

# Legal Services Commission Annual Report and Accounts 2011-12

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Accounts presented to Parliament pursuant to Schedule 1, paragraph 16 (4) of the Access to Justice Act 1999.

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# Chair's review

During 2011-12 the staff of the Legal Services Commission (LSC) have worked with great energy and determination. Fee changes were introduced smoothly and we are continuing to review the way we commission our work.

We also made improvements to our tender processes. For example, the simplified family tender process in 2011-12 was effective and demonstrated that we had learned lessons from previous tenders. The family tender ran from 5 September to 3 October and contracts awarded through this process started on 1 February 2012.

We are committed to eliminating waste, driving efficiency and simplifying processes. This has been highlighted by our commitment to introduce more online working to grant civil legal aid and pay bills.

The LSC processed 2.5 million items of legal aid work in 2011-12 and reduced payment backlogs. We have worked with providers to help them reduce the number of errors that they make in their submissions and ensure that we meet our targets for considering legal aid applications and paying bills. We have developed our communications to build understanding of our processes and find ways that we can improve how we work with providers.

Our accounts for 2011-12 show the continuing progress made in improving financial stewardship. On behalf of all

the Commissioners I want to thank all the staff for their hard work in improving the LSC's performance.

The past year has seen a major legislative change for legal aid and its delivery.

The Legal Aid, Sentencing and Punishment of Offenders (LASPO) Act 2012, which became law in May 2012, contains major changes to the scope, eligibility and methods of delivering legal aid. As a result, by 2015 there will be significant savings from the current annual £2.1bn legal aid budget.

A specialist Legal Aid Reform team has worked hard over the past year to ensure the LSC is properly prepared for implementing the changes we face. The LASPO Act means that the focus of legal aid will be on cases where legal help is most needed.

The Act also means that we need to run tenders for a number of civil contracts covering both face to face and telephone advice. These contracts will start on 1 April 2013.

We have made great strides in reshaping our organisation to make sure we have the right people with the right skills to deliver the Government's policy. We are continuing to reduce our costs and build on the close links we have already forged with the Ministry of Justice (MoJ). We are committed to supporting the MoJ's ambitious reform programme known as Transforming Justice. The aim is to

deliver a justice system that is more efficient, more effective, less costly and more responsive to the public.

Our key aims are to provide a high quality public service, work effectively with legal aid providers and win recognition as a respected commissioner and administrator of legal aid.

The LASPO Act also means that in April 2013 we will be replaced by the Legal Aid Agency – an Executive Agency of the MoJ. Our current Chief Executive Matthew Coats is Chief Executive designate of the new Agency.

Matthew took up post as Chief Executive at the LSC in February 2012, focusing immediately on sound financial management and preparing for our transition to an Executive Agency. He is building on the work of his predecessor Carolyn Downs, who left us to become Chief Executive of the Local Government Association in November 2011.

On behalf of the Commissioners I want to thank Carolyn for her contribution. We look forward to working with Matthew and all the LSC staff to ensure a smooth transition to the new Agency and continuing high standards of service delivery.



**Sir Bill Callaghan**

Chair

Legal Services Commission  
July 2012

# About the Legal Services Commission

## The Legal Services Commission (LSC) is responsible for the operational administration of the legal aid scheme in England and Wales.

Our work is essential to the fair, effective and efficient operation of the civil and criminal justice systems. It is also critical in helping to provide access to legal advice for some of the most vulnerable members of society.

The LSC employs around 1,500 people based across England and Wales. We are an organisation which commissions and procures legal services which are delivered by solicitors, barristers and the not for profit sector.

We deliver legal services through two schemes: the Community Legal Service and the Criminal Defence Service. Both schemes have eligibility criteria in relation to the means of the client and the nature of the problem, with certain limited exceptions.

## The Community Legal Service (CLS)

The CLS includes contracted solicitors and advice agencies which provide civil and family legal advice and representation.

The LSC manages Community Legal Advice, which includes telephone and internet-based services. We also contract with providers to deliver face to face civil legal aid services across a range of categories such as debt and housing.

**Community  
Legal Service**



## The Criminal Defence Service (CDS)

The CDS provides legal advice and representation to people being investigated or charged with a criminal offence.

The LSC manages the duty solicitor schemes for police stations and Magistrates' Courts so those who need advice and representation can see a solicitor. We commission legal aid in Crown Courts through the litigator and advocate graduated fee schemes, as well as contracting directly with providers through the Complex Crime Unit. We also fund legal aid cases in the higher courts such as the Court of Appeal and the Supreme Court of the United Kingdom. Our Public Defender Service provides criminal defence services directly to the public.

**Criminal  
Defence Service**



## Our relationship with Government

The LSC was established under the Access to Justice Act 1999 and is a Non-Departmental Public Body sponsored by the MoJ. However, the LSC will be abolished as a result of the Legal Aid, Sentencing and Punishment of Offenders (LASPO) Act 2012. An Executive Agency of the MoJ will be created to administer legal aid from April 2013.

The Lord Chancellor and Secretary of State for Justice is accountable to Parliament for our activities and performance. In addition, within Wales, the LSC maintains close links with the Welsh Assembly Government, in recognition of the devolved administration.

## Our vision, objectives and priorities

We set these out in our Business Plan 2011-12 as follows:

**'We will work with our providers and the justice system to be a respected commissioner and administrator of legal aid.'**

Strategic objectives	Priorities
<i>Commissioning and procuring services that provide timely access to quality legal advice for eligible clients</i>	<p>Procure services to provide access to legal help and advice within the resources available</p> <p>Work with the MoJ to implement the legal aid reforms the Government decides to make</p> <p>Once the legal aid reform consultation document is published, develop a commissioning strategy demonstrating how we will endeavour to meet the needs of clients in the current climate</p> <p>Implement a coherent Provider Management Strategy to ensure that providers are visited on an agreed risk-based approach with a single point of contact</p>
<i>Use finances consistently and reliably to achieve value for money</i>	<p>Manage our budget effectively</p> <p>Continue improvement in how we produce our annual accounts</p> <p>Meet the timetables set for the production of accounts, starting with the 'Clear Line of Sight' objectives</p> <p>Continue our programme of financial stewardship including recovery of overpayments and debt recovery activity</p>
<i>Improve our business by simplifying processes, driving efficiency and eliminating waste</i>	<p>Improve quality control/reduced error rates</p> <p>Contract simplification</p> <p>Improve complaints handling, freedom of information, information assurance, data protection etc.</p>
<i>Build capability to ensure we have the right people with the right skills to meet our goals</i>	<p>Business simplification</p> <p>Efficient organisational structure and roles in place for the Executive Agency within the budgeted headcount 2011-12</p> <p>All staff understand their roles and the required knowledge, skills, competencies and values to deliver as we progress through the LSC change programme</p> <p>Robust and transparent HR processes in place to support organisational change</p>

# The year in focus

This chapter reports on the main developments of the year, and includes the key statistics that relate to the delivery of legal aid through the Community Legal Service (CLS) and the Criminal Defence Service (CDS).

We present statistical information in a summary format. More detailed statistical analysis can be found in the *Statistical Information 2011-12* document on our website at [www.legalservices.gov.uk/aboutus/how/strategic\\_publications.asp](http://www.legalservices.gov.uk/aboutus/how/strategic_publications.asp).

## Expenditure and acts of assistance 2011-12<sup>1</sup>

	Resource spend £m	Acts of assistance 000s
CLS Licensed Work (gross) <sup>2</sup>	977.9	146.3
less operating receipts	(216.2)	-
Interest receivable/received etc.	(6.5)	-
CLS Licensed Work (net)	755.2	-
CLS Controlled Work <sup>3</sup>	222.5	939.8
<b>CLS total (net)</b>	<b>977.7</b>	<b>1,086.1</b>
Crime Lower (gross) <sup>4</sup>	431.1	1,252.2
Crime Higher (gross) <sup>4</sup>	673.3	138.5
less operating receipts, etc.	(3.7)	-
<b>CDS total (net)</b>	<b>1,100.7</b>	<b>1,390.7</b>
<b>CLS and CDS total (net)</b>	<b>2,078.4</b>	<b>2,476.8</b>
LSC administration excluding HMCTS fees	71.3	-
LSC administration HMCTS fees only	10.8	-
<b>LSC administration total</b>	<b>82.1</b>	-

1 Controlled Work and Licensed Work are defined on page 8. Figures may not sum to total due to rounding.

2 CLS Licensed Work acts of assistance include granted Civil Representation applications and family mediation work.

3 CLS Controlled Work acts of assistance are based on new matter starts, the details of which can be found in the CLS2 table in the statistical information pack available on the LSC website.

4 Crime acts of assistance are based on claim volumes; excluding second claims for deferred sentencing and solicitors' court duty sessions. Starts are not used as the LSC does not have access to complete information on the number of acts of assistance per claim.

## Key facts and figures

### We funded 2.5 million legal aid acts of assistance overall

The LSC continued to help a significant number of individuals across England and Wales with their legal problems.

### £2,078.4m total (net) legal aid expenditure

In addition, the costs of administering the legal aid scheme were £82.1 million (net).

### As at 31 March 2012 we held 1,976 civil and 1,640 crime contracts with legal service providers

The 2010 Standard Civil Contract, covering all civil categories of law except Family (and Family with Housing), began on 15 November 2010.

The Family (and Family with Housing) contracts began on 1 February 2012.

The 2010 Standard Crime Contract began on 14 July 2010 and runs for three years.

Contract type	Number of contracts	Number of offices
Civil – solicitor	1,711	2,557
Civil – not for profit	265	431
<b>Total civil</b>	<b>1,976</b>	<b>2,988</b>
<b>Total crime</b>	<b>1,640</b>	<b>2,309</b>

## The year in focus

### Community Legal Service

The CLS provides civil legal help and representation via Community Legal Advice (CLA) as well as through solicitors and not for profit agencies. The LSC awards contracts to providers which are split by category of civil law, allowing us to allocate funding to the areas where clients need it most.

For initial advice and assistance, members of the public often use CLA. Where face to face advice, assistance or representation in proceedings is needed, services are delivered in two main ways:

Controlled Work	Licensed Work
<ul style="list-style-type: none"> <li>Covers basic levels of advice and representation</li> <li>Providers assist clients directly, with no need to apply to the LSC for each case</li> <li>Also referred to as Legal Help or Family Help Lower</li> <li>Encompasses Help at Court and representation in front of mental health review and asylum and immigration tribunals</li> <li>A Controlled Work act of assistance is each instance in which a provider gives legal help to a client, not including representation in court.</li> </ul>	<ul style="list-style-type: none"> <li>Accounts for all other types of civil work, with the exception of Very High Cost Cases, which are managed under specialist contracts</li> <li>Funding applications need to be submitted to the LSC for each case. The LSC decides whether funding criteria and the merits test are met. Limits in relation to the work are then set, which may be varied on application by a provider on behalf of the client.</li> </ul>

**Total CLS spend of £977.7m (net) enabled us to provide 1.09 million acts of assistance**

89% of controlled work cases resulted in a substantive benefit for the client as reported to the LSC by legal aid service providers.

**We funded 0.94 million Legal Help acts of assistance**

We also issued 140,996 certificates for Licensed Work and 5,346 acts of mediation.

Legal Help – type of provision	Number of acts of assistance
Solicitors	386,375
CLA triage	200,737
Not for profit organisations	195,477
CLA telephone advice	97,872
Housing duty solicitors etc.	33,752
CLA centres	25,588

## Community Legal Advice

CLA offers free, confidential and independent civil legal advice and assistance



Anyone can contact CLA to be pointed in the right direction for further assistance, and individuals eligible for legal aid can get specialist advice and assistance.

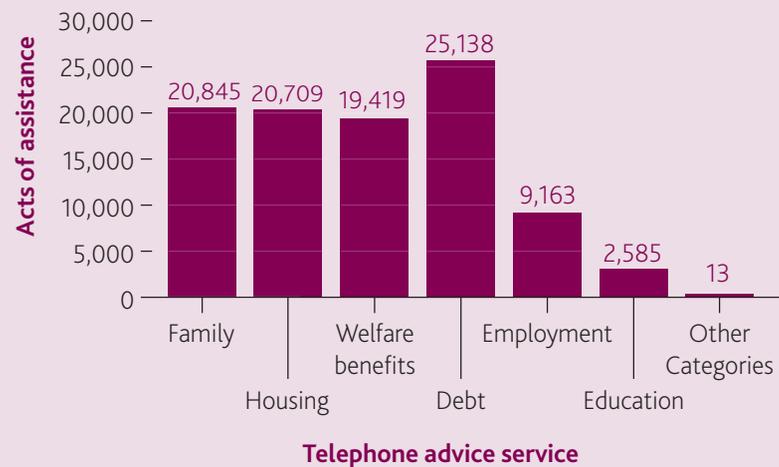
CLA services include:

- A leaflet directing people to the CLA website, available at a wide variety of locations across England and Wales
- A telephone helpline, providing initial advice and assistance in finding further help. Those seeking advice can call 0845 345 4345
- A 'call me back' service, which can be in a language other than English, available via the DirectGov website or by texting "legalaid" to 80010
- Information about CLA which can now be found at [www.direct.gov.uk/contactCLA](http://www.direct.gov.uk/contactCLA)
- Community Legal Advice centres and networks, providing advisory and representation services for a broad range of issues. At 31 March 2012, we had nine centres and one network.

CLA provided 298,609 acts of assistance

Specialist telephone advisers handled 97,872 acts of assistance (as shown in the table below). 200,737 enquiries were closed at the triage stage by the operator service resolving the issue to the client's satisfaction or referring them to a local face to face provider or alternative helpline.

### Specialist telephone advice



## The year in focus

### Criminal Defence Service

Forming part of the wider criminal justice system, the CDS ensures access to advice, assistance and representation for all eligible individuals suspected or accused of a crime.

#### Crime Lower

Advice or representation	Types of service	Claims	Total claimed (£000)
Crime Lower: Services provided to suspects who had not been charged	Police station attendance	642,631	161,404
	Total telephone advice and administration	143,602	7,132
	Other police station work	8,590	1,425
Crime Lower: Services provided to defendants who had been charged	Total where a representation order is required	398,622	188,985
	Total where no representation order is required or representation order is refused	15,783	5,867
	Court duty solicitor	83,084	23,224
	Prison law	43,825	22,853

#### Crime Higher

	Acts of assistance	Cash spend (£000)
All higher crime schemes	138,544	699,425

<p><b>Total CDS spend of £1,100.7 million (net) enabled us to provide 1.39 million acts of assistance</b></p>	<p>We ensure provision of a range of criminal defence services, from police station advice and assistance to defending clients in court if charged.</p>
<p><b>CDS Direct – access to advice and value for money</b></p>	<p>CDS Direct provides members of the public detained by the police on suspicion of less serious criminal offences with direct access to telephone advice. Our call handling service, the Defence Solicitor Call Centre, secures telephone advice from CDS Direct, or contacts individual providers to give face to face advice depending on the nature of the alleged offence.</p> <p>CDS Direct covers own client work as well as duty work. Clients may change to their own solicitor at a later stage if they require attendance at the police station for an interview or if their case goes to court.</p> <p>Of 143,602 telephone advice matters in 2011-12, 115,497 were delivered by CDS Direct. In terms of response times, 98.96% of calls back to police stations were made within 15 minutes and 99.83% within 30 minutes. The overall average time to make a call following a request was 3 minutes and 14 seconds.</p> <p>The remaining 28,105 acts of assistance were telephone advice delivered by individual providers where they themselves judged that telephone advice would be appropriate, despite the alleged offence qualifying for face to face advice, due to the circumstances of the case.</p>
<p><b>100% coverage of the 24-hour duty solicitor schemes</b></p>	<p>The CDS continued to maintain total coverage of the duty solicitor schemes at police stations across England and Wales.</p>
<p><b>Access to justice - from police stations to higher courts</b></p>	<p>Under the 2010 Standard Crime Contract we funded 1.25 million acts of assistance at police stations and Magistrates' Courts and 138,544 at the higher courts.</p>
<p><b>The Public Defender Service opened 3,197 files in 2011-12</b></p> 	<p>Established in 2001, the Public Defender Service (PDS) was the first salaried criminal legal aid provider in England and Wales.</p> <p>There are currently four PDS offices: Cheltenham, Darlington, Pontypridd and Swansea. PDS lawyers are available 24 hours a day, seven days a week to provide independent advice, assistance and representation on criminal matters.</p> <p>The LSC directly employs PDS lawyers who must adhere to the <i>PDS Code of Conduct</i> to ensure independence.</p>

# Our performance

Each year we set a series of Key Performance Indicators and milestones, designed to help us meet our strategic objectives.

## Key Performance Indicators (KPIs)

The 'balanced scorecard' shows how we performed against our KPIs as follows:

-  **Achieved**
-  **Largely achieved**
-  **Partially achieved**
-  **Not achieved**

Where a KPI was partially or not achieved, we have included a footnote to explain our performance in more detail.

This year, we achieved 4 KPIs, largely achieved 1, partially achieved 1 and missed 1.

KPIs are proposed by the LSC and approved by the Minister with responsibility for oversight of the Commission. The KPIs cover the LSC's most important work and are linked to the delivery of our strategic objectives.

Performance is monitored through the LSC's management information systems and performance is regularly reported to the Executive Team and the Commission Board throughout the year. Progress is also reported to all staff via highlight reports on the LSC's intranet site.

The KPIs have been subject to an internal audit by PwC in which they made a number of recommendations to enhance the reporting mechanism but did not identify any fundamental issues with the accuracy of data reported.

Strategic objective	KPI heading	KPI descriptor	KPI explanation	Status
<i>Commissioning and procuring services that provide timely access to quality legal advice for eligible clients</i>	KPI 1: Coverage	<ul style="list-style-type: none"> <li>• Full coverage of duty rotas – 100% (i.e. sufficient firms in the relevant criminal justice system area).</li> <li>• 98% CLS coverage per procurement area.</li> </ul>	<ul style="list-style-type: none"> <li>• This is a new KPI for 2011-12. In 2010-11 we reported on the number of acts of assistance, which was rated 'green'.</li> <li>• CDS data comes from the organisation that runs the Defence Solicitor Call Centre.</li> <li>• CLS data comes from a report on work allocated to providers.</li> </ul>	

1 The crime element of this target was not met. Although there was 100% duty slot coverage for the year, the target of deploying 99% of calls within 120 minutes was narrowly missed.

Strategic objective	KPI heading	KPI descriptor	KPI explanation	Status
<i>Use finances consistently and reliably to achieve value for money</i>	KPI 2: Deliver the programme of work and savings initiatives which will enable us to live within the forecast fund budget for the 2011-12 financial year	<ul style="list-style-type: none"> <li>• Monitor the average cost per case of legal aid.</li> <li>• Monitor the success and benefit rates for our clients.</li> </ul>	<ul style="list-style-type: none"> <li>• This KPI was also measured in 2010-11 and was rated 'green'.</li> <li>• Data comes from the LSC's forecasted spend which looks at historical trends and costs drivers, compared to actual spend based on the payments made to providers.</li> </ul>	
	KPI 3: Implement the appropriate efficiency measures so that we can live within the administration budget for the 2011-12 financial year		<ul style="list-style-type: none"> <li>• This KPI was measured in 2010-11 and was rated 'green'.</li> <li>• Data comes from our actual administration spend.</li> </ul>	
	KPI 4: Financial management	<ul style="list-style-type: none"> <li>• Action recoveries to the value of £10m.</li> <li>• Reduce debt by £10m.</li> <li>• Reduce in year family error rates by 20%.</li> </ul>	<ul style="list-style-type: none"> <li>• This is a new KPI for 2011-12.</li> <li>• Recoveries data comes from the value and volume of recoveries processed by the LSC.</li> <li>• Debt data comes from the LSC's debt accounting system.</li> <li>• Family error rates data comes from a random monthly sample of files taken from across family Controlled Work to gain an average across the whole financial year.</li> </ul>	

## Our performance

Strategic objective	KPI heading	KPI descriptor	KPI explanation	Status
<i>Improve our business by simplifying processes, driving efficiency and eliminating waste</i>	KPI 5: Legal aid processing times and quality measures	This KPI is made up of a number of measures that provide an indication of the customer experience based on the quality of service and speed of decision. To meet the overall KPI, specified performance levels must be achieved for at least 10 out of 12 targets.	<ul style="list-style-type: none"> <li>In 2010-11 this measure was included within the customer service KPI which was rated 'amber'.</li> <li>This target was changed after the Business Plan was published, to increase the number of targets from 12 to 16. The achievement of the KPI target is dependent both on the number of measures scored as green each month, and the result over consecutive months. 14 of the 16 measures are calculated based on processing time and 2 measures are based on quality assessment.</li> </ul>	 <sup>2</sup>
	KPI 6: Customer service (complaints)	Revised customer service scorecard dealing with complaints, MPs letters, freedom of information, data protection and information assurance.	<ul style="list-style-type: none"> <li>There was a customer service KPI in 2010-11 but it only measured complaints and was rated 'amber' at year-end.</li> <li>The basis of measurement is the time taken to respond against internally agreed timescales or the statutory response time of 20 working days for freedom of information requests and 40 calendar days for data protection requests.</li> </ul>	 <sup>3</sup>
<i>Build capability to ensure we have the right people with the right skills to meet our goals</i>	KPI 7: People and performance management	<ul style="list-style-type: none"> <li>Sickness absence days to be an average of 7.7 or fewer per person for the year.</li> <li>99% of staff to have a Performance Development Review (PDR).</li> </ul>	<ul style="list-style-type: none"> <li>There was a people scorecard KPI in 2010-11 but it also measured grievances and was rated 'green'.</li> <li>Absences are measured using monthly figures for the number of working days sick (including half days this year but excluding disability related absences) divided by the number of full time equivalent staff, multiplied by 12 to give an annual figure.</li> <li>PDRs are measured twice a year using headcount divided by the number of people with a PDR rating entered into our HR system, and will be averaged at year-end.</li> <li>If both absence and PDR targets are met at year-end following the above calculations the KPI is rated 'green'.</li> </ul>	

2 The LSC started the year with backlogs of casework and therefore target measures were not achieved at that time. During the course of the year we implemented a series of initiatives to drive down the levels of outstanding work, including recruiting additional staff. These actions enabled us to improve our performance in this area such that, at year-end, 13 of the 16 measures were back on target. Further details are set out in the Management Commentary under 'payments of suppliers and performance'.

