilities under the strategy.

## Examiner Development

The Service requires all its Examiners and Investigators to complete a challenging vocational qualification – the Examiner Development Programme – which has been developed in partnership with – and is accredited by – Nottingham Trent University. In the last year, 403 staff have enrolled on the programme, during which time, 172 courses and 69 exam sittings were co-ordinated and administered. These high numbers reflect the substantial recruitment of trainee examiners that has taken place in recent years.

Level 3 of the Examiner Development Programme was rolled out in January 2008 with the cohort including for the first time Investigators from Enforcement and Investigation Services. The Service continues to be committed to providing a high quality, professional qualification to its Examiner and Investigator staff with the hope that the first accredited degree in Insolvency will be available to staff in the not too distant future.

## Development Opportunities

The Service has a comprehensive suite of non-technical training and development modules, covering management and soft skills, available for all staff. These vary from Advanced Leadership to Dealing With Difficult Customers. These are updated regularly and new modules developed as and when the need arises.

# The Insolvency Service Remuneration Report

## Remuneration Policy

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

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

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

- 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; and
- the Government's inflation target.

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

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

## Service Contracts

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

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

Further information about the work of the Civil Service Commissioners can be found at [www.civilservicecommissioners.gov.uk](http://www.civilservicecommissioners.gov.uk).

## Salary and pension entitlements (audited)

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

### Remuneration

Officials	2008-09		2007-08	
	Salary £'000	Benefits in kind (to nearest £100)	Salary £'000	Benefits in kind (to nearest £100)
<b>Mr Stephen Speed</b> <i>Inspector General and Agency Chief Executive</i>	100-105	–	35-40 <i>(95-100 full year equivalent)</i>	–
<b>Mr Les Cramp</b> <i>Deputy Inspector General and Senior Official Receiver</i>	95-100	–	95-100	–
<b>Mr Graham Horne</b> <i>Deputy Chief Executive – Corporate and Business Services</i>	95-100	–	85-90	–
<b>Mr Robert Burns</b> <i>Inspector of Companies and Head of Investigation and Enforcement Services</i>	85-90	–	85-90	–
<b>Miss Lesley Beech</b> <i>Director of Finance, Governance and Estate Accounts</i>	75-80	–	75-80	–
<b>Mr Terry Hart</b> <i>Director of Human Resources</i>	65-70	–	65-70	–
<b>Mrs Marian Joyce</b> <i>Director of Strategy, Planning and Communications</i> (Joined 16 June 2008)	50-55 (60-65 full year equivalent)	–	N/a	N/a

## Remuneration of Steering Board members (audited)

The Agency Steering Board comprises thirteen members, eight of whom are civil servants. The Inspector General and Agency Chief Executive, Deputy Inspector General, Deputy Chief Executive, Inspector of Companies, the Director of Finance, Governance and Estate Accounts, the Director of Human Resources, the Director of Strategy, Planning and Communications are seven of these members and their remuneration is borne by the Agency and disclosed above. The costs of one other civil servant member is borne by the Department for Business Enterprise and Regulatory Reform (BERR). They do not receive any additional amount for Board duties. The Service pays the external members and remuneration for the year ended 31 March 2009 is £15,446 (total remuneration for the year ended 31 March 2008 was £14,400).

	<b>Salary 2008-09 £'000</b>	Salary 2007-08 £'000
<b>Non- executive board members</b>		
Mr Phil Wallace	<b>5-10</b>	10-15
Mr Derek Morrison	<b>0-5</b>	N/a
Mrs Louise Brittain	<b>Nil</b>	Nil
Mrs Rosalind Wright	<b>0-5</b>	0-5
Mr Peter Holmes	<b>0-5</b>	N/a

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

## Salary

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

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

## Benefits in kind

The monetary value of benefits in kind covers any benefits provided by The Service and treated by HM Revenue and Customs as a taxable emolument. No director received a benefit in the year 2008-09 chargeable to tax under s163 of the Income and Corporation Taxes Act 1988.

## Pension Benefits (audited)

<b>Officials</b>	Real increase in pension	Real increase in lump sum	Pension at 31/3/09 To nearest £'000	Lump sum at 31/3/09 To nearest £'000	CETV at 31/3/08 *	CETV at 31/3/09 To nearest £'000	Employee contributions and transfers in To nearest £'000	Real increase in CETV funded by employer To nearest £'000
<b>Mr Stephen Speed</b> <i>Inspector General and Agency Chief Executive</i>	0-2.5	5-7.5	30-35	90-95	426	482	1.4	25
<b>Mr Les Cramp</b> <i>Deputy Inspector General and Senior Official Receiver</i>	0-2.5	2.5-5	45-50	135-140	987	1,056	1.4	2
<b>Mr Graham Horne</b> <i>Deputy Chief Executive – Corporate and Business Services</i>	0-2.5	0-2.5	35-40	85-90	638	702	3.0	14
<b>Mr Robert Burns</b> <i>Inspector of Companies and Head of Investigation and Enforcement Services</i>	0-2.5	0-2.5	40-45	120-125	819	879	1.3	0
<b>Miss Lesley Beech</b> <i>Director of Finance, Governance and Estate Accounts</i>	0-2.5	0-2.5	25-30	85-90	459	494	1.1	1
<b>Mr Terry Hart</b> <i>Director of Human Resources</i>	0-2.5	0-2.5	20-25	70-75	358	388	1.0	6
<b>Mrs Marian Joyce</b> <i>Director of Strategy, Planning and Communications</i>	0-2.5	7.5-10	20-25	70-75	333	408	0.8	50

\* These figures have been updated since the publication of the 2007-2008 Remuneration Report.

## Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium, or classic plus) or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pension payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Retail Prices Index. Membership joining from 1 October 2002 may opt for either the appropriate defined benefit arrangement or a good quality money purchase, stakeholder pension with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus, and nuvos. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his pensionable earnings during his or her 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 up rated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

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

Further details about the Civil Service pension arrangements can be found at the website [www.civilservice.gov.uk/pensions](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 individual have accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations.

## Real increase in CETV

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



**Stephen Speed**

**Chief Executive**

14 July 2009

# Accounts

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

Under section 7 of the Government Resources and Accounts Act 2000 the Treasury have directed The Insolvency Service to prepare a statement of accounts for each financial year in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of The Insolvency Service and of its income and expenditure, total recognised gains and losses 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 Government 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 Officer for the Department for Business, Enterprise and Regulatory Reform has designated the Chief Executive as Accounting Officer of The Insolvency Service. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding The Insolvency Service's assets, are set out in *Managing Public Money* issued by the Treasury.



# Statement on Internal Control

## 1. Scope of responsibility

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

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

- the Agency Steering Board whose role is to advise the Secretary of State, generally through the Director General, Fair Markets Group (BERR), on governance of the Agency, its corporate plan, targets and performance. The Steering Board meets at least four times a year to review the plans, strategic direction and performance of the Agency. The Board comprises senior officials from the Agency and BERR, as well as up to five independent members;
- the Directing Board, which meets twice-monthly to consider strategic direction, plans, continuing activity in support of these and progress and performance against them. I receive advice and support on policy, strategic and operational issues;

- an Audit Committee chaired by an independent member of the Steering Board. The Audit Committee meets four times a year and receives reports from both internal and external auditors on risk and other audit issues; and
- the Risk Management Group considers the overall risks to the Agency's objectives, the management and control of those risks, and the review and monitoring of the Agency's risk register. The Risk Management Group reports to the Directing Board and the Audit Committee.

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

## 2. The purpose of the system of internal control

The system of internal control is designed to manage risk to the achievement of Agency policies, aims and objectives rather than to eliminate risk completely. It can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on a set of continuous processes designed to; identify and prioritise risks to the Agency; evaluate the likelihood of those risks being realised; assessing their impact should they be realised; and manage them efficiently, effectively and economically. The system of internal control has been in place in The Insolvency Service for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with guidance from HM Treasury.

### 3. Capacity to handle risk

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

During 2008-09, the Agency completed a wide-ranging restructuring of its corporate governance arrangements designed to produce clearer definitions of responsibility and reporting lines to the Directing Board. This included revised risk management oversight and the creation of an executive Risk Management Committee to replace the Risk Management Group and advise the Directing Board and Audit Committee on the Agency's corporate governance practices.

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

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

Internal Audit and the Corporate Governance Section operate to Government Internal

Audit Standards. Their work is informed by an analysis of the Agency's risk exposures. This analysis and the joint plans of Internal Audit and Corporate Governance Section are endorsed by the Agency's Audit Committee and approved by me. A memorandum of understanding between Internal Audit and the Corporate Governance Section was signed during the year to further improve the governance processes and provide enhanced efficiencies in the use of internal audit resource.

### 4. The risk and control framework

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

All main risks have been evaluated and allocated to appropriate managers. Every directorate, region, office and section maintains its own risk register, which is reviewed, as a minimum, twice a year.

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

### 5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the joint work programme of Internal Audit and the Corporate Governance Section 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 and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The effectiveness of the system of internal control is reviewed by my Directors who each provide me with a Statement on Risk Management, Internal Control and Corporate Governance for their directorate. The chairman of the Audit Committee and I, together with the Director of Internal Audit, review these statements, meeting with a sample of directors to directly discuss their key findings.

The Risk Management Group advises me, the Directing Board and the Audit Committee on embedding risk management within the organisation. The Audit Committee advises on the internal audit work programme and the chairman also sits as an independent board member on the Steering Board.

Internal Audit and the Corporate Governance Section's audit programme is focused around the Agency's main risks. They submit regular reports on the adequacy and effectiveness of internal control together with recommendations for improvement. The Director of Internal Audit provides me with an Annual Report, which contains an independent opinion on the adequacy and effectiveness of internal control.

The 2007-08 review of the effectiveness of internal control highlighted internal control issues where further improvement was required. The following progress has been made:

- A new Security and Business Resilience Forum has been set up to take forward security, business continuity and resilience issues on a more co-ordinated basis and improve the identification, control and reporting of key risks in this area.
- The Enabling the Future (EtF) programme financial procedures have been revised improving the clarity and accuracy of monthly finance reporting to the EtF Programme Board.

Action has also been taken to strengthen internal control in relation to other areas highlighted in the 2007-08 review of the effectiveness of internal control.

The awareness and application of risk management continues to improve across the Agency in 2008-09 although there was one significant internal control issue highlighted during the year in relation to data handling and security on which further information is included below and one in relation to the Estate Accounts System IT project within the Enabling the Future programme as follows:

- In relation to the Estate Accounts System, project weaknesses were identified in relation to slippage and delays in the project. All of these have been addressed during the year and a revised project schedule agreed. The project is now at the user acceptance testing stage.

There were no other significant internal control issues during the course of 2008-09 but where weaknesses in the control environment are identified, action to strengthen control has been taken or is planned.

## Data handling and data security

The Agency, working closely with BERR's security and information management teams has made good progress in implementing the requirements now expected of it following the Cabinet Office's review of data handling and security. The following actions have been completed:


- an Agency Security Officer has been appointed along with a deputy ASO who has experience in this field;
- a Senior Information Risk Owner has been appointed, personal data identified, and the PROTECT – PERSONAL DATA security marking and encrypted removable media introduced; and
- improved guidance to staff on security and use of protective markings and the implications of these on business processes has been issued and continues to be discussed with business owners and key stakeholders.

