

**Annual Report
and Accounts
2006-07**

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www.insolvency.gov.uk

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

Annual Report and Accounts 2006-07

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

For Official Receivers and their colleagues 2006-07 was another year in which the substantial rise in new personal bankruptcy cases seen in the previous two years, continued at an only slightly reduced pace. New bankruptcies rose by 21% to total 64,610 in the year marginally offset by a reduction in the number of compulsory liquidations down 5% to 5,329. Whilst the fall in the number of compulsory liquidations mirrors the trend for all corporate and business related insolvencies (and appears to reflect the benign state of the commercial economy) the increase in personal bankruptcy was accompanied by a very large increase in the number of insolvent individuals entering into voluntary arrangements with their creditors. Individual Voluntary Arrangements (IVAs) rose by 92% over the year to total 47,975, another year of remarkable growth.



Desmond Flynn
Inspector General and
Agency Chief Executive

This means that the number of IVAs has risen by some 584% over the last 3 years with much of the work being undertaken by the new breed of volume providers. The advertising and promotion of IVA services provoked considerable controversy during the year and a number of major financial institutions expressed clear disquiet with the way they perceived the market to be operating. The Office of Fair Trading (OFT) also took action in relation to IVA providers whose advertising did not meet the requirements of the OFT's Code. In order to ensure that all interested parties could get together and discuss the relevant issues on the basis of a shared understanding of them, The Insolvency Service and the British Bankers Association (BBA) co-sponsored a forum held in January 2007. At that forum it was agreed that a number of working parties would be established to examine areas of contention and make recommendations as to the way forward. I am delighted to say that when those working parties reported back to a second plenary meeting at the end of May there was a clear willingness shown by all parties to make IVAs work for all concerned.

Commentators often attribute the growth in personal insolvency numbers (and particularly in IVAs) to changes made by the Enterprise Act 2002, despite the fact that the Act made no changes at all in the law relating to IVAs. It was of course government policy that, as far as personal bankruptcy was concerned, the "one size fits all" approach was no longer appropriate and a mechanism was required for distinguishing between the large majority of bankrupts whose financial failure does not involve dishonesty or reckless conduct and that small minority who abuse their creditors in a culpable way. The Bankruptcy Restrictions Order (BRO) regime came into force on 1 April 2004 and was introduced to provide a balance to the overall liberalisation of the bankruptcy system. Because only misconduct which post-dated 1 April 2004 could be taken into account, a slow start was inevitable but last year saw 1,867 such orders or undertakings compared to 843 in the previous year. At these levels the BRO regime is beginning to be a credible sanction on the bankrupt who has dealt badly with their creditors.

Another feature of post-Enterprise Act policy, often overlooked by the media, is that where bankrupts can make a contribution from their earnings towards their debts they will be obliged to do so for a period of three years. An increasing number of bankrupts are making such payments (12,533 in 2006-07) and over the next year or so creditors will see increasing amounts flowing back to them by way of dividends.



A final point to make about the post-Enterprise Act regime is in relation to the funding of The Service's Enforcement role. Since 2004 this area of activity, which includes company director disqualification and BRO work as well as the reporting of possible criminal offences, has been paid for from general taxation on the basis that it was work undertaken for the public good. However, like all government departments the Department for Trade and Industry (DTI), our parent department which has provided the money by way of a programme line, has had to find savings from amongst its programmes. As from 1 April 2007 the funding of the work done by Official Receivers relating to disqualifications, BROs or on reporting possible criminal offences will be provided from the fees charged to estates. As case numbers rise this will enable more investigation and enforcement work to be done.

Companies Investigation Branch (CIB) formally became part of The Insolvency Service on 1 April 2006 and enjoyed another challenging and productive year. Most if not all of CIB's work is conducted on a confidential basis, lest an investigation of a "live" company prejudices its commercial prospects. However, in October the Secretary of State announced that CIB would undertake a Section 447 investigation into the circumstances surrounding the collapse of the hamper company Farepak, which had gone into administration with a large deficiency as regards creditors.

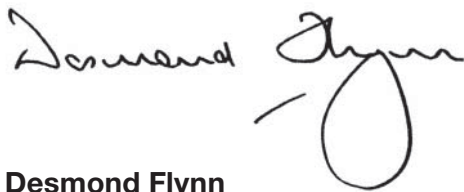


The Insolvency Service, unusually for an executive agency, holds the policy on insolvency for the DTI and for government generally. It is an area which now seems to be constantly evolving whether as the result of case law or of the creation of new and different forms of commercial entities such as Foundation Hospitals. For example, during the year the administration of the Turner and Newall companies (part of the Federal Mogul Group) threw up the need to change insolvency law in relation to tort claims, particularly "long-tail" asbestos claims. This was a

particularly challenging exercise not least because of the need to avoid unintended consequences, but it was completed successfully and enabled the administrations to be concluded on the basis of a fair and equitable treatment of current and future claimants suffering from asbestosis related diseases.

In terms of staff numbers The Insolvency Service has grown considerably over the past three years, an expansion funded by the increased income flowing from increasing case numbers. However during the last year our inability significantly to expand our aging IT infrastructure meant that we could not recruit as many new staff as we would have wished. This has led to an increasing "stock" of cases which will not be closed as quickly as we would like. The good news is that we have now reached an agreement with a new IT supplier which will see our IT infrastructure completely updated over the next 12-18 months. In turn this will enable a number of IT projects, notably a new case administration system, to be brought to fruition delivering increased productivity and, ultimately better value for money through lower fees.

This is my final report as Chief Executive as I will be retiring at the end of September 2007. The Insolvency Service is a very different organisation to the one I joined in 1969 and I have been delighted to be a part of the way it has evolved over that time. In conclusion I would like to express my thanks to all my colleagues in The Insolvency Service who have continued to deal with the ever-rising demands placed on them. I would also like to thank the many individuals and organisations who have contributed to the work of The Service and whose involvement has made it much more aware and responsive.

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

Desmond Flynn
Inspector General and Agency Chief Executive
12 July 2007

Management Commentary

2.1 Agency Review and Governance

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

We:

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



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

The DTI has now changed its name to the Department for Business, Enterprise and Regulatory Reform but continues to be referred to as the DTI in this Annual Report and Accounts.

Steering Board

The Steering Board has no executive functions. Its role is to advise the Secretary of State, through the Director General, on the strategies that The Service will adopt in line with its strategic and corporate plans; the targets to be set for quality of service and financial performance (and monitoring and advising on performance against these); and the resources needed to meet those targets.



Members of the Agency Steering Board

Philip Wallace, Chairman

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

Rosalind Wright CB

Rosalind is the chairman of the Fraud Advisory Panel and the chairman of the Supervisory Board of OLAF, the European Anti-Fraud Office, based in Brussels. She was Director of the Serious Fraud Office 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 Insolvency Service Steering Board in May 2006 and has also been an external member of the DTI Legal Services Group Board since 2002.

Louise Brittain

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

Graham Oates, Elizabeth McMeikan and Stephen Gale also acted as independent members of the Steering Board during 2006-07.

Hilary Douglas, Director General, Services Group, DTI (from 1 April 2007 John Alty, Director General, Fair Markets Group, DTI).

Desmond Flynn, Inspector General and Agency Chief Executive;

Les Cramp, Insolvency Service Deputy Inspector General (Official Receivers Operations);
Graham Horne, Insolvency Service Deputy Inspector General (Headquarters Operations);
Robert Burns, Insolvency Service Inspector of Companies;
Lesley Beech, Director of Finance, Resources and Estate Accounts; and
Peter Mason, Director, Finance, Policy and Support, DTI.

Audit Committee

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

Auditors

The Insolvency Service annual accounts have been audited by the Comptroller and Auditor General (C&AG). The notional cost of the audit work for 2006-07 was £35,000. The cost is in respect of the audit services relating to the statutory audits of Agency Accounts and the Insolvency Services Account (ISA). There were no other services provided or assurance work undertaken by the C&AG during the year.

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

Directing Board

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

Programme Board

The Programme Board is a sub-committee of the Directing Board and supports the delivery of key improvements identified in The Service's Corporate Plan aimed at improving The Service's infrastructure and efficiency. The Board is comprised of senior management and senior responsible owners of projects within the programme.

2.2 Case Administration

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



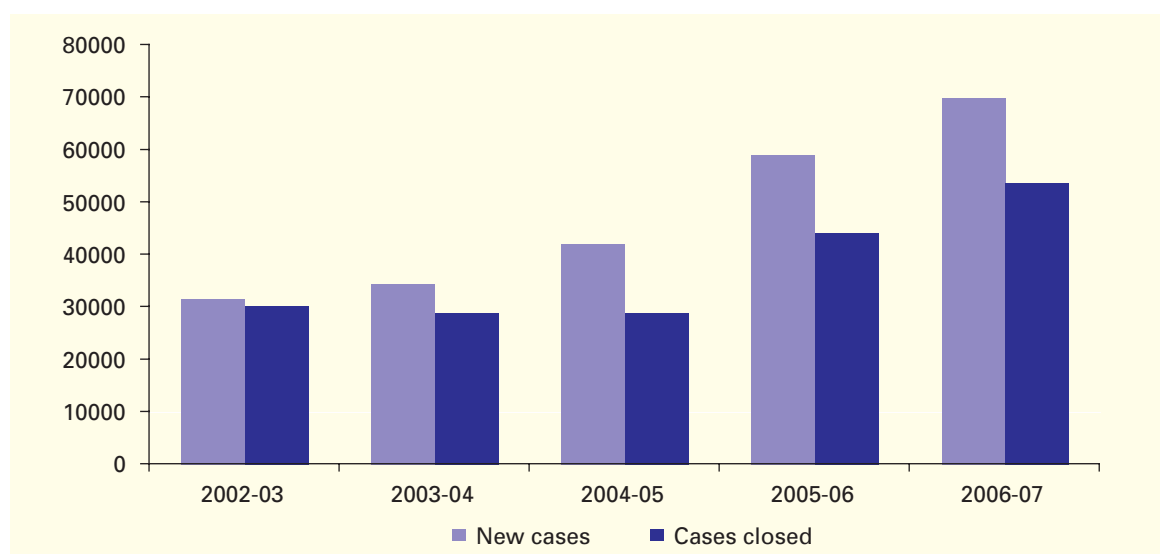
During the year Official Receivers dealt with 69,939 new cases (64,610 bankruptcies and 5,329 companies), an overall increase of 18.6% against the 58,991 new cases received during 2005-06. The rise in bankruptcies was 21%, but there was a 5% fall in the number of company cases. Interim receiver/provisional liquidator appointments of official receivers totalled 26 compared with 34 in 2005-06.

Income payment orders/agreements (IPO/As) obtained against bankrupts in 2006-07 totalled 12,533, an increase of 30.5% on the 9,605 obtained in 2005-06. Over £19 million was collected representing 87% of the total value of IPO/As expected.

Following the introduction of the early discharge process in April 2002, Official Receivers can apply to the court for a bankrupt's early discharge from the proceedings. 43.5% of bankrupts were granted an early discharge in 2006-07, with an average bankruptcy period of 7.1 months. Early discharge will only be considered where the Official Receiver is satisfied that the debtor's conduct has been satisfactory and that they have fully complied with the Official Receivers' enquiries. Early discharge applications are subject to the agreement of the debtors' creditors.

Official Receivers have completed 53,819 cases during 2006-07, an increase of 22% on the 44,180 case completions achieved in 2005-06.

New cases and cases closed 2002-07



| Case Administration | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|---------|---------|---------|---------|---------|
| New cases | 31,585 | 34,490 | 42,039 | 58,991 | 69,939 |
| Complete case administrations | 30,328 | 28,907 | 28,972 | 44,180 | 53,819 |
| Uncompleted administrations | 19,052 | 24,899 | 37,758 | 53,191 | 69,863 |
| Number of cases where IPO/A obtained by Official Receiver | 2,219 | 2,961 | 6,741 | 9,605 | 12,533 |

Case administration income and costs

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

Since 1 April 2004 fees have been set to recover costs. For case administration we have set a single case administration fee (£1,625) to reflect the average cost of administering a bankruptcy case and another case administration fee (£1,950) for compulsory company liquidation cases. It was not considered prudent to proceed with the planned reductions in case administration fees for cases after 1 April 2006 as overall budgets (and therefore overhead allocations) for 2006-07 had not been settled by 1 April 2006. During 2006-07 a policy change agreed by Ministers led to an increase in the case administration fees from 1 April 2007 (see future developments below). These fees are recovered in part from the deposit paid by the debtor or creditor when presenting a petition for bankruptcy or company liquidation. Since 1 April 2004 the deposit levels have been:

| Petition Type | Petition costs from 1 April 2004 | Petition costs from 1 April 2006 | Petition costs from 1 April 2007 |
|--------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Debtor's bankruptcy petition | £310 | £325 | £335 |
| Creditor's bankruptcy petition | £370 | £390 | £400 |
| Creditor's company petition | £620 | £655 | £670 |

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

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

The cost of completion to date of pre-1 April 2004 cases has been lower than forecast and fee recovery from such cases has been higher than expected. This has resulted in a surplus of £0.6m (£16.7m in 2005-06) on pre-1 April 2004 cases. The following table shows the number of insolvency cases and financial results for the last 5 years although due to the changes made on 1 April 2004, the results since 2004-05 are not directly comparable with those in earlier years:

| Case Administration fees and costs | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|----------------|----------------|----------------|----------------|----------------|
| Compulsory insolvency cases | 31,585 | 34,490 | 42,039 | 58,991 | 69,939 |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Case administration fee income | 17,610 | 18,491 | 59,288 | 97,332 | 103,673 |
| Case administration costs | 45,115 | 50,102 | 59,250 | 75,174 | 90,326 |

Future developments

Compulsory insolvency cases are forecast to rise further in 2007-08, particularly debtor petition bankruptcy cases. The Service's plans are based on a total of 77,188 cases. The majority of pre-1 April 2004 cases have now been completed and in view of the unexpected high recovery of pre-1 April 2004 Secretary of State fees since 1 April 2004 this fee has now been revoked from 1 April 2007. From 1 April 2007 no fees will be charged in relation to pre-1 April 2004 cases.