3 Despite strong performance throughout the year on freedom of information and data protection responses, the LSC did not meet certain targets for responses to complaints and MPs correspondence. Actions are in hand to improve performance in this regard. For 2011-12, the targets in this area will be aligned with the MoJ, to ensure consistency in the approach across the Department.

## Milestones

Our Business Plan is underpinned by milestones which link directly to our key priorities. Like our KPIs, Business Plan milestones are proposed by the LSC and approved by the LSC's responsible Minister. They are intended to reflect the key initiatives being taken forward within the LSC to help realise the vision, deliver the strategic objectives and make the LSC a more efficient and effective organisation. Progress is monitored on a regular basis and reported to the Executive Team and the Commission Board. An overview of progress during the year in achieving our key milestones is set out below.

### **Commissioning and procuring services that provide timely access to quality legal advice for eligible clients**

The LSC has made good progress on most of the milestones in this area. This includes completing all planned fee scheme changes, publishing commissioning strategies and agreeing a quality assurance framework for contract management. This progress will stand us in good stead as we implement the legal aid reforms in the Legal Aid, Sentencing and Punishment of Offenders (LASPO) Act.

The only key milestone that was not completed in the year related to commissioning a plan for crime competition. This area will be subject to further consideration in the context of the Department's overall approach to crime competition.

### **Use finances consistently and reliably to achieve value for money**

The completion of our key milestones in this area delivered assurance over the controls around our programme finances and our overall financial management capability. Good progress has been made in the following areas:

- Reduction in error levels relating to payment accuracy and eligibility assessment
- Development of our financial stewardship work to take account of the Legal Aid Reform Programme impacts
- Further improvements to operational controls with case management.

### **Improve our business by simplifying processes, driving efficiency and eliminating waste**

Strong progress was made within the Very High Cost Cases (VHCC) area of the business. The achievement of our key milestones helped to drive and improve delivery efficiency by, for example, introducing a pilot that reduces case planning costs in return for a graduated fee approach.

The majority of previously stated milestones in this area related to the Integrated Delivery Programme (IDP). A decision was made during the year to postpone the commencement of the IDP pilot scheme until October 2012 to allow sufficient time for further work on developing the LSC's secure environment for the system, prior to launch. This decision resulted in the movement of specific milestones into 2012-13 in line with the revised implementation plan.

### **Build capability to ensure we have the right people with the right skills to meet our goals**

Significant progress has been made to prepare for the transition to Executive Agency status including design of the new organisational structure for the Agency and mapping of LSC roles into the new structure.

Some milestones within this area were not completed due to the decision to postpone the creation of the new Agency in line with the timetable for legal aid reform implementation.

# Financial reports 2011-12

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## Management commentary

### Introduction

The Legal Services Commission (LSC) is currently a Non-Departmental Public Body established under the Access to Justice Act 1999 and sponsored by the Ministry of Justice (MoJ). The MoJ, under the Legal Aid, Sentencing and Punishment of Offenders (LASPO) Act, is abolishing the LSC and establishing a new Executive Agency (EA), with a vesting date of 1 April 2013. We are responsible for the provision of legal aid in England and Wales, through the Community Legal Service (CLS) and the Criminal Defence Service (CDS).

A description of the LSC's main role, activities and performance has been set out in the earlier chapters of this document.

### Senior directors and non-executive Commissioners

#### Senior directors

As at 31 March 2012, our most senior directors who comprised the LSC Executive Team were:

- Matthew Coats, Chief Executive and Accounting Officer
- Owen Mapley, Director of Finance and Corporate Services
- Hugh Barrett, Director of Legal Aid, Commissioning and Contract Management
- Helen Riley, Director of Case Management
- Ruth Wayte, Director of Legal and Service Development
- Sandra Corrigan, Director of Human Resources and Organisational Development
- Damon Norville, Integrated Delivery and Change Programme Director.

#### Non-executive Commissioners

As at 31 March 2012, our non-executive Commissioners were:

- Sir Bill Callaghan, Chair
- Barry Elliott
- Tom Jones OBE
- Julian Lee
- Beryl Seaman CBE JP
- Dr David Wolfe QC.

The Board comprises the Chief Executive, Director of Finance and Corporate Services and the non-executive Commissioners.

You can find more information on our Executive Team and non-executive Commissioners, including their register of interests, at [www.legalservices.gov.uk](http://www.legalservices.gov.uk).

#### Audit Committee

The purpose of the LSC's Audit Committee is to support the Commission Board and the Accounting Officer in their responsibilities for issues of audit, corporate governance, risk, internal control, assurance, regularity and propriety.

During 2011-12 membership of the LSC's Audit Committee comprised:

- Barry Elliott (Chair)
- Tom Jones OBE
- Julian Lee
- Beryl Seaman CBE JP (until 31 March 2012).

## Financial reports 2011-12

### Management commentary (*continued*)

#### Parliamentary scrutiny

##### Public Accounts Committee (PAC)

Scrutiny of the LSC by the PAC continued in 2011-12. On 20 March 2012, the Committee issued a report on the MoJ's financial management which followed up a similar report it had issued in January 2011. The Committee's report concentrated primarily on the MoJ as a whole and acknowledged the improvements the MoJ has made in its financial management, particularly in its cost modelling and forecasting. The Committee also reported that the LSC had been unable to produce accounts for 2010-11 that were sufficiently free from error to gain a clear audit opinion.

The Committee recommended that the MoJ should set out a clear plan to reduce errors in legal aid payments. The LSC has produced a comprehensive response to this recommendation, details of which are contained in this management commentary.

##### The Justice Select Committee

There was no direct scrutiny from the Justice Select Committee in the last financial year, but the LSC did, and continues to, play a part in the Committee's review of the budget and structure of the MoJ. As part of this inquiry, the LSC hosted a visit from three members of the Committee on 1 December 2011. The review is ongoing and the LSC will continue to assist the Committee with their inquiry.

#### Risks

The LSC continuously monitors its key risks and the policy for managing risk is set out in the *Risk Management Statement*, which is available at [www.legalservices.gov.uk/aboutus/how/accountability.asp](http://www.legalservices.gov.uk/aboutus/how/accountability.asp). Further information on risks is set out in the 2011-12 Governance statement.

The risks relating to financial instruments are disclosed in note 16 of the CLS Fund and CDS financial statements and note 23 of the LSC administration financial statements.

#### Key achievements in 2011-12

##### Key facts and figures

Points to highlight include:

- Total acts of assistance and spend – The LSC continued to help many individuals across England and Wales by funding 2.5 million acts of assistance overall (CLS and CDS) [2010-11: 2.7 million]. Total net expenditure was £2,078.4 million [2010-11: £2,091.8 million].
- Number of providers – As at 31 March 2012 we held 1,976 civil and 1,640 crime contracts [March 2011: 2,335 civil and 1,733 crime contracts]. The figure for offices was 2,988 for civil and 2,309 for crime [March 2011: 3,394 civil and 2,418 crime offices].
- CLS – We funded 1.09 million CLS acts of assistance overall [2010-11: 1.25 million, a 13% decrease in the year]. CLS net expenditure was £977.7 million [2010-11: £962.5 million]. Community Legal Advice provided 298,609 acts of assistance [2010-11: 397,191].
- CDS – We funded 1.39 million acts of assistance [2010-11: 1.47 million, a 6% decrease in the year]. CDS spend was £1,100.7 million [2010-11: £1,129.3 million].
- Administration – Net expenditure was £82.1 million [2010-11: £99.2 million]. This was due to changes in the level of redundancy payments, underlying savings managed by the LSC, pension impacts, offset by higher asset related charges.
- KPIs – This year, we achieved 4 KPIs, largely achieved 1, partially achieved 1 and missed 1 [2010-11: achieved 6 and partially achieved 1].

## Management commentary (*continued*)

### Overarching control improvements

In 2011-12, the LSC continued with its Financial Stewardship programme which is designed to improve processes and controls in the granting of legal aid for clients and in assessing claims for payment by legal aid providers.

During the year the LSC operated a Financial Stewardship Implementation Board made up of senior LSC managers from all parts of the organisation. The Board met monthly to review progress against the programme's objectives, received updates on other LSC programmes and projects that affected Financial Stewardship and initiated work to address new issues identified. The Board provided updates to the LSC's Commission Board, Executive Team and the MoJ and worked closely with other LSC boards.

### Specific control improvements

The LSC continued to develop the testing of cases to establish the level and value of errors made in assessing the eligibility of clients and the accuracy of payments. A testing protocol was developed which identified the selection and size of samples, the frequency of testing, and the definition of errors. The LSC continued its analysis of the causes of errors to target areas of control weakness and focus on the recovery of overpayments.

The LSC made procedural and control improvements in all parts of its work. On Civil Representation the LSC continued to request further financial information from clients, to enable it to better assess whether clients were eligible for legal aid. Significant procedural improvements were made in assessing bills for Civil Representation, which is the largest individual area of expenditure on legal aid. These improvements included the use of mandatory checklists for staff to ensure all the required information for assessing a bill is available and is considered in the assessment process. Further improvements were made to cross office quality control testing to further reduce potential errors made by LSC staff. This work covers merits testing, means assessments as well as the final bills paid.

The LSC also made significant improvements in controls on its crime schemes. For example, on Crime Lower work (mainly advice at police stations and advice and representation at Magistrates' Courts), we introduced a number of upfront enhancements to the online system which receives and processes claims, to reduce the scope

for error when making payments. We also started to update the documentation of all crime legal aid schemes through the production of detailed process maps, the progress of which is now nearing completion. This will enable the LSC to better identify where further procedural and control improvements are required.

Significant progress continued to be made on the LSC's Integrated Delivery Programme (IDP) which is designed to digitise the processing of Civil Representation applications, case management and billing and will introduce a new general ledger for the Legal Aid Fund. The first pilot of the new system is due to start in late 2012. This system will improve the LSC's controls, including those around the detection and prevention of errors.

### Fraud prevention improvements

This year, significant improvements have been made to the way the LSC deals with allegations of fraud. A new counter fraud strategy was introduced with the focus on better understanding our fraud risks through the collection of intelligence and the introduction of new controls to reduce these risks. In line with the wider government strategy, we have also increased our focus on working jointly across government with other organisations such as the Department for Work and Pensions (DWP), Her Majesty's Revenue and Customs and the Cabinet Office. We have engaged with departments to share best practice and intelligence on potentially fraudulent activity. We have also worked together to identify potential frauds that affect multiple government departments and undertake joint prosecutions. As well as other government departments, we have also worked with regulators, such as the Solicitors Regulation Authority and the Charities Commission.

The LSC has also improved its ability to identify and deal with individual instances of fraud. In 2011-12, seven members of the public were convicted of fraudulently receiving legal aid. This included joint prosecutions with a number of police forces and the DWP. Some of these cases included fraud against other departments in addition to legal aid fraud.

### Working with providers

In 2011-12, the LSC continued its extensive work with legal aid providers under its provider management strategy. This is designed to profile provider risk, target areas of greatest concern and also improve provider

## Financial reports 2011-12

### Management commentary (*continued*)

performance. This strategy provides a framework for the LSC's Contract Managers, who are responsible for managing the Commission's relationship with providers, and also for the LSC's in-house auditors. Both teams visit providers to offer guidance and support to help providers claim more accurately and, where relevant, identify and correct errors and recover overpayments. In 2011-12, the LSC recovered over £10.1 million of overpayments.

Where high levels of error are found, LSC staff employ a variety of sanctions in addition to recovering overpayments. During 2011-12, the LSC issued over 830 Contract Notices, which require providers to improve the way they claim for payments within a certain period, and 29 contracts were terminated. The LSC follows up all Contract Notices after six months to ensure that providers have rectified the weaknesses identified in their procedures.

### Commentary on 2011-12 financial results

#### Production of the 2011-12 year-end accounts

The LSC produces two sets of accounts that are included within this document. The first set covers the Community Legal Service Fund (CLS) and the Criminal Defence Service (CDS) together, known as the Fund accounts. The second set are the accounts reflecting the administration costs of running the LSC itself.

Within the Fund accounts, amounts due to providers for work done but not yet settled and receivables are the two most significant balance sheet items. Amounts due to providers are estimated on the basis of average case lengths and average costs, adjusted for when the work is undertaken and subsequently billed, by individual category of legal aid. Unpaid bills received are treated as payables and unpaid work reported on payment on account claims are treated as accruals, with the balance recognised as a provision.

The Fund's debt includes contributions from funded clients, costs recoverable from funded clients or others, including statutory charges, and recoveries of damages.

Statutory charge debts arise where funded clients, who have received legal aid, successfully secure an asset, where repayment of legal aid costs can be deferred with LSC taking a charge over assets. Where funded clients have

recovered or preserved property or other assets, rather than obtaining damages, recoverable costs may be secured against these assets. Interest is charged against this debt, currently at 8% simple interest. Such secured debts are only repayable on sale of these assets or death of the client, though clients are encouraged to repay debts to avoid interest charges.

Civil Representation debts are quantified through a case balancing process, which takes account of the total value recoverable for the client but then limits the recovery to the cost to the Fund. The debt is identified from a full reconciliation of activity through the LSC's case management system, adjusted for any write offs.

In addition, some debt arises from providers of service for recovery of over claims.

#### Accounting standards

Under paragraph 16 (1) of Schedule 1 to the Access to Justice Act 1999, the Secretary of State for Justice has directed the LSC to prepare, for each financial year, accounts for the CLS Fund and CDS as well as for the administration of the LSC itself. This direction covers the resources acquired, held or disposed of during the year and the use of resources by the LSC. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the LSC and of its Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the financial year.

The financial statements for the LSC's administration and the CLS and CDS Funds are prepared in accordance with the HM Treasury's 2011-12 *Government Financial Reporting Manual (FReM)* and applicable accounting standards.

#### Results for the year

Administration costs have decreased by £17.1 million, from £99.2 million to £82.1 million, a reduction of 17%. This is due to changes in the level of redundancy payments, underlying savings managed by the LSC, and pension impacts, offset by higher asset related charges.

Included within the overall reduction are the effects of redundancy payments of approximately £8 million made in 2010-11, compared with £0.3 million in 2011-12.

LSC has reduced its ongoing employment costs by £4.4 million in 2011-12 due to the effect of the 113 staff who departed the LSC on severance terms in 2010-11. Savings

## Management commentary (continued)

in other operating charges of £5.5 million were made through reduced recharges from Her Majesty's Courts and Tribunals Service (HMCTS) for processing legal aid cases, and reductions in professional services costs, relative to the prior year, mainly in connection with the IDP.

Additionally, movements in charges and credits relating to the LSC pension scheme resulted in a year on year decrease of £1 million (details are set out in note 3 and 4 to the administration accounts).

Factors offsetting these reductions comprise higher depreciation and amortisation, as a result of bringing IT assets into use during 2011-12, resulting in a net increase in costs between the years of £1.8 million.

The LSC administers the Legal Aid Fund for which net expenditure has decreased marginally from £2,091.8 million in 2010-11 to £2,078.4 million this year.

There has been a decrease in the CDS net expenditure of £28.6 million due to a number of factors including fee reductions from legal aid fee reforms, reduced instances of inaccurate claiming due to increased financial stewardship activity, and an overall reduction in underlying case volumes.

The CLS Fund has increased expenditure by £15.2 million. This increase is driven by a combination of factors, including an increase of £67.7 million in Civil Representation expenditure related to an increase in public family cases arising from the Special Children's Act; a decrease in Legal Help expenditure of £42.2 million resulting from improved financial stewardship activities and volume reductions in calls to our Community Legal Advice helpline and an increase in income of £18.1 million related to costs recovered from successful cases. The Civil Representation expenditure figure of £67.7 million excludes £4.9 million relating to corporation tax on statutory charge interest receipts, which has been separately disclosed in the CLS Fund accounts, note 5.

### Improving our debt records and removing the net receivables qualification

During the year the LSC has undertaken a series of activities designed to improve the accuracy and reporting of trade and other receivables. These activities were designed to reduce the level of extrapolated error in the gross receivables records and provide a more robust assessment of impairment, following an accounts qualification in 2010-11. Exercises in progress will also

facilitate an efficient transfer of data to the new IDP accounts platform.

As part of this wider exercise to improve the accuracy of data in the underlying records, a targeted review of a significant component of the receivable records was performed. The cases identified for review included those that management believed to be of the highest risk to collection and most susceptible to accuracy or existence error. As a result of this exercise, and following relevant *Managing Public Money* and internal governance protocols, £48.1 million of receivables were deemed to be inaccurate or unsupported. These receivables have been allocated to the appropriate periods to which they relate and the Statement of Financial Position for 2010-11 and 2009-10 have been restated accordingly.

Our underlying processes and assumptions to calculate the impairment of receivables has also been improved during the year to better reflect the underlying economic conditions and historical receipt of cash from our debtors. Our current year approach has also been applied to the restated 2010-11 and 2009-10 Statement of Financial Position presented in the financial statements.

The activities described above have resulted in the presentation of reliable and supportable trade and other receivables positions for each year disclosed in the financial statements and the accounts qualification has been removed.

The LSC remains committed to ensuring its records are accurate and an exercise to review the remaining balances on a case by case basis is ongoing in line with the timetable for implementation of IDP.

### Going concern

The going concern basis is set out in note 1 o) and note 11 of the CLS Fund and CDS financial statements and in note 1w) and note 17 of the LSC administration financial statements.

### Grant and loan making powers

Under section 6 (3)(c) of the Access to Justice Act 1999, the LSC may fund services as part of the CLS by making grants or loans to persons or bodies to enable them to provide or facilitate the provision of services. During the year, the LSC made grants in accordance with the Secretary of State's specific direction.

## Financial reports 2011-12

### Management commentary (*continued*)

This expenditure is reported in note 3 of the CLS Fund and CDS financial statements under the headings: 'Direct services' and 'Grants and similar'.

#### Pension scheme

An advance payment of £7 million was made in March 2012, with the agreement of the MoJ. The early payment discharges the LSC from its obligation to pay employer contributions under the schedule of contributions until the prepayment is utilised. Details of the pension scheme's assets, liabilities and contributions are set out in note 4 of the LSC administration financial statements.

#### Charitable donations

During 2011-12, the LSC made no charitable donations (2010-11: nil).

#### Payment of suppliers and performance

We calculate Fund creditor days as at 31 March 2012 to be 27.9 days (2010-11: 29.3 days). A significant proportion of our payments are made on a monthly basis and are a proxy for the claims being submitted. These payments are largely based on historical claims and payment data, which is updated on a monthly basis as claims are submitted.

Bill payments for legal aid take two forms: fixed or standard fees and non-standard fees. Standard fees are paid through our online system in a monthly process and form part of the providers' standard monthly payments. Non-standard bills from a legal aid provider are only eligible for payment once they have been assessed. Performance against internal targets for the timely payment of non-standard bills is set out in Table A below.

The LSC started 2011-12 with backlogs of casework; the strengthening of processes and new workstreams to improve stewardship of the Fund also led to extended lead times.

Furthermore, following the introduction of Crown Court means testing, system constraints led us to being unable to process some claims, as we refer them to the Magistrates' Court before being able to assess the associated costs. The LSC also took over the administration of the Advocates Graduated Fee Scheme (AGFS) with a new computer system and extended the requirement for supporting evidence for claims.

During the course of the year we implemented a series of internal initiatives to drive down the levels of outstanding work including recruiting additional staff. The combination of the internal initiatives and additional staff enabled us to

**Table A: Bills paid and performance**

Bills paid – 2011-12 target measures	Targets 2011-12	Performance 2011-12	Bills paid – 2010-11 target measures	Targets 2010-11	Performance 2010-11
Civil bills – taxed, assessed & payment on account <sup>1</sup>	30 days (90%)	91%	Civil bills – taxed & assessed	30 days (90%)	93%
Family graduated fee bills	30 days (90%)	91%	Family graduated fee bills	30 days (90%)	96%
Criminal non- standard fee	20 days (90%)	88%	Criminal non- standard fee	20 days (90%)	99%
Investigative exceptional cases	5 days (90%)	81%	Investigative exceptional cases	5 days (90%)	100%
AGFS & LGFS fee claims <sup>2</sup>	40 days (95%)	78%	Litigator fee claims	40 days (95%)	94%

<sup>1</sup> In 2011-12 there was a single target for civil certificated billing that included all of the taxed, assessed, payment on account and counsel billing workstreams.