In August 2008 four laptop computers were stolen from the Agency's premises in Manchester. Three of the computers contained no data. The fourth contained information sent to the Agency by insolvency practitioners acting as administrators, receivers or liquidators of insolvent companies. Among this was personal information about the activities of former directors of 122 companies which had become insolvent and which the insolvency practitioner considered may give cause for concern, as well as some information about other persons with some connection to these companies.

The matter was reported to the Greater Manchester Police. An urgent review by the Agency's Head of Corporate Governance was also undertaken and improvements to physical security of IT assets at the Manchester office made.

Meetings with all Insolvency Service staff were subsequently held to reiterate and reinforce The Service's policy on the use and storage of portable media. All unencrypted media devices have been recalled for encryption or destruction and Corporate Governance Section has increased its testing of security and compliance with data security policies during office visits. Random audits of offices and sections using portable media indicates general compliance with the policy.

As part of the Agency's co-ordinated approach to security, the remit of the Security and Business Resilience Forum specifically includes data security matters. Improvements required to be taken forward in 2009-10 include the formal training of Information Asset Owners, the ongoing review of IT users' access rights and the review and refresh of policies relating to information risk to reflect the Agency's new IT environment.



**Stephen Speed**

**Chief Executive**

14 July 2009

# 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 2009 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## **Respective responsibilities of the Agency, the Chief Executive and auditor**

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance

with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information, which comprises The Insolvency Service Targets, Steering Board, Sections 2, 3 and 4, and the Estate Management, Environment and Sustainability section, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

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

## Basis of audit opinions

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

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

## Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and

directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2009, and of the deficit, total recognised gains and losses and cash flows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information, which comprises The Insolvency Service Targets, Steering Board, Sections 2, 3 and 4, and the Estate Management, Environment and Sustainability section, included within the Annual Report, is consistent with the financial statements.

## Opinion on Regularity

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

## Report

I have no observations to make on these financial statements.

**Amyas C E Morse**  
**Comptroller and Auditor General**  
**National Audit Office**  
**151 Buckingham Palace Road**  
**Victoria**  
**London**  
**SW1W 9SS**

**17 July 2009**

## Income and Expenditure Account

For the year ended 31 March 2009

	Notes	2008-09 £'000	2007-08 £'000
<b>Income</b>			
Fee income	2(a)	148,594	129,342
Other operating income	2(b)	12,516	13,711
<b>Gross income</b>	2(c)	<b>161,110</b>	<b>143,053</b>
<b>Expenditure</b>			
Staff costs	4(a)	90,701	82,931
Depreciation	6	652	1,147
Other operating charges	3	113,820	96,626
Finance lease charges	11(b)	179	192
<b>Total expenditure</b>		<b>205,352</b>	<b>180,896</b>
<b>Operating deficit before interest</b>		<b>(44,242)</b>	<b>(37,843)</b>
Cost of capital	7	(1,143)	(772)
Finance – unwinding of discount	8	1,435	–
<b>Deficit for the year</b>	12(c)	<b>(43,950)</b>	<b>(38,615)</b>

All income and expenditure is derived from continuing operations.

The notes on pages 63 to 90 form part of these accounts.

## Statement of Total Recognised Gains and Losses

For the year ended 31 March 2009

	2008-09 £'000	2007-08 £'000
Deficit for the year	(43,950)	(38,615)
Fixed asset revaluation – unrealised surplus	43	26
Government Grant revaluation – unrealised surplus	–	5
<b>Total recognised loss for the year</b>	<b>(43,907)</b>	<b>(38,584)</b>
Prior year adjustment (note 12(c))	(2,582)	
Total recognised losses since last annual report	(46,489)	



## Balance Sheet

as at 31 March 2009

	Notes	2009 £000	Re-stated (notes 1(n) and 12(c)) 2008 £000
<b>Fixed assets</b>			
Tangible fixed assets	6	14,524	6,765
<b>Current assets</b>			
Debtors	8	124,489	83,955
Cash at bank	9	12,833	23,603
Creditors – amounts falling due within one year	10	(105,485)	(74,369)
<b>Net current assets</b>		<b>31,837</b>	<b>33,189</b>
<b>Total assets less current liabilities</b>		<b>46,361</b>	<b>39,954</b>
Creditors – amounts falling due after more than one year	10	(1,215)	(1,755)
Provisions for liabilities and charges	5	(2,976)	(4,048)
		<b>42,170</b>	<b>34,151</b>
<b>Taxpayers' equity</b>			
Revaluation Reserve	12(a)	121	78
Government Grant Revaluation Reserve	12(b)	28	39
General Fund	12(c)	42,021	34,034
		<b>42,170</b>	<b>34,151</b>



**Stephen Speed**

Chief Executive

14 July 2009

The notes on pages 63 to 90 form part of these accounts.

## Cash Flow Statement

For the year ended 31 March 2009

	Notes	2008-09 £'000	Re-stated (notes 1(n) and 12(c)) 2007-08 £'000
<b>Operating activities</b>			
Net cash outflow from operating activities	13	(52,891)	(60,512)
<b>Capital expenditure</b>			
Net cash outflow from purchase of fixed assets	6	(8,953)	(5,872)
<b>Net cash outflow before financing</b>		<b>(61,844)</b>	<b>(66,384)</b>
<b>Financing</b>			
Net cash inflow from financing	13	51,074	47,453
<b>Change in cash and cash equivalents</b>	9	<b>(10,770)</b>	<b>(18,931)</b>

The notes on pages 63 to 90 form part of these accounts.