During 2006-07 a decision was made by Ministers to include the cost of investigations undertaken by Official Receivers on compulsory insolvency cases as part of the case administration function covered by the case administration fee. The additional cost of case administration as a result of this change is approximately £10m based on 2006-07 case levels. The change is effective from 1 April 2007 and as a result case administration fees have been increased to £1,715 (from £1,625) for bankruptcies and £2,090 (from £1,950) for companies. These increases are in line with inflation since the fees were last set on 1 April 2004 and take account of efficiencies achieved since 1 April 2005.

In addition to the increase in case administration fees from 1 April 2007 a further £7.5m has been retained in deferred income to meet the cost of completing Official Receiver investigations already in progress at 31 March 2007.

Beyond 2007-08 The Service expects compulsory insolvency cases to increase further. A programme of changes is already underway that will enable The Service to manage increased case numbers and deliver efficiency savings. Included in this programme is the development of a new case administration system based on workflow technology.

2.3 Enforcement, Investigations and Company Investigations

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



Companies Investigation Branch (CIB) joined The Service on 1 April 2006, as part of the implementation of the Hampton Review. It has the power under the Companies Act 1985 to investigate live limited companies, particularly in response to complaints received from the public.

These investigations are confidential and fact finding and may lead to a number of outcomes including the winding up of the company, disqualification of its directors or disclosure of information obtained to prosecuting authorities or to other regulators.

Confidence in our Enforcement Regime

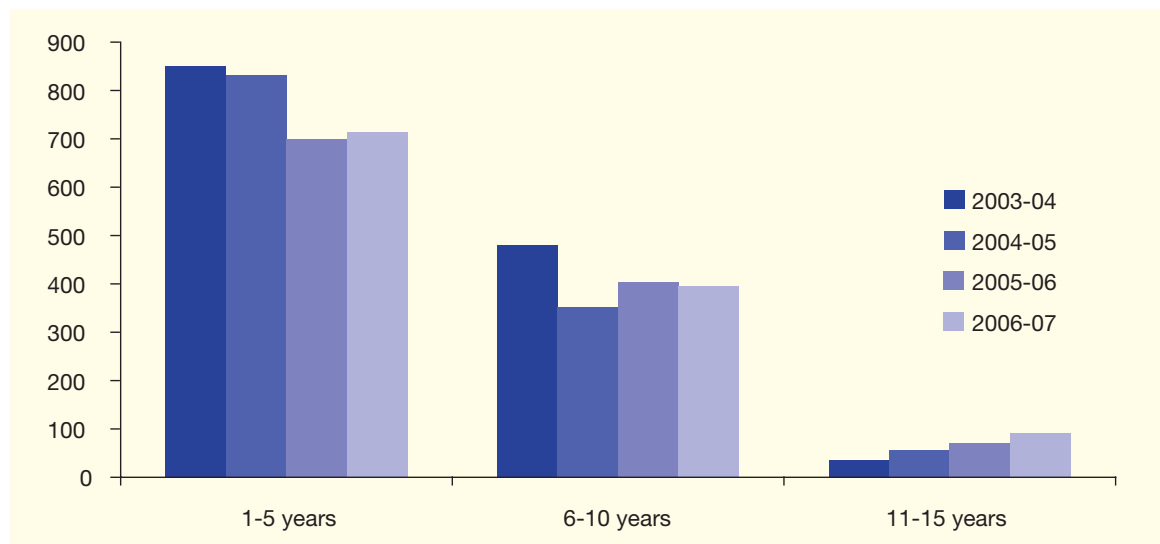
During 2006-07 we again sought to establish the level of confidence amongst investors, businesses and other stakeholders in our enforcement regime. A third annual survey was conducted by NOP Social and Political with 300 interviews being conducted resulting in a 62.81% level of confidence being established against a published target of 60% and compared with a level of 64.75% in 2005-06. It is highly likely that the announcement of a reduction in The Service's enforcement budget for 2006-07 and the negative publicity that ensued has had a significant impact on the level of confidence, although it is very encouraging that despite this we still managed to exceed our target. Hopefully with an increased enforcement budget being available in 2007-08, we will see an increase in the public confidence when the next survey is carried out in January 2008. We will also continue to improve the information about our enforcement activity available on our website and have set a new published target of 65%.

Disqualifications

Against a backdrop of a continuing decrease in the level of corporate insolvencies, we have secured 1,200 disqualification orders/undertakings against directors, compared to 1,173 in 2005-06. Of the 1,200 disqualifications 954 (80%) were achieved by way of an undertaking made by directors compared to 906 (77%) in 2005-06.



Period of Disqualification Order/Undertaking



Case Study

On 4 October 2006, a judge made disqualification orders against two company directors for 15 years respectively. Their co-director gave an undertaking at Court for 10 years.

One director had previously won the 2004 UK Young Entrepreneur of the Year Award. According to the Sunday Times Rich List this director was ranked at 238th with an estimated personal fortune of £250m.

In his judgment the judge branded this director as “completely dishonest”.

The allegations against the defendants involved inadequate accounting records, failure to deal properly with taxation affairs, allegations of forgery and false accounting.

The case raised media interest in the local press with the Manchester Evening News and in the national press in The Times with both papers running reports on the disqualification.

***the judge branded
this director as
“completely dishonest”.***

Companies Investigation

During 2006-07 CIB received 3,595 complaints, which is in line with the 3,711 complaints received during 2005-06. As a result of those complaints 219 investigations were commenced. In 2006-07 174 investigations were concluded and 95 winding up orders were obtained. CIB also obtained 21 disqualification orders against directors of limited companies.

Case Study

A company that promised to turn £150 into £1m within a year has been wound up in the High Court following an investigation by Companies Investigation Branch.

The scheme promoted by Ipedia Limited from the director's garden shed in Tilford, Surrey was called "the Billion Pound Empire". Applicants responding to the company's internet advertisements were invited to pay a £150 fee to become part of the project whereby 1,000 individuals would each make £1 million in one year thereby creating a billion pound business empire.

Applicants were told that the project would involve a television series that would be broadcast on the internet or via satellite television, a book and a DVD.

CIB's investigation found that the company's director controlled the business from his small wooden shed at the bottom of his garden and that the "meticulous and ingenious" business plan that would enable members to earn £1m did not exist.

The company misrepresented that it controlled a media company called Channel 6TV with an internet television station on which it was about to broadcast. It claimed the TV channel would follow the progress of applicants as they worked on the Billion Pound Empire. In truth Channel 6TV was simply a guise for the company which had no equipment, no studio and was incapable of producing a television programme or carrying out what it purported to offer. CIB's investigation also found that the company had no proper banking arrangements and did not keep adequate accounting records.

Consumer Minister Ian McCartney said: "These scams are outrageous, ripping off those who can least afford it. The people behind them have no shame and we will not hesitate to shut them down".

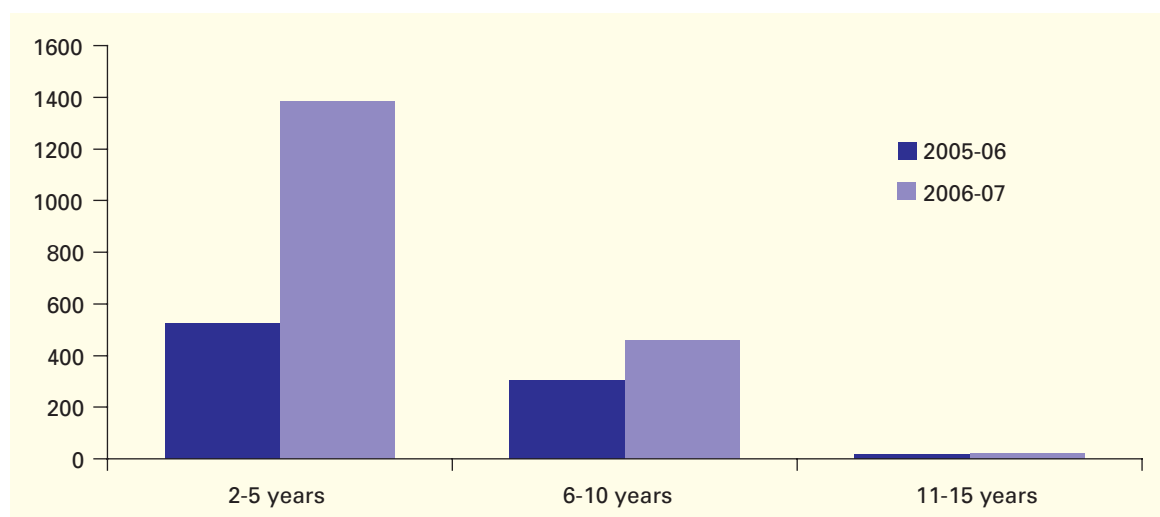
Some 93 people joined the scheme before the company was closed by CIB's action.

The scheme promoted by Ipedia Limited from the director's garden shed in Tilford, Surrey was called "the Billion Pound Empire".

Bankruptcy Restrictions

Bankruptcy restrictions orders/undertakings (BRO/Us) were introduced on 1 April 2004. In circumstances where the Official Receiver considers that the conduct of a bankrupt has been dishonest, reckless or blameworthy in some other way, an application can be made to the court for a restriction order to be made against the debtor for a period of 2-15 years. The Service was successful in securing 1,867 BRO/Us in 2006-07 with 1,603 (86%) being obtained by way of an undertaking, where the debtor accepts the Official Receiver's allegations of misconduct and agrees to a bankruptcy restrictions undertaking for an appropriate period. This outturn represents a 121% increase on the 843 bankruptcy restrictions secured in 2005-06. BRO/Us can only be sought in relation to a bankrupts conduct after 1 April 2004. 2006-07 is the first year in which Official Receivers have been able to consider conduct issues in nearly all of the new cases that have been received, which has led to the substantial increase in the level of BRO/Us obtained.

Period of Bankruptcy Restrictions Orders/Undertakings



BRO/U Allegations Breakdown

| BRO/U Allegations | 2006-07 |
|---|--------------|
| Failure to keep or preserve proper accounting records | 27 |
| Preferences/Transactions at undervalue | 463 |
| Excessive pension contributions | 2 |
| Failure to supply goods or services | 13 |
| Trading at a time when knowingly/unknowingly insolvent | 10 |
| Incurring debt without reasonable prospect of payment | 987 |
| Failure to account for loss | 145 |
| Gambling/rash and hazardous speculation/unreasonable extravagance | 323 |
| Neglect of business affairs contributing to the bankruptcy | 38 |
| Fraud | 51 |
| Non co-operation | 11 |
| Prosecutable matters | 67 |
| Other | 130 |
| Total | 2,267 |

Case Study

A £500 a month cocaine habit and extensive credit card spending were among the factors that led to a bankrupt making a Bankruptcy Restrictions Undertaking (BRU) for six years on 27 July 2006.

In May 2005 the 34 year-old was running a music business but had debts estimated by the Official Receiver (OR) to be around £38,298. He was getting £300 a week from the business, which fell to £200 and then to nothing when the company ceased trading in July 2005. Despite this, he spent at least £14,284 between May and September 2005 when he filed for bankruptcy which he had no reasonable expectation of repaying. £10,728 went on credit cards, £1,767 on buying a 32" widescreen TV and he increased his bank overdraft by £1,789. The credit card spending included a payment to a travel agent towards his forthcoming wedding in Florida, a holiday to Greece, buying jewellery and designer goods, gym membership, home improvements and a course of driving lessons.

By the time he filed for bankruptcy, his total debts amounted to £52,582, a rise of 37% over just four months. The OR argued that this behaviour was to the detriment of his creditors. He admitted that he spent around £120 a week from his wages on cocaine when socializing and that he then subsidised his income with credit cards. He obtained a £12,000 bank loan in May 2005, but stated that he used this to pay a £5,000 gambling debt and £7,000 to his partner who had loaned him that amount in October 2004.

He also failed to disclose that he had an existing loan liability of £16,799 and was repaying £407 a month. The last full repayment was made on 14 April 05 and since April repayments totalled £26.49.

At interview, the debtor admitted to the OR that he was not sure how he was going to pay his debts to credit card companies but said that he remained optimistic and continued to maintain the same standard of living to avoid a stressful situation with his partner.

“this behaviour was to the detriment of his creditors”

Prosecutions

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

In 2006-07 606 reports were submitted to the prosecutions branch of the DTI compared with 1,295 in 2005-06. The decrease in the number of reports submitted in 2006-07 was due to an agreement with the DTI legal team on the type of cases they wish to see reported for criminal (rather than civil) action in the light of their reduced resources.

Hotline

The Service operates a 24/7 Hotline, which allows members of the public to provide us with information about suspected breaches of disqualification orders, BRO/Us and other matters. In 2006-07 the Hotline received 328 calls of which 26 resulted in reports alleging possible offences being submitted to the prosecuting authority compared with 135 in 2005-06.



Prosecution Outcomes

During 2006-07, 175 defendants were sentenced following convictions of offences through prosecutions brought by the Prosecutions Branch of DTI, as a result of referrals from The Insolvency Service. The convictions were for a range of offences relating to corporate and individual insolvencies.