<sup>2</sup> In 2011-12 there was a single target for the advocate (AGFS) and litigator (LGFS) crime bill workstreams. The target for AGFS and LGFS bills was 85% between April to September, 90% between October to December; and 95% between January and March.

## Management commentary (*continued*)

reduce the levels of outstanding bills by over 50,000 cases by the end of the year, at which point the billing targets noted in Table A were all being met. Whilst the overall annual performance was down on 2010-11, the additional controls resulted in a material reduction in the error rate on the bills authorised for payment.

The Case Management Directorate is responsible for the processing of applications for legal aid and the assessment of payments due to legal aid providers for the work they undertake for eligible clients under the CLS Fund and the CDS. Casework under these schemes is processed by dedicated civil and criminal teams, processing applications, amendments and bills and operating from 13 locations across England and Wales.

We introduced a number of initiatives in July 2011 to enable us to process casework more efficiently, including:

- Deployment of additional resource
- Reduced opening hours of our telephone service, to enable us to divert resources to processing
- Extending the timescales that work can be undertaken under emergency certificates
- Working with representative bodies to simplify processes
- Encouraging increased electronic working.

As a result of these measures we have made significant and sustained progress in reducing the overall number of cases we have and all our main payment/processing categories returned within target by 31 March 2012.

We aim to promptly pay all properly authorised invoices from the administration budget in accordance with the terms of contracts or within 30 days. We introduced a more robust calculation method in the year that shows we paid 93% of properly authorised administrative invoices within 30 days during 2011-12. This is up from the 81% shown in 2010-11. We will continue to monitor payment performance during 2012-13 to improve this result. The payment performance figures are unaudited.

### Contractual arrangements

The LSC has contractual arrangements with legal aid service providers. Information about the number of contracts with service providers can be found in the 'Year in focus' chapter.

### Auditors

Paragraph 16 of Schedule 1 to the Access to Justice Act 1999 provides that the LSC's external auditor is the Comptroller and Auditor General. The cost of the audit is disclosed in note 8 to the LSC administration financial statements and relates solely to statutory audit work.

As Accounting Officer, so far as I am aware there is no relevant audit information of which the Comptroller and Auditor General is unaware. I have taken all the steps necessary to make myself aware of any relevant audit information and to establish that the LSC's auditors are also aware of that information.

### Research and development

Strategic research in the civil and criminal justice fields is conducted by the Legal Services Research Centre (LSRC), our strategic research division. This research helps us to formulate our plans and develop services to meet the needs of users. More information about the work of LSRC can be found at [www.justice.gov.uk/about/lsrc](http://www.justice.gov.uk/about/lsrc).

### Engagement in Wales

The LSC facilitates the Wales Committee for the Community Legal Service to advise the LSC on the differences and best practice in delivering Legal Aid in Wales. Information can be found on our website at [www.legalservices.gov.uk/aboutus/our\\_regional\\_network/information\\_for\\_service\\_providers.asp](http://www.legalservices.gov.uk/aboutus/our_regional_network/information_for_service_providers.asp).

### Environment, social and community issues

The LSC continues to build stronger working relationships with the MoJ's sustainable development delivery team. This process has enabled the identification of energy solutions to longer term centralised energy management. Additionally, best practice carbon management tools and strategies that the MoJ has implemented successfully across its estate are being adopted by the LSC.

Further details are set out in the LSC Sustainability report.

## Financial reports 2011-12

### Management commentary (*continued*)

## Employee involvement

### Meeting the needs of staff

In 2011 the LSC participated for the first time in the Civil Service Staff Engagement Survey. 78% of staff took part and the results of the survey were used to formulate national and local action plans which will be delivered during 2012-13. Progress against these plans will be reviewed on a regular basis throughout the year.

This year, all managers in the LSC have a performance objective that focuses on improving staff engagement. The planned activities will result in greater staff involvement as this is key to addressing and improving staff engagement.

Due to the pace and high level of internal change we are experiencing, the Executive Team have taken the decision not to renew our Investors in People accreditation. However, as an organisation we will continue to use the frameworks and standards set out by Investors in People in everything that we do.

Two-way communication in this period of transformation and delivery of a number of change programmes is vital. The Chief Executive, Directors and the Senior Management Team have kept staff updated via face to face briefings and a regular update from the Chief Executive. In addition the Chief Executive sends a personal message to all staff on a weekly basis in which he shares his thoughts about relevant issues and asks staff for their feedback. We have also run a series of Executive Team visits to each of our offices which, in addition to updating and listening to staff, provided an opportunity for senior leaders to demonstrate their commitment to personal development and providing open and transparent communication.

Managers hold regular team meetings to communicate our objectives to all staff, where everyone can ask questions and give their views about organisational issues. These meetings include discussion of the 'bitesize', a short regular summary of our main corporate news. In addition, line managers hold regular one to one meetings with staff to discuss performance and development. These one to one meetings supplement the six monthly appraisal discussions where clear goals and targets are set, career aspirations discussed and development plans put in place.

The LSC formally consults with staff representatives on issues and changes to the terms and conditions of employment, through the Joint Consultative and Negotiating Committee (JCNC). JCNC membership includes representatives of management, and elected members of the two unions that represent our staff (GMB and the First Division Association). In addition, the LSC also meets regularly with our recognised trade unions to discuss issues relating to organisational change.

### Equality and diversity

We are committed to ensuring that we have due regard to equality in our delivery of legal aid. We value diversity and aim to promote an understanding of the needs of different people whether staff, legal aid clients or providers. The new equality duty came into force on 6 April 2010. Since then we have taken steps to further embed how we take account of the equality duty in decision making and we have published our first set of equality information and equality objectives and actions that set out how we intend to meet our public sector equality duty. These include improving our knowledge and collection of information about the needs of service users, and taking account of the diverse needs of staff when implementing our programme of organisational change.

We set one equality objective to build on the understanding of disability among LSC staff during 2011-12 by raising awareness about different disabilities. Our equal opportunity policy covers all aspects of employment, including training, development and career progression for all staff, with particular provision for disabled persons.

Equality and diversity information, including our annual workforce diversity report and equality objectives can be found on our website at [www.legalservices.gov.uk/aboutus/how/equality\\_and\\_diversity.asp](http://www.legalservices.gov.uk/aboutus/how/equality_and_diversity.asp).

### Sickness absence data

As part of our people scorecard KPI (see page 14), we had a target for annual sickness absence per full time equivalent of no more than 7.7 days. Our performance against this target was 7.1 days.

## Management commentary *(continued)*

### Reporting of personal data related incidents

In 2011-12 we formally reported one personal data related incident to the Information Commissioner's Office (ICO) and they decided that no further action was necessary (see Table B). There were 169 other incidents recorded centrally but that did not fall into the criteria for reporting to the Information Commissioner's Office (see Table C). Small, localised incidents are not recorded centrally and are not cited in these figures. In 2011-12, we continued to raise awareness throughout the LSC about information security, which contributed to the increase in reported incidents.

**Table B: Summary of personal data incidents formally reported to the ICO in 2011-12**

Date of incident	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
17 October 2011	An unauthorised disclosure of an individual's personal data. A form which is used to apply for legal aid was included in an envelope sent to another person.	The form contained personal data designed to assess their means in relation to the eligibility criteria for legal aid.	1	The LSC wrote to the individual to notify them and informed the ICO who noted the remedial actions taken and decided that no further action was necessary.

**Table C: Summary of other protected personal data related incidents in 2011-12**

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	35
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	35
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0
IV	Unauthorised disclosure	94
V	Other	5

## Financial reports 2011-12

### Management commentary (*continued*)

#### Forward look

Our *Business Plan 2012-13*, which can be found at [www.legalservices.gov.uk/aboutus/how/strategic\\_publications.asp](http://www.legalservices.gov.uk/aboutus/how/strategic_publications.asp), outlines the work which we will undertake in the coming year. We face a number of challenges if we are to realise our vision, which is to work with our providers and the justice system to be a respected commissioner and administrator of legal aid. In this context we must:

- Support the MoJ in reforming the legal aid system to make it work more efficiently
- Reform the way we work and move to EA status
- Continue to work through our financial stewardship programme to improve our financial and operational controls, improve the way we manage our providers and make financial recoveries of overpayments.

In this context we have five strategic objectives for 2012-13:

- Commissioning and procuring services that provide timely access to quality legal advice for eligible clients: Our priorities are to procure services to provide people with access to legal help and advice within the resources available and work with the MoJ to implement the legal aid reforms following the conclusion of parliamentary consideration of the Legal Aid, Sentencing and Punishment of Offenders (LASPO) Act.
- Use finances consistently and reliably to achieve value for money: We will manage our budget effectively and continue to improve the way we produce our annual accounts. We plan to meet the timetables set for the production of accounts and continue our programme of financial stewardship – including recovery of overpayments and debt recovery activity.
- Integrated Delivery Programme (IDP): IDP represents a move to working online with our providers through the launch of a new IT system that will grant legal aid, pay bills and recover debt. Once launched, the system will deliver administrative savings for the LSC and it will offer a simpler service to providers; it will also ensure consistency in decision making for legal aid applications and claims.

- Improve our business by simplifying processes, driving efficiency and eliminating waste: We will improve quality control, reduce error rates, work on contract simplification and improve complaints handling.
- Build capability to ensure we have the right people with the right skills to meet our goals: We aim to have an efficient organisational structure in place for EA transition within the budgeted headcount. We will ensure that all staff understand their roles and develop the required knowledge, skills, competencies and values as we progress through our change programme. We will also ensure that there are robust, transparent HR processes in place to support organisational change.

#### Signed for and on behalf of the Legal Services Commission

##### Matthew Coats

Chief Executive and Accounting Officer  
5 July 2012

## Sustainability report

In preparation for Executive Agency (EA) status in April 2013, the Legal Services Commission (LSC) has begun to align processes with the Ministry of Justice (MoJ) to engage with environmental and sustainable practices required to demonstrate environmental improvements and effective reporting.

The LSC's focus for sustainability reporting is based on three key drivers: legislation, government policy and the benefits of Sustainable Development (SD).

Information in this report has been disclosed to satisfy reporting requirements in accordance with *HM Treasury Public Sector Annual Reports: Sustainability Reporting Guidance for 2011-12 Reporting*.<sup>1</sup>

### Overall strategy

The LSC's sustainability aim is to reduce the impact of our business on the environment, and our priority is to decrease our carbon dioxide (CO<sub>2</sub>) emissions in line with Greening Government Commitments (GGC)<sup>2</sup>.

The LSC does not own any land and buildings or have a central facilities service or building management, therefore we are limited regarding what can be internally controlled and monitored.

As GGC commitments look to deliver in 2015, when the LSC will have adopted EA status, the LSC are working with the MoJ's Sustainable Development Delivery Team to align and incorporate the LSC estate policy into their long term strategic planning. The focus will be the provision of a robust baseline against which the LSC can demonstrate ongoing progress. As part of this work the LSC will compile and maintain necessary data for budget setting for carbon allowances.

### Summary of performance

The LSC does not currently have internal SD targets but we are committed to implementing the GGC and ensuring SD informs our policy making.

In order to meet the necessary requirements, given current limitations over internal controls and monitoring data, the LSC has developed strong working relationships with the MoJ's Sustainable Development Delivery Team. These relationships have enabled the identification of energy solutions to longer-term centralised energy management. Additionally, best practice carbon management tools and strategies that the MoJ has implemented successfully across its estate are being adopted by the LSC.

Where accurate consumption cannot be identified, the LSC has reported financial information extracted from accounting records.

### Summary of future strategy

After the move to EA status, the LSC's intention is that where possible, joined up services, contracts and facilities will be arranged so that data required for SD reporting is available from a central source. In 2012-13, the LSC will undertake the following actions:

- Continue to mainstream the current processes to ensure SD reporting requirements are met
- Prepare a plan for delivery of the department's GGC.

In building a sustainable working environment, and mainstreaming SD throughout LSC's operations, the mandatory SD reporting requirements highlighted within HM Treasury guidance will also be taken into account.

### About our data

Energy and water usage data is only available for locations where the LSC pay for the utilities directly. Data currently unobtainable includes usage that is directly paid by landlords via service charges. Where the LSC is unable to obtain accurate consumption information, the financial figures have been used.

Although internal assurance and verification of reported figures has taken place, processes will be further improved when the LSC moves to EA status and, at this point, more advanced systems and processes to capture and monitor relevant SD data will also be considered.

1 [www.hm-treasury.gov.uk/d/psar\\_sustainability\\_reporting\\_guidance20112.pdf](http://www.hm-treasury.gov.uk/d/psar_sustainability_reporting_guidance20112.pdf)

2 <http://sd.defra.gov.uk/gov/green-government/commitments/>

## Financial reports 2011-12

### Sustainability report (*continued*)

#### Greenhouse gas (GHG) emissions

The general trend for utility spend for this financial year is downwards, mainly as a result of changes to our estate, including reductions in staff, and colocation with other Government organisations in some of our buildings.

As both the MoJ and the LSC are subject to the same, wider SD reporting and GGC requirements, reporting systems will be in place to capture the required level of detail when the LSC moves to EA status.

#### Sustainable procurement

Sustainable procurement at the LSC takes into consideration economic, environmental and social issues when making procurement decisions. It means protecting or enhancing the economic viability of the organisation by:

- Adding value
- Controlling costs
- Securing supply continuity
- Meeting the needs of internal and external customers
- Building beneficial supply chain relationships
- Procuring ethically sourced products that minimise environmental and social impact.

The LSC procurement team works to build strong, mutually beneficial, supplier relationships, understanding the inputs and sources of the products and ensuring high standards of compliance with equalities and other key legislation impacting upon sustainability.

#### Waste

Outside of recycled office waste (paper, cans, cardboard and glass) all other general waste is disposed of through individual contracts at a local level.

The LSC is working on a solution to accurately monitor usage and to use this data in order to accurately measure and report waste across the organisation. Some aspects of behavioural change, such as awareness events and communications campaigns, have also been run.

#### Water (finite resource consumption)

As mentioned above, the LSC does not own any land and buildings, or have a central facilities service or building management, therefore we are restricted by the availability of data.

The LSC has moved contracts for property management and is currently in the process of acquiring the historical estate information which landlords hold and all other information that is required for monitoring and reporting.

#### Biodiversity and natural environment

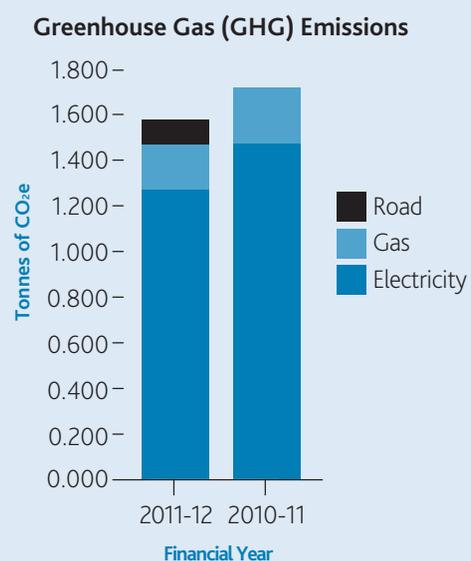
Biodiversity is not a significant consideration for the LSC estate and the LSC does not undertake data collection on this aspect of sustainability.

## Sustainability report (continued)

## Greenhouse gas (GHG) emissions

Table A: GHG emissions

		2011-12	2010-11
<b>Non-financial indicators (Tonnes of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e))</b>	Total gross emissions for scopes 1 & 2	<b>1,453</b>	1,674
	Electricity: green/renewable	<b>N/A</b>	N/A
	Total net emissions for scopes 1 & 2 (i.e. having removed renewable elements)	<b>1,453</b>	1,674
	Gross emissions scope 3 travel	<b>110</b>	Not Available
	Total gross reported emissions	<b>1,563</b>	1,674
<b>Non-financial indicators (Megawatt hour(mwh))</b>	Electricity: Purchased, Grid, CHP & non-renewable	<b>2,367</b>	2,669
	Electricity: renewable	<b>N/A</b>	N/A
	Gas	<b>1,153</b>	1,062
	Other energy sources	<b>N/A</b>	N/A
	Total energy	<b>3,520</b>	3,731
<b>Financial indicators (£000)</b>	Expenditure on energy	<b>316</b>	275
	Expenditure on accredited offsets (e.g. Government Carbon Offsetting Facility)	<b>N/A</b>	N/A
	Expenditure on official business travel	<b>610</b>	Not Available

**Performance commentary (including targets)**

In prior years the LSC did not adopt Sustainable Operations on the Government Estate (SOGE) targets and there was no requirement to have internal sustainable development targets in place. In 2011-12 we have been subject to the GGC, which superseded the SOGE requirements. However, in certain areas the information required is not, at this stage, readily available. Where this is the case, the relevant data table item has been marked as 'Not Available'.

**Controllable impacts commentary**

The general trend for utility consumption is downwards, mainly as a result of changes to our estate, reductions in staff and colocations with other government organisations in some of our buildings.

## Financial reports 2011-12

### Sustainability report (continued)

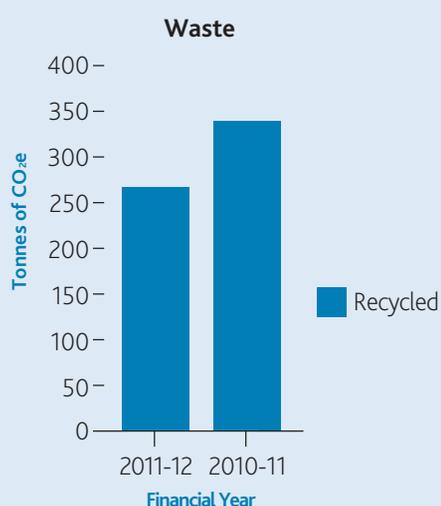
#### Overview of influenced impacts

Investment, building management and behavioural change are all interlinked. The LSC is scheduled to become an Executive Agency on 1 April 2013 and, as such, will look to join services with the MoJ under its Total Facilities Management (TFM) contract. This will allow significant improvements to the current sustainability reporting process. Following involvement from Her Majesty's Courts and Tribunals Service (HMCTS), we now have arrangements in place to consolidate billing with suppliers so that consumption data can be recorded on the Navigator system (MoJ's energy management database). In addition to this, the LSC will be contributing to the MoJ's reporting requirements under GGC. This should lead to an improved reporting structure to meet the necessary reporting requirements.

### Waste

Table B: Waste

		2011-12	2010-11
		Weights (tonnes)	Weights (tonnes)
Non-financial indicators	Hazardous waste	Hazardous waste	Not Available
		Landfill waste	Not Available
	Non-hazardous waste	Reused/recycled waste	255
		Energy from waste	Not Available
	<b>Total waste arising</b>		<b>255</b>
		(£000)	(£000)
Financial indicators	Hazardous waste	Hazardous waste	Not Available
		Landfill waste	Not Available
	Non-hazardous waste	Reused/recycled waste	39
		Energy from waste	Not Available
	<b>Total waste costs</b>		<b>39</b>



#### Performance commentary (including targets)

In prior years the LSC did not adopt SOGE targets and there was no requirement to have internal sustainable development targets in place. In 2011-12 we have been subject to the GGC, which superseded the SOGE requirements. However, in certain areas the information required is not, at this stage, readily available. Where this is the case, the relevant data table item has been marked as 'Not Available'.

## Sustainability report (continued)

### Controllable impacts commentary

As the LSC does not own any of the buildings in use, we are therefore restricted in obtaining the detailed information required to report on the above waste categories. Outside of recycled office waste (paper, cans, cardboard and glass), all other general waste is disposed of through individual contracts at a local level. Due to this, the information is not recorded.

### Overview of influenced impacts

Minimal waste production is achieved by a good knowledge of all waste streams and understanding how they can be managed strategically. Currently the LSC is working on understanding the sourcing, manufacturing, transport, usage, recycling and disposal processes within the workplace because these all have an environmental impact. A consistent approach across the whole of MoJ estate, at procurement stage, will form a good basis for a waste management system where performance targets can be accurately monitored. LSC's involvement within the MoJ's TFM contract will help us in achieving this.

## Water

Table C: Water

			2011-12	2010-11
<b>Non-financial indicators (cubic metres)</b>	Water consumption	Supplied	<b>Not Available</b>	Not Available
		Abstracted	<b>Not Available</b>	Not Available
	<b>Total water consumption</b>		<b>Not Available</b>	Not Available
			<b>2011-12</b>	<b>2010-11</b>
<b>Financial indicators (£000)</b>	<b>Total water supply costs</b>		<b>25</b>	Not Available

### Performance commentary (including targets)

In prior years the LSC did not adopt SOGE targets and there was no requirement to have internal sustainable development targets in place. In 2011-12 we have been subject to the GGC, which superseded the SOGE requirements. However, in certain areas the information required is not, at this stage, readily available. Where this is the case, the relevant data table item has been marked as 'Not Available'.