## Notes to the accounts

For the year ended 31 March 2009

### 1. Accounting Policies

#### 1(a) Basis of preparation

The financial statements have been prepared in accordance with the 2008-2009 Government Financial Reporting Manual issued by HM Treasury. The particular accounting policies adopted by The Service are described below. They have been applied consistently in dealing with the items considered material in relation to the accounts.

#### 1(b) Accounting convention

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

#### 1(c) Tangible fixed assets

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

#### 1(d) Depreciation

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

Computers unless otherwise stated	3 to 5 years
Software development	7 to 10 years or life of system if shorter
Office machinery	3 to 10 years
Property leasehold enhancements	10 years or life of lease if shorter

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

#### 1(e) Stocks

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

#### 1(f) Administration expenditure

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

### **1(g) Non-cash charges**

In accordance with Treasury guidance the following non-cash items are charged to the income and expenditure account:

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

### **1(h) Operating leases**

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

### **1(i) Finance leases**

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

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

- (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(j) Pensions**

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

### **1(k) Early departure costs**

The Service, operating as part of the Department for Business, Enterprise & Regulatory Reform (BERR) scheme, is required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Service provides in full for this cost when 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.

## **1(l) Operating income**

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

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.

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 debtors 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.

Since 1 April 2004 The Service has operated under a net regime. Case administration fees are charged to the insolvent estate at the date of the event giving rise to the fee and it is treated as income in these accounts when it is earned.

## **1(m) 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.

Income is recognised to the extent that the official receiver has performed the case administration functions in accordance with the Application Note to FRS5, Reporting the Substance of Transactions. The value of the services provided is calculated using The Service's costing and time recording systems.

Deferred income arises in the following circumstances:

- (i) where fee revenue is received but will not be recognised until subsequent years when it is matched to costs incurred and/or
- (ii) where previous transfers from deferred income to the income and expenditure account are not required.

Deferred income is retained and then released to the income and expenditure account in one of the following circumstances:

- (i) to match the cost of completing cases with an insolvency order before 1 April 2004. The release of deferred income is matched to the costs incurred in the relevant accounting period.
- (ii) subject to Managing Public Money principles issued by HM Treasury, to match any deficit on cases with an insolvency order after 31 March 2004. Such deficits may occur because either costs were higher than expected or fees recovered failed to meet our assumptions. In either case, this may result in the use of the Secretary of State fees to cross-subsidise the cost of the case administration function as provided for by the relevant Section 102 Order made under the provisions of the Finance (No.2) Act 1987.
- (iii) to address any policy changes that would result in costs being incurred that were not originally accounted for when setting the fee. Such costs would be unexpected and unplanned and the circumstances would be fully disclosed in the notes to the accounts.
- (iv) where any balance of deferred income is not required for (a) to (c) this will be surrendered to the Consolidated Fund.

All elements of deferred income are reviewed on an annual basis.

## **1(n) Financial instruments**

The accounting standards governing the presentation, measurement, recognition and disclosure of financial instruments (FRS 25, 26 and 29) have been implemented in 2008-09 to facilitate the full transition to International Financial Reporting Standards in the year ending 31 March 2010. HM Treasury have recommended that the first-time adoption of financial instrument standards should be accounted for as a prior period adjustment i.e. to re-measure financial instruments as at 1 April 2008, taking any valuation differences to reserves. In line with HM Treasury's guidance, the comparative information for 2007-08 need not be restated.

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(o) Financial assets**

The Service has classified its case administration debtors as financial assets. Case administration debtors 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 debtors are reviewed as at the balance sheet date. Debtors 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(p) Value Added Tax (VAT)

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

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

### 1(q) Cost of capital

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

## 2. Income

### 2(a) Fee income

	2008-09 Fees earned £000	2007-08 Fees earned £000
Insolvency case administration	150,320	125,904
Discounting costs	(5,036)	–
Estates accounting	2,319	2,503
Regulation of insolvency practitioners	991	935
<b>Fees recoverable in the period</b>	<b>148,594</b>	<b>129,342</b>

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

It is the performance of the official receiver's obligations, which gives The Service the right to recognise both income and assets, and The Service measures this by reference to an average casework profile (one for bankruptcy and one for company cases). The casework profile shows the extent to which cases were complete over the year. The Service uses these profiles to calculate the amount of fees charged that should be recognised as income.

The first casework profile was agreed by senior management in November 2003 in preparation for the introduction of the new financial regime on 1 April 2004. For the financial years 2004-05, 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. Nor were there any significant changes to the legislation during the period. The income and cost profile for 2006-07 cases was reviewed and an accrual of £2.5m from case administration fees not accrued so far for 2006-07 cases was recognised, thereby matching the income to the performance of the official receiver's duties. This complies with FRS5 principles.

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

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

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

The reasonableness of these assumptions is tested by:

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

Case administration fee income includes £3.6m transferred from deferred income to match the cost of discounting increased case administration debtors in accordance with our financial instruments accounting policy, note 1(n). A further £552k has been transferred from deferred income to match a deficit on cases with an insolvency order in 2007-08. Both transfers are in accordance with our deferred income accounting policy, note 1(m).



## 2(b) Other operating income

	2008-09 £000	2007-08 £000
Investigation and enforcement	3,022	2,138
Administration of redundancy payments	8,282	8,782
Rental income	1,212	2,775
Miscellaneous income (including Consolidated Fund extra receipts (CFER))	–	16
<b>Total</b>	<b>12,516</b>	<b>13,711</b>

## 2(c) 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 are considered for segmental purposes to be one single class of business.