- Of those convicted, 59 defendants received custodial sentences, ranging from 3 months to 3 years;
- 69 defendants were sentenced to Community Punishment Orders, ranging from 40 hours to 250 hours; 2 were sentenced to Rehabilitation Orders, ranging from 12 to 18 months;
- 37 defendants were fined. The fines imposed ranged from £50 to £15,000 (in the latter case the defendant was fined £15,000 on each of 2 counts to run consecutively, so the total fine against the defendant was £30,000);
- 13 Confiscation orders were made totalling £2,277,931;
- 29 Compensation Orders were made in 16 cases totalling £225,405;
- 57 Disqualification Orders were made ranging from 12 months to 12 years; and
- 121 defendants were ordered to pay total prosecution costs of £315,518.

Case Study

A Bankruptcy Order was made against a debtor in June 2002. He failed to attend on the OR and a public examination was held in January 2003 at which he stated that he had no assets. He then made an annulment application which was dismissed in May 2003 at which time he stated to the assistant official receiver that he had no assets. He was not interviewed until August 2003 and on that date he stated that his liabilities totalled £48,070 and that there were no remaining assets.

The OR's investigation revealed that the bankrupt's liabilities at the date of the Bankruptcy Order totalled £62,218 and that the bankrupt had disposed of assets to the value of £90,741 since the date of the Bankruptcy Order. These comprised the proceeds of a solely owned property (£88,932), which he had sold in June 2003, and two life policies (£1,809) that he had realised in June and August 2003.

The OR submitted a Statement of Facts and on 27 April 2006 the bankrupt pleaded guilty to one offence contrary to S354(2) (removing property) and three offences contrary to S354 (1)(a) of the Insolvency Act 1986 (failing to deliver up property).

The main loss to the estate involved the sale of the property and the payment of the net proceeds of £88,932 to a third party.

In September 2006 the bankrupt was sentenced to 16 months imprisonment.

the bankrupt was sentenced to 16 months imprisonment.

At a separate hearing in October 2006 a Confiscation Order was made against the bankrupt in the sum £71,837. His defence had argued that his liabilities were only £22,660 and he had only benefited by evading debts of that amount. The examiner provided fuller information regarding the known liabilities resulting in the higher sum in the confiscation order. The funds were duly paid to the court and have been applied to creditors in full satisfaction of claims outstanding.

| Enforcement Activity & Timeliness | 2002 - 03 | 2003 - 04 | 2004 - 05 | 2005 - 06 | 2006-07 |
|--|------------------|------------------|------------------|------------------|----------------|
| Reduce the cost of enforcement activity | n/a | n/a | 15% | 11.7% | 5.2% |
| Reduce average time (months) from a company's insolvency to conclusion of disqualification proceedings | 24.3 | 22.4 | 25 | 27 | 27.5 |
| Percentage of disqualification cases concluded | | | | | |
| within 30 months | 84% | 80.8% | 80.5% | 79.13% | 81.2% |
| within 24 months | 58% | 54.4% | 50% | 47.64% | 47.2% |
| Increase the level of public confidence in The Service's Enforcement Regime | n/a | N/a | 51% | 64.75% | 62.81% |
| Number of prosecution reports submitted where there is evidence of criminal behaviour | 1,097 | 946 | 1,227 | 1,295 | 606 |
| Take proceedings for disqualifications of unfit directors | 1,594 | 1,367 | 1,240 | 1,173 | 1,200* |
| Orders/Undertakings obtained | | | | | |
| Secure bankruptcy restrictions orders/undertakings against unfit debtors | n/a | n/a | 22 | 843 | 1,867 |
| Increase enforcement activity outputs | n/a | n/a | 2 year target | 33% | 10.9% |
| Complaints about live companies made to CIB** | 5,084 | 4,734 | 4,272 | 3,711 | 3,595 |
| Number of S.447 investigations completed by CIB** | 417*** | 204 | 176 | 160 | 174 |
| CIB to complete consideration of vetting complaints within 2 months** | n/a | n/a | n/a | n/a | 94.8% |
| CIB to complete internal S.447 investigations within 6 months** | n/a | n/a | n/a | n/a | 93.2% |

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

** prior to 1 April 2006 CIB were part of the main DTI.

*** Included a large number of cases linked to two investigations of groups and connected companies.



Enforcement, Investigation and Company Investigation Funding and Costs

Prior to 1 April 2004 funding for enforcement and investigation was split between a programme budget and an administration budget. Since the introduction of the new financial regime from 1 April 2004, all investigation and enforcement activity is funded through a DTI programme budget. Funding is therefore agreed as part of the Spending Review process conducted across government. The Service receives an indicative budget allocation covering three years. Budgets are subject to adjustment and in 2006-07 due to other funding pressures in the DTI the enforcement and investigation budget was cut by some £3.3m.

The table below shows the financial results and outputs for enforcement, investigations and company investigation activity including the costs of CIB since 1 April 2006. Results prior to 1 April 2004 cannot, however, be directly compared with earlier years due to the changes implemented on 1 April 2004.

| Enforcement Outturn, Costs and Recoveries | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|----------------|----------------|----------------|------------------------------|----------------|
| Disqualifications, Bankruptcy Restrictions (since 1 April 2004) and Statements of Facts | 2,691 | 2,313 | 2,489 | 3,311 | 3,673 |
| Winding up Orders and Disqualification Orders secured by Companies Investigation Branch | 105 | 400 | 138 | 151 | 116 |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| DTI funding | 34,327 | 31,732 | 26,984 | 31,879 Restated 44,710 | 46,543 |
| Cost recovery from Disqualified Directors* | 3,883 | 2,902 | 2,330 | 1,862 Restated 2,295 | 2,776 |
| Investigation & Enforcement Costs** | 38,210 | 34,634 | 29,314 | 33,741 Restated 47,005 | 49,319 |

Funding and costs for 2006-07 include the costs of CIB since 1 April 2006. Prior to 1 April 2006 CIB were part of the main DTI but the 2005-06 figures have been restated to include CIB for comparative purposes.

* The increase in 2006-07 largely reflects the additional cost recoveries relating to CIB cases.

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

Future Developments

Following a change agreed by Ministers during 2006-07 the costs of Official Receiver investigations on compulsory insolvencies will be covered by the case administration fees from 1 April 2007. This has allowed DTI to restore budget cuts made in 2006-07 and we expect this to lead to a further increase in enforcement output.

A new case administration system based on workflow technology and covering the investigation and enforcement processes is also planned to be introduced before the end of 2007-08 and will deliver efficiency savings in future years.

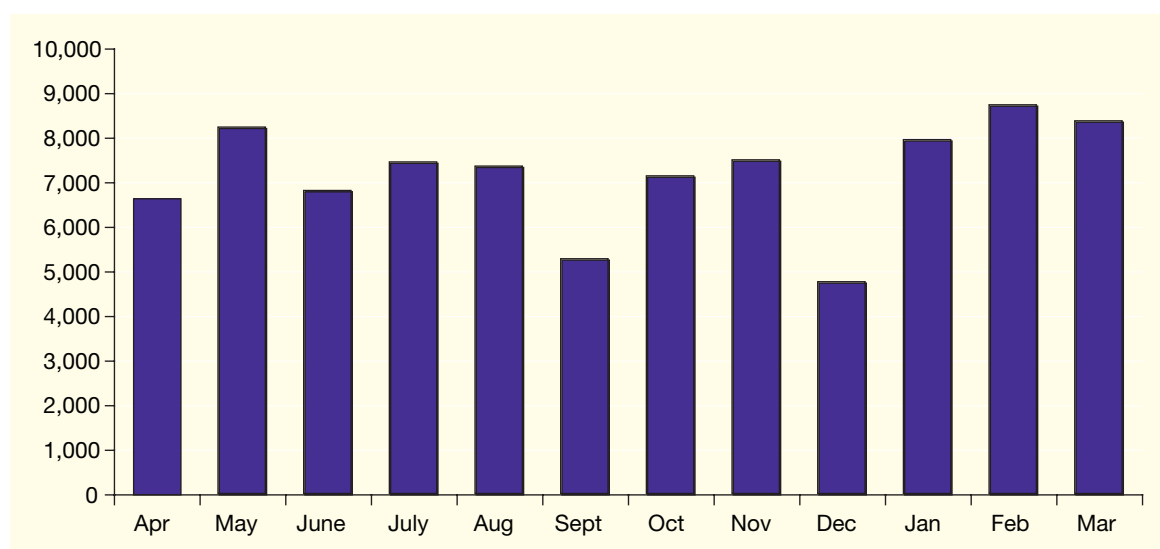
2.4 Redundancy Payments

We aim for accurate, efficient and speedy payment of claims made by people whose employers have become insolvent or who refuse to honour an employment tribunal award. In 2006-07 our redundancy payments offices dealt with 86,066 new claims for redundancy payments entitlements, a decrease of 6% on the 91,516 claims received during 2005-06. The variation in claims between the two years is attributable to the failure of MG Rover in 2005-06.

Payments made to redundant employees during 2006-07 were in excess of £200million. Claims handling efficiency has again improved. 94.08% of claims were paid within 6 weeks against a target of 92%, up from 92.5%. In addition 80.09% were paid within 3 weeks against a revised target of 78%, up from 78.6% against a target of 70% for 2005-06.

While the insolvency of MG Rover had its greatest effect in 2005-06, in 2006-07 a further 600 protective award payments were made and other notable insolvencies were dealt with including: Swallow Hotels (over 800 claims), Olan Mills (over 700 claims) and Greeting Card Group (over 700 claims).

Redundancy Payment Claims received 2006-07



| Redundancy Payment Activity and Timeliness | 2002 - 03 | 2003 - 04 | 2004 - 05 | 2005 - 06 | 2006-07 |
|--|-----------|-----------|-----------|-----------|---------|
| Number of Claims for Redundancy Payment entitlements | 98,995 | 90,269 | 78,397 | 91,516 | 86,066 |
| Reduce the unit cost of redundancy payments | n/a | n/a | n/a | 1.89% | 16.29% |
| Action 92% of redundancy payment claims within 6 weeks | n/a | 89% | 92.50% | 92.57% | 94.08% |
| Action 78% of redundancy payment claims within 3 weeks | n/a | n/a | n/a | 78.58% | 80.09% |

Redundancy Payments Funding and costs

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

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

| Redundancy Payments funding and costs | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---------------------------------------|---------|---------|---------|---------|---------|
| Redundancy claims | n/a | 90,269 | 78,397 | 91,516 | 86,066 |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| RP funding from HMRC | n/a | 8,782 | 8,782 | 8,782 | 8,782 |
| RP costs* | n/a | 8,528 | 8,838 | 8,991 | 7,906 |

* reduced costs in 2006-07 reflect a delay in the development of a replacement IT system for redundancy claims handling. The surplus in 2006-07 will therefore be carried forward to meet these costs in 2007-08.

Future Developments

The amount of funding under the Service Level Agreement with HMRC remains fixed at £8,782k in 2007-08. The efficiency savings currently being made are funding the development of a new claims handling system based on workflow technology and will also allow claimants to submit claims online or by email. The introduction of this new system will lead to efficiency savings in future years.

2.5 Policy

The Service continues to ensure that the legislative framework is up to date, fit for purpose and is serving the needs of stakeholders. The programme of evaluation and consultation ensures both qualitative and quantitative information providing real evidence of the extent to which insolvency law and practice meets policy objectives. The main focus during the year was the final evaluation of the insolvency provisions of the Enterprise Act 2002 although initial work has commenced on the evaluation of the EC Regulation and the UNCITRAL (United Nations Commission on International Trade Law) Model Law. The Service publishes details of all of its evaluation work, including independent academic research and internal analysis reports on its website.

Responses to Changes in Case Law



To ensure that the insolvency law remains ‘fit for purpose’ we put forward legislative amendments in response to developments arising from case law. Recent judgments in the cases of *Buchler and another v Talbot and another and others* “the Leyland DAF case” and within the administration of *Turner & Newell Ltd* “the T&N case” have had significant implications for the insolvency profession and the business rescue culture.

The Leyland DAF decision had implications for the way in which many liquidations were funded. After consultation with interested parties, we concluded that the Insolvency Act should be amended to broadly restore the position to that which had existed prior to that decision. The change, not yet commenced, was made through the Companies Act 2006. The judgment in the T&N case raised an issue regarding the definition of ‘debt’ for persons, who whilst not legally creditors at the time of the insolvency, may acquire claims in tort at some future date. After detailed consideration The Service decided it was appropriate to amend the Insolvency Rules to allow such claims to be provable within certain insolvency proceedings, thereby ensuring that holders of such prospective claims have an available remedy.

Debt Relief Orders

Following the consultation “Relief For The Indebted – An Alternative To Bankruptcy”, the proposals for debt relief orders were incorporated into the Tribunals, Courts and Enforcement Bill introduced into Parliament in November 2006.

Debt relief orders, which will be administered by the Official Receiver, are aimed at the minority of debtors who owe very little, have little or no surplus income, and have no realistic prospect of being able to repay what they owe within a reasonable timescale. These debtors find access to existing schemes difficult, either because they have no assets or income with which to make payments to creditors or because they cannot afford the deposit required to petition for bankruptcy.

The provisions received broad support both through the consultation and in the passage of the bill through Parliament. We will continue to work with stakeholders, and have also established a project board to ensure The Service and its partners have adequate systems set up for implementation of the proposals, which we expect to be introduced in 2009.