### Controllable impacts commentary

As the LSC does not own any of the buildings in use, we are therefore restricted in obtaining the required water consumption data.

### Overview of influenced impacts

Gathering qualitative and accurate water data has been a challenge for us this year. Following involvement from HMCTS, we now have arrangements in place to consolidate billing with suppliers so that consumption data can be recorded on the Navigator system (MoJ's energy management database). LSC's involvement within the MoJ's TFM contract will help us in achieving this. In addition to this, the LSC will be contributing to the MoJ's reporting requirements under GGC. This should lead to an improved reporting structure to meet the necessary reporting requirements.

## Financial reports 2011-12

# Remuneration report

This report summarises the Legal Services Commission's (LSC) policy on remuneration of Executive Directors and non-executive Commissioners.

The tables in this report have been subject to audit by the external auditor, the National Audit Office (NAO), appointed under the Access to Justice Act 1999.

## The Pay Committee

The Pay Committee reviews the contractual arrangements and salaries of the Chief Executive and the Executive Directors.

Pay Committee members currently include two Commissioners and two independent members. The members do not have any involvement in the day to day running of the LSC. The members of the Pay Committee during 2011-12 were:

- Beryl Seaman CBE JP (Chair)
- Julian Lee
- Helen Murlis<sup>1</sup>
- Beverley Shears.<sup>1</sup>

The Chief Executive and the Director of Human Resources and Organisational Development attend the Committee to assist it in its deliberations. These individuals do not participate in any decisions relating to their own remuneration. The Chief Executive, Matthew Coats, is a Ministry of Justice (MoJ) employee and his remuneration is administered by the MoJ.

## Remuneration policy

### Directors

#### **Employment contracts**

LSC appointments to Executive Director roles are made in accordance with the LSC's recruitment policy, which requires appointments to be made on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made. All details

of notice periods for the Executive Directors are highlighted in Table A2.

There is currently one Executive Director seconded from the MoJ and one seconded from Her Majesty's Courts and Tribunals Service (HMCTS). The appointments for these people are made in accordance with the *Civil Service Commissioners' Recruitment Code* and are managed by the MoJ.

Unless otherwise stated below, the officials covered by this report hold appointments which are open ended:

- Matthew Coats – 3 year fixed term contract seconded from MoJ
- Owen Mapley – seconded from HMCTS; current secondment agreement runs until 30 April 2013.

#### **Performance process**

LSC staff follow the Performance Development Review (PDR) process. This method is used to assess whether performance conditions and objectives have been met.

Senior Civil Servants (SCS) follow the Cabinet Office guidelines for SCS. There are two 'formal' PDR discussions a year and then regular one to one meetings to monitor progress and ensure that all objectives are still relevant.

#### **Base pay and bonuses**

Executive Directors who are appointed on a permanent basis have their base pay determined on appointment. This follows an evaluation of the job, which is informed by market research and reflects the higher pension contributions paid relative to the civil service.

There have been no increases in base pay for Executive Directors since 2009.

#### **Non-consolidated performance payments**

Non-consolidated performance payments relate to performance in the prior financial year, i.e. 2010-11. Details relating to 2011-12 will be reported in the 2012-13 report.

<sup>1</sup> Helen Murlis and Beverley Shears are both independent members of the Pay Committee. Helen Murlis is an independent reward specialist and former Senior Director of HayGroup. Beverley Shears has a background in change management and organisational transformation and also specialises in HR matters.

## Remuneration report (*continued*)

Executive Directors are eligible for a non-consolidated performance payment up to a maximum of 20% of their individual salaries as part of their terms and conditions of employment. This entitlement is capped at 10%.

### **Exit packages**

Note 3 to the 'Legal Services Commission Notes to the financial statements' sets out information in relation to exit packages.

There is no compensation payable to Executive Directors in the event of early termination.

### **Pensions**

Note 4 in the 'Legal Services Commission Notes to the financial statements' sets out information in relation to LSC pension schemes.

Pension benefits for civil servants seconded to LSC are provided through the civil service pension arrangements managed by the MoJ. For further information please refer to [www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions).

### **Non-executive Commissioners**

The Secretary of State for Justice appoints Commissioners for a fixed term and determines their pay, which is based on judicial salaries set by the Senior Salaries Review Board.

Commissioners are appointed with different time commitments and are also reimbursed for travel and other business expenses they incur.

Commissioners are not members of the LSC's pension scheme, and are not entitled to any other benefits or remuneration.

If a Commissioner's appointment is terminated for reasons other than the expiry of their term, the Secretary of State for Justice may determine that compensation is payable based on the nature of the termination and the length of the term remaining.

Details in relation to Commissioners' service terms, benefits or remuneration are included in Table D1 and D2.

### **Executive Directors**

The Chief Executive and all Executive Directors follow the PDR process highlighted in the performance process section above. Progress and objectives are monitored twice a year by the Human Resources team. The performance measures for each member of the Executive Directors were met.

Information about LSC's Executive Directors is available at: [www.legalservices.gov.uk/aboutus/how/our\\_organisation.asp#our\\_staff](http://www.legalservices.gov.uk/aboutus/how/our_organisation.asp#our_staff).

## Financial reports 2011-12

Remuneration report (*continued*)

Table A1: Senior employees in post at 31 March 2012 - employment costs

Executive Directors	Full year equivalent salary and allowances £000	Non consolidated performance related pay £000	Benefits in kind £000	Total 2011-12 £000	Total 2010-11 £000
Matthew Coats <sup>1</sup> <i>Chief Executive (from 27 February 2012)</i>	140-145	-	-	10-15	N/A
Hugh Barrett <sup>2</sup> <i>Director of Legal Aid, Commissioning and Contract Management</i>	140-145	-	-	140-145	140-145
Owen Mapley <sup>3</sup> <i>Director of Finance and Corporate Services</i>	110-115	5-10	-	120-125	35-40
Helen Riley <i>Director of Case Management</i>	115-120	-	-	115-120	85-90
				<b>2011-12</b>	<b>2010-11</b>
Band of highest paid Director's total remuneration (£000)				<b>165-170</b>	165-170
Median total remuneration (£)				<b>24,526</b>	26,720
Ratio				<b>6.9:1</b>	6.3:1

Reporting bodies are required to disclose the relationship between the salary of the most highly-paid Director in their organisation and the median earnings of the organisation's workforce.

The banded remuneration for the highest-paid director in the LSC in the financial year 2011-12 was £165-170k (2010-11: £165-170k). This was 6.9 times the median remuneration of the workforce, which was £24,526 (2010-11: £26,720).

The increase in the ratio to 6.9 (2010-11: 6.3) reflects a reduction in median salary resulting from the recruitment of a number of case management fixed term contractors to address processing backlog during the year.

In 2011-12, no employees (2010-11: nil) received remuneration in excess of the highest paid director.

Total remuneration includes salary, non-consolidated performance related pay, and benefits in kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

Remuneration report (*continued*)**Table A2: Executive Directors – employment contracts**

Executive Directors	Contract start date	Term served (years)	Notice period (months)
Matthew Coats <sup>1</sup>	27 February 2012	N/A	3
Hugh Barrett <sup>2</sup>	1 December 2008	3	3
Owen Mapley <sup>3</sup>	1 December 2010	1	3
Helen Riley	17 April 2006	5	3

**Notes for Tables A1 and A2**

- 1 Matthew Coats joined as Chief Executive on 27 February 2012.
- 2 Hugh Barrett is a part time non-executive Director with the Criminal Records Bureau, which compensates the LSC for his time (2011-12: £8,000, 2010-11: £9,600). The figure disclosed in Table A1 is Hugh Barrett's gross remuneration.
- 3 Owen Mapley is seconded from HMCTS. He was acting LSC Chief Executive from 21 November 2011 to 26 February 2012.

**Table B: Executive Directors who left the LSC during 2011-12 – employment costs**

Executive Directors	Full year equivalent salary and allowances £000	Total 2011-12 £000	Total 2010-11 £000
Carolyn Downs <sup>1</sup> <i>Chief Executive</i>	165-170	120-125	165-170

**Notes for Table B**

- 1 Carolyn Downs left the LSC on 20 November 2011. Her total pay during 2011-12 up to 20 November 2011 included £7,500 in non-consolidated performance related pay which was paid in July 2011.

## Financial reports 2011-12

Remuneration report (*continued*)

Table C: Executive Directors – pension costs for the year ended 31 March 2012

	Total accrued pension payable at age 60 at 31 March 2012 and related lump sum £000		Real movement in pension and related lump sum payable at age 60 £000		CETV at 31 March 2012 £000	CETV at 31 March 2011 £000	Real increase in CETV £000
	Pension	35-40	Pension	0-2.5			
Matthew Coats <sup>1</sup>	Lump sum	0	Lump sum	0	480	419	22
	Pension	5-10	Pension	0-2.5			
Hugh Barrett <sup>2</sup>	Lump sum	15-20	Lump sum	5-7.5	116	84	26
	Pension	5-10	Pension	0-2.5			
Owen Mapley <sup>1</sup>	Lump sum	0	Lump sum	0	78	49	12
	Pension	5-10	Pension	0-2.5			
Helen Riley <sup>2</sup>	Lump sum	25-30	Lump sum	0-2.5	152	148	3
	Pension	10-15	Pension	0-2.5			
Carolyn Downs <sup>3</sup>	Lump sum	0	Lump sum	0	142	76	22

**Notes for Table C**

- 1 Matthew Coats and Owen Mapley are members of the Civil Service Premium Pension Scheme.
- 2 Hugh Barrett and Helen Riley are members of the LSC Staff Pension and Assurance Scheme (No.4).
- 3 Carolyn Downs' pension has been calculated until her last day at the LSC, 20 November 2011.

Members of the LSC Staff Pension and Assurance Scheme (No. 4) contribute 6.5% of their pensionable earnings. The employer contribution rate up to 31 October 2011 was 20.6% (ordinary) and 10.5% (additional for the pension deficit). From 1 November 2011 the Trustees amended the schedule of contributions to remove the requirement to pay deficit contributions and the ordinary rate changed to 19.9%. Pension contributions are restricted to the 'Scheme Notional Earnings Cap' which was set at £129,600 in 2011-12.

**Cash Equivalent Transfer Value (CETV)**

A CETV is the actuarially assessed capitalised value of a member's pension scheme benefits at a point in time. The benefits valued are the member's accrued benefits and include, where applicable, the spouse's pension payable from the scheme. When the member leaves the scheme and chooses to transfer their benefits accrued, the CETV is a payment made by one pension scheme that secures pension benefits in another.

The pension figures shown relate to benefits accrued for total membership of the pension scheme, and include the value of any pension benefit transferred from another scheme, into the pension scheme. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Remuneration report (*continued*)**Real increase in CETV**

This reflects the increase in CETV funded by the employer excluding the effect of fluctuations in the transfer value, such as investment market movements. It does not include the increase in accrued pension in line with inflation or a contribution paid by the employee, but does include the value of any benefits transferred from another pension scheme. Common market valuation factors are used for the start and end of the period.

**Non-executive Commissioners**

Non-executive Commissioners are part time and their role involved a commitment of between 30-60 days per year during 2011-12, though this has been reduced to 30-40 days for 2012-13. The Chair remains on 60 days. They hold office until the end of the period for which they are appointed.

Commissioners' appointments may be terminated in accordance with paragraph 5 of Schedule 1 to the Access to Justice Act 1999. Any appointments made by the Secretary of the State may be terminated at his discretion.

**Employment costs – Non-executive Commissioners****Table D1: Non-executive Commissioners in post at 31 March 2012 – employment costs**

Commissioner	Date current term commenced	Date term expires <sup>1</sup>	Remuneration <sup>2</sup> £000	Expenses <sup>3</sup> £000	Total 2011-12 £000	Total 2010-11 £000
Sir Bill Callaghan <i>Chair</i>	28 July 2011	31 August 2013	54	-	54.0	54.3
Barry Elliott	1 June 2011	31 May 2013	21	1.7	22.7	23.4
Tom Jones OBE	1 March 2012	28 February 2013	21	5.7	26.7	28.8
Julian Lee	1 November 2011	31 October 2013	11	0.6	11.6	11.7
Beryl Seaman CBE JP	1 July 2011	30 June 2013	21	3.1	24.1	28.3
Dr David Wolfe QC	1 October 2008	30 September 2013	11	0.8	11.8	11

**Notes for Table D1**

- Under the Legal Aid Sentencing and Punishment of Offenders Act, which achieved Royal Assent on 1 May 2012, the LSC will be abolished and replaced with an Executive Agency of the MoJ. Appointments will terminate on the sooner of the date noted in the table or on the abolition of the LSC.
- With the exception of the Chair, Commissioners are appointed with different time commitments but are paid the same daily rate of £357.10.
- The cost of expenses varies according to the distance between the Commissioner's home and the LSC's office, other travel commitments required by their role, and the time commitment of the individual Commissioner. Commissioners are reimbursed for travel and other expenses including any taxation paid on those expenses.

## Financial reports 2011-12

Remuneration report (*continued*)

Table D2: Non-executive Commissioners – employment contracts

Commissioner	Contract start date	Term served (years)
Sir Bill Callaghan <i>Chair</i>	28 July 2008 (Appointed Commissioner for one month, Chair from 1 September 2008) Reappointed 2011	4
Barry Elliott	1 June 2007 Reappointed 2011	5
Tom Jones OBE	1 March 2004 Reappointed 2008 Reappointed 2012	8
Julian Lee	1 November 2008 Reappointed 2011	3
Beryl Seaman CBE JP	1 July 2005 Reappointed 2008 Reappointed 2011	7
Dr David Wolfe QC	1 October 2005 Reappointed 2008 Reappointed 2012	6

**Note for Table D2**

No Commissioners left the LSC during 2011-12.

More information about how Commissioners are appointed and individual Commissioners' experience can be found on the [www.legalservices.gov.uk/aboutus/how/commissioners.asp](http://www.legalservices.gov.uk/aboutus/how/commissioners.asp).

**Signed for and on behalf of the Legal Services Commission****Matthew Coats**

Chief Executive and Accounting Officer  
5 July 2012

## Statement of the Commission and Accounting Officer's responsibilities

Under paragraph 16 (1) of Schedule 1 to the Access to Justice Act 1999, the Secretary of State for Justice has directed the Legal Services Commission (LSC) to prepare, for each financial year, accounts for the Community Legal Service (CLS) Fund and the Criminal Defence Service (CDS) as well as the administration of the LSC detailing the resources acquired, held or disposed of during the year and the use of resources by the LSC during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the LSC and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

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

- Observe the Accounts Direction issued by the Secretary of State, 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 *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts
- Prepare the accounts on a going concern basis.

The Accounting Officer of the Ministry of Justice has designated the LSC's Chief Executive as Accounting Officer of the LSC.

The responsibilities of an Accounting Officer, include responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the LSC's assets, are set out in *Managing Public Money* published by HM Treasury.

## Financial reports 2011-12

# Governance statement

## Introduction

As Accounting Officer I am satisfied that the Legal Services Commission (LSC) is making good progress to implement the necessary systems and processes to ensure an effective system of internal control throughout the organisation which supports the achievement of our aims, objectives and core business, whilst safeguarding the public funds and assets for which I am personally accountable. There is a report, later in the statement, on some of the issues that I consider significant enough to impact on the performance and reputation of the LSC. This includes the qualification of the LSC's accounts and an explanation of what action has been taken to ensure that we have a realistic plan in place for dealing with this. The qualification of our accounts has a significant impact not just on the Commission, but on the Ministry of Justice (MoJ) as our sponsoring department. The LSC's Governance Framework, which describes the support I have in the discharge of my responsibilities, is described in greater detail below.

The Executive Team support me in ensuring we quickly identify any emerging risks and put actions in place to manage them, and we regularly review how well risks are being managed. During the year the Executive Team has worked with senior managers across the business to redesign our risk management process. This resulted in a complete review of LSC corporate risks and clearer reporting with full action plans to mitigate emerging risks wherever possible. New risks for the year have centred on the implementation of legal aid reforms and our transition to Executive Agency (EA) status. We have also been working on a strategy to mitigate the impact of the Olympic Games on delivery of our services, both at our headquarters in Westminster but also at one of our large delivery sites based in Docklands.

This statement sets out how we have continued to develop our governance structure following a review of the effectiveness of the Board and how we review our risks to ensure that we maintain our focus on the areas that are most likely to prevent us from achieving our objectives. I am confident that we have the governance, risk management and assurance arrangements in place to ensure that we can rise to those challenges.

## Governance Framework

### Commission Board

The Commission Board forms the collective strategic and operational leadership of the LSC, bringing together the non-executives, Chief Executive and Director of Finance and Corporate Services and the Commissioners, who all have equal decision making rights. The Chair is responsible to the Secretary of State. Communication between the Board and the responsible minister should normally be through the Chairman. The Chairman is responsible for ensuring that plans and activities support the responsible minister and that the LSC's affairs are conducted with probity.

The Board's remit is advising and challenging on performance and delivery. It is also responsible for ensuring that effective arrangements are in place to provide assurance on risk management, governance and internal control. The Board approves all major spending decisions and has overall responsibility for allocation of resources.

The Chair assesses the performance of individual Commissioners including when they are being considered for reappointment. There are effective arrangements for reporting and managing any conflicts of interest, but this has not been necessary during the 2011-12 financial year.

The Commission meets on a monthly basis, excluding August and December. The minutes of Board meetings are published, subject to any applicable exemptions under the Freedom of Information Act 2000, at: [www.legalservices.gov.uk/aboutus/how/commissioners.asp](http://www.legalservices.gov.uk/aboutus/how/commissioners.asp).

The LSC's Framework Document describes the Board's role as overseeing the discharge of the LSC's functions and this is reaffirmed in the Board's terms of reference, which are equivalent to its operating framework. The Board is specifically responsible for:

- Establishing and taking forward the strategic aims and objectives of the LSC consistent with its overall strategic direction and within the policy and resources framework determined by the Secretary of State.

## Governance statement (*continued*)

- Ensuring that the minister responsible is kept informed of any changes which are likely to impact on the strategic direction of the LSC or on the attainability of its targets, and determining the steps needed to deal with such changes.
- Ensuring that any statutory or administrative requirements for the use of public funds are complied with; that it operates within the limits of its statutory authority and any delegated authority agreed with the MoJ, and in accordance with any other conditions relating to the use of public funds; and that, in reaching decisions, it takes into account guidance issued by the MoJ.
- Ensuring that it receives and reviews regular financial information concerning the management of the LSC; is informed in a timely manner of any concerns about the activities of the LSC; and provides positive assurance to the MoJ that appropriate action has been taken on such concerns.
- Demonstrating high standards of corporate governance at all times, including use of the independent Audit Committee to help it address key financial and other risks.
- Appointing, with the responsible minister's approval, a Chief Executive and, in consultation with the MoJ, setting performance objectives and remuneration terms linked to these objectives for the Chief Executive which give due weight to the proper management and utilisation of public resources.

During the past year, in addition to discussions on financial management, performance and risk, the Board discussed progress towards delivering the LSC's strategic objectives, as well as ongoing projects and programmes such as Legal Aid Reform (LAR), the Integrated Delivery Programme (IDP) and EA transition. The Board also sponsored a significant review of the corporate risk management process and subsequently adopted the review's recommended approaches.

### Board effectiveness

The Board reviewed its effectiveness in March 2012 following a formal review by the LSC's Internal Audit function and agreed that it was appropriate in the context in which it was operating. Commissioners and Executive Team members were invited to individually consider our current governance structure and the future EA governance structure, and reflect on the challenges that

this situation presents. Commissioners and Executives also considered the key questions from the National Audit Office's Board evaluation questionnaire (which focuses on compliance with the *Code of Good Practice for Corporate Governance*) and identified areas of good practice and areas for improvement. The Chair then facilitated a group discussion to summarise the key points to feed into the drafting of the Governance statement.

The Board has made several changes to its governance over recent years, including improving its level of scrutiny of the accounts and more regular discussions of financial risk. The Board has a clear purpose as set out in its terms of reference (agreed with the MoJ), which shapes the objectives that are set out for the whole organisation in the Business Plan. The Chief Executive and Director of Finance and Corporate Services sit on the Board with equal decision making rights and the Audit Committee gives assurance to the Board based on its scrutiny of fraud, audit, internal control and risk management processes. The Board is satisfied that its agenda and the quality of the information presented are appropriate and an honest reflection of the organisation's progress in achieving its objectives.

The Board is satisfied that it has sound Governance in place and that the LSC is compliant with the Code of Good Practice relevant to a Non-Departmental Public Body, with minor exceptions as follows:

- Post-implementation reviews are part of the LSC's project management standards, but are not regularly reported to the Board. These will now be submitted to the Board.
- The Audit Committee's terms of reference were not published on the LSC website during 2011-12. This was addressed in June 2012.
- The LSC does not have a Nominations and Governance Committee, but these responsibilities are covered by the remit of the Board, Pay Committee and Executive Team combined.
- The Head of Internal Audit has not recently been invited to attend the Board meetings, but has copies of the agendas and minutes and would be invited to attend if required.