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

### Activities funded from fee or other income

	Income		Cost of Service		Surplus/(Deficit)	
	2008-09 £000	2007-08 £000	2008-09 £000	2007-08 £000	2008-09 £000	2007-08 £000
Case administration	145,284	125,904	145,351	125,555	(67)	349
Estate accounts	2,319	2,503	3,561	2,139	(1,242)	364
Regulation of insolvency practitioners	991	935	1,051	1,003	(60)	(68)
Redundancy payments	8,282	8,782	8,627	8,577	(345)	205
Other	1,212	2,791	1,217	2,688	(5)	103
<b>Total</b>	<b>158,088</b>	<b>140,915</b>	<b>159,807</b>	<b>139,962</b>	<b>(1,719)</b>	<b>953</b>

## Activities funded from BERR financing

	Income		Cost of Service		(Deficit)	
	2008-09 £000	2007-08 £000	2008-09 £000	2007-08 £000	2008-09 £000	2007-08 £000
Investigation and enforcement	3,022	2,138	43,173	39,627	(40,151)	(37,489)
Policy advice and development	–	–	2,080	2,079	(2,080)	(2,079)
<b>Total</b>	<b>3,022</b>	<b>2,138</b>	<b>45,253</b>	<b>41,706</b>	<b>(42,231)</b>	<b>(39,568)</b>
<b>Total of all activities</b>	<b>161,110</b>	<b>143,053</b>	<b>205,060</b>	<b>181,668</b>	<b>(43,950)</b>	<b>(38,615)</b>

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

Case administration income has been reduced in 2008-09 by £5m to ensure the income is stated at its fair value but it also includes £3.6m transferred from deferred income to match the cost of discounting increased case administration debtors in accordance with our financial instruments accounting policy, note 1(n).

## 2(d) National Insurance Fund

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

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

Claims processed under the Scheme fall into two categories: RP1 (which covers redundancy pay, holiday pay and arrears of pay) and RP2 (pay in lieu of notice). The average payment for RP1 during the 2008–09 year was £2,660 (2007–08, £1,370). An average amount of £1,877 was paid during 2008–09 for RP2 (2007–08, £676).

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

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

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

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. The write-off represents our estimate of the debt which is unlikely to be recovered.

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

	2008-09 £000	2007-08 £000
<b>Outstanding debt at start of year</b>	<b>107,934</b>	103,097
Plus payments in year	427,622	212,624
Less receipts in year	(35,704)	(38,852)
Less debt written off in year	(363,889)	(168,935)
<b>Outstanding debt at end of year</b>	<b>135,963</b>	<b>107,934</b>

### 3. Other operating charges

The other operating charges comprise:

	2008-09	2007-08
	£000	£000
<b>Cash costs</b>		
Legal and other costs of investigation and enforcement	21,168	19,968
General administrative expenses	22,740	16,956
Other costs	10,576	7,711
Accommodation	7,255	8,255
Operating leases – accommodation	9,477	8,633
Operating leases – computers	10,318	8,049
Operating leases – office machinery	525	427
Disbursements funded by BERR	–	48
Disbursements funded from case administration fees	5,673	5,018
BERR overhead	2,170	2,439
Travel and subsistence	3,821	3,426
Hospitality	9	0
	<b>93,732</b>	<b>80,930</b>
<b>Non-cash costs</b>		
Debit balances (credited back)/written off against fees	255	–
Adjustment to bad debt provision	930	451
Bad debt provision for case administration fees	18,207	14,776
Bad and doubtful debt provision for banking fees	391	399
Audit fee	54	37
Loss on disposal of fixed assets	–	13
Loss on revaluation of fixed assets	251	20
	<b>20,088</b>	<b>15,696</b>
<b>Total other operating charges</b>	<b>113,820</b>	<b>96,626</b>

The audit fee includes £14,500 in relation to work carried out towards the adoption of International Financial Reporting Standards in 2009-10.

## 4. Staff costs and employee information

### 4(a) Staff costs

	2008-09 £000	2007-08 £000
Wages and salaries	73,832	67,506
Social security costs	4,686	4,333
Pension costs	12,182	11,089
Early retirement costs	1	3
	<b>90,701</b>	<b>82,931</b>

The wages and salaries cost includes £10,213,000 (2007-08, £9,736,000) for technical and administrative workers.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but The Insolvency Service is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)).

For 2008-09, employer's contributions of £12,181,708 were payable to the PCSPS (2007-08, £11,089,038) at one of the four rates in the range 17.1% to 26.5% of pensionable pay, based on salary bands. The rates were unchanged from 2007-08. The Scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2009-10, the salary bands will remain the same but the rates will be revised to four rates in the range 16.7% to 25.8%. The contribution rates are set to meet the cost of the benefits accruing during 2008-09 to be paid when the member retires, and not the benefits paid during this period to existing pensioners

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of 0.8 per cent of pensionable pay are payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. There were 21 partnership pension accounts during 2008-09 (2007-08, none).

#### 4(b) Staff numbers

	2008-09	2007-08
Service Delivery	2,162	2,172
Corporate Services	274	308
Policy advice and Development	48	49
	<b>2,484</b>	<b>2,529</b>

Staff numbers are averages for 2008-09 and include permanent and casual staff but exclude 555 loanees, technical and administrative workers (499 in 2007-08).