IVA Reform

Work is continuing to identify potential improvements to IVAs. Recent years have seen a significant growth in the number of IVAs, from 11,612 in 2004-05 to 47,975 in 2006-07. These increases lead to speculation in the press about “inappropriate selling” of IVAs by providers and inadequate regulation. The economic factors that affect bankruptcy numbers also affect levels of IVAs. An additional factor in the rising demand for IVAs has been increased advertising by debt management companies and IVA providers, along with a desire on the part of individual debtors to avoid bankruptcy.

A consultation document was published shortly after the year-end, seeking the views of stakeholders on proposals to simplify the IVA process where the debtor owes less than £75,000 and is a non-trader. Subject to these views, we hope that the necessary legislative change can be effected by means of a Legislative Reform Order.

We have continued to monitor the industry for action on non-legislative change and, in the absence of any firm initiatives, The Service organised a forum in January 2007, jointly chaired by the BBA. This brought together over 130 people, representing IVA providers, creditors, debt advisers and regulators. The purpose of the forum was to identify the key issues causing concern, and to achieve agreement on how best to ensure that, as far as possible, the IVA process meets the needs of all concerned. Following the forum, four working groups were set up to explore these issues further.

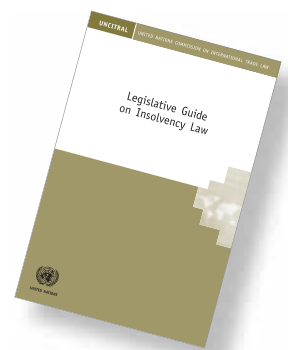
Rules Modernisation Project

Work continued during the year on a project to consolidate and modernise secondary insolvency legislation, a project that will primarily deliver a new set of Insolvency Rules to replace the current rules, which have been in force since 1986.

The Service has recently undertaken a second phase of consultation with key stakeholder groups to seek their views on the new draft rules, which will modernise the way in which insolvency proceedings are administered by introducing initiatives to enable electronic communication. Additionally these proposed rules are intended to introduce changes to streamline the various insolvency procedures. Furthermore, the opportunity is being taken to remove unnecessary administrative and other burdens imposed by the legislation.

International Issues

The Service has continued to be involved in and to take the lead on various international insolvency matters including involvement in UNCITRAL working groups and Commission sessions.





On 4 April 2006 the Cross-Border Insolvency Regulations 2006 came into force in England, Wales and Scotland. These Regulations implemented the main measures of a Model Law formulated by UNCITRAL in 1997. This Model law is a legislative text, which assists countries to equip their insolvency laws with a modern, harmonised and fair framework to deal with insolvencies that cross international borders.

The Service continued to play an active part in the International Association of Insolvency Regulators (IAIR), INSOL (an international insolvency organisation which draws its membership across all stakeholder groups) and an EC Expert Group tasked with developing an online diagnostic tool for businesses in difficulty.

Statistics

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

The quarterly Insolvency Statistical Press Release published on The Service's website reports trends in corporate and personal insolvency procedures in England and Wales and includes series for Scotland and N Ireland. Much work has been done over the year, working with internal and external data suppliers, to increase the breadth of statistical information available and we are also exploring the scope for adding to the evidence base, including profiling information, for IVAs. During the year we acquired the necessary tools and data to develop a system for geographical mapping of data.

Policy Funding and costs

The policy function is financed by funding from the DTI's administrative budget. The following table shows the costs and funding over the past five years. In 2002-03 some of the costs on the preparation and implementation of the Enterprise Act 2002 were met centrally by DTI and are not included in The Service's costs. From 1 April 2006 certain statistician costs were transferred from DTI to The Service and funding was increased to reflect this:

| Policy Funding and costs | 2002-03 £'000 | 2003-04 £'000 | 2004-05 £'000 | 2005-06 £'000 | 2006-07 £'000 |
|--------------------------|------------------|------------------|------------------|------------------|------------------|
| Policy Funding from DTI | 1,210 | 1,817 | 1,641 | 1,858 | 2,129 |
| Policy costs | 1,210 | 1,817 | 1,641 | 1,858 | 2,129 |

Future developments

The Service is working on policy proposals that will allow us to take advantage of recent changes that have been made to the Regulatory Reform Order process (now called Legislative Reform Orders). We can use such Orders to make changes to insolvency statutes, with a reduced need for Parliamentary time, in cases where we have consulted extensively with, and have the consensus of, our main stakeholders and where the proposals will reduce legislative burdens on business or some other non-government body. The IVA reforms mentioned above are one area in which we plan to take advantage of this simpler mechanism and the Rules modernisation project is another.

As part of The Service's review of existing insolvency law, we are also in the early stages of a project to consider the role of the courts in debtor petition bankruptcies. An initial consultation will be issued in the summer of 2007.

2.6 Insolvency Practitioner Regulation

Individual voluntary arrangements (IVAs) were a key influence on the work of The Service in this area. A number of monitoring visits were made to volume IVA providers during the year, which provided some reassurance to media reports that IVAs were being mis-sold. In recognition of the growing importance of the IVA sector and to increase the transparency of regulation, a protocol was agreed with all the insolvency regulators for the monitoring of volume providers.

The Service received its first applications for recognition under S389(a) of the Insolvency Act 1986, which if granted will enable persons who are not insolvency practitioners to act as nominee and supervisor in voluntary arrangements. Whilst the applications were welcomed in principle our Minister, wanted to ensure that voluntary arrangement practitioners acquired knowledge of personal insolvency procedures that were at least equal to those of insolvency practitioners and included non statutory solutions. This entailed negotiations with the Recognised Professional Bodies (RPBs) and the Joint Insolvency Examination Board to broaden the syllabus of the examination. These negotiations have now been successfully concluded and it is anticipated that the first voluntary arrangement practitioners will be authorised in 2008. Existing insolvency practitioners will be required to demonstrate their knowledge of non-statutory solutions by undertaking relevant continuing professional development if they wish to continue working in the IVA sector.

February 2007 saw the implementation of the first phase of the new case workflow system ISCIS (Insolvency Service Case Information System) into the Insolvency Practitioner Unit (IPU), which will improve the registration process for individual voluntary arrangements and the maintenance of the database of insolvency practitioners. One of the main benefits of ISCIS will be the electronic uploading of data received from volume providers of IVAs, saving hours of manual data entry in IPU.



Insolvency Practitioner Regulation Funding and costs

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

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

Following the introduction of the Enterprise Act on 1 April 2004 new fees reflecting the cost of authorising and monitoring IPs and RPBs were introduced. The IVA fee (£35) was continued but as a result of increased IVA registrations and efficiencies within IPU the fee has been reduced. From 1 April 2006 the IVA fee was £15. An authorisation fee of £2,100 and an annual monitoring fee of £2,100 are payable by IPs authorised by the SoS and an annual fee equivalent to £150 per IP authorised by RPBs is payable by the RPBs.

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

| IP Regulations fees and costs | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| IVAs | 6,425 | 8,210 | 11,612 | 24,938 | 47,975 |
| IPs authorised by SoS | n/a | n/a | 92 | 83 | 90 |
| IPs authorised by RPBs | n/a | n/a | 1,575 | 1,598 | 1,596 |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| IP regulation fee income | 259 | 342 | 761 | 1,211 | 1,155 |
| IP regulation costs | 1,143 | 514 | 702 | 808 | 835 |

Future Developments

Fees are reviewed annually and the fees for IPs authorised by the SoS have been increased from 1 April 2007 to £2,500 and the fees charged to RPBs have been increased from 1 April 2007 to £200 per IP authorised by the RPBs. The fee for registration of an IVA has, however, been further reduced from 1 April 2007 to £10 per registration. The fees review showed that fees being paid on IVAs continued to cross-subsidise those paid by IPs and RPBs and the adjustments restore the requirement for fees to reflect the costs of the function. Part of the reduction in the IVA fee reflects further efficiencies arising from handling an increasing number of IVA registrations.

2.7 Estate Accounts (formerly Banking)

IPs and ORs 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 1 April 2004 voluntary liquidators can choose their provider of banking services. Many continue to use the ISA, particularly for high value voluntary cases, as we provide services specifically tailored to insolvency estate account management as well as offering a highly competitive level of interest.

Following a restructuring that took place on 5 June 2006, the unit became known as the Estate Accounts Directorate. This restructure has increased efficiency and improved service to customers. The directorate administers the ISA at the Bank of England. Funds in excess of daily requirements are transferred to The Insolvency Service's Investment Account managed by the Commissioners for the Reduction of the National Debt.

| Number of estates | At 31 March 2006 | At 31 March 2007 |
|--------------------------|-------------------------|-------------------------|
| *Bankruptcies | 37,980 | 33,977 |
| *Compulsory liquidations | 5,824 | 5,624 |
| *Voluntary liquidations | 5,966 | 4,723 |
| Total | 49,770 | 44,324 |
| Balances | At 31 March 2006 | At 31 March 2007 |
| Bankruptcies | £152.3m | £149.8m |
| Compulsory liquidations | £159.6m | £139.4m |
| Voluntary liquidations | £673.3m | £966.3m |
| Total | £985.2m | £1,255.5m |

* Subsequent to the reorganisation of the directorate, some prior period numbers are revised to report combined IP & OR transactions for comparative purposes.

During the reporting period, the total value of estates held in the ISA increased by 27% in a converse relationship to an 11% fall in the number of estates held. This is an increase in the trend reported in last year's account due to large IP firms using our services for high value voluntary cases that resulted in this part of the fund increasing by 44% on 2005-06 levels.

Total transactions fell by 8% on the prior reporting period, with payments falling by 12%, whilst again conversely, the number of payment requisitions rose by 1%. This is due to more voluntary liquidations money being left in the ISA combined with a change of voluntary payments profile.

The use of our online services continues to increase and this rose by 7% in 2006-07, contributing to a 43% fall in the number of statements we issued, as more of our customers obtain these online.

| Transaction volumes | 2005-06 | 2006-07 |
|--------------------------------------|----------------|----------------|
| ISA Payment Requisitions | 116,175 | 117,339 |
| Payments issued | 227,010 | 199,663 |
| Bank giro credit receipts | 135,334 | 134,932 |
| Balance statements issued on request | 5,241 | 2,994 |
| Total | 367,585 | 337,589 |

The above figures are as yet un-audited. The audited ISA and Insolvency Service's Investment Account is published separately, and will be available from The Stationery Office.

| Estate Accounts Timeliness | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--|---------|---------|---------|---------|---------|
| Check and action ISA payment requisitions within 4 days or by the due date | 98.5% | 97.4% | 97.9% | 98.5% | 99.1% |

Estate Accounts Income and Costs

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

| Estate Accounts Income costs | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---------------------------------------|-------------|-------------|---------------------------|---|---|
| Insolvency Practitioner Accounts | 68,897 | 69,192 | 52,522 | 49,770 | 44,324 |
| Transactions | 341,289 | 338,985 | 305,563 | 281,416 | 260,691 |
| Interest rate paid to estate accounts | 3.5% | 3.5% | 4.25% (from 1 April 2004) | 4.5% (from 1 April 2005) 5.0% (from 1 August 2005) | 6.0% (from 2 October 2006) 6.5% (from 5 February 2007) |
| | £000 | £000 | £000 | £000 | £000 |
| Fee income | 342 | 151 | 3,867 | 3,291 | 2,894 |
| Costs* | 1,317 | 1,930 | 2,641 | 3,362 | 4,411 |

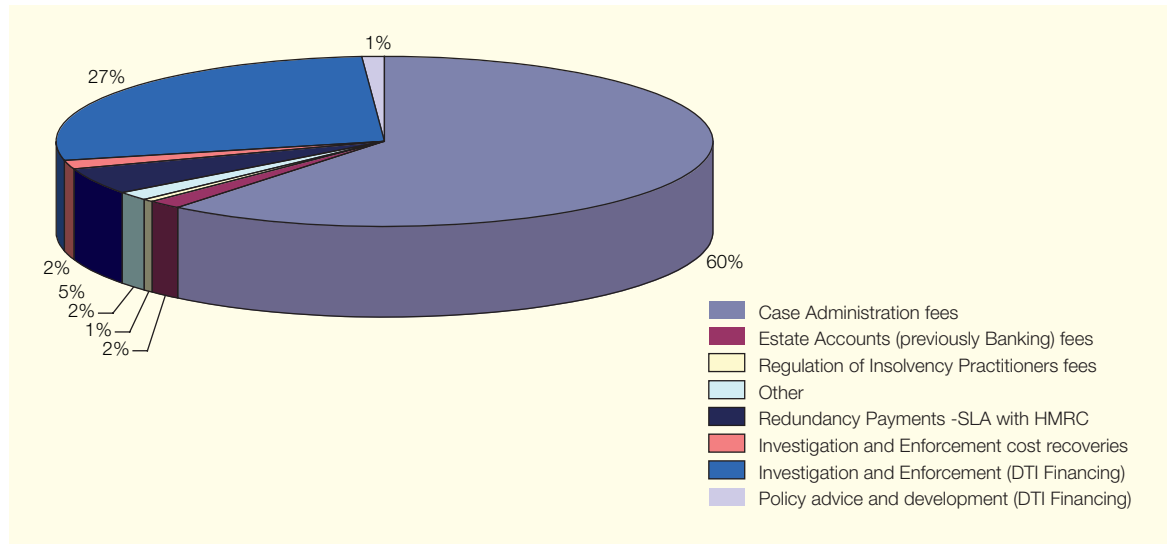
* The increased costs in 2006-07 relate to the loss incurred on the Cameo IT system. The system has been under construction since 2003 but development was suspended in December 2004. During 2006-07 further work was undertaken to update the business requirements with a view to completing the system. However, it has not been possible to restart development and agreement was reached with the IT provider to stop the project. The loss incurred by Estate Accounts is largely offset by a surplus in 2004-05 that resulted from IT costs in that year being lower than planned. Further details on the losses incurred on the Cameo IT system are included in note 17 to the Annual Accounts.