Full details of the membership and attendance records of the Board and its sub-committees are shown at Table A.

## Financial reports 2011-12

### Governance statement (*continued*)

#### Table A: Attendance at Board and Committee meetings

The quorum was met for all meetings in the 2011-12 financial year.

##### Board

The quorum for the Board is the person chairing the meeting, two Commissioners, plus either the Chief Executive or the Director of Finance and Corporate Services. All members have equal voting rights.

Board member	Number of meetings attended
<b>Commissioners</b>	
Sir Bill Callaghan	10 out of a possible 10
Barry Elliott	10 out of a possible 10
Tom Jones OBE	10 out of a possible 10
Julian Lee	10 out of a possible 10
Beryl Seaman CBE JP	10 out of a possible 10
Dr David Wolfe QC	9 out of a possible 10
<b>Executive members</b>	
Carolyn Downs <sup>1</sup>	6 out of a possible 6
Owen Mapley <sup>2</sup>	10 out of a possible 10
Matthew Coats <sup>3</sup>	2 out of a possible 2

##### Notes for Table A

- 1 Carolyn Downs was Chief Executive until 20 November 2011.
- 2 Owen Mapley was Director of Finance and Corporate Services throughout the whole financial year. In addition he was Interim Chief Executive in the period between Carolyn Downs' departure and Matthew Coats' appointment.
- 3 Matthew Coats took up post as Chief Executive on 27 February 2012.

## Governance statement *(continued)*

### Audit Committee

The quorum for the Audit Committee is two Commissioners, one of whom should chair the meeting. National Audit Office (NAO) and MoJ representatives also attend by invitation.

Committee member	Number of meetings attended
Barry Elliott	6 out of a possible 6
Tom Jones OBE	6 out of a possible 6
Julian Lee	5 out of a possible 6
Beryl Seaman CBE JP	6 out of a possible 6

### Pay Committee

The quorum for the Pay Committee is two Commissioners, one of whom should chair the meeting. Independent members do not have equal voting rights and do not count towards the quorum.

Committee member	Number of meetings attended
Julian Lee	1 out of a possible 1
Beryl Seaman CBE JP	1 out of a possible 1
<b>Independent member</b>	
Beverly Shears	1 out of a possible 1
Helen Murlis	0 out of a possible 1

## Financial reports 2011-12

### Governance statement (*continued*)

## Committees of the Board

### Audit Committee

The Audit Committee provides advice on risk, control and governance issues and on the internal and external audit work programmes. The Committee has actively monitored progress against the accounts production timetable and challenged management on the achievability of deadlines set. During the year the Committee has directed and overseen major changes in our risk and assurance processes. The Committee sponsored work with senior managers in the organisation to completely refresh and update the major corporate risks and the impact of external factors.

The Committee is chaired by a Commissioner who is a qualified accountant, who also has recent and relevant finance experience. Members during 2011-12 were three other Commissioners and regular attendees include MoJ Head of Internal Audit, NAO representatives, LSC Chief Executive and Director of Finance and Corporate Services, Head of Assurance and Performance Management and the Head of Internal Audit.

The key areas of focus for the Committee in 2011-12 were as follows:

- The development and implementation of the LSC's counter fraud strategy
- Oversight of the IDP, specifically in relation to the management of risks and design of controls
- Oversight of financial management
- The development of the assurance framework
- The timetable and plan for the production of the Annual Accounts given the requirement for these to be laid considerably earlier than in recent years
- The programme and progress of core testing of payments to providers.

An internal audit review of the Committee's effectiveness was also undertaken in the year, which concluded that the Committee was operating effectively, but made a number of recommendations for further improvement and to aid the process of transition to an EA. These recommendations have been, or are being implemented, as soon as practicable, including reducing the number of Commissioners on the Committee by one for 2012-13.

The Audit Committee meets at least quarterly, with a further meeting specifically to review the annual accounts.

### Pay Committee

The purpose of the Committee is to determine the contractual arrangements and the salaries of the Chief Executive, the Executive Directors and the Senior Civil Service equivalents. The Committee usually meets annually. Members are two Commissioners and two independent members. Senior executives, including the Director of Human Resources and Organisational Design, attend.

## Other governance matters

### Oversight and assurance arrangements

The Board exercises oversight of the performance of the LSC by:

- Using the Finance and Performance Report to check progress against delivery of the LSC's key priorities in the Business Plan. This includes monitoring performance against key efficiency metrics, corporate risks and seeking assurance over performance of operational functions. The Board has been asked to make decisions when performance is off track, in particular if there are potential implications for front line delivery or remaining within the Spending Review settlement.
- Receiving up to date reports on the in year financial position and regular updates on the progress of LSC's major projects and programmes, including the implementation of the IDP, LAR and EA transition. They have made decisions, based on agreed thresholds, on any issues that arise.
- Agreeing delegations to Directors and throughout the governance structures to ensure that the right decisions are being taken by the right people in the right place, whilst ensuring the Board is provided with the appropriate level of assurance.

The Board takes assurance from a range of external sources including NAO reports and the audit report for the 2011-12 Accounts.

A key source of independent assurance is provided by our internal audit service which has been outsourced to PwC since 1 April 2011. A risk assessment was completed,

## Governance statement (*continued*)

building upon our strategic risk assessment, and a programme of 23 audit reviews was delivered to provide assurance across these risks during the year. PwC have used specialists to provide assurance on highly complex areas of risk such as in the areas of IT, fraud, governance and debt management, in addition to a range of reviews on our core financial controls. The audit plan was substantially completed by the year end and has provided a comprehensive view of assurance over our key risks and control environment, the result of which are considered in the Head of Internal Audit's Annual Report.

### Head of Internal Audit comments

The work conducted by PwC has shown that we have made significant progress in addressing the legacy control issues, evidenced by the fact that 85% of audits recorded a 'green' or 'amber/green' assessment. This has been achieved through significant work.

Based on the outcome of their detailed work, but also taking account of the pervasive nature of the historical system problems, the Head of Internal Audit has given a limited assurance opinion over the adequacy and effectiveness of the system of governance, risk management and internal control. It is acknowledged that there are certain ongoing and pervasive legacy control matters that make achieving an effective control environment challenging. These include:

- The extent of reliance necessarily placed on detective controls, rather than preventative controls
- Insufficient automated controls within IT systems.

The evidence from the programme of audits undertaken is that management have made tangible efforts to implement wide ranging controls to mitigate the pervasiveness of the risks associated with these system weaknesses and to stabilise the control environment. For example:

- The strengthening of the finance team and the enhancement in management oversight that this has delivered.
- The programme of core testing is a far ranging control process, albeit retrospective, with coverage across the Legal Aid Fund, with resource devoted to checking a large sample of applications granted and payments made.

Despite these changes, the enhanced control environment has not operated for the entire year and some of these

controls need further time to confirm that they are fully embedded.

### Risk management

The Chief Executive and the Executive Team provide leadership to the LSC's risk management processes. The Chief Executive has full support from the MoJ and sits on its Executive Management Committee of the Board. The Executive Team considers the strategic risks to delivering the LSC's objectives and reports on them within a corporate risk register. Directors have clear accountability to ensure that systems are in place to manage risks to the delivery of their strategic objectives within their directorates. Directors are required to provide assurances as to the effectiveness of their risk management processes through the Directors' personal assurance statement process.

The LSC's risk management policy and framework is documented and is consistent with HM Treasury's *Orange Book* and MoJ requirements. These documents are readily available on the staff intranet.

Throughout 2011-12 significant efforts have been made to strengthen governance and risk management arrangements, including a review of our risk appetite, the implementation of an assurance tool and the establishment of business assurance review meetings with all senior managers. We have gained an amber/green rating from PwC's internal audit of our risk management arrangements. The audit concluded that we have undertaken numerous steps to enhance our risk management over the last year, including creating a new format Risk Management Committee, defining risk appetite, simplifying and clarifying corporate risk reporting and rolling out a tool to introduce rigour to the assurance process. Other positives include the consideration of risk and risk appetite during corporate decision making and the regular challenge of the management of corporate risks by senior and executive management.

The Risk Management Committee is a forum for senior managers in the LSC to review risk and internal control matters. The Committee reports regularly to the Chief Executive via the Executive Team. The Committee reviews the corporate risk register and oversees the Governance statement. The Committee is chaired by the Director of Finance and Corporate Services and meets every two months.

## Financial reports 2011-12

### Governance statement (*continued*)

Each directorate of the organisation is represented at the Committee and this is the main channel for escalating, identifying and quantifying new corporate risks. The Committee also monitors progress against action plans to mitigate corporate risks.

The Executive Team reviewed the corporate risks in their entirety and held a workshop in October 2011. The output from the workshop formed the basis of the current risk register which includes risks relating to:

- The stability of LSC IT systems
- Adverse judicial decisions, Parliamentary and Health Service Ombudsman investigations and potential legal action
- The adequacy of operational and financial controls
- Our organisational change capacity, given the huge level of change at a time of reduction of resources
- Heavy reliance on a relatively small number of key LSC staff.

These risks are all covered in more detail below.

There were a number of significant internal control weaknesses referred to in my predecessor's Statement of Internal Control last year. Whilst we are unable to say that we have completely addressed all of these issues, we can report that in all cases we have a programme of work which has made significant progress in addressing these issues and this programme of work will continue in the coming year.

#### Account's qualification

The LSC's accounts have been qualified on regularity grounds since 2008-09 in respect of eligibility for granting of legal aid and accuracy of payments to legal aid providers. In addition to the regularity qualification, the NAO limited the scope of their audit opinion in the LSC's 2010-11 accounts due to errors and uncertainties regarding accounts receivables balances and the related impairment provision.

During the year, there has been further external scrutiny of LSC's financial management, accounting and reporting, including:

- references to the LSC in the NAO's review of the MoJ's financial management (*Ministry of Justice, Financial Management Review, November 2011*), covering aspects

of accounts production, the level of payment errors and qualifications on the accounts.

- recommendations in the Public Accounts Committee's report (*Public Accounts Committee – Seventy-Fifth Report, MoJ Financial Management, March 2012*) regarding delays in the laying of annual accounts and the associated accounts qualifications.

Our responses to the observations and recommendations contained in these reports are set out below.

#### Regularity qualification

We have made considerable progress in tackling the qualification of our accounts on regularity grounds. In his report on the LSC's accounts for 2010-11, the Comptroller and Auditor General acknowledged that the LSC had made 'significant improvements' in reducing the level of reported error. Although our accounts are, again, qualified on the grounds of regularity, we are pleased to report that we have delivered a further significant improvement in 2011-12 with the LSC continuing to reduce the level of error made in assessing the eligibility of clients and making payments to providers. The overall level of error reduced to £35.6 million, a reduction of 28 per cent on prior year.

The LSC remains committed at all levels of the organisation to making further improvements to its financial and operational controls.

We have undertaken a large amount of work to analyse the causes of errors across all of our legal aid schemes and take remedial action where appropriate. Following work undertaken in 2010-11, to review a sample of contracted cases each quarter to establish the error rates, we moved, in 2011-12, to monthly sampling, reviewing cases across all of our high volume/low value categories of work. This work includes a detailed analysis of the nature and causes of error.

There has been further development of our 'Provider Dashboard' tool to provide a risk based approach for targeting audit visits to legal aid providers. A data analysis exercise has been undertaken to identify errors and liaise with providers to inform understanding of claiming rules and ensure compliance.

A further programme of work to recover overpayments has seen recoveries of £10.1 million within this financial year.

## Governance statement (*continued*)

There has been further training for LSC staff on new processes for supplemental evidence checking in Civil Legal Aid applications. We have also strengthened the testing of eligibility on Civil Representation cases by requiring all clients to submit their last three months' bank statements and provide original evidence of other financial information to support both income and expenditure figures cited on legal aid means forms.

We are working with Her Majesty's Courts and Tribunals Service (HMCTS) on the granting of legal aid in the Magistrates' Courts to agree and set targets, as well as to improve processing times and the accuracy of decision making.

### 2010-11 qualified opinion on receivables

During the year the LSC has undertaken a series of activities designed to improve the accuracy and reporting of trade and other receivables. These activities were designed to reduce the level of extrapolated error in the gross receivable records and provide a robust assessment of the receivable impairment provision, following an accounts qualification on trade and other receivables in 2010-11.

As part of this wider exercise to improve the accuracy of data in the underlying records, a targeted review of a significant component of the receivable records was performed. The cases identified for review included those that management believed to be of the highest risk to collection and most susceptible to accuracy or existence error. As a result of this exercise, £48.1 million of receivables were deemed to be inaccurate or unsupported. These receivables have been written off and the write offs have been allocated to the financial year to which they relate. The Statement of Comprehensive Net Expenditure and Statement of Financial Position for 2010-11 and 2009-10 have been restated accordingly.

In 2010-11, the NAO concluded there was a lack of evidence supporting the assumptions used in the model to estimate the impairment provision on receivables. During the year, the LSC has implemented improved processes for estimating the impairment provision and has updated the underlying assumptions to ensure they better reflect payment history, current economic trends, and management observations of repayment profiles of the debt categories. The output of the model was also corroborated to historical cash receipts data, to ensure

the revised assumptions were appropriate and supported. The approach to estimating the impairment provision in 2011-12 has been applied and reflected in the restated 2010-11 and 2009-10 financial statements.

Testing of net receivable balances in the Statement of Financial Position presented in these financial statements have confirmed the gross receivable balances are free from material error and the processes used to derive the impairment provisions at each balance sheet date are reasonable.

As a result of the actions described above, the disclosed trade and other receivables balances reported for each year in the financial statements are fairly stated, and the audit opinion is unqualified in this regard.

Management will continue to monitor the accuracy of the underlying receivable records, as well as the reasonableness of the assumptions used in estimating the impairment provision, and are confident the trade and other receivables balances will continue to be reported correctly in future accounting periods.

### Wider improvements and challenges

The LSC's accounts were not required to be consolidated into the MoJ Group Accounts last year, but there is a new reporting requirement for the MoJ to consolidate Non-Departmental Public Bodies (NDPBs) within the Departmental Group for 2011-12. LSC is the largest NDPB requiring consolidation.

As part of its wider Finance Improvement Programme, the LSC has redesigned its finance structures to make sure it has the right people in place to meet future reporting requirements and timetables. This restructuring process identified additional staffing requirements for accounting and reporting in the finance team, which are being addressed through a combination of permanent recruitment and specialist interim support.

Additionally, we have reviewed our approach to the planning and execution of the accounts production process to ensure that issues are identified early on, tackled quickly and that the overall end to end timeline for production is condensed to meet the laying deadline of before Parliament's summer recess. The LSC has made significant progress in respect of the accounts production process and has accelerated the timetable for laying the accounts from October last year to July this year.

## Financial reports 2011-12

### Governance statement (*continued*)

#### Financial controls within operational systems

An extensive review of current operational systems has been undertaken to identify an additional phase of system improvements to address the control issues referred to by my predecessor in 2010-11. A further programme of work has been developed for implementation in 2012-13.

We have made progress towards the implementation of our IDP system which will ensure that financial controls are embedded within the new civil processing system.

#### Reporting and processing Crown Courts means testing (CCMT) records

Since the CCMT scheme was introduced in January 2010, the LSC has made further progress in developing the operating and reporting procedures for the scheme. During the year we have developed and implemented the accounting policy for recording income and established the procedures necessary to ensure visibility of operational and financial information from initial case creation to final cash collection.

In the coming year we will be performing further work on data quality, including better system integration between the LSC and HMCTS, and automating processes where possible in order to increase the efficiency of processing cases.

#### Ageing legacy IT systems

We have continued our programme of work to improve Management Information (MI) available for decision making and performance monitoring which comes from our core systems. We have implemented a new reporting tool and are making improvements to the way our data is structured and stored ahead of enhancements in civil case management MI which will be delivered by the IDP programme.

We have encountered a number of IT outages during the year, which have resulted in operational disruption, but we have managed to recover services within acceptable time frames.

#### Recovery from operational processing backlogs

To address growing processing backlogs in early 2011-12 we introduced a number of initiatives to enable us to process more casework, including:

- Deployment of additional resource
- Extending the timescales that work can be undertaken under emergency certificates
- Working with representative bodies to simplify processes
- Encouraging increased electronic working.

As a result of these measures we made significant and sustained progress in reducing the overall number of cases outstanding and all main payment/processing categories returned to within target by the end of March 2012.

#### Data security

There have been no significant data security issues, other than those relating to personal data outlined on page 25 'Reporting of personal data related incidents'. However, certain areas of limited compliance with the Security Policy Framework have been identified and reported in the Annual compliance assessment. These include:

- The LSC's core applications are hosted in a commercial environment operated by our IT infrastructure partner. This environment is shared by a number of other organisations and non-government businesses. Strong security controls are in place to ensure that these parties cannot access our information.
- The LSC has a clear data retention policy, but certain specific improvements in archiving are needed to fully meet our obligations under the Data Protection Act.

#### Information assurance

During this year we have trained all staff on the importance of protecting personal data and have continued to raise awareness throughout the LSC about wider information security.

In 2011-12 we formally reported one personal data related incident to the Information Commissioner's Office (ICO) and they decided that no further action was necessary. This incident related to unauthorised disclosure of an individual's personal data when a form used to apply for legal aid was included in an envelope sent to another person.

## Governance statement *(continued)*

There were 169 incidents recorded centrally but these did not fall into the criteria for reporting to the ICO. These related to unauthorised disclosure, loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises, and loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises.

### Business continuity planning

All offices have an up to date Business Continuity Plan. These are currently being tested to ensure they are effective in the event of an incident. We have implemented the MoJ Business Impact Assessment Tool which collates details of all critical business processes which need to be recovered if we need to invoke a Business Continuity Plan. Our focus over the coming year will be to build on arrangements with other MoJ partners to ensure we can utilise local premises in the event of needing to relocate an office following a major incident. All Business Continuity Plans will be reviewed every six months as part of the assurance review process.

### Olympic planning

All teams in Petty France and Exchange Tower, our two London offices, have worked on contingency plans to cover the whole Olympic period to meet the challenges we will face in travelling into and around London. We are committed to delivering our core business and maintaining customer service levels. Staff at Exchange Tower, in Docklands, are arranging to work shift patterns between the hours of 6am and 9pm to avoid travelling during peak times. Space is being allocated in other offices to accommodate LSC staff who are able to work from another location and thereby avoid travelling into London.

All teams have produced a critical business plan that ensures business critical functions are resourced throughout the games. These plans are being reviewed regularly and will continue to be reviewed over the whole period of the games.

### Key risks and challenges for the coming year

Our transition to EA status and the associated impact on our staff will be a challenge. We will also introduce a large scale change programme when we deliver and implement LAR.

The reform of legal aid presents a demanding agenda for the LSC over the next three years. The administration budget reductions being introduced in advance of the implementation of LAR carry risks to the programme. Headcount for Case Management has increased and will be maintained in the next financial year. This will ease the pressure on Case Management staff involved in the roll out of IDP and LAR, at the same time as maintaining the delivery of operational performance targets. We have successfully delivered the first phase of LAR on time and the next phase will present us with a challenge to ensure that, as policy changes are implemented, we control the impact on our ability to deliver business as usual and control risk.

Our financial and operational systems and processes continue to contain a number of significant weaknesses. Our accounts have been qualified for the fourth successive year. Although we have undertaken a significant amount of work we still have more to do. We will continue our work to identify areas of weakness and address these, including the implementation of our IDP which will deliver control improvements for civil case management.

It is undeniable that the LSC faces a number of challenges in the coming year, not least the reforms to legal aid, the transition from NDPB to EA and the ongoing work to remove the accounts qualification. Over recent years we have made substantial progress in gaining assurance over our underlying data and embedding robust processes. I am confident that we will continue to build on these foundations as we go forward into a new era for legal aid.

### Signed for and on behalf of the Legal Services Commission

**Matthew Coats**  
Chief Executive and Accounting Officer

5 July 2012

## Financial reports 2011-12

# The Certificate of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Legal Services Commission's Community Legal Service Fund and Criminal Defence Service (the Fund) for the year ended 31 March 2012 under the Access to Justice Act 1999. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Commission, Accounting Officer and auditor

As explained more fully in the Statement of the responsibilities of the Accounting Officer of the Commission, the Commission and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Access to Justice Act 1999. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Legal Services Commission; and the overall presentation of the financial

statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

## Basis for qualified opinion on regularity

In the year to 31 March 2012 the Fund incurred £2.1 billion of net expenditure. My testing identified estimated overpayments of £35.6 million relating to legal aid providers' claims being paid at amounts higher than that supported by evidence or payments for legal aid to applicants whose eligibility could not be demonstrated. Such payments were, by definition, not in accordance with regulations under the Access to Justice Act 1999. Therefore, I have concluded that these transactions have not been applied to the purposes intended by Parliament and are not in accordance with the authorities which govern them.

## Qualified opinion on regularity

In my opinion, except for the irregular transactions referred to in the basis for qualified opinion on regularity paragraph above, in all material respects, the income and expenditure recorded in the financial statements has been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

My report on pages 52 to 59 provides further detail of my qualified opinion on regularity.