#### 5. Provisions

The movements in provisions are shown below:

	Pre 1996 Debit balance write-offs £000	Early departure costs £000	Lease dilapidations £000	Other £000	Total £000
Balance at 1 April 2008	8	27	1,125	2,888	4,048
Provided in the year	255	–	357	1,348	1,960
Provisions not required written back	(8)	–	(819)	(829)	(1,656)
Provisions utilised in the year	–	(17)	(627)	(732)	(1,376)
<b>Balance at 31 March 2009</b>	<b>255</b>	<b>10</b>	<b>36</b>	<b>2,675</b>	<b>2,976</b>

## Pre 1996 Debit Balance Write Offs

Prior to 1 April 1996 fees were handed over to BERR regardless of whether there was enough money in the insolvent 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 the cases were completed these debit balances had to be recovered from BERR. This was achieved by a debit balance write-off against current year fees. For 2008-09 the debit balance write-off stands at £254,723.

## Other

The balance in the provision of £2,888,373 above, at 1 April 2008, includes a provision of £159,425, being the refund of previously recovered fees following the decision in the Leyland DAF Limited case. None of the provision was utilised in year but it is being unwound over five years to provide for possible claims. The balance at 31 March 2009 is £79,712 with one year left to unwind.

The remainder of the balance of £2,888,373, at 1 April 2008, relates to a provision for adverse costs in investigation and disqualification proceedings (£689,358), a provision for commitments on leases (£977,359) and a provision for fruitless payments (£1,062,230).

In relation to adverse costs in investigation and disqualification proceedings these costs are included in the cost of legal and other costs of investigation and enforcement (note 3) and there is an estimate of £1,275,000 included in the provision of £2,675,000 at 31 March 2009 above.

In relation to fruitless payments there is £731,669 included in the provision of £2,675,000 above. This arises 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 after 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.

In relation to the commitments on leases there is £589,709 which has been provided for in these accounts, general administrative expenses (note 3), and is included in the provision of £2,675,000 above. These leases were in respect of an element of the development of the ISCIS and CHAMP projects that was treated as a constructive loss in the 2007-08 accounts.

## 6. Tangible fixed assets

<b>Cost or valuation</b>	Assets under construction £000	Property leasehold enhancements £000	Office machinery £000	Computers £000	Total £000
At 1 April 2008	2,890	1,044	787	5,624	10,345
Revaluation adjustment	–	19	(19)	(289)	(289)
Additions	8,464	–	372	117	8,953
Revaluation	–	23	54	(121)	(44)
Transfer	409	–	–	(409)	–
<b>At 31 March 2009</b>	<b>11,763</b>	<b>1,086</b>	<b>1,194</b>	<b>4,922</b>	<b>18,965</b>
<b>Depreciation</b>	£000	£000	£000	£000	£000
At 1 April 2008	–	401	398	2,781	3,580
Revaluation adjustment	–	34	(26)	(465)	(457)
Provided in the year	–	77	119	828	1,024
Provided in year for Government Grant	–	32	–	295	327
Revaluation	–	9	6	(48)	(33)
<b>At 31 March 2009</b>	<b>–</b>	<b>553</b>	<b>497</b>	<b>3,391</b>	<b>4,441</b>
Net book value at 31 March 2008	2,890	643	389	2,843	6,765
<b>Net book value at 31 March 2009</b>	<b>11,763</b>	<b>533</b>	<b>697</b>	<b>1,531</b>	<b>14,524</b>

The net book value of leased assets under finance leases is £2,481,698 (2007-08, £2,352,458).

The Service reviewed its fixed asset register and its application of modified historical cost accounting principles. The revaluation adjustment to both cost and depreciation relate to non-material amendments required to ensure that assets have been revalued to their current value.



The amount of £651,915 depreciation charged to the income and expenditure account represents the in year provision of £1,023,211 reduced by £371,296 which is included in the revaluation adjustment of £456,275.

## 7. Cost of capital

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

## 8. Debtors

	2009 £'000	Re-stated (notes 1(n) and 12(c)) 2008 £'000
Prepayments	3,068	3,193
Debtors for disqualification costs	4,879	4,259
VAT debtor	1,430	1,412
Staff debtors	617	658
Debtors for fees – case administration	112,991	72,968
Debtors for fees – estate accounts	773	759
Other debtors	731	706
	<b>124,489</b>	<b>83,955</b>

An analysis of other debtors is given below:

	2009 £	2008 £
Department for Business, Enterprise and Regulatory Reform	2,582	511,197
Department of Health	5,057	–
Human Fertilisation and Embryology Authority	6,240	–
Child Support Agency	46,427	–
Bodies external to government	671,010	194,611
	<b>731,316</b>	<b>705,808</b>

The debtors for disqualification costs have been reduced by a provision for doubtful debt of £597,256 (2007-08, £521,256). The staff debtors figures includes £391,307 (2007-08, £446,650) which is repayable after more than one year. The debtors for fees are in relation to fees charged and earned on insolvency cases but not yet realised because asset realisations in insolvency cases have not yet been completed. The debtors for case administration fees have been reduced by a provision for doubtful debt of £18,206,868 (2007-08, £14,775,634). The debtors for estate accounts fees have been reduced by a provision for doubtful debt of £391,291 (2007-08, £399,246).

The debtors for case administration as at 31 March 2009 were £119m (2007-08, £75m). The debtors have been discounted at a discount rate of 3.5% to reflect the time value of money. The fair value discount as at 31 March 2009 was £6.1m (31 March 2008, £2.5m). In 2008-09, The Service unwound £1.4m of the previous year's £2.5m discount. This reflected the fact that case administration debtors are expected to be recovered over a period of years. The movement in the fair value discount is £5m and is reflected in a reduction of case administration fee income (notes 1(n) and 2(a)). The unwinding of the discount is included as a financial item adjacent to interest on the income and expenditure account.