Future Developments

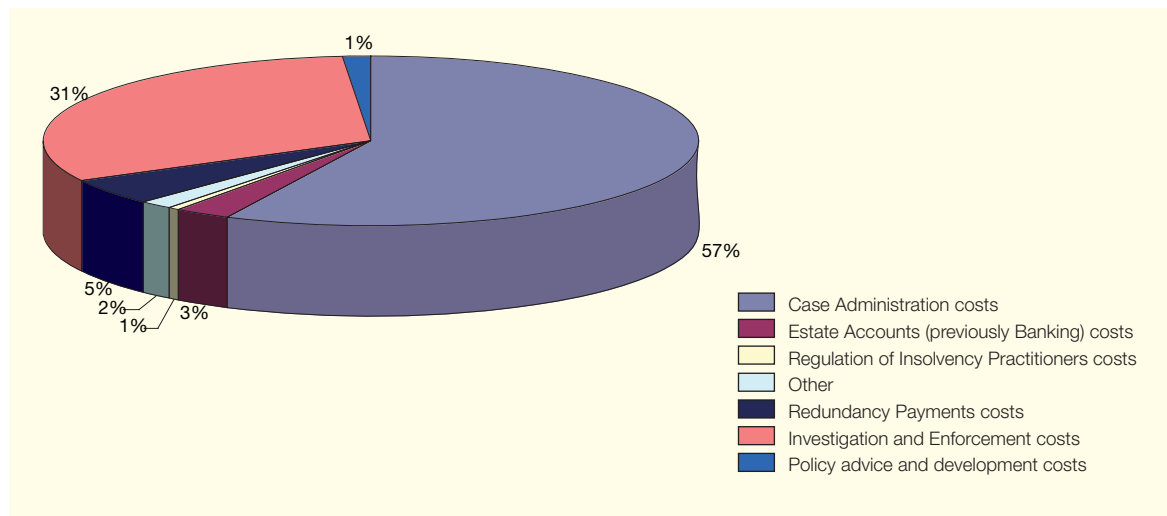
Following the decision to stop the development of the Cameo IT system a new project has been put in place to evaluate the options to replace the two current separate estate accounting systems (LOLA and BANCS). Operational benefits from the restructuring of Estate Accounts continue to be realised as the benefits of increased flexibility and improved workflows enable real improvements to be made in the service delivery and cost base of the unit.

2.8 Summary of total costs, fee income and DTI financing by business activity

Summary of total fee income and DTI financing



Summary of total costs by business activity



2.9 Customers and stakeholders

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



User Satisfaction Index

We measure the satisfaction of our customers via a User Satisfaction Index. During 2006-07 a total of 19,184 responses were received across the business areas, an increase of 36% on the 14,138 responses received during 2005-06.

The index score for 2006-07 was 91.49%, however this is based on a new method of index calculation which moved away from the method of giving each user group a certain weighting in the final index score. This now means that each individual response carries an equal weight in calculating the overall score.

The greatest numbers of responses, 16,596 (86.5%), were from bankrupts and directors of companies in compulsory liquidation and the satisfaction amongst this group remains very high at 92.11%.

National Consultative User Group

As well as seeking our customers' views directly, we consult with specific representative groups. The National Consultative User Group (NCUG), comprises representatives from the Bankruptcy Advisory Service, The Institute of Credit Management, the Federation of Small Businesses, the Consumer Credit Counseling Service, Citizens Advice and the Court Service Agency. The NCUG met twice during the year and issues considered by the group included updates to the online forms service, policy changes and a review of The Service's Charter Standards. The Group suggested providing more information on the effect of a bankruptcy restrictions order and this is now set out on the order. Members of the Group also contributed to the consultation on the evaluation of the financial regime and the finalisation of the text for a new leaflet entitled 'Alternatives to Bankruptcy'.

Estate Accounts (formerly Banking) User Group

This group, which met twice during the year comprises of day-to-day users of Estate Accounts who represent insolvency practitioners from smaller firms and cashiers or managers from larger organisations. As well as operational and technical matters and creating space for learning from our stakeholders, other issues discussed were:

- Reviewing Estate Accounts' service delivery & performance;
- Stakeholder survey outcomes;
- Concepts to improve the speed of estate payments;
- Service issues regarding cut-off times for receipt of electronic funds;
- Our process for handling unclaimed dividends;
- Benefits and disadvantages of the way we charge banking fees;
- Foreign currency accounts;
- Status of in-house systems enhancements & replacement project; and
- Online services improvements.

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

Helplines

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



During 2006-07 the helplines received 70,658 calls, an increase of 20% on the 2005-06 figure of 58,692. Enquiries by e-mail have also increased during the period to 6,397 as against 3,902 in 2005-06 an increase of 64%.

Website

In addition to our helplines, customers can access information via The Service's website. Use of the website increased during the year with 683,585 unique visitors compared to 486,355 in 2005-06.

Use of the online insolvency register has continued to grow at a phenomenal rate with 2,515,400 searches undertaken in the year as compared with 1,387,459 in 2005-06 an increase of 81%. The number of commercial organisations who have registered with us to

receive data downloads of the insolvency register has also increased during 2006-07. This service is provided to organisations for a small fee.

The Service's publications can be downloaded from the website free of charge, but to ensure our customers have a choice in accessing our services, printed copies are also available. Demand for publications continued to rise with 818,668 distributed in 2006-07 as against 770,144 in 2005-06 an increase of 6.3%. As a result of feedback from our users and stakeholders we have introduced a further 6 new leaflets to our range of guidance material.

Complaints

In 2006-07 The Service received 393 new complaints a decrease of 35 complaints on the 2005-06 figure of 428. The Service found 93 (24%) complaints to be justified in whole or part against 91 (21%) in 2005-06.

333 (85%) complaints received in 2006-07 were answered within 10 working days, against a target of 90% and compared with 353 (83%) in the previous year.

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

| Nature of Complaint | Viewed as Justified | Viewed as non-justified | Total |
|---------------------|---------------------|-------------------------|------------|
| Efficiency | 22 (63%) | 13 (37%) | 35 |
| Quality | 69 (26%) | 197 (74%) | 266 |
| Legislation | 1 (2%) | 66 (98%) | 67 |
| Third Party | 1 (4%) | 23 (96%) | 24 |
| Other | 0 (0%) | 1 (100%) | 1 |
| Total | 93 (24%) | 300 (76%) | 393 |

Independent Complaints Adjudication

During the year the Adjudicator has taken on 12 complaints for investigation, compared to 11 in 2005-06. The Adjudicator completed her investigation into 7 complaints, none of which were upheld.

Improvements made as a result of feedback

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

- As a result of feedback from users, the Redundancy Payment booklet 'A Guide for Employees' has been revised and more information included to help users understand how their payments are calculated;

- Following recommendations by our NCUG, further information has been included in the Bankruptcy Restrictions Order setting out the effect of the order; and
- Following a suggestion by an external stakeholder we have published a leaflet called 'Income Payment Agreements and Income Payment Orders'.

Charter Standards

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

| Charter Standard | 2005-06 Actual (Target) | 2006-07 Actual (Target) |
|---|-------------------------------|-------------------------------|
| Correspondence requiring a reply will be acknowledged within 5 working days with a specified reply date or replied to within 15 working days of receipt | 88.9% (95%) | 86.5%* (95%) |
| Visitors with appointments will be seen within 5 minutes of their appointment time | 97.5% (95%) | 95.5% (95%) |
| Visitors without appointments will be seen within 10 minutes of arrival | 90.1% (95%) | 90.4%* (95%) |
| All calls to offices/sections between 9am and 5pm, Monday to Friday, will be answered within 16 seconds | 95.3% (95%) | 95.2% (95%) |
| All calls to the insolvency enquiry line will be answered within 20 seconds | 91.9% (95%) | 96.9% (95%) |
| The Official Receiver will contact the bankrupt/director within 2 working days of The Service receiving written notification of the court order | 91.6% (90%) | 90.1% (90%) |
| Telephone interview to be carried out/the bankrupt to be telephoned within 5 minutes of the agreed interview time | 99.0% (95%) | 99.3% (95%) |

* Response times to correspondence and dealing with customers without appointments have again been adversely affected by increased case numbers. The targets for these standards have been reduced to 90% for 2007-08.

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 2006-07 99.16% were paid within 30 days.

| Action invoices for payment | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|-----------------------------|---------|---------|---------|---------|---------|
| Within 30 days of receipt | 99% | 99.1% | 99.2% | 99.14% | 99.16% |

Corporate and Social Responsibility

The Service first devised its Community Involvement Strategy (CIS) in 2005. This strategy sets out The Service's commitment to conduct itself as a responsible corporate citizen; and to meeting its responsibilities to the needs of its employees, stakeholders and the wider community and environment. As part of this commitment each Official Receiver's Office has



its own local community involvement strategy setting out how it will involve, consult and support local communities and organisations. The Directing Board reviews activities undertaken by local offices on an annual basis and details of these activities can be found on our website at www.insolvency.gov.uk

In line with The Service's commitments under the CIS, The Service adopted Cancer Research UK as its national charity of the year 2006-07. In order to accommodate the fund raising event timetable of Cancer Research UK, the 2006-07 year will run for a period of 18 months from 1 September 2006 to 31 March 2008.

2.10 People

To enable our staff to achieve their objectives we must maintain an efficient work place where optimal use is made of resources. We need to ensure that we recruit the right people to get the job done as well as providing staff with the skills and knowledge to enable them to carry out the tasks to which they are assigned. A Health and Safety Report for the year ending 31 December 2006 is available on our website at www.insolvency.gov.uk

Recruitment

During the financial year 2006-07, The Service appointed 394 new recruits to the following posts:

| Range | Permanent | | Casual | | Total |
|------------------------|------------|------------|-----------|-----------|------------|
| | Male | Female | Male | Female | |
| A1 | 45 | 82 | 11 | 12 | 150 |
| A2 | 88 | 98 | 4 | 4 | 194 |
| B1 | 4 | 9 | 0 | 1 | 14 |
| B1 Examiner | 3 | 5 | 0 | 0 | 8 |
| B2 | 2 | 7 | 0 | 0 | 9 |
| B3 Examiner | 4 | 5 | 0 | 0 | 9 |
| Bands C & D | 2 | 8 | 0 | 0 | 10 |
| Total | 148 | 214 | 15 | 17 | 394 |

The Civil Service Commissioners require that all recruitment to The Civil Service is on the basis of fair and open competition, except in limited circumstances where flexibility is required to meet genuine business needs. The Service exercised this exception on 15 occasions in 2006-07.

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|-----------------------|---------|---------|---------|---------------------|---------|
| Average staff in post | 1,413 | 1,635* | 1,680* | 1,825* | 2,146 * |
| | | | | Restated 1,899** | |

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

** Prior to 1 April 2006 CIB were part of the main DTI but the 2005-06 figures have been restated to include CIB for comparative purposes.

Qualifications and Training and Development

The Service runs a suite of in-house training programmes for its technical staff. Each programme is accredited by Nottingham Trent University who award a qualification on completion of these programmes. All new technical staff must attain the appropriate qualification as part of their development. The qualifications range from a Certificate of Achievement in Insolvency Practice Administration for administration staff, to a Professional Diploma in Insolvency Practice for examiners. In November 2006 Nottingham Trent University held a graduation ceremony for qualifying candidates from the various programmes. 65 successful candidates were eligible to attend the ceremony. In addition in October 2006, there was a separate award ceremony for the administration staff.

Additionally, over the last year, The Service has delivered 80 training courses, providing staff with development across a broad spectrum of topics ranging from coaching to leadership and team development skills. The Service has also supported just over 100 people through external training and the Life Long Learning scheme.

This year saw the launch of the Gateway Programme, a new senior management development programme. This is a 12-15 month programme and is aimed at preparing some of The Service's senior managers for Director level positions and entry into the Senior Civil Service. It is based on the Professional Skills for Government (PSG) agenda and comprises a number of modules, each covering one of the PSG competencies. The programme which as well as class-room type events also includes some e-learning, guest speakers, self-assessments as well as covering different approaches to leadership and management.



Investors in People (IiP)

Following the successful post-recognition assessment for IiP in 2005, The Service has rolled out a programme of training to the IiP Champions in the revised standard. These Champions have been undertaking a series of internal diagnostic checks across The Service to ensure that the requirements of the standard are still being met. The Service is due for its next post accreditation review in 2008.



INVESTOR IN PEOPLE

Diversity

The Insolvency Service continues to move towards a more diverse workforce, and is committed to pursuing equality of opportunity. The Service values difference and variety in its workforce, and recognises that the unique perspective each employee brings to their work can help The Service to compete for the best talent in the labour market, and meet the diverse needs of The Service's customers.

There have been positive advances in delivering workforce diversity in 2006-07. Across The Service the representation of women (on a full-time equivalent basis) is equitable with that of men and there is increasing representation of women at the management level. Staff from an ethnic minority background now make up 14.7% of our workforce. The Service also continues in its commitment to the terms of the Department of Work and Pensions Positive about Disabled People "Two Ticks" symbol with almost 13.8% of staff indicating, through self-declaration, that they have a disability or long-term health condition.



The Service's internal independent diversity advisory group has expanded and now has 19 members. The group is particularly interested in diversity issues which relate to staff within The Service. The group now report to The Service's Diversity Board, chaired by the Agency Chief Executive, in his role of Diversity Champion.