## The Certificate of the Comptroller and Auditor General to the Houses of Parliament (continued)

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Community Legal Service Fund and the Criminal Defence Service's affairs as at 31 March 2012 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Access to Justice Act 1999 and directions made thereunder by the Lord Chancellor.

## Opinion on other matters

In my opinion:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

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

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

### **Amyas C E Morse**

Comptroller and Auditor General

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

10 July 2012

## Financial reports 2011-12

# Report of the Comptroller and Auditor General to the Houses of Parliament on the Community Legal Service Fund and Criminal Defence Service Accounts for the year ended 31 March 2012

## Introduction

1. The Legal Services Commission (the Commission) is an executive Non Departmental Public Body (NDPB) of the Ministry of Justice. The Commission is responsible for the provision of legal aid in England and Wales through the Community Legal Service Fund (for civil cases) and the Criminal Defence Service (for criminal cases).

## The purpose of my report

2. The purpose of this Report is to explain the background to the qualification of my audit opinion on the Community Legal Service Fund and Criminal Defence Service accounts for the year ended 31 March 2012.

## Audit opinions

3. I have qualified my opinion on regularity due to material irregularity in respect of legal aid payments made to providers (the **regularity qualification**) for the financial year ending 31 March 2012. This qualification is on the same basis as reported in 2010-11 and previous years. I have issued an unqualified opinion on the financial statements (the **true and fair opinion**).

### Qualified audit opinion on regularity due to material errors in payments to legal aid providers

4. I have qualified my regularity opinion on the Commission's accounts for the year ended 31 March 2012 as I identified a material level of payments made to legal aid providers which were not in accordance with legislation and other authorities. In order to support my regularity opinion, I needed to assure myself that:

- the amounts paid to legal aid providers were in line with the legislation governing the fee regimes;
  - that the Commission approved legal aid only to applicants who were eligible; and
  - that the correct level of contributions towards legal aid costs was levied on the Commission's clients.
5. My testing identified a net estimated total irregularity of £35.6 million on expenditure. This represents 1.7 per cent of the Commission's expenditure during the year.
  6. The irregular expenditure relates to:
    - amounts paid to legal aid providers where the claim was not in compliance with the statutory fee regimes of £20.4 million (the payment irregularities); and
    - payments of legal aid via providers to applicants who were not eligible or whose eligibility could not be proven of £15.2 million (the eligibility irregularities).
  7. My regularity opinion is based on an estimated total irregularity, which is extrapolated from errors identified through sample testing and net of recoveries made during the year. Consequently, it is not possible to trace the total irregularity to individual transactions.
  8. The total estimated irregularity has fallen by 28 per cent since the prior year when I qualified my regularity opinion on the Commission's accounts based on an estimated material irregularity on legal aid expenditure.
  9. My 2010-11 report also noted an estimated error of £4.9 million in relation to contributions paid by clients that should not have been levied by the Commission and an estimated error of £9.1 million in relation to contributions that were not levied by the Commission when they should have been. My testing in 2011-12

Report of the Comptroller and Auditor General to the Houses of Parliament *(continued)*

identified a significant decrease in these error rates, to £1.4 million and £2 million, respectively. I do not consider these amounts to be material and consequently I have not qualified my opinion in this respect.

### Progress since my last report

10. The Accounting Officer's Governance Statement<sup>1</sup> provides a comprehensive account of the internal control issues facing the Commission, the progress made against them and further work to be done.
11. The Commission has made significant improvements in the level of total irregular expenditure reported in 2011-12. The key areas of improvement are:
  - On Legal Help schemes for immigration and family, the estimated irregularity has fallen from £14.0 million to £2.8 million
  - On eligibility on the "Civil Representation scheme", the estimated irregularity has fallen from £18.2 million to £12.8 million.
12. These improvements are due to the Commission's increased focus on higher risk areas, enhanced assurance testing and significant recovery action. However, there are some areas where the level of error has not changed significantly, or has increased.

### The Commission's compliance testing

13. In recent years, the Commission has established and integrated a compliance testing regime through which it seeks to obtain assurances and quantify the level of error arising on legal aid payments. Throughout the year, the Commission reviews payments and eligibility on a sample basis to confirm whether suppliers have met contractual requirements, and that claims are supported by sufficient evidence.
14. For 2011-12, I was able to satisfy myself that for the majority of the legal aid schemes this testing was identifying errors effectively and consistently. I was therefore able to rely on the majority of this work for my audit.

### Payment irregularities

15. From my audit work, I have estimated £20.4 million of overpayments to legal aid providers as set out in the following table. This has reduced from £28.3 million in the prior year.

<sup>1</sup> Legal Services Commission Annual Report and Accounts 2011-12, HC307, page 40.

## Financial reports 2011-12

Report of the Comptroller and Auditor General to the Houses of Parliament (*continued*)

## Estimated payment irregularities

Legal Aid Scheme	Population* £'m	2011-12		Estimated total irregularities £'m	2010-11 Estimated total irregularities £'m
		Estimated overpayments £'m	Recoveries £'m		
<b>Civil</b>					
Legal Help: Immigration and Family	97.0	10.8	(8.0)	2.8	14.0
Legal Help: Other	97.5	3.7	(0.5)	3.2	3.9
Civil Representation: Bills and Mediation Payments	780.2	2.7	(0.0)	2.7	3.3
Civil Representation: Very High Cost Cases (VHCC) payments	130.6	2.4	(0.0)	2.4	3.6
<b>Crime</b>					
Crime Lower: Police Station and Magistrates' Court claims	380.9	5.9	(1.1)	4.8	2.3
Crime Higher: Crown Court payments to advocates and solicitors	610.7	4.9	(0.4)	4.5	1.0
Crime Higher: Very High Cost Cases (VHCC) payments	91.7	0.0	(0.0)	0.0	0.2
<b>Total</b>		<b>30.4</b>	<b>(10.0)</b>	<b>20.4</b>	<b>28.3</b>

\* The populations shown are cash payments in the year.

Report of the Comptroller and Auditor General to the Houses of Parliament (*continued*)

16. I have outlined below further details of the most significant errors and movements.

**Legal Help**

17. The Commission's testing of the Legal Help and Immigration schemes identified an estimated irregularity of £2.8 million. This represents a significant decrease from the estimated irregularity of £14.0 million in 2010-11, and is due to both reductions in overpayments as well as overpayment recoveries.
18. The estimated error on the Immigration Scheme has decreased from £8.9 million to £0.5 million. A substantial proportion of the 2010-11 and 2009-10 errors related to claims made by two significant providers who went into administration. The Commission has undertaken extensive closedown exercises for these providers.
19. The Immigration Scheme has also been subject to focused provider management activity by the Commission including regular contract management visits and compliance audits, which have enabled identification and correction of potential errors and further education of providers.
20. The estimated error on the Family Scheme has fallen from £5.1 million to £2.3 million. However, this scheme has the highest proportion of errors identified with some 11.1% (13.9% in 2010-11) of payments subsequently deemed to be irregular, before recoveries. As reported in prior years, the errors in relation to this scheme largely relate to the distinction between level 1 and level 2 fees, with providers claiming the higher level 2 fee when the criteria had not been met.

**Crime Lower**

21. The Commission's testing of the Crime Lower scheme identified an estimated irregularity of £4.8 million, an increase of £2.5 million on the previous year. This increase is due to some providers billing incorrect amounts following the changes in fixed fees under the Legal Aid reforms, implemented in October 2010, and recent changes to the VAT rate.

22. The Commission has enhanced the online system through which providers submit claims, which has improved pre-payment validation of these claims. The Commission has also continued to work with providers to improve compliance, through feedback on common areas of error and issuing of contract notices on identification of significant non-compliance.

**Crime Higher**

23. Since April 2011, all claims made by solicitors and advocates in relation to Crown Court cases which started on or after 1 January 2011 have been assessed and paid by the Commission. Prior to this, all such claims were processed and assessed by HM Courts and Tribunals Service on the Commission's behalf.
24. The Commission's testing has identified that the estimated error has more than doubled since 2010-11. This is largely due to quality control issues as Commission staff become familiar with the rules on a scheme that has previously been contracted out. The Commission is addressing these issues through detailed feedback on common areas of error and additional training.
25. The Commission also identified that, in some cases, neither the provider nor the Commission held the records required to assess all elements of claims fully. There was a need to reconstitute records, which, in some instances, identified additional information not available at the time of the original assessment of the claim resulting in increased error rates. The Commission is working with providers to ensure that all supporting information is submitted with claims and plans to move to monthly testing to carry out more timely review.

## Financial reports 2011-12

### Report of the Comptroller and Auditor General to the Houses of Parliament (*continued*)

#### Eligibility errors

26. I have identified an estimated £15.2 million of payments made via providers to clients who were not eligible for legal aid, or whose eligibility could not be proven as set out in the following table.

#### Estimated eligibility irregularities

Legal Aid Scheme	2011-12		Estimated Total Error £'m	2010-11 Estimated Total Error £'m
	Population* £'m	Error Rate %		
Legal Help	179.0	1.1%	1.9	1.9
Crime Lower: Magistrates' Court	105.4	0.5%	0.5	1.1
Civil Representation	125.8	10.2%	12.8	18.2
<b>Total of eligibility irregularities</b>			<b>15.2</b>	<b>21.2</b>

\*The populations shown are cash payments in the year.

27. I have outlined below further details of the most significant errors and movements.

#### **Civil Representation**

28. For Civil Representation, the Commission must assess an individual's eligibility for legal aid before they can be represented at court.

29. As in 2010-11, the Commission undertook an assurance exercise to test the eligibility of funded clients, based on their initial means assessment and through review of additional and alternative sources of evidence. I was able to place reliance on the Commission's work for my audit.

30. The Commission has taken significant steps to enhance its controls in this area; improving the supporting evidence obtained enabling a more thorough assessment of eligibility prior to the issuance of a legal aid certificate. These improvements have reduced the error rate substantially, to less than half that identified previously, and should lead to further significant reductions in irregularity in the future.

#### **Developments in systems and controls since my last report**

31. My previous Reports have identified a number of areas where action was required to improve the control environment. The significant control weaknesses, and the

actions taken to address these, are explained in the Accounting Officer's Governance Statement.

32. The key developments since my previous report can be summarised as:

- identifying and managing areas of risk;
- improvements to internal processes and systems;
- working with providers; and
- recovering overpayments.

#### **Identifying and managing areas of risk**

33. The Commission has a better understanding of areas of risk and causes of regularity error. The compliance testing regime has been further enhanced and embedded into business as usual activity, with testing for a number of areas now conducted on a monthly basis so that common areas of error are identified and addressed on a more timely basis. During 2012-13, the Commission intends to move to monthly testing across the majority of the legal aid schemes. This will be particularly useful on schemes such as Crime Higher Crown Court payments to advocates and solicitors, where the error rate has increased this year.

Report of the Comptroller and Auditor General to the Houses of Parliament (*continued*)

34. The Commission has continued to develop its Provider Management Strategy. It has used data and results from previous visits to providers, on-going compliance testing and detailed data analysis of claim activity, to identify areas of high risk and reduce levels of error. The Commission has informed me that, as part of these on-going activities, it has issued over 830 contract notices to providers and terminated 29 contracts.

**Improvements to internal processes and systems**

35. The Commission has used the results of its compliance work and its on-going analysis of errors to inform the development of enhanced quality control.

36. The Commission has developed an organisation wide Financial Stewardship Plan to address fund risks, with each operational area having a supporting implementation plan. This builds on the improvements already made against the first stage of this plan during 2010-11 and 2011-12.

37. There has also been a complete update of Standard Operating Procedures, supported by mandatory checklists to ensure quality and consistency across the business.

**Working with providers**

38. Results of compliance work have been fed back to providers. Where areas of common error have been identified, additional guidance is provided to ensure providers are aware of the issues and understand the steps required to ensure they are compliant. In addition, a number of compliance forums with providers have been established, to highlight errors and provide direction to sources of guidance.

39. During 2011-12 the Commission has also trialled the use of online training for providers and staff in areas of known high risk where scheme requirements have changed, for example Family Level 2 claims.

**Recovering overpayments**

40. The overall assurance programme undertaken by the Commission has led to the identification and substantial recovery of overpayments to suppliers. This work is ongoing, but recoveries of £10.1 million (2010-11: £7.1 million) have been made during the year.

**Further steps planned and required by the Commission**

41. The Commission continues to take steps to:

- measure the overall level of error across the schemes;
- examine the underlying (root) causes of error in those schemes where error remains high; and
- based on this understanding, identify and implement appropriate measures to reduce these errors.

42. The Commission is further strengthening its compliance testing regime to ensure that it is obtaining all the assurances it requires. It is reviewing its assurance and compliance activities to implement a more co-ordinated and efficient approach. This includes greater focus on risk management of providers and improving the quality of the assurances provided.

43. The above is particularly important in light of the planned legal aid reforms under the Legal Aid, Sentencing and Punishment of Offenders Act, which received Royal Assent on 1 May 2012. Errors often result from changes to schemes when providers and staff may be unclear about the detailed scheme rules. Risk is further heightened during the interim period as the Commission manages the existing schemes and implements new schemes. The Commission will need to reconsider its risks and assurance regime in light of these changes.

**Progress relating to my qualified opinion on the 2010-11 receivables balance and related expenditure**

44. My audit opinion includes a statement on whether the financial statements give a true and fair view of the Community Legal Service Fund and the Criminal Defence Service's affairs as at 31 March 2012 and of its net expenditure for the year then ended.

45. In 2010-11, I limited the scope of my opinion on the valuation of the net receivables balance and the movement in the impairment provision charged to the Statement of Comprehensive Net Expenditure. I found material error in the gross receivables balance and the Commission was unable to provide satisfactory evidence to support the model estimating the value of the net receivables balance (i.e. how much of the gross receivables balance was impaired).

## Financial reports 2011-12

### Report of the Comptroller and Auditor General to the Houses of Parliament (*continued*)

46. The Commission has undertaken a substantial amount of work in 2011-12 to cleanse the recording and reporting of receivables. As a result of this work, the Commission had more complete and accurate records and was able to revise the impairment model. The Commission was also able to adjust the prior period balances as at 31 March 2011 and 2010. Therefore, I am able to provide an unqualified audit opinion for 2011-12 in respect of the receivables balance and related movements in expenditure.

#### How the Commission addressed the misstatement of receivables

47. The Commission's accounts disclose a receivables (debt) balance of £103.8 million in the Statement of Financial Position as at 31 March 2012. This balance represents amounts owing from legal aid recipients or providers totalling £265.1 million and a provision for impairment of £161.3 million to reflect the Commission's assessment of the recoverability of this balance. The impairment provision represents 61% of the gross receivables balance. This is a significant accounting estimate and is based on assumptions of the characteristics of receivables at an aggregated level.

48. However, the Commission continues to pursue its debts irrespective of the impairment until a business decision is made that the debt is irrecoverable, at which point it is written off.

#### Errors within the gross receivables balance

49. In my report on the Commission's 2010-11 accounts, I reported that my testing of a sample of debts had identified a significant level of error, which extrapolated to an overstatement of £50.4 million.

50. During 2011-12, the Commission commenced a review of its receivables balances in order to correct inaccuracies in the recorded amounts and to remove balances that the Commission will not be able to recover. These balances included those where the Commission is legally no longer able to pursue them, as well as instances where the Commission made a judgement that recoverability was uneconomical or highly unlikely due to a lack of supporting documentation for the debt. This cleanse exercise resulted in £48.1 million of receivables being written

off. The Commission's analysis demonstrated that of this amount, £43.7 million relate to periods prior to 2011-12.

51. I performed testing on a sample of debts selected from the gross receivables balance as at 31 March 2012. Testing identified an estimated £8.4 million overstatement. This is not a significant level of error, and, therefore, I am satisfied that the gross receivables balance is not materially misstated.

52. The reduction in the gross receivables error compared to the prior year reflects a significant improvement in the accuracy of the value of receivables recorded by the Commission. The Commission will continue to review and cleanse the remaining debtor balances under the programme for migrating the data onto the new IT system. The Commission informed me that this will be accompanied by improvements in its controls. These controls will need to ensure that debts are accurately recorded and enable unpaid amounts to be pursued and collected efficiently.

#### The impairment model

53. The Commission estimates the amount by which the receivables balance should be impaired using an impairment model. In my report on the Commission's 2010-11 accounts, I reported that there was a lack of sufficient and reliable evidence to support the assumptions within the model.

54. During the year, the Commission implemented improved processes for estimating the impairment provision. It has updated the underlying assumptions in the impairment model to ensure they are more consistent with historical data and the current economic climate. The revised model and underlying assumptions also improved its predictive nature allowing the Commission to predict cash receipts in 2011-12 by applying the model to 2010-11 data.

Report of the Comptroller and Auditor General to the Houses of Parliament *(continued)***Conclusions**

55. The Commission continues to improve its processes, which has led to substantial reductions in the level of irregular payments made to legal aid providers, but there remains scope for further progress to reduce them further. At a time when the Commission is reducing its costs whilst implementing substantial reforms to legal aid this represents a significant challenge. The challenge is made harder because of the difficulties inherent in administering a means-tested system of entitlement, and from the complexity of the fee schemes paid under legal aid.
56. My audit of the Commission's financial statements for 2012-13 will again examine the level of irregular transactions. I will report on the progress that the Commission makes in addressing this issue. In addition, I will continue to monitor the Commission's on-going cleansing of receivables and improvements in the recording and collection of receivables.

**Amyas C E Morse**

Comptroller and Auditor General

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

10 July 2012

## Financial reports 2011-12

Community Legal Service Fund and Criminal Defence Service  
Statement of Comprehensive Net Expenditure

For the year ended 31 March 2012

	Note	2011-12	2011-12	2011-12	2010-11	Restated	2010-11
		CLS	CDS	Total	CLS	2010-11	Total
		£000	£000	£000	£000	£000	£000
Expenditure	3	(1,195,349)	(1,104,357)	(2,299,706)	(1,168,625)	(1,131,129)	(2,299,754)
Income	4	216,200	3,662	219,862	198,159	1,805	199,964
<b>Net expenditure</b>		<b>(979,149)</b>	<b>(1,100,695)</b>	<b>(2,079,844)</b>	<b>(970,466)</b>	<b>(1,129,324)</b>	<b>(2,099,790)</b>
Interest receivable		6,497	-	6,497	8,095	-	8,095
Interest payable		(90)	-	(90)	(104)	-	(104)
Other finance costs		-	(7)	(7)	-	(13)	(13)
Tax expense	5	(4,908)	-	(4,908)	-	-	-
<b>Net expenditure after interest and tax</b>		<b>(977,650)</b>	<b>(1,100,702)</b>	<b>(2,078,352)</b>	<b>(962,475)</b>	<b>(1,129,337)</b>	<b>(2,091,812)</b>
<b>Other comprehensive expenditure</b>							
		2011-12	2011-12	2011-12	2010-11	Restated	2010-11
		CLS	CDS	Total	CLS	2010-11	Total
		£000	£000	£000	£000	£000	£000
<b>Total comprehensive expenditure for the year</b>		<b>(977,650)</b>	<b>(1,100,702)</b>	<b>(2,078,352)</b>	<b>(962,475)</b>	<b>(1,129,337)</b>	<b>(2,091,812)</b>

All income and expenditure are derived from continuing operations.

The notes on pages 64 to 83 form part of these financial statements.

## Community Legal Service Fund and Criminal Defence Service Statement of Financial Position

At 31 March 2012

Note	2012		2012		2011		2010		2010	
	CLS £000	CDS £000	Total £000	2011 CLS £000	2011 CDS £000	2011 Total £000	2010 CLS £000	2010 CDS £000	2010 Total £000	
<b>Non-current assets</b>										
	-	-	-	-	-	-	-	57	57	
Intangible assets										
Property, plant and equipment	-	-	-	-	-	-	2	5	7	
<b>Total non-current assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>62</b>	<b>64</b>	
<b>Current assets</b>										
Trade and other receivables	7	99,429	4,409	103,838	95,374	11,171	106,545	86,466	3,404	89,870
Cash and cash equivalents	6	2,191	3,575	5,766	10,927	1,586	12,513	1,185	3,862	5,047
<b>Total current assets</b>	<b>101,620</b>	<b>7,984</b>	<b>109,604</b>	<b>106,301</b>	<b>12,757</b>	<b>119,058</b>	<b>87,651</b>	<b>7,266</b>	<b>94,917</b>	
<b>Total assets</b>	<b>101,620</b>	<b>7,984</b>	<b>109,604</b>	<b>106,301</b>	<b>12,757</b>	<b>119,058</b>	<b>87,653</b>	<b>7,328</b>	<b>94,981</b>	
<b>Current liabilities</b>										
Trade and other payables	8	(209,012)	(115,735)	(324,747)	(231,256)	(96,050)	(327,306)	(188,982)	(77,688)	(266,670)
<b>Total current liabilities</b>	<b>(209,012)</b>	<b>(115,735)</b>	<b>(324,747)</b>	<b>(231,256)</b>	<b>(96,050)</b>	<b>(327,306)</b>	<b>(188,982)</b>	<b>(77,688)</b>	<b>(266,670)</b>	
<b>Total assets less current liabilities</b>	<b>(107,392)</b>	<b>(107,751)</b>	<b>(215,143)</b>	<b>(124,955)</b>	<b>(83,293)</b>	<b>(208,248)</b>	<b>(101,329)</b>	<b>(70,360)</b>	<b>(171,689)</b>	
<b>Non-current liabilities</b>										
Provisions for liabilities and charges	10	(371,522)	(279,121)	(650,643)	(318,134)	(293,645)	(611,779)	(358,153)	(339,481)	(697,634)
<b>Total non-current liabilities</b>	<b>(371,522)</b>	<b>(279,121)</b>	<b>(650,643)</b>	<b>(318,134)</b>	<b>(293,645)</b>	<b>(611,779)</b>	<b>(358,153)</b>	<b>(339,481)</b>	<b>(697,634)</b>	
<b>Assets less liabilities</b>	<b>(478,914)</b>	<b>(386,872)</b>	<b>(865,786)</b>	<b>(443,089)</b>	<b>(376,938)</b>	<b>(820,027)</b>	<b>(459,482)</b>	<b>(409,841)</b>	<b>(869,323)</b>	
<b>Taxpayers' equity</b>										
General Reserve		(478,914)	(386,872)	(865,786)	(443,089)	(376,938)	(820,027)	(459,482)	(409,841)	(869,323)
		(478,914)	(386,872)	(865,786)	(443,089)	(376,938)	(820,027)	(459,482)	(409,841)	(869,323)

### Matthew Coats

Chief Executive and Accounting Officer  
5 July 2012

The notes on pages 64 to 83 form part of these financial statements.