## 9. Cash and cash equivalents

	2009 £000	2008 £000
Cash held at ISA	9,097	16,654
Cash held at the Office of the Paymaster General	3,736	6,949
	<b>12,833</b>	<b>23,603</b>

### Cash movements in year

	2009 £000	2008 £000
Cash at bank as at 1 April	23,603	42,534
Cash movement in year	(10,770)	(18,931)
<b>Cash at bank as at 31 March</b>	<b>12,833</b>	<b>23,603</b>

## 10. Creditors

	2009 £000	2008 £000
<b>Amounts falling due within one year</b>		
Trade creditors	802	2,665
Accruals	10,602	6,053
Deferred fee income	41,681	46,666
Current part of finance leases	956	739
BERR inter-entity creditor	51,441	18,019
CFER payable to the consolidated fund	3	227
	<b>105,485</b>	<b>74,369</b>

### Amounts falling due after more than one year

Finance leases	1,215	1,755
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Capital commitments due under finance leases are £2,154,201 (note 11(b)) (2007-08 £2,494,469). The finance charge payable under finance leases and charged to the income and expenditure account is £178,949 (2007-08, £192,345).

The BERR inter-entity creditor of £51,441,000 (2007-08, £18,019,000) includes BERR cash funding of £44,193,480 which has been retained to meet cashflow requirements. It also includes the payroll for March 2009 of £6,803,889 which was paid for directly by BERR and The Service re-imbursed in the following financial year.

The CFER payable to the Consolidated Fund is in respect of £3,285 (2007-08, £227,250) for miscellaneous receipts.

The annual accounts for 2007-08 recorded deferred income of £46.6m, of which £46.2m 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 level of over recovery on old regime cases meant it was possible to reduce the SoS fee on 1 April 2006 and revoke the fee on 1 April 2007.

Costs for old regime cases are matched to income in the year they occur. This has resulted in £1.4m of deferred income being recognised as income this year. Future costs of old regime cases are unlikely to exceed £2m.

The SoS fee (and therefore the deferred income) is also available to cross-subsidise current cases although the intention was for current case costs to be met from new fees including the new SoS fee. The deferred income has therefore been retained to match a proportion of the debtor for fees on new regime cases. This is reviewed annually (note 1(m)).

As a result of a change in BERR funding, from 1 April 2007 the costs of completing investigations for 2005-06 and 2006-07 cases needed to be met from fee income where the fee was not originally set to meet this cost. The Service estimated that the likely cost of completing investigation work in hand was £7.5m. The Service ensured that deferred income from pre 1 April 2004 cases included sufficient to cover any shortfall in fees arising as a result of the change. The actual cost of undertaking this work has now been calculated at £7.1m but a proportion of this is now likely to be recovered from the original fees. No deferred income has therefore been recognised as income in 2007-08 to cover the cost of this investigation work, and the amount provided for in deferred income retained has been reduced to £2.5m.

The annual accounts for 2008-09 record deferred income of £41.6m of which £41m related to case administration fee income, disclosed in the table below.

<b>Deferred income note</b>	2008-09 £000	2007-08 £000
At 1 April	46,159	47,299
Additions in year:		
(a) Fees recovered	549	598
(b) Transferred from income and expenditure	–	–
Utilised in year:		
(a) Pre 1 April 2004 costs	(1,485)	(1,738)
(b) Deficits	(553)	–
(c) Unexpected/unplanned items	(3,600)	–
(d) Transferred to Consolidated Fund	–	–
<b>At 31 March</b>	<b>41,070</b>	<b>46,159</b>

The balance of deferred income at 31 March was retained for the following reasons:

	2008-09 £000	2007-08 £000
(a) Pre 1 April 2004 costs	2,000	3,000
(b) Retention to match any deficit on post-1 April 2004 cases	36,570	35,659
(c) Allowance for unplanned item – policy change	2,500	7,500
<b>At 31 March</b>	<b>41,070</b>	<b>46,159</b>

## 11. Lease obligations

### 11(a) Operating leases

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

	2009 £000	2008 £000
<b>Land and buildings</b>		
Expiry within 1 year	237	342
Expiry within 2 to 5 years	945	1,484
Expiry thereafter	5,799	5,051
	<b>6,981</b>	<b>6,877</b>
<b>Other</b>		
Expiry within 1 year	612	3,669
Expiry within 2 to 5 years	8,248	5,571
	<b>8,860</b>	<b>9,240</b>

The Service entered into a contract dated 29 June 2007 for the provision of a new desktop infrastructure. The charges include hardware, software, design and implementation services and support services. It was agreed that 2,750 users would be supported. A contract change note dated 31 January 2008 was agreed to provide support for an additional 317 users. 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 total cost over 5 years is £10,139,622 plus an annual cost for support services of £2,537,192.

## 11(b) Finance leases

Obligations under finance leases are as follows:

	2009 £000	2008 £000
<b>Computers</b>		
Rentals due within 1 year	1,089	976
Rentals due after 1 year but within 5 years	1,346	1,964
<b>Sub-Total</b>	<b>2,435</b>	<b>2,940</b>
Less interest element	(264)	(360)
	<b>2,171</b>	<b>2,580</b>

Interest on finance leases charged in the year is £178,949 (2007-08, £192,345). Included in the figure of £2,171,000 is the expenditure of £16,851 (2007-08, £85,563) which has not been capitalised, as the costs are not directly attributable to bringing the assets into working condition. The capital commitments due under finance leases are £2,154,201 (2007-08, £2,494,469) (note 10).

## 12. Movement on reserves

### 12(a) Revaluation Reserve

	2009 £000	2008 £000
At 1 April	78	52
Revaluation of fixed assets	91	26
Revaluation realised element transfer to General Fund	(48)	–
<b>At 31 March</b>	<b>121</b>	<b>78</b>

The Revaluation Reserve represents the revaluation of fixed assets to current costs.