Flexible Working Patterns

To support staff in effectively balancing work with outside commitments, we provide a number of alternative working arrangements. All staff have access to the flexible working hours scheme which enables them to vary their times of arrival and departure from work, vary the length and timing of their lunch break and take time off if they work extra hours. 21% of staff have flexible working arrangements which include:

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

The Service is looking to introduce term-time working in the next financial year.

Employee Involvement

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

- a Core Brief following the second bi-monthly Directing Board meetings which is cascaded to staff and discussed at monthly team meetings;
- a system of notices to staff, identified by subject and available on The Service's Intranet;
- Performance Agreements for individual staff members as an integral part of the business planning process;
- involvement of staff in the preparation of office/section business plans;
- circulation of key documents e.g. the Agency Annual Report and the Corporate Plan;
- a Leadership Group consisting of the senior management of The Service which meets 4/5 times a year and which agrees key messages to be cascaded to staff following its meetings;
- a Communications Forum for HQ Managers and communication Focus Groups involving staff at all levels;
- briefing of all staff following The Service's annual conference;
- displays in offices of monthly charts measuring office performance against The Service's Charter and key targets and indicators;
- a New Ideas Scheme for staff suggestions;
- formal and informal meetings between senior management and groups of staff; and
- In addition there are regular meetings and communications with the Agency Trade Union Side.

Sick Absence

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

- Flexible working patterns allow staff to better balance their personal and work lives and therefore promote good health;
- Staff Counselling Service;
- Occupation Health Provision;
- Ergonomic workplace assessment; and
- Health Screening: During 2006, all staff were invited to take part in a voluntary health screening programme carried out in local offices. The screening included analysis of a web-based questionnaire and a number of tests. Participants received individual results, an indication of any risks and any relevant advisory literature. Around 50% of staff participated in the screening, with 28 staff being referred to their doctor with previously undiagnosed health problems.

Analysis of best practice techniques employed across other organisations indicated that proactive intervention by line management was paramount in reducing absence levels and therefore all managers attend a mandatory attendance management module of The Service's Management Development Programme.

During 2006-07, The Service's average level of sick absence was 8 working days per man year against a target of 8.5 working days per man year.

Rewarding Long Service

Long Service Awards were presented for the sixth time since the scheme was introduced with 58 staff eligible for the award having worked for 20 years. This year's ceremony was held in London, where the Chief Executive presented each recipient with a certificate and a gift voucher worth £150.



Enabling the Future

During the year work continued on the Enabling the Future programme, a fundamental change management programme that will ensure that The Service deals efficiently and effectively with the challenges faced over the next few years. Set against a background of increasing case numbers, changes to the IT infrastructure and the need to adopt more flexible working practices, The Service's people management strategy and practices are fundamental to the achievement of its business objectives, including the delivery of a high quality service to customers.

The majority of our Human Resources policies, procedures and practices have been reviewed to ensure that they are aligned with, and support the business strategy.

The Job roles across the organisation were considered, and a new level of examiner will be introduced in the organisation. This will have the effect of reducing costs, as the work will be undertaken across an extended range of appropriately qualified staff, whilst at the same time providing increased development opportunities for staff. To underpin these changes, a new examiner qualification and training regime has been developed, and will be implemented in the autumn of 2007.

2.11 Environment and Sustainability

The efficient and effective use of our property is of great importance as it keeps overheads low. We have had to re-model many of our offices to accommodate increased staff numbers required to deal with increased cases. As a result we have managed to reduce our accommodation costs per capita by 11.2% during 2006-07.

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

The Service is continuing to build on previous measures to promote sustainable development by encouraging local initiatives through its Community Involvement Strategy. Under this strategy offices are encouraged to introduce their own initiatives to promote environmental objectives, such as recycling and energy efficiency. These continue to support and supplement existing initiatives that are centrally driven. We aim to use our natural resources with care and thought for the future.

During 2006-07 we achieved the following:

- we again generated the equivalent of 1.5% of our annual electricity requirement for 21 Bloomsbury Street through the photovoltaic installation in the atrium roof - calculated from data on the amount of electricity generated, and the amount consumed as stated in our electricity bills. This roof will be re-laminated during 2007-08 and it is anticipated that this level will increase to 5%;
- further extensions in the use of Electronic Records Management has further reduced the amount of paper used;
- all paper supplied for copiers and printers is now recycled and this annual report is printed on recycled paper; and
- maximised the use of current accommodation resources increasing open plan working and introducing more space efficient workstations in order to accommodate additional staff required to deal with increasing case-loads.



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;
- the Government's inflation target.

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

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

Service Contracts

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

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

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

Salary and pension entitlements (audited)

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

Remuneration

| Officials | 2006-07 | | 2005-06 | |
|---|---|---------------------------------------|-----------------|---------------------------------------|
| | Salary £'000 | Benefits in kind (to nearest £100) | Salary £'000 | Benefits in kind (to nearest £100) |
| Mr Desmond FLYNN Inspector General | 105 - 110 | - | 95 - 100 | - |
| Mr Les CRAMP Deputy Inspector General - Operations | 85 - 90 | - | 85 - 90 | - |
| Mr Graham HORNE Deputy Inspector General - Headquarters | 80 - 85 | - | 80 - 85 | - |
| Mr Robert BURNS Inspector of Companies (Joined 1 April 2006) | 80 - 85 | - | N/A | N/A |
| Miss Lesley BEECH Director of Finance, Resources & Estate Accounts | 70 - 75 | - | 70 - 75 | - |
| Mr David CHAPMAN Director of OR London Operations | 60 - 65 | - | 60 - 65 | - |
| Mr Terry HART Director of Human Resources | 60 - 65 | - | 60 - 65 | - |
| Mr Stephen LEINSTER Director of Policy - Technical, Legislative and Professional Regulation | 60 - 65 | - | 55 - 60 | - |
| Mrs Sharon Lewis Director of Redundancy Payments (From 12 July 2006) | 45 - 50 (60 - 65 full year equivalent) | - | N/A | N/A |
| Mr Mike LOWELL Director of Redundancy Payments (Until 26 June 2006) | 10 - 15 (60 - 65 full year equivalent) | - | 60 - 65 | - |
| Mr Mike NORRIS Director of Policy Development, Review and International Issues | 60 - 65 | - | 55 - 60 | - |
| Mr Steve QUICK Director of Investigations | 60 - 65 | - | 60 - 65 | - |
| Mr Mark SAVIGAR Director of Change Programme | 60 - 65 | 2,100 | 55 - 60 | 2,300 |
| Mr Tony WILKIN Director of Enforcement | 70 - 75 | - | 65 - 70 | - |

Remuneration of Steering Board members (audited)

The Agency Steering Board comprises 12 members, seven of whom are civil servants. The Chief Executive, two Deputy Inspector Generals, the Director of Finance, Resources & Estate Accounts and the Inspector of Companies are five of these members and their remuneration is borne by the Agency and disclosed above. The costs of the two other civil servant members are borne by DTI, they do not receive any additional amount for Board duties. The Service pays the external members and remuneration for the year ended 31 March 2007 is £20,196 (total remuneration in 2005-06 was £27,127).

| Non- executive board members | Salary 2006-07 £'000 | Salary 2005-06 £'000 |
|-------------------------------------|---------------------------------|---------------------------------|
| Mrs Louise BRITTAIN | 0 | N/A |
| Mr Stephen GALE | N/A | 0 - 5 |
| Mrs Elizabeth McMEIKAN | 0 - 5 | 0 - 5 |
| Mr Graham OATES | 5 - 10 | 5 - 10 |
| Mr Phil WALLACE | 0 - 5 | N/A |
| Mrs Rosalind WRIGHT | 0 - 5 | 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 presentation is based on payments made by The Service and thus recorded in these accounts.

Benefits in kind

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

Pension Benefits (audited)

| Officials | Real increase in pension | Real increase in lump sum | Pension at 31/03/07 To nearest £'000 | Lump sum at 31/03/07 To nearest £'000 | CETV at 31/3/06 To nearest £'000 | CETV at 31/3/07 To nearest £'000 | Employee contributions and transfers in To nearest £'000 | Real increase in CETV funded by employer To nearest £'000 |
|--|--------------------------|---------------------------|--------------------------------------|---------------------------------------|----------------------------------|----------------------------------|--|---|
| Mr Desmond FLYNN Inspector General | 0-2.5 | 0-2.5 | 40-45 | 120-125 | 891 | 947 | 0-2.5 | 15 |
| Mr Les CRAMP Deputy Inspector General - Operations | 0-2.5 | 0-2.5 | 40-45 | 120-125 | 860 | 905 | 0-2.5 | 15 |
| Mr Graham HORNE Deputy Inspector General - Headquarters | 0-2.5 | 0-2.5 | 30-35 | 80-85 | 519 | 543 | 2.5-5 | 10 |
| Mr Robert BURNS Inspector of Companies | 0-2.5 | 0-2.5 | 35-40 | 110-115 | 728 | 750 | 0-2.5 | -3 |
| Miss Lesley BEECH Director of Finance, Resources & Estate Accounts | 0-2.5 | 0-2.5 | 25-30 | 75-80 | 416 | 424 | 0-2.5 | 5 |
| Mr David CHAPMAN Director of OR London Operations | 0-2.5 | 0-2.5 | 15-20 | 55-60 | 278 | 292 | 0-2.5 | 11 |
| Mr Terry HART Director of Human Resources | 0-2.5 | 0-2.5 | 20-25 | 60-65 | 306 | 323 | 0-2.5 | 11 |
| Mr Stephen LEINSTER Director of Policy - Technical, Legislative and Professional Regulation | 0-2.5 | 5-7.5 | 15-20 | 45-50 | 231 | 256 | 0-2.5 | 23 |
| Mrs Sharon Lewis Director of Redundancy Payments (Joined 12 July 2006) | 0-2.5 | 5-7.5 | 15-20 | 45-50 | 166 | 218 | 0-2.5 | 29 |
| Mr Mike LOWELL Director of Redundancy Payments (Until 26 June 2006) | 0-2.5 | 0-2.5 | 30-35 | 90-95 | 686 | N/A | 0-2.5 | 4 |
| Mr Mike NORRIS Director of Policy Development, Review and International Issues | 0-2.5 | 2.5-5 | 15-20 | 50-55 | 237 | 261 | 0-2.5 | 19 |
| Mr Steve QUICK Director of Investigations | 0-2.5 | 0-2.5 | 20-25 | 65-70 | 355 | 378 | 0-2.5 | 13 |
| Mr Mark SAVIGAR Director of Change Programme | 0-2.5 | 2.5-5 | 20-25 | 65-70 | 341 | 366 | 0-2.5 | 20 |
| Mr Tony WILKIN Director of Enforcement | 0-2.5 | 2.5-5 | 25-30 | 85-90 | 482 | 510 | 0-2.5 | 16 |

Civil Service Pensions

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

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. 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 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

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

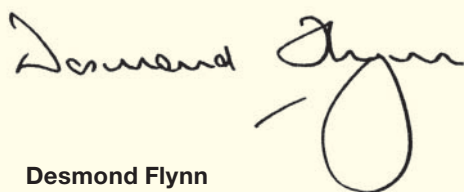
Cash Equivalent Transfer Values

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

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

Real increase in CETV

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

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

Desmond Flynn
Chief Executive

12 July 2007

Accounts

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

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

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

- observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Financial Reporting Manual, have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

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

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

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

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

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

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

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Agency policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently,

effectively and economically. The system of internal control has been in place in The Insolvency Service for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

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

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

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

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

4. The risk and control framework

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

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

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

5. Review of effectiveness

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

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

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

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

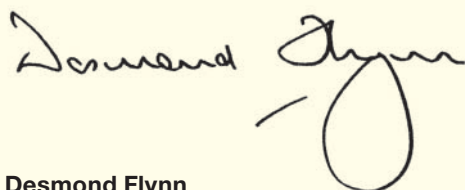
A key risk for The Service in 2004-05 was the delivery of the Cameo IT project intended to replace the existing IT system for banking, work on which was suspended in December 2004. A claim made by the main contractor was not accepted by The Service but The Service agreed to undertake, on a without prejudice basis, a joint project review. This review was completed in November 2005 and agreement was reached with the main contractor to re-commence the project with a new sub-contractor. The first stage of this work was a 12 week review of the development to date and an update of The Service's business requirements. The work was completed between June and October 2006. Further negotiations were then undertaken but these led to a decision not to proceed and the contract with the main contractor has been brought to an end by mutual agreement. An interim solution ensures the performance and reliability of the existing systems. Further upgrade work to current systems will be undertaken during early 2007-08 and The Service will look at options for an alternative replacement system.

The 2005-06 review of the effectiveness of internal control highlighted some control issues where further improvement was required. The following progress has been made:

- The Directing Board reviews the Agency balanced scorecard every month. Outcomes against targets and indicators are fed up through the Agency with Directors being responsible for the delivery at a local level. Where targets are showing as amber or red, action is agreed at the Directing Board.
- Controls in relation to the BANCS and LOLA estate accounting systems have been further reviewed during the year following the reorganisation of the Estate Accounts Directorate. An Internal Audit carried out in the last quarter of 2006-07 found a sound system of internal control within the Directorate.

The awareness and application of risk management continues to improve across the Agency. There were no significant internal control issues during the course of 2006-07 but where weaknesses in the control environment are identified, action to strengthen control has been taken or is planned. The Internal Audit review of the effectiveness of internal control did, however, highlight a number of priority areas where further improvement is required during 2006-07. These are as follows:

- The need to maintain the existing IT infrastructure and ensure that it can support the additional staff numbers required to deal with the increased number of cases and resulting increased requirements for investigation.
- Weaknesses in the business case and budgetary control processes relating to IT projects are being addressed through additional training for project managers, additional controls and amendments to the bidding process.
- Assisting individual offices to respond to the demands of increasing case numbers by tackling localised recruitment and retention problems through the restructuring of the pay & grading systems.