## Financial reports 2011-12

Community Legal Service Fund and Criminal Defence Service  
Statement of Cash Flows

For the year ended 31 March 2012

		2011-12	2011-12	2011-12	2010-11	Restated 2010-11	2010-11
	Note	CLS £000	CDS £000	Total £000	CLS £000	CDS £000	Total £000
<b>Cash flows from operating activities</b>							
Net expenditure after interest and tax		(977,650)	(1,100,702)	(2,078,352)	(962,475)	(1,129,337)	(2,091,812)
<b>Adjustments for:</b>							
Decrease/(increase) in trade and other receivables	7	(4,055)	6,762	2,707	(8,908)	(7,767)	(16,675)
(Decrease)/increase in trade and other payables	8	(22,244)	19,685	(2,559)	42,274	18,362	60,636
Increase/(decrease) in provisions	10	53,388	(14,524)	38,864	(40,019)	(45,836)	(85,855)
<b>Net cash outflow from operating activities</b>		<b>(950,561)</b>	<b>(1,088,779)</b>	<b>(2,039,340)</b>	<b>(969,128)</b>	<b>(1,164,578)</b>	<b>(2,133,706)</b>
<b>Cash flows from investing activities</b>							
Proceeds of disposal of intangibles		-	-	-	-	57	57
Proceeds of disposal of property, plant and equipment		-	-	-	2	5	7
<b>Net cash inflow from investing activities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>62</b>	<b>64</b>
<b>Cash flows from financing activities</b>							
Grants from the Ministry of Justice		941,825	1,090,768	2,032,593	974,368	1,162,240	2,136,608
Grants from the Department for Work and Pensions		-	-	-	4,500	-	4,500
<b>Net cash inflow from financing activities</b>		<b>941,825</b>	<b>1,090,768</b>	<b>2,032,593</b>	<b>978,868</b>	<b>1,162,240</b>	<b>2,141,108</b>
Net (decrease)/increase in cash and cash equivalents in the period		(8,736)	1,989	(6,747)	9,742	(2,276)	7,466
Cash and cash equivalents at the beginning of the period	6	10,927	1,586	12,513	1,185	3,862	5,047
<b>Cash and cash equivalents at the end of the period</b>	6	<b>2,191</b>	<b>3,575</b>	<b>5,766</b>	<b>10,927</b>	<b>1,586</b>	<b>12,513</b>

The notes on pages 64 to 83 form part of these financial statements.

## Community Legal Service Fund and Criminal Defence Service Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2012

	CLS £000	CDS £000	Total £000
<b>Balance at 31 March 2010 as previously reported</b>	(390,314)	(409,014)	(799,328)
Prior period adjustment*	(69,168)	(827)	(69,995)
<b>Restated balance at 31 March 2010</b>	(459,482)	(409,841)	(869,323)
<b>Changes in taxpayers' equity for 2010-11</b>			
Total comprehensive expenditure for 2010-11	(962,475)	(1,129,337)	(2,091,812)
Grant from the Ministry of Justice	974,368	1,162,240	2,136,608
Grant from the Department for Work and Pensions	4,500	-	4,500
<b>Balance at 31 March 2011</b>	(443,089)	(376,938)	(820,027)
<b>Changes in taxpayers' equity for 2011-12</b>			
Total comprehensive expenditure for 2011-12	<b>(977,650)</b>	<b>(1,100,702)</b>	<b>(2,078,352)</b>
Grant from the Ministry of Justice	<b>941,825</b>	<b>1,090,768</b>	<b>2,032,593</b>
<b>Balance at 31 March 2012</b>	<b>(478,914)</b>	<b>(386,872)</b>	<b>(865,786)</b>

\* Refer to note 1(q) for details of prior period adjustment.

The notes on pages 64 to 83 form part of these financial statements.

## Financial reports 2011-12

# Community Legal Service Fund and Criminal Defence Service Notes to the Financial Statements

For the year ended 31 March 2012

### Note 1 - Statement of accounting policies

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

#### a) Basis of preparation

The financial statements are presented in Sterling rounded to the nearest thousand (£000) unless otherwise stated. The financial statements have been prepared under the historical cost convention, modified to account for the revaluation of certain financial assets and liabilities, where material. This complies with HM Treasury guidance.

The preparation of financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to

the financial statements, are disclosed. These areas include: trade and other receivables (note 7) and provisions for liabilities and charges (note 10).

#### Programme income and expenditure

The disclosure of programme income and expenditure is provided in accordance with FReM requirements. The classification of programme income and expenditure follows HM Treasury budgetary requirements. The requirements specify that administration and programme income and expenditure should be shown separately in the Statement of Comprehensive Net Expenditure. The Commission's expenditure shown in these financial statements is programme income and expenditure as it relates to the provision of front line services.

#### b) Disclosure of IFRS in issue and major FReM changes

##### IFRS in issue

The Commission has reviewed the IFRS in issue to determine if it needs to make any disclosures in respect of new IFRS. References to 'new IFRS' includes new Interpretations and any new amendments to IFRS and Interpretations. It has been determined that there are no new IFRS that are relevant to the Fund.

##### Major FReM changes for 2011-12 and 2012-13

There have been no significant accounting changes during the year and no further significant accounting changes are expected in 2012-13.

#### c) Income

The Fund's income includes contributions from funded clients, costs recoverable from funded clients or others, including statutory charges, and recoveries of damages. Income is recognised at the point when it is probable that the economic benefits associated with funding a case would flow to the Fund. For the Crown Court means testing scheme, income is recognised when the verdict is known, the final calculation of the applicant's total

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 1 - Statement of accounting policies**  
**(continued)**

contribution has been assessed and the contribution has been received. For all other schemes, where costs incurred in funding a case are recoverable from funded clients or others, amounts are accounted for as income when they have been assessed as owing to the Fund. The amounts may be recovered from both awarded costs and damages, where applicable.

**d) Expenditure**

Expenditure comprises sums payable, including the estimated value of work completed by legal aid service providers not yet billed, for services provided to funded clients, refunds of contributions to funded clients, costs awarded to other parties and other costs associated with the provision of legal advice and assistance. Other costs include the cost of staff, including an allocation of pension costs, employed by the Public Defender Service, Criminal Defence Service, Defence Solicitor Call Centre, and Community Legal Advice. These staff costs are disclosed in note 3 to the financial statements of the Commission.

**e) Grants receivable**

Grants received for income purposes are accounted for as financing and credited directly to the General Reserve. Grants are received from the Ministry of Justice periodically throughout the year and are accounted for on a cash basis.

**f) Cash and cash equivalents**

Cash and cash equivalents comprise bank balances held with commercial banks with original maturities of three months or less.

**g) Provisions**

Provisions represent liabilities of uncertain timing or amount. Provisions are recognised when the CLS and CDS have a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and for which a reliable estimate can be made for the amount of the obligation. Provisions reflect the best estimate of the expenditure required to settle the obligation. Where the effect is material, the estimated cashflows are discounted. The effect of discounting is reported as other finance costs.

**Amounts outstanding on funded cases**

The CLS and CDS recognise their liability to pay for work completed at 31 March but not yet billed. Separate models are run for each legal aid scheme, including civil representation, civil legal help, immigration, crime higher and crime lower. These models are dependent on the nature of information available for each scheme. The provision for amounts outstanding on funded cases is then based on such factors as the number of outstanding cases, the elapsed time on each case and the estimated average costs derived from closed case data. The provision is based on assumptions from the models and the sensitivity of these assumptions is included in note 16 to these financial statements.

**Dilapidations**

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and the requirements of the relevant lease. It has then been discounted at 2.2% (2011: 2.2%) based on the standard HM Treasury discount rate.

**Onerous leases**

Provisions for onerous leases are recognised when the leased property becomes vacant and is no longer used in the operations of the Fund. At 31 March 2011 the Fund ended all leases with an onerous clause.

**h) Leased assets****Operating leases**

Rental payments are charged to the Statement of Comprehensive Net Expenditure as they fall due.

**i) Financial instruments****Financial assets**

The Fund's financial assets comprise cash and receivables. Its receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on any market. The Commission has no intention of trading these receivables, which include amounts due from legal aid suppliers and funded clients.

## Financial reports 2011-12

### Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)

#### Note 1 - Statement of accounting policies (*continued*)

##### **Initial recognition and measurement**

Receivables are initially recognised at their gross amount adjusted to take account of the time value of money over the period in which they are expected to be collected, based on the standard HM Treasury discount rate (currently 2.2%). This is described as a present value adjustment.

Subsequent to initial recognition these assets are carried at amortised cost using the effective interest rate method (EIR), less any impairment and further present value adjustment. Any interest receivable or loss arising on impairment is recognised in the Statement of Comprehensive Net Expenditure. All receivables are disclosed as due within one year although, in the case of statutory charge debts where the repayment of the debt may be deferred until the related asset is disposed of, repayment of debts can occur after more than one year.

##### **Derecognition**

Loans and receivables are derecognised when the rights to receive cash flows from the assets have expired.

##### **Financial liabilities**

##### **Initial recognition and measurement**

The Fund's financial liabilities comprise trade and other payables. These are not revalued subsequent to initial recognition since they are simple instruments with short term maturities. The Fund is not authorised to borrow money.

##### **Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

##### **Fair value of financial instruments**

The fair value of the Fund's financial instruments is determined by using appropriate valuation techniques. Such techniques may include discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details of how they are measured are provided in note 16 to these financial statements.

##### **j) Impairment of financial assets**

An assessment of whether there is objective evidence of impairment is carried out for portfolios of assets ('collective impairment').

An assessment of collective impairment is made of financial assets with similar risk characteristics. For these assets, the Fund's previous experience of losses in each portfolio is used to estimate the degree of impairment on that asset class.

Where such an estimate is made, impairment provisions are made to reduce the carrying value of financial assets accordingly. Further detail on the valuation model used to generate this estimate and the actual impairments against the Fund's receivables is included in note 16 to these financial statements.

##### **k) Accounting for Value Added Tax**

Irrecoverable VAT is charged to the relevant expenditure category. Income and expenditure is otherwise shown net of VAT.

##### **l) Third party assets**

##### **Deposit accounts for funded clients**

Awards for damages to funded clients are initially payable to the Fund. The Commission places these funds on deposit until the final costs of a case have been calculated, when any excess of contributions and damages is paid to the funded client. These funds are accounted for as funds held on behalf of third parties and as a consequence do not appear in these financial statements. The movement in third party funds is reported in note 17 to these financial statements.

Awards for damages paid to the Fund attract interest after a qualifying period.

Interest received on the deposit account is accounted for in the financial statements of the Commission.

##### **Crown Court means test**

Contributions may be payable to the Fund towards the cost of Crown Court proceedings in those cases that have been subject to means testing. The Commission places these funds on deposit and accounts for them as funds held on behalf of third parties. Once the final judgement and costs have been determined, if the applicant is found guilty, the value of the funds up to the cost limit are due to

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 1 - Statement of accounting policies**  
**(continued)**

the Fund. If the applicant is found not guilty, contributions paid to the Fund are refunded including interest calculated at 2% per annum from the date of payment.

Interest received on the Crown Court means test contributions account is accounted for in the financial statements of the Commission.

The movement in third party funds is reported in note 17 to these financial statements.

**m) Employee benefits**

Under IAS19 Employee Benefits, all staff costs must be recorded as an expense as soon as the organisation is obliged to pay them. This includes the cost of any untaken leave as at the year end. The cost of untaken leave is derived from holiday leave records.

**n) Tax expense**

The CLS is liable for corporation tax on statutory charge interest receipts on a cash basis and withholding tax on damages on deposit interest payments to clients from 9 November 2011.

**o) Going concern**

The Commission is a statutory body established under the Access to Justice Act 1999. The Commission is charged with the responsibility for managing and accounting for the Community Legal Service Fund and the Criminal Defence Service, both of which are legal aid schemes provided for under the Access to Justice Act 1999. The Commission takes the view that the going concern concept applies as long as the provisions of the Access to Justice Act 1999 remain extant.

Under the Legal Aid, Sentencing and Punishment of Offenders (LASPO) Act the Commission will be abolished on 31 March 2013. With effect from 1 April 2013 a new body, the Legal Aid Agency, an Executive Agency of the Ministry of Justice, will be created to administer legal aid. This Act received Royal Assent on 1 May 2012 and, as such, the going concern principle has been followed. The Act makes provision for assets, liabilities and staff to transfer to the new Agency.

The future financing of the Commission's activities is met by grant from the Ministry of Justice voted on by Parliament annually under the relevant Appropriation Act. Parliament voted on the funding for 2012-13 on 19 April 2012 (2011-12 on 26 April 2011).

**p) General Reserve**

Funding received from the Ministry of Justice is credited to the General Reserve within Taxpayers' Equity in the Statement of Financial Position upon receipt of funds.

**q) Prior period adjustments**

During the year the LSC has undertaken a series of activities designed to improve the accuracy and reporting of trade and other receivables. These activities were designed to reduce the level of extrapolated error in the gross receivable records and provide a robust assessment of the receivables impairment provision, following an accounts qualification on reported trade and other receivables in 2010-11.

As part of this wider exercise to improve the accuracy of data in the underlying records, a targeted review of a significant component of the trade receivables book was performed. The cases identified for review included those that management believed to be of the highest risk to collection and most susceptible to accuracy or existence error. As a result of this exercise, £48.1m of trade receivables were deemed to be inaccurate or unsupported. These receivables have been written off and the write offs have been allocated to the financial year to which they relate. The presented Statement of Comprehensive Net Expenditure and Statement of Financial Position for 2010-11 and 2009-10 have been restated accordingly.

LSC's underlying processes and assumptions to calculate the impairment of receivables have been improved during the year to better reflect the underlying economic conditions and historical receipt of cash from debtors. The approach to estimating the impairment provision in 2011-12 has been applied and reflected in the restated 2010-11 and 2009-10 Statement of Financial Position presented in the financial statements.

As a result of the processes described above, the trade and other receivables balance for 2010-11 has been restated to £106.5m (previously £153.2m) and 2009-10 to £89.9m (previously £159.9m).

## Financial reports 2011-12

### Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)

#### Note 1 - Statement of accounting policies (*continued*)

The cumulative impact of the prior period adjustment of £70m has been disclosed in the Statement of Changes in Taxpayers' Equity and the 2010-11 comparative amount for 'impairment provision charge', disclosed in Note 3 to the financial statements has been restated to £20.3m (previously £43.7m).

<b>Operating Expenditure</b>	<b>2010-11 £m</b>
Impairment provision as previously disclosed	43.7
Prior period adjustment	(23.4)
Restated impairment provision charge	20.3

<b>Comprehensive Net Expenditure</b>	<b>2010-11 £m</b>
Total comprehensive net expenditure for the year as previously disclosed	2,115.2
Prior period adjustment	(23.4)
Restated comprehensive net expenditure	2,091.8

<b>Trade and other receivables</b>	<b>2010-11 £m</b>	<b>2009-10 £m</b>
Amounts falling due within one year previously disclosed	153.2	159.9
Prior period adjustment	(46.7)	(70.0)
Amounts falling due within one year restated	106.5	89.9

#### r) Comparative information

As described further in note 1 q) to the financial statements, trade and other receivables previously reported in the Statement of Financial Position for 2010-11 and 2009-10 have been restated. In accordance with IAS 8, *Accounting policies, changes in accounting estimates and errors*, the comparative information for the 2010-11 Statement of Financial Position and related notes have been restated and disclosed. The financial statements also present a restated Statement of Financial Position for 2009-10 and relevant comparative information in the notes to the financial statements.

Intangible fixed assets with a net book value of £57k and tangible fixed assets with a net book value of £7k as at 1 April 2010 were transferred to the Commission during the year ended 31 March 2011 and are therefore accounted for in the Commission's financial statements.

#### Note 2 -Segmental analysis

The Fund's primary reporting format is by legal aid scheme. Legal aid expenditure is reported under three main categories: Civil Representation, Civil Legal Help and Criminal cases. The financial statements of the CLS Fund and CDS report expenditure and income by these categories (note 3 and 4) and as such no further segmental reporting is disclosed.

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 3 - Operating expenditure**

	2011-12 CLS £000	2011-12 CDS £000	2011-12 Total £000	2010-11 CLS £000	Restated 2010-11 CDS £000	2010-11 Total £000
<b>Civil representation</b>						
Solicitors' charges, counsel fees and disbursements *	947,608	-	947,608	880,645	-	880,645
Refund of contributions	2,470	-	2,470	1,998	-	1,998
Costs of successful unassisted parties	1,921	-	1,921	1,636	-	1,636
	<b>951,999</b>	<b>-</b>	<b>951,999</b>	<b>884,279</b>	<b>-</b>	<b>884,279</b>
<b>Civil Legal Help</b>						
Solicitors' charges, counsel fees and disbursements *	200,948	-	200,948	236,329	-	236,329
Direct services *	19,218	-	19,218	23,288	-	23,288
Grants and similar	2,248	-	2,248	5,014	-	5,014
	<b>222,414</b>	<b>-</b>	<b>222,414</b>	<b>264,631</b>	<b>-</b>	<b>264,631</b>
<b>Criminal cases</b>						
Solicitors' charges, counsel fees and disbursements - crime higher	-	672,684	672,684	-	688,208	688,208
Solicitors' charges, counsel fees and disbursements - crime lower	-	422,732	422,732	-	433,141	433,141
Public Defender Service	-	1,947	1,947	-	2,509	2,509
Direct services	-	2,629	2,629	-	2,510	2,510
Grants and similar	-	180	180	-	190	190
Defence Solicitor Call Centre	-	3,575	3,575	-	3,966	3,966
	-	<b>1,103,747</b>	<b>1,103,747</b>	-	<b>1,130,524</b>	<b>1,130,524</b>
Impairment provision charge **	20,936	610	21,546	19,715	605	20,320
<b>Total</b>	<b>1,195,349</b>	<b>1,104,357</b>	<b>2,299,706</b>	<b>1,168,625</b>	<b>1,131,129</b>	<b>2,299,754</b>

An explanation for the changes in CLS and CDS expenditure is included in the management commentary.

\* Note: This expenditure includes immigration spend which in 2010-11 was reported separately. This spend has been allocated to the 2010-11 values above, as follows: £13,336k has been allocated to civil representation solicitors' charges, counsel fees and disbursements; £72,923k has been allocated to civil legal help solicitors' charges, counsel fees and disbursements; and £109k has been allocated to civil legal help direct services. The reclassification of immigration spend has been made to better reflect both the nature of operating expenditure and how this expenditure is internally reported to management.

## Financial reports 2011-12

### Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)

#### Note 3 - Operating expenditure (*continued*)

\*\* Note: This expenditure constitutes charges to the Statement of Comprehensive Net Expenditure in respect of changes in the receivables impairment provision and is shown net of trade and other receivables written off. Trade and other receivables written off during the year totalled £4,359k (2011 restated: £31,895k), comprised of CLS £4,193k (2011 restated: £29,519k) and CDS £166k (2011 restated: £2,376k).

Staff costs included within operating expenditure, together with the numbers employed, are disclosed in note 3 of the financial statements of the Commission.