### 12(b) Government Grant Revaluation Reserve

	2009 £000	2008 £000
At 1 April	39	34
Revaluation of Government Grant Reserve	(11)	5
<b>At 31 March</b>	<b>28</b>	<b>39</b>

The Government Grant Revaluation Reserve represents the revaluation of the photovoltaic (solar panel) roof.



## 12(c) General Fund

	2009 £000	Re-stated (notes 1(n) and 12(c)) 2008 £000
At 1 April	34,034	27,260
Financing (Note 13)	51,074	47,453
Movement on Invest to Save	(347)	(279)
Movement on Government Grant Reserve	(35)	(12)
Revaluation realised element transfer to General Fund	48	–
Non cash financing	1,197	809
Prior period adjustment	–	(2,582)
Deficit for the year	(43,950)	(38,615)
<b>At 31 March</b>	<b>42,021</b>	<b>34,034</b>

The General Fund represents the value of the net assets employed by The Service in its operations.

FRS3 states that a prior period adjustment is required to reflect a change in accounting policy. The adoption of Financial Instruments Standards FRS25, FRS26 and FRS29 for the first time in 2008-09 has required a prior period adjustment. We have re-measured the financial instruments as at 1 April 2008 and taken any valuation differences to reserves. The comparative figures have been restated for the prior year. The amount of the prior period adjustment is £2,582,000 and relates to the valuation of case administration debtors to reflect the time value of money.

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

	2009 £000	2008 £000
<b>Government Grant Reserve (i)</b>		
At 1 April	196	208
Historical Cost Depreciation released to income and expenditure account	(35)	(12)
<b>At 31 March</b>	<b>161</b>	<b>196</b>

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

<b>Government Grant Reserve (ii)</b>		
At 1 April	1,059	1,353
Historical Cost Depreciation released to Income & Expenditure account	(347)	(294)
<b>At 31 March</b>	<b>712</b>	<b>1,059</b>

The reserve represents a UK government grant made from the Investment to Save Budget (ISB). The ISB assets were previously recorded in the General Fund. These are now separately disclosed, together with the restated prior period. This has no effect on the balance sheet or the income and expenditure for the prior period.

## 13. Cashflow statement notes

### Reconciliation of operating deficit to net cash outflow from operating activities

	2009 £000	Re-stated (notes 1(n) and 12(c)) 2008 £000
Operating deficit before interest	(44,242)	(37,843)
Depreciation charge	652	1,147
Audit fee	54	37
Loss on disposal of fixed assets	–	13
Loss on revaluation of fixed assets	251	20
Loss on revaluation of ISB assets	–	28
Movement in Government Grant Revaluation Reserve	(11)	–
Movement in provisions	(1,072)	1,968
Increase in debtors	(40,534)	(31,837)
Increase in creditors	30,576	3,373
Unwinding of discounting provision	1,435	–
Movements in debtors relating to items not passing through the income and expenditure account	–	2,582
<b>Net cash outflow from operating activities</b>	<b>(52,891)</b>	<b>(60,512)</b>

## Sources of financing

	2009 £000	Re-stated (notes 1(n) and 12(c)) 2008 £000
<b>Cash financing</b>		
– BERR Request for Resource allocation	56,135	51,858
– ISB Request for Resource allocation	–	634
– VAT recovered by BERR	(5,061)	(5,039)
<b>Net cash inflow from financing</b>	<b>51,074</b>	<b>47,453</b>

The movement in debtors relating to items not passing through the income and expenditure account relates to the restatement of debtors as a result of adopting Financial Instruments Standards FRS25, FRS26 and FRS29. In 2007-08 the financial instruments were re-measured and the valuation differences were recorded in the General Fund reserve. From 2008-09 the valuation differences relating to the discounting costs are reflected in both the operating deficit and the debtors.

The movement in the Government Grant Revaluation Reserve reflects the adjustments required following the assets being valued in accordance with modified historical cost accounting principles.

## 14. Fast Track Voluntary Arrangements

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

A FTVA is a binding agreement between the bankrupt and his/her creditors to pay all or part of the money owed to them. In a FTVA the official receiver acts as nominee and supervisor. The official receiver fee to act as nominee is £300, and as supervisor the official receiver also charges 15% of all sums realised. Registration fees of £10 (2007-08, £10) are payable to ensure the FTVA is on the public register of all individual voluntary arrangements.

During the year 2008-09, 6 individuals attempted to enter into a FTVA (13 individuals in 2007-08). The fees received by The Service were £4,160 (2007-08, £7,001) and are included in these accounts under the case administration business. The balance of funds held in FTVA estates as at 31 March 2009 was £63,656 (£51,949 at 31 March 2008). These amounts are not included in these accounts as they represent trust monies.

## 15. Related party transactions

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

## 16. Commitments

There are capital commitments of £2m authorised or contracted for at 31 March 2009 (2007-08, £8.2m).

## 17. 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.

## 18. Financial exposure

Financial Reporting Standards 25, 26 and 29 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 debtors 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.

## 19. 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 BERR to break-even in each of these activities over a three year period.

## 20. Post balance sheet events

On Friday 5th June 2009, the Government announced the creation of a new Department for Business, Innovation and Skills (BIS) by merging the Department for Business, Enterprise and Regulatory Reform (BERR) and the Department for Innovation, Universities and Skills (DIUS). From this date, BIS took over the work previously undertaken by BERR.

There have been no other post balance sheet events which need to be reported.

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

The Chief Executive authorised these accounts to be issued on 17 July 2009.

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