Desmond Flynn
Chief Executive

12 July 2007

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 2007 under the Government Resources and Accounts Act 2000. These comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Agency, the Chief Executive and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you, whether, in my opinion, certain information given in the Annual Report, which comprises the Management Commentary, 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. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinions

Audit opinion

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 2007, and of the deficit, total recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- The information given within this Annual Report, which comprises the Management Commentary, is consistent with the financial statements.

Audit 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

As disclosed in Note 17 to the financial statements, following the termination of the contract for the development and procurement of the Cameo IT system, The Service has written off a capitalised balance of £3.4 million representing the associated assets under construction. Over the life of the project, The Service expended a total of £7.64 million under the Cameo contract for which it received little appreciable benefit. I have not qualified my audit opinion in this regard.

I have no other observations to make on these financial statements.

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

20 July 2007

Income and Expenditure Account For the year ended 31 March 2007

| | | 2006-07 | 2005-06 |
|---|-------|-----------------|-----------------|
| | Notes | £'000 | £'000 |
| Re-stated to include CIB | | | |
| Income | | | |
| Fee income | 2(a) | 107,722 | 101,835 |
| Other operating income | 2(b) | 14,257 | 14,024 |
| Gross income | 2(c) | 121,979 | 115,859 |
| Expenditure | | | |
| Staff costs | 4(a) | 72,776 | 63,592 |
| Depreciation | 6 | 388 | 332 |
| Other operating charges | 3 | 84,448 | 75,101 |
| Finance lease charges | | - | 990 |
| Total expenditure | 2(c) | 157,612 | 140,015 |
| Operating deficit before interest* | 2(c) | (35,633) | (24,156) |
| Cost of capital | 7 | 435 | 474 |
| Deficit for the year | 12(c) | (36,068) | (24,630) |

All income and expenditure is derived from continuing operations.

* This deficit does not include DTI financing of £48,672,103 (£46,568,063 2005-06) as shown in note 2(c) to these accounts.

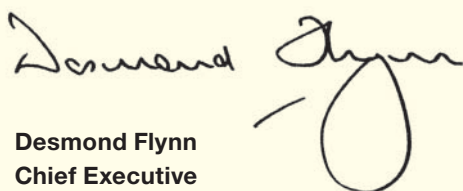
The notes on pages 62 to 80 form part of these accounts.

Statement of Total Recognised Gains and Losses For the year ended 31 March 2007

| | 2006-07 £'000 | 2005-06 £'000 |
|--|------------------|--------------------------------|
| | | Re-stated to include CIB |
| Deficit for the year | (36,068) | (24,630) |
| Fixed asset revaluation - unrealised profit | 5 | 25 |
| Government Grant revaluation - unrealised profit | 4 | 18 |
| Total recognised loss for the year | (36,059) | (24,587) |

Balance Sheet as at 31 March 2007

| | | 2007 £'000 | 2006 £'000 |
|--|-------|-----------------|--------------------------------|
| | Notes | | Re-stated to include CIB |
| Fixed assets | | | |
| Tangible fixed assets | 6 | 2,361 | 5,576 |
| Current assets | | | |
| Debtors | 8 | 57,282 | 41,233 |
| Cash at bank | 9 | 42,534 | 41,388 |
| Creditors - amounts falling due within one year | 10 | (72,751) | (70,443) |
| Net current assets | | 27,065 | 12,178 |
| Total assets less current liabilities | | 29,426 | 17,754 |
| Provisions for liabilities and charges | 5 | (2,080) | (1,628) |
| | | 27,346 | 16,126 |
| Taxpayer's equity | | | |
| Revaluation reserve | 12(a) | 52 | 47 |
| Government Grant Revaluation Reserve | 12(b) | 34 | 30 |
| General fund | 12(c) | 27,260 | 16,049 |
| | | 27,346 | 16,126 |



Desmond Flynn
Chief Executive

12 July 2007

The notes on pages 62 to 80 form part of these accounts.

Cash Flow Statement For the year ended 31 March 2007

| | | 2006-07 | 2005-06 |
|--|-------|-----------------|--------------------------------|
| | Notes | £'000 | £'000 |
| | | | Re-stated to include CIB |
| Operating activities | | | |
| Net cash outflow from operating activities | 13 | (44,571) | (5,102) |
| Capital expenditure | | | |
| Net cash outflow from purchase of fixed assets | 6 | (880) | (4,051) |
| Net cash outflow before financing | | (45,451) | (9,153) |
| Financing | | | |
| Net cash inflow from financing | 13 | 46,597 | 32,228 |
| Change in cash and cash equivalents | 9 | 1,146 | 23,075 |

The notes on pages 62 to 80 form part of these accounts.

Notes to the Accounts For the year ended 31 March 2007

1. Accounting Policies

1(a) Basis of preparation

The financial statements have been prepared in accordance with the 2006-2007 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) Merger with Companies Investigation Branch (CIB)

With effect from 1 April 2006 The Insolvency Service (IS) took over responsibility for the CIB. In accordance with HM Treasury guidance in the Financial Reporting Manual this has been accounted for as a merger. As a consequence the 2005-06 comparative figures have been restated to include CIB operating costs and balances. The restated figures for 2005-06 primary statements are as follows:

| | 2005-06 Restated £ | Pre merger | |
|----------------------------------|--------------------------|--------------------|---------------------|
| | | 2005-06 IS £ | 2005-06 CIB £ |
| Net Expenditure before interest: | 24,157,154 | 11,326,112 | 12,831,042 |
| Recognised Gains and Losses: | 43 | 43 | - |
| Net Assets: | 16,126,402 | 16,299,579 | (173,177) |
| Net Cash Inflow from Financing: | 32,227,601 | 19,117,679 | 13,109,922 |

Average number of employees during 2005-06 were 1,825 for the Insolvency Service and 74 for the CIB. All figures for 2006-07 are inclusive of both organisations.

1(d) 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(e) Depreciation

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

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

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

1(f) 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(g) Administration expenditure

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

1(h) 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(i) 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(j) Pensions

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

1(k) Early departure costs

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

1(l) Operating income

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

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

1(m) Value Added Tax (VAT)

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

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

1(n) Cost of capital

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

2. Income

2(a) Fee income

| | 2006-07 Fees earned £000 | 2005-06 Fees earned £000 |
|---|-----------------------------------|-----------------------------------|
| Insolvency case administration | 103,673 | 97,333 |
| Estate Accounts (previously Banking) | 2,894 | 3,291 |
| Regulation of Insolvency Practitioners | 1,155 | 1,211 |
| Fees recoverable in the period | 107,722 | 101,835 |
| Debit balances credited back/(written off) (note 3) | 97 | (1) |
| Net fee income | 107,819 | 101,834 |

Since 1 April 2004 The Service has operated on a net regime. Fees under the old Fees Orders were largely repealed from 1 April 2004 save for those fees required to discharge the costs still to be incurred on incomplete cases at 1 April 2004. Insolvency case administration includes fees of £2,161,976 (£11,408,914 2005-06) relating to work on incomplete cases at 1 April 2004. It also includes £574,749 (£9,581,279 2005-06) being surplus income recognised in 2006-07 relating to old regime cases. New and much simplified Fees Orders were brought into effect on 1 April 2004 to reflect the costs of the activity to which the fees relate. Fees are still charged to insolvency cases on an event giving rise to the fee but are only shown as income in this account when earned.

2(b) Other operating income

| | 2006-07 £000 | 2005-06 £000 |
|--|-----------------|-----------------|
| Investigation and Enforcement | 2,776 | 2,295 |
| Administration of Redundancy Payments | 8,782 | 8,782 |
| Rental income | 2,689 | 2,813 |
| Miscellaneous income (including Consolidated Fund extra receipts (CFER)) | 10 | 134 |
| Total | 14,257 | 14,024 |

Re-stated
to include
CIB

2(c) Segmental reporting

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

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

| | Turnover | | Cost of Service | | Surplus/(Deficit) | |
|---|-----------------|--|-----------------|--|-------------------|--|
| | 2006-07 £000 | Re-stated to include CIB 2005-06 £000 | 2006-07 £000 | Re-stated to include CIB 2005-06 £000 | 2006-07 £000 | Re-stated to include CIB 2005-06 £000 |
| Activities funded from fee or other income | | | | | | |
| Case Administration | 103,673 | 97,333 | 90,326 | 75,174 | 13,347 | 22,159 |
| Estate Accounts (previously Banking) | 2,894 | 3,291 | 4,411 | 3,362 | (1,517) | (71) |
| Regulation of Insolvency Practitioners | 1,155 | 1,211 | 835 | 808 | 320 | 403 |
| Other | 2,699 | 2,947 | 2,686 | 2,817 | 13 | 130 |
| Redundancy Payments | 8,782 | 8,782 | 7,906 | 8,991 | 876 | (209) |
| Total | 119,203 | 113,564 | 106,164 | 91,152 | 13,039 | 22,412 |
| Activities funded from DTI financing | | | | | | |
| Investigation and Enforcement | 2,776 | 2,295 | 49,319 | 47,005 | (46,543) | (44,710) |
| Policy advice and development | - | - | 2,129 | 1,858 | (2,129) | (1,858) |
| Total | 2,776 | 2,295 | 51,448 | 48,863 | (48,672) | (46,568) |
| Total of all activities | 121,979 | 115,859 | 157,612 | 140,015 | (35,633) | (24,156) |

Investigation and Enforcement costs in 2006-07 include £13,086,267 (£13,263,943 2005-06) relating to the CIB activity. The 2005-06 costs were included in the DTI accounts. Turnover relates to costs recovered from disqualified directors.

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

2(d) National Insurance Fund

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

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

Claims processed under the Scheme fall into two categories: RP1 (which covers redundancy pay, holiday pay and arrears of pay) and RP2 (pay in lieu of notice). The average payment for RP1 during the 2006–07 year was £1,448 (2005–06 £2,662). An average amount of £690 was paid during 2006–07 for RP2 (2005–06 £964).

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

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

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

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

| | 2006-07 £000 | 2005-06 £000 |
|--|------------------|-----------------|
| Outstanding debt at start of year | 93,128 | 80,319 |
| Plus payments in year | 245,404 | 289,647 |
| Less receipts in year | (40,761) | (36,918) |
| Less debt written off in year | (194,674) | (239,920) |
| Outstanding debt at end of year | 103,097 | 93,128 |

3. Other operating charges

The other operating charges comprise:

| | 2006-07 | Re-stated to include CIB |
|---|---------------|--------------------------------|
| | 2005-06 | |
| | £'000 | £'000 |
| Cash costs | | |
| Legal and other costs of investigation and enforcement | 19,528 | 20,044 |
| General administrative expenses | 12,854 | 12,077 |
| Other costs | 5,478 | 5,635 |
| Accommodation | 6,665 | 6,160 |
| Operating leases - accommodation | 8,004 | 7,879 |
| Operating leases - computers | 5,548 | 3,563 |
| Operating leases - office machinery | 161 | 250 |
| Disbursements funded by DTI | 21 | 394 |
| Disbursements funded from case administration fees | 5,082 | 4,338 |
| DTI overhead | 2,377 | 2,229 |
| Travel and subsistence | 2,388 | 1,787 |
| Hospitality | 4 | 14 |
| | 68,110 | 64,370 |
| Non cash costs | | |
| Debit balances (credited back)/written off against fees | (97) | 1 |
| Adjustment to bad debt provision | 567 | 351 |
| Bad debt provision for case administration fees | 12,043 | 9,124 |
| Bad and doubtful debt provision for estate accounts (previously banking) fees | 352 | 305 |
| Other bad debt write offs | 1 | 86 |
| Audit fee | 35 | 32 |
| Impairment and Loss on disposal of fixed assets | 3,365 | 1 |
| Loss on revaluation of fixed assets | 72 | 25 |
| DTI overhead | - | 806 |
| | 16,338 | 10,731 |
| Total other operating charges | 84,448 | 75,101 |

Other operating charges in 2006-07 include £9,149,615 (£9,782,452 2005-06) relating to the CIB activity. In 2005-06 CIB costs were included in the DTI accounts.

4. Staff costs and employee information

4(a) Staff costs

| | 2006-07 £'000 | 2005-06 £'000 |
|------------------------|------------------|------------------|
| Wages and salaries | 58,876 | 51,438 |
| Social security costs | 3,915 | 3,584 |
| Pension costs | 9,828 | 8,476 |
| Early retirement costs | 157 | 94 |
| | 72,776 | 63,592 |

The wages and salaries cost includes £7,758,820 (2005-06 £5,772,264 (re-stated to include CIB)) for short term appointments and agency staff.

Staff costs in 2006-07 include £3,771,426 (£3,481,491 2005-06) relating to CIB activity. In 2005-06 CIB staff costs were included in the DTI accounts.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but The Insolvency Service is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2003.

You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (<http://www.civilservice-pensions.gov.uk>).

For 2006-07, employer's contributions of £9,828,488 were payable to the PCSPS (2005-06 £8,475,551 (re-stated to include CIB)) at one of the four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2005-06 were between 16.2% and 24.6%). The Scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised but the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2006-07 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of 0.8 per cent of pensionable pay are payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. There were no partnership pension accounts during 2006-07 (2005-06 none).

4(b) Staff numbers

| | 2006-07 | 2005-06 |
|-------------------------------|--------------|--------------|
| Service Delivery | 1,897 | 1,658 |
| Corporate Services | 199 | 185 |
| Policy advice and Development | 50 | 56 |
| | 2,146 | 1,899 |

Re-stated
to include
CIB

Staff numbers are averages for 2006-07 and include permanent and casual staff but exclude 418 loanees, short term appointees and agency staff (360 (re-stated to include CIB) in 2005-06).

The total gross remuneration, including bonuses but excluding pension costs, of the Chief Executive, Desmond Flynn was £106,337 (£103,131 in 2005/06). He is an ordinary member of the Principal Civil Service Pension Scheme.

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 2006 | 336 | 98 | - | 1,194 | 1,628 |
| Provided in the year | - | - | 70 | 1,130 | 1,200 |
| Provisions not required written back | - | - | - | (420) | (420) |
| Provisions utilised in the year | (101) | (42) | - | (105) | (248) |
| Unwinding of discount | - | - | - | (80) | (80) |
| Balance at 31 March 2007 | 235 | 56 | 70 | 1,719 | 2,080 |

The cost of legal and other costs of investigation and enforcement (note 3) includes adverse costs on proceedings where the Secretary of State fails to secure a Disqualification Order. An estimate of these adverse costs of £1,012,445 has been included in the provision of £1,130,000 above.

The refund of previously recovered fees following the decision in the Leyland DAF Limited case estimated at £400,000 is included in the opening provision of £1,194,000 above. None of the provision relating to the Leyland DAF Limited case was utilised in the year.

A provision of £420,000 was written back as not being required.

6. Tangible fixed assets

Opening balances re-stated to include CIB

| Cost or valuation | Assets under construction £'000 | Property Leasehold Enhancements £'000 | Office Machinery £'000 | Computers £'000 | Total £'000 |
|---|--|--|------------------------------|--------------------|----------------|
| At 1 April 2006 | 3,464 | 799 | 423 | 2,703 | 7,389 |
| Additions | 312 | - | 163 | 405 | 880 |
| Revaluation | - | 15 | (17) | (276) | (278) |
| Disposals | - | - | (9) | (72) | (81) |
| Impairments | (3,359) | - | - | - | (3,359) |
| Transfers | (105) | - | - | 105 | - |
| At 31 March 2007 | 312 | 814 | 560 | 2,865 | 4,551 |
| Depreciation | | | | | |
| At 1 April 2006 | - | 229 | 324 | 1,260 | 1,813 |
| Provided in the year | - | 44 | 24 | 320 | 388 |
| Provided in year for Government Grant incl. ISB | - | 26 | - | 191 | 217 |
| Revaluation | - | 6 | (15) | (153) | (162) |
| Disposals | - | - | (9) | (57) | (66) |
| At 31 March 2007 | - | 305 | 324 | 1,561 | 2,190 |
| Net book value at 31 March 2006 | 3,464 | 570 | 99 | 1,443 | 5,576 |
| Net book value at 31 March 2007 | 312 | 509 | 236 | 1,304 | 2,361 |

The impairments of £3,359,487 is explained in note 17.

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

| | 2007 | 2006 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Prepayments | 2,319 | 2,232 |
| Debtors for disqualification costs | 4,043 | 3,653 |
| VAT debtor | 1,772 | 1,924 |
| Staff debtors | 676 | 631 |
| Debtors for fees - case administration | 47,202 | 30,821 |
| Debtors for fees - estate accounts (previously banking) | 974 | 1,112 |
| Other debtors | 296 | 860 |
| | 57,282 | 41,233 |
| An analysis of other debtors is: | £ | £ |
| Department of Trade and Industry | 2,078 | 666,500 |
| Ministry of Defence | 38,727 | - |
| Department of Health | 119 | 14,000 |
| Bodies external to government | 254,879 | 179,500 |
| | 295,803 | 860,000 |

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 £12,042,677 (2005-06 £9,124,341).

The debtors for estate accounts fees have been reduced by a provision for doubtful debt of £351,929 (2005-06 £305,324).

The debtors for disqualification costs have been reduced by a provision for doubtful debt of £694,003 (2005-06 £591,063).

The staff debtors figures includes £520,916 (2005-06 £462,310) which is repayable after more than one year.

9. Cash and cash equivalents

| | 2007 £'000 | 2006 £'000 |
|--|---------------|---------------|
| Cash held at ISA | 36,457 | 30,027 |
| Cash held at the Office of the Paymaster General | 6,077 | 11,361 |
| | 42,534 | 41,388 |

| | 2007 £'000 |
|---|---------------|
| Cash movements in year | |
| Cash at bank as at 1 April 2006 | 41,388 |
| Cash movement in year | 1,146 |
| Cash at bank as at 31 March 2007 | 42,534 |

10. Creditors

| | 2007 £'000 | 2006 £'000 |
|--|---------------|--------------------------------|
| | | Re-stated to include CIB |
| Amounts falling due within one year | | |
| Trade creditors | 896 | 524 |
| Accruals | 4,041 | 3,434 |
| Deferred fee income | 48,156 | 31,223 |
| DTI Inter-entity creditor | 18,301 | 18,406 |
| CFER payable to the Consolidated Fund | 1,357 | 16,856 |
| | 72,751 | 70,443 |

The DTI Inter-entity creditor of £18,301,123 includes DTI cash funding of £9,654,317 which has been retained to meet cashflow requirements.

The CFER payable to the Consolidated Fund is in respect of £574,749 of Old Regime income and the accumulation of surpluses (£59,000 in 2004-05; £403,000 in 2005-06 and £320,000 in 2006-07) from the Regulation of Insolvency Practitioners activities.

11. Lease obligations

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

| | 2007 £'000 | 2006 £'000 |
|----------------------------|---------------|---------------|
| Land and buildings | | |
| Expiry within 1 year | 142 | 134 |
| Expiry within 2 to 5 years | 2,483 | 2,739 |
| Expiry thereafter | 4,356 | 4,505 |
| | 6,981 | 7,378 |
| Other | | |
| Expiry within 1 year | 5 | 21 |
| Expiry within 2 to 5 years | 153 | 263 |
| Expiry thereafter | 5,548 | 5,781 |
| | 5,706 | 6,065 |

IT infrastructure and applications for The Service are provided in a schedule to the DTI Elgar Contract referred to as the IS ELGAR Service. The Schedule was signed in August 1999 for 10 years, extendable for up to a further 5 years, and covered the provision of IT infrastructure including 1,600 desktop PCs and office application software. At the beginning of this financial year the number of users was 2,125. This increased to 2,199 in November 2006, which it remained at until the year end on 31 March 2007.

The service charge is shown in note 3 to the accounts under Operating Leases – Computers and is subject to annual indexation at a rate equivalent to the percentage change in the Retail Price Index less 2.5%. The Service has a responsibility to pay termination charges, amounting to £1.7m as at 31 March 2007, should it exercise its break option before the agreed service end date (see note 21).

12. Movement on reserves

12(a) Revaluation reserve

| | 2007 £'000 | 2006 £'000 |
|-----------------------------|---------------|---------------|
| At 1 April | 47 | 22 |
| Revaluation of fixed assets | 5 | 25 |
| At 31 March | 52 | 47 |

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

12(b) Government Grant Revaluation Reserve

| | 2007 £'000 | 2006 £'000 |
|---|---------------|---------------|
| At 1 April | 30 | 12 |
| Revaluation of Government Grant Reserve | 4 | 18 |
| At 31 March | 34 | 30 |

12(c) General fund

| | 2007 £'000 | 2006 £'000 |
|--------------------------------------|---------------|---------------|
| At 1 April | 16,049 | 8,086 |
| Financing (Note 13) | 46,597 | 32,228 |
| Movement on Invest to Save | - | (113) |
| Movement on Government Grant Reserve | (26) | (27) |
| Non cash financing | 708 | 505 |
| Deficit for the year | (36,068) | (24,630) |
| At 31 March | 27,260 | 16,049 |

Re-stated
to include
CIB

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

The financing for the year is given net of the old regime income which is shown as a CFER payable to the Consolidated Fund in creditors (see note 10).

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

| | 2007 £'000 | 2006 £'000 |
|---|---------------|---------------|
| Government grant reserve | | |
| At 1 April | 234 | 261 |
| Depreciation released to Income & Expenditure account | - | (1) |
| Historical Cost Depreciation released to Income & Expenditure account | (26) | (26) |
| At 31 March | 208 | 234 |

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

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

| | 2007 £'000 | 2006 £'000 |
|---|-----------------|--------------------------------|
| | | Re-stated to include CIB |
| Operating deficit before interest | (35,633) | (24,156) |
| Depreciation charge | 388 | 332 |
| Depreciation charge on Invest to Save (ISB) assets | 191 | - |
| Audit fee | 35 | 32 |
| Impairment and Loss on disposal of fixed assets | 3,365 | 1 |
| Loss on revaluation of fixed assets | 72 | 25 |
| Loss on revaluation of ISB assets | 63 | - |
| Movement in provisions | 452 | 845 |
| Increase in debtors | (16,049) | (17,176) |
| Increase in creditors | 2,308 | 35,275 |
| Adjustment required for movement in CIB debtors/creditors | 237 | (280) |
| Net cash outflow from operating activities | (44,571) | (5,102) |
| Sources of financing | | |
| Cash financing | | |
| DTI Request for Resource allocation | 52,864 | 37,158 |
| ISB Request for Resource allocation | 402 | 93 |
| VAT recovered by DTI | (6,669) | (5,023) |
| Net cash inflow from financing | 46,597 | 32,228 |

14. Fast Track Voluntary Arrangements

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

A FTVA is a binding agreement between the bankrupt and his/her creditors to pay all or part of the money owed to them. In a FTVA the OR acts as nominee and supervisor. The OR fee to act as nominee is £300, and as supervisor the OR also charges 15% of all sums realised. Registration fees of £15 (2005-06 £35) are payable to ensure the FTVA is on the public register of all individual voluntary arrangements.

During the year 2006-07, 14 individuals attempted to enter into a FTVA (22 individuals in 2005-06). The fees received by The Service were £17,619 (2005-06 £18,099) and are included in these accounts under the case administration business. The balance of funds held in FTVA estates as at 31 March 2007 was £94,592 (£61,045 at 31 March 2006). These amounts are not included in these accounts as they represent trust monies.

15. Related party transactions

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

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

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

16. Commitments

There were no capital commitments authorised or contracted for at 31 March 2007 (31 March 2006 £NIL).

17. Losses

The impairment of £3,359,487 of an asset under construction referred to in note 6 above relates to the write off of the capitalised payments for the Cameo IT system. The Cameo system was intended to replace two current IT systems running the estate accounting functions for Official Receiver and insolvency practitioner cases.

The contract for the Cameo IT system was entered into in June 2003 under the DTI ELGAR contract (see note 11). The total contract price was £18,538,753 excluding VAT although £751,553, relating to business requirements workshops, had been paid in April 2003 leaving £17,787,200 to be paid in 10 annual instalments, under the terms of the contract, from the date of delivery for user acceptance testing. A further £1,192,992 was paid to the main contractor provider in 2004 in respect of development work carried out that was not within the original contract scope.

Following repeated delays in the progress of the Cameo project and with the prospect of substantial further delays The Service came to the view that the project was unlikely to succeed and concluded in December 2004 that work on it should be stopped. Following this, a claim of £15.4 million was made by the main contractor against The Service for breach of contract but subsequently the main contractor and The Service agreed to carry out a joint review of the project with a view to it restarting.

Following the joint review The Service and the main contractor agreed to recommence the Cameo project with a new sub-contractor and under finance lease terms. A contract amendment was signed in March 2006 on the basis that the new subcontractor would update the business requirements and review the development already undertaken. The Service paid £720,000 for this work and a further £5,000,000 which included the intellectual property rights to the development already undertaken and software licences. However, following completion of the update and review work the main contractor indicated they would be unable to complete the project within the original contract price. With the benefit of advice from leading counsel negotiations with the main contractor led to an agreement to terminate the contract with neither party claiming any further amounts against the other.

The treatment of each payment to the main contractor is summarised as follows:

| | £'000 | |
|---|--------------|---|
| Initial payment for business requirements | 751 | Expensed in 2003-04 accounts |
| Additional development work | 1,193 | Expensed in 2004-05 accounts |
| Contract amendment in March 2006 | 1,641 | Expensed in the 2005-06 accounts (mainly interest and maintenance) |
| Contract amendment in March 2006 | 3,359 | Capitalised in the 2005-06 accounts and written off in these accounts |
| Contract amendment in March 2006 | 720 | Expensed in these accounts |
| Total | 7,644 | |

In return for the £7,644,000 expended on the Cameo system The Service has received little appreciable benefit.

18. Banking liabilities

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

19. Financial exposure

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

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

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

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

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

Liquidity, Interest Rate and Foreign Currency risk.

The Service has no exposure to significant liquidity risks.

The Service is not exposed to interest rate risk.

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

20. Performance target

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

21. Post balance sheet events

- 21(a) A letter was sent on 23 May 2007 terminating the ELGAR (PFI) contract. The termination period is 12 months from the date of receipt by the PFI contractor of this termination notice and the termination date will therefore be 22 May 2008. The Service is liable for the terminations charge under the Elgar contract (see note 11).
- 21(b) A new contract for the provision of The Service's IT infrastructure was entered into on 29 June 2007. The total contract price is £20.4 million payable over 5 years of which £10.4 million is payable under an operating lease and £10m through a monthly service charge.
- 21(c) The Insolvency Service's financial statements are laid before the House of Commons by the Secretary of State of the Department for Business, Enterprise and Regulatory Reform (previously the DTI). FRS21 requires the Insolvency Service to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by The Insolvency Service's management to the Secretary of State of the Department for Business, Enterprise and Regulatory Reform.

The authorised date for issue is 23 July 2007.



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