#### Note 4 - Income

	2011-12 CLS £000	2011-12 CDS £000	2011-12 Total £000	2010-11 CLS £000	2010-11 CDS £000	2010-11 Total £000
<b>Civil representation</b>						
Contributions by funded clients	24,606	-	24,606	14,132	-	14,132
Costs recoverable	150,073	-	150,073	138,529	-	138,529
Recoveries from damages and statutory charge	41,502	-	41,502	45,464	-	45,464
	216,181	-	216,181	198,125	-	198,125
<b>Civil Legal Help</b>						
Costs recoverable	19	-	19	34	-	34
	19	-	19	34	-	34
<b>Criminal cases</b>						
Crown Court recoveries	-	1,882	1,882	-	27	27
Recovery of defence costs orders	-	1,780	1,780	-	1,778	1,778
	-	3,662	3,662	-	1,805	1,805
<b>Total</b>	<b>216,200</b>	<b>3,662</b>	<b>219,862</b>	<b>198,159</b>	<b>1,805</b>	<b>199,964</b>

#### Note 5 - Tax expense

	2011-12 CLS £000	2011-12 CDS £000	2011-12 Total £000	2010-11 CLS £000	2010-11 CDS £000	2010-11 Total £000
<b>Civil representation</b>						
Corporation tax on statutory charge interest receipts	4,891	-	4,891	-	-	-
Withholding tax on damages on deposit interest payments to clients	17	-	17	-	-	-
<b>Total</b>	<b>4,908</b>	<b>-</b>	<b>4,908</b>	<b>-</b>	<b>-</b>	<b>-</b>

The Fund is liable for corporation tax on statutory charge interest receipts on a cash basis. Following a settlement with HM Revenue and Customs, the amount owing of £4,891k represents taxes for the years 2009-10, 2010-11 and 2011-12

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 5 - Tax expense (*continued*)**

and has been calculated using the applicable rate of corporation tax which applies to the Ministry of Justice (2009-10: 28%, 2010-11: 28% and 2011-12: 26%). The Fund is also liable to £17k withholding tax on damages on deposit interest payments to clients from 9 November 2011. The applicable rate of withholding tax is 20%.

**Note 6 - Cash and cash equivalents**

	2011-12 CLS £000	2011-12 CDS £000	2011-12 Total £000	2010-11 CLS £000	2010-11 CDS £000	2010-11 Total £000
<b>Cash and cash equivalents</b>						
Balance at 1 April	10,927	1,586	12,513	1,185	3,862	5,047
Net change in cash and cash equivalent balances	(8,736)	1,989	(6,747)	9,742	(2,276)	7,466
<b>Balance at 31 March</b>	<b>2,191</b>	<b>3,575</b>	<b>5,766</b>	10,927	1,586	12,513

All cash balances at 31 March 2012 were held with a commercial bank.

**Note 7 - Trade and other receivables**

Amounts falling due within one year:

	2012 CLS £000	2012 CDS £000	2012 Total £000	2011 CLS £000	Restated 2011 CDS £000	2011 Total £000	2010 CLS £000	Restated 2010 CDS £000	2010 Total £000
Contributions due from funded clients	2,486	-	2,486	1,084	-	1,084	2,849	-	2,849
Costs to be recovered	586	-	586	456	-	456	566	-	566
Statutory charge *	65,716	-	65,716	67,448	-	67,448	61,389	-	61,389
Damages	626	-	626	178	-	178	394	-	394
Amounts due from service providers	30,015	4,074	34,089	26,208	10,891	37,099	21,268	2,965	24,233
Recovery of defence costs orders	-	335	335	-	280	280	-	439	439
	<b>99,429</b>	<b>4,409</b>	<b>103,838</b>	95,374	11,171	106,545	86,466	3,404	89,870

Trade and other receivables are stated net of impairment at 31 March 2012. The valuation of trade and other receivables includes an element of estimation which is discussed further in note 16 of these financial statements. An amount is included in 'amounts due from service providers' where a supplier has been paid in advance of claims and estimated work not invoiced. The valuation of work not invoiced is discussed further in note 10 of these financial statements.

\* Under the Legal Aid Act 1974, the Legal Aid Act 1988 and the Access to Justice Act 1999, where funded clients have recovered or preserved property rather than obtaining damages, recoverable costs may be secured by a charge against the property. Under the Community Legal Service (Financial) Regulations 2000 as amended by the Community Legal Service (Financial) (Amendment) Regulations 2005, interest on the outstanding balance is currently due at 8% per annum.

## Financial reports 2011-12

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 7 - Trade and other receivables (*continued*)**

The net amount of statutory charge debt is:

	2012			2011			2010		
	CLS	CDS	Total	CLS	CDS	Total	CLS	CDS	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Statutory charge on damages	31,353	-	31,353	35,541	-	35,541	33,512	-	33,512
Interest accrued to date	34,363	-	34,363	31,907	-	31,907	27,877	-	27,877
	<b>65,716</b>	<b>-</b>	<b>65,716</b>	67,448	-	67,448	61,389	-	61,389

Trade and other receivables secured by a charge may be deferred until the property has been sold. Although all receivables are due within one year, the majority of receivables will be paid after one year.

Amounts falling due within one year by organisational type:

	2012			2011			2010		
	CLS	CDS	Total	CLS	CDS	Total	CLS	CDS	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Bodies external to government	99,429	4,409	103,838	95,374	11,171	106,545	86,466	3,404	89,870
	<b>99,429</b>	<b>4,409</b>	<b>103,838</b>	95,374	11,171	106,545	86,466	3,404	89,870

**Note 8 - Trade payables and other liabilities**

Amounts falling due within one year:

	2012			2011			2010		
	CLS	CDS	Total	CLS	CDS	Total	CLS	CDS	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Amounts due to solicitors, counsel and advice agencies	57,274	115,487	172,761	83,847	95,576	179,423	30,913	43,195	74,108
Contribution refunds due to funded clients	2,100	-	2,100	3,750	-	3,750	157	-	157
Amounts due to/(from) the Legal Services Commission	689	212	901	962	447	1,409	(22)	338	316
Accruals and deferred income	144,041	36	144,077	142,697	27	142,724	157,934	34,155	192,089
Corporation and withholding taxes	4,908	-	4,908	-	-	-	-	-	-
	<b>209,012</b>	<b>115,735</b>	<b>324,747</b>	231,256	96,050	327,306	188,982	77,688	266,670

All payables have a remaining life of one year or less, and the carrying amount is deemed to reflect fair value.

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 8 - Trade payables and other liabilities (*continued*)****Amounts falling due within one year by organisational type:**

	2012 CLS £000	2012 CDS £000	2012 Total £000	2011 CLS £000	2011 CDS £000	2011 Total £000	2010 CLS £000	2010 CDS £000	2010 Total £000
Other central government bodies*	5,597	212	5,809	962	447	1,409	(22)	338	316
Bodies external to government	203,415	115,523	318,938	230,294	95,603	325,897	189,004	77,350	266,354
	<b>209,012</b>	<b>115,735</b>	<b>324,747</b>	231,256	96,050	327,306	188,982	77,688	266,670

\* Note: This consists of amounts due to the Commission and HM Revenue and Customs.

**Note 9 - Fair values**

Set out below are the carrying amounts and fair values of the Fund's financial assets and liabilities that are carried in the financial statements.

The Commission considers that the carrying amounts for cash and cash equivalents, trade payables and other liabilities approximate to their fair value due to the short-term maturities of these instruments.

Carrying amounts and fair values	2012	2012	2012	Restated			Restated		2010
	CLS £000	CDS £000	Total £000	2011 CLS £000	2011 CDS £000	2011 Total £000	2010 CLS £000	2010 CDS £000	Total £000
Trade and other receivables	99,429	4,409	103,838	95,374	11,171	106,545	86,466	3,404	89,870
Cash and cash equivalents	2,191	3,575	5,766	10,927	1,586	12,513	1,185	3,862	5,047
Trade payables and other liabilities	(209,012)	(115,735)	(324,747)	(231,256)	(96,050)	(327,306)	(188,982)	(77,688)	(266,670)
Total at 31 March	<b>(107,392)</b>	<b>(107,751)</b>	<b>(215,143)</b>	(124,955)	(83,293)	(208,248)	(101,331)	(70,422)	(171,753)

Trade and other receivables have been discounted over the period from the reporting date to the expected date of collection. This has a material impact on their present value. To take account of this time value of money effect an estimation technique has been used, discounting all receivable balances over periods commensurate with historical cash flow patterns for each class of receivable at a rate of 2.2% per annum (2011: 2.2% p.a.). The discount rate used is the HM Treasury discount rate. The estimation technique used assumes that the timing of future cash flows will follow historical trends.

## Financial reports 2011-12

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)

### Note 9 - Fair values (*continued*)

#### Fair value hierarchy

The Commission uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

All of the Fund's financial assets and liabilities measured at fair value fall within level 3. There were no transfers into or out of level 3 fair value instruments.

### Note 10 - Provisions for liabilities and charges

	CLS £000	CDS £000	Total £000
<b>Provision for amounts outstanding on funded cases</b>			
Balance at 1 April 2011	318,134	293,411	611,545
Provided in year	1,148,556	1,095,416	2,243,972
Provisions utilised in the year	(1,095,168)	(1,109,947)	(2,205,115)
Balance at 31 March 2012	371,522	278,880	650,402
<b>Provision for dilapidations</b>			
Balance at 1 April 2011	-	234	234
Finance charges	-	7	7
Balance at 31 March 2012	-	241	241
<b>Balance at 31 March 2012</b>	<b>371,522</b>	<b>279,121</b>	<b>650,643</b>

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 10 - Provisions for liabilities and charges (*continued*)**

	CLS £000	CDS £000	Total £000
<b>Provision for amounts outstanding on funded cases</b>			
Balance at 1 April 2010	358,153	339,056	697,209
Provided in year	1,116,974	1,121,349	2,238,323
Provisions utilised in the year	(1,156,993)	(1,166,994)	(2,323,987)
Balance at 31 March 2011	318,134	293,411	611,545
<b>Provision for dilapidations</b>			
Balance at 1 April 2010	-	347	347
Provided in year	-	25	25
Provisions utilised in the year	-	(32)	(32)
Provisions not required written back	-	(119)	(119)
Finance charges	-	13	13
Balance at 31 March 2011	-	234	234
<b>Provision for onerous contracts</b>			
Balance at 1 April 2010	-	78	78
Provisions utilised in the year	-	(52)	(52)
Provisions not required written back	-	(26)	(26)
Balance at 31 March 2011	-	-	-
Balance at 31 March 2011	318,134	293,645	611,779

The Commission estimates the value of unbilled live cases each year to arrive at the amounts disclosed within the accounts as a provision. The amount is an estimate of the expenditure required to settle any obligation at the end of the reporting date. In estimating the provision, the Commission has adopted prudent measurement techniques based on the latest data available which are discussed further in note 16 of these financial statements. Based on average historical case lengths, substantially all of the costs are expected to be incurred within the next 12 months.

The dilapidations provision relates to leasehold premises occupied by the PDS. The costs are expected to be incurred between 2012 and 2019 as each lease expires.

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Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 10 - Provisions for liabilities and charges (*continued*)**

Analysis of expected timing of discounted flows	Provision for amounts outstanding on funded cases	Provision for dilapidations	Provision for amounts outstanding on funded cases	Provision for dilapidations
	CLS	CLS	CDS	CDS
	£000	£000	£000	£000
Not later than one year	371,522	-	278,880	57
Later than one year and not later than five years	-	-	-	146
Later than five years	-	-	-	38
Balance at 31 March 2012	371,522	-	278,880	241

**Note 11 - Going concern**

The statement of financial position at 31 March 2012 shows an excess of liabilities over assets of £866m. The going concern principles outlined in note 1 o) have been followed.

**Note 12 - Financial commitments**

The Fund does not have any financial commitments at 31 March 2012.

**Note 13 - Contingent liabilities**

The Fund does not have any contingent liabilities at 31 March 2012.

**Note 14 - Commitments under operating leases**

The total future minimum lease payments under operating leases are shown below:	2011-12 £000	2010-11 £000
<b>Obligations under operating leases comprise:</b>		
Land and buildings		
Within one year	93	98
Between two to five years	128	210
Over five years	15	27
<b>Total</b>	<b>236</b>	<b>335</b>

Operating leases shown in this note relate to the CDS.

Under the terms of the lease agreements, no contingent rents are payable and there are no rights to purchase.

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 15 - Related party transactions**

The Commission is a Non-Departmental Public Body sponsored by the Ministry of Justice. The Ministry of Justice is regarded as a related party. During the year, the Commission had various material transactions with the Ministry of Justice. The Commission has also had various material transactions with Her Majesty's Courts and Tribunals Service, an Agency of the Ministry of Justice, relating to work carried out by Her Majesty's Courts and Tribunals Service on behalf of the Commission. In addition, the Commission has had material transactions with HM Revenue and Customs.

The Commission has declared below any immediate connection between the CLS Fund or the CDS and Ministry of Justice Ministers or their close family, or the organisations with which the Ministers or their close family are associated. During 2011-12, the Commissioners, other related parties or their close family members entered into a number of material arms length transactions on normal commercial terms with the Fund. These transactions are also detailed below.

Unless otherwise stated, the disclosures relate to transactions in respect of funded work to the supplier who the individual works for and do not reflect the individual's earnings. The figures include payments on account and disbursements, which may be payable to third parties and are stated inclusive of VAT, as this is a cost to the Commission. All transactions are for the period 1 April 2011 to 31 March 2012 unless otherwise stated. The transactions do not include payments received indirectly (e.g. counsel fees claimed by the solicitors which they then pay to counsel). The transactions do not reflect annual earnings as they may include fees for work carried out in previous years, but not billed until this financial year; they may also exclude fees for work carried out in 2011-12, but not yet billed. The transactions for all schemes represent payments made.

Commissioners are required under the *Code of Best Practice for Legal Services Commission Members* to declare any personal, financial and business interests which may conflict with their duties for the Commission. Members may not participate in Commission discussions or decisions on policy or financial matters where a conflict of interest arises.

		Transactions
<b>Commissioners and related parties</b>		
Dr David Wolfe QC	(1) David Wolfe is a barrister who receives payments in respect of legal aid casework.	£27,206
	(2) Amanda Illing, the Practice Director at Hardwicke Chambers, is married to Dr David Wolfe QC, a Commissioner. Barristers at Hardwicke Chambers contribute a percentage of their earnings to its central costs which include Amanda Illing's salary. Payments were made to barristers at Hardwicke Chambers for work carried out under instruction by the Commission's legal team.	£856,892
	(3) Amanda Illing has been a board member of The Public Law Project since May 2011. Legal aid payments are made to The Public Law Project.	£85,855
Tom Jones	(1) Rhodri Jones is a lawyer with Hugh James Solicitors, to whom legal aid payments are made. Rhodri is engaged to Swian Jones who is Tom Jones's daughter.	£958,798
	(2) Celine Cousin is a lawyer at Geldards, to whom legal aid payments are made. Celine is engaged to Owain Jones who is Tom Jones's son.	£61,219

Balances outstanding as at 31 March 2012 have not been disclosed, as these could only be estimated.

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### Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)

#### Note 16 - Financial risk identification and management

The Commission's financial risk management process seeks to enable the early identification, evaluation and effective management of key risks facing the Commission. Systems have been established to review and reflect changes in the legal aid market and the Commission's activities.

##### Liquidity risk

The Fund is financed by a grant received from the Ministry of Justice. As such it is not exposed to significant liquidity risks.

##### Interest rate risk

The Fund is not exposed to significant interest rate risk.

At 31 March 2012, £65.7m (2011 restated: £67.4m) of statutory charge debt was secured, the principal of which carried a fixed rate of interest. The fair value of these assets, which are not traded, is unaffected by movements in floating interest rates since it is determined by discounting the assets using the HM Treasury rate (currently 2.2%) over the expected collection period.

Money received by the CLS Fund on behalf of funded clients is held on deposit until the case is concluded. Interest is paid to funded clients by reference to the London Inter Bank Offered Rate (LIBOR). To offset the interest payable, £11m of the total deposit account balance is held with Barclays Bank Plc and managed by Barclays Wealth Division through their Liquidity Management Service. The balance is held as cash. Funds are available at 24 hours notice. The rate earned by these instruments may fluctuate and differ from the rate paid out which is based on LIBOR. However, the short maturity period of the instruments limits any risk arising from adverse rates earned.

Money received by the CDS in relation to Crown Court means test contributions is held until the final judgement and costs of the case have been determined. Refunds of contributions are paid to applicants found not guilty including interest calculated at 2% per annum from the date of contribution receipt by the Fund. The balance of contribution monies is held as cash.

##### Foreign currency risk

The Fund's operating activities are denominated, and the financial statements are prepared, in Sterling. The Fund

procures legal aid in England and Wales. The Fund is not exposed to any foreign currency risks.

##### Credit risk

Credit risk is the risk that counterparties to financial instruments do not perform according to the terms of the contract or instrument. The Fund is exposed to credit risk when dealing with funded clients, suppliers and from certain financing activities.

The immediate credit exposure of financial instruments is represented by those instruments that have a net positive fair value by counterparty at 31 March 2012. The Fund considers its maximum exposure to credit risk to be:

	2011-12 £000	Restated 2010-11 £000
<b>Credit risk</b>		
Cash and cash equivalents	5,766	12,513
Trade and other receivables	103,838	106,545
	<b>109,604</b>	119,058
Third party assets	21,121	19,199
	<b>130,725</b>	138,257

As at 31 March 2012 there were no financial guarantees or third party obligations, other than amounts held as damages on deposit and Crown Court means contributions, that increased the credit risk of the financial assets set out above.

The Commission uses market knowledge and changes in credit ratings to identify significant changes to the financial profile of its counterparties.

##### Trade receivables and other current assets

The Commission has an inherent risk within trade receivables and other current assets, as the Fund is not predisposed to straightforward cash collections. The Commission recognises this risk and mitigates it in the case of statutory charge debts, where repayment of the debt may be deferred, by securing land charges and using active credit management policies to recover unsecured debts. In some cases the debt collection activities are outsourced to commercial debt collectors. The size of the risk is reflected in the receivables impairment provision

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 16 - Financial risk identification and management (*continued*)**

which totals £161.3m (2011 restated: £154.1m), comprising CLS £158.5m (2011 restated: £151.7m) and CDS £2.8m (2011 restated: £2.4m).

The majority of the Fund's trade and other receivables are the result of a statutory charge, i.e. £65.7m (2011 restated: £67.4m) out of a total receivables balance after impairment of £103.8m (2011 restated: £106.5m). A high proportion of these are secured on property, and settlement is deferred until the property is sold. These, along with other receivables, carry an impairment provision based on expected settlement receipts.

The Fund provides for impairment of receivables based on historical cash collection experience and management assessment of likely recoveries, for each category of debt. Consideration is given to macroeconomic factors, such as the downturn in the economy, and inherent risks, such as potential changes to recoveries arising from revisions to

legal aid schemes, in assessing the levels of impairment provision.

The LSC's impairment model uses historical recovery profiles by debt category to estimate the provision required against debt balances. The impairment model is underpinned by specific assumptions including: the maximum life of debt is 10 years with the exception of statutory charges where this has been uplifted to 16 years, income is received against debt at the end of the year, and the discount rate is 2.2%. The impact of the following reasonable possible alternatives to these assumptions has been considered:

- maximum life of debt +/- 1 year
- income received against a debt evenly throughout the year, rather than at the end of the year
- discount rate. This rate is set by HM Treasury and is not subject to management judgement and so has not been calculated
- predicted income receipts used to calculate the impairment provision cashflows +/- 10%.

Assumptions tested	Assumption	Increase/(decrease) in net financial asset	
		2011-12 £m	Restated 2010-11 £m
Maximum life of debt	+1 year	0.7	0.6
Maximum life of debt	-1 year	(0.9)	(0.8)
Income received	Evenly throughout the year	1.0	0.9
Predicted income receipts	+10%	8.9	8.4
Predicted income receipts	-10%	(8.9)	(8.4)

Using these reasonable, possible alternative assumptions, the fair value of the financial assets at 31 March could be higher by £10.6m (2011:£9.9m) or lower by £9.8m (2011:£9.2m).

Despite possible alternative assumptions being available, the current assumptions will remain unchanged. They will be reviewed periodically and changed if management believe alternative assumptions are a better reflection of the underlying trends.

## Financial reports 2011-12

### Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)

#### Note 16 - Financial risk identification and management (*continued*)

##### Provisions for liabilities and charges

The Fund uses complex valuation models to estimate the value of unbilled amounts on live cases. These models utilise inputs for historical price, quantity profiles, forecast spend, and underlying business knowledge, to estimate work completed but not yet billed at the end of the reporting date. The impact of the following reasonable possible alternatives to these inputs has been quantified:

- price profiles +/- 10%
- quantity profiles +/- up to 10%
- forecast spend +/- 10%.

Assumptions tested	Increase in net financial liability		(Decrease) in net financial liability	
	Assumption	£m	Assumption	£m
Price profiles	+ 10%	10.6	- 10%	(10.6)
Quantity profiles	+ up to 10%	8.0	- up to 10%	(10.8)
Forecast spend	+ 10%	33.3	- 10%	(33.3)

Using these reasonable, possible alternative assumptions, the fair value of the financial liabilities at 31 March 2012 could be higher by up to £51.9m (2011: £55.4m) or lower by up to £54.7m (2011: £56.4m).

The above assumptions testing excludes the model variables used in the calculation of the civil representation work in progress provision of £302.0m (2011: £253.7m).

The civil representation work in progress provision is calculated on a case by case basis applying historical profiles to each stage of a case for both cost and duration. The estimated case cost is calculated using historical profiles. This cost information is then applied to open cases in order to estimate the provision required. The duration profiles are applied to each open case to estimate the costs incurred to date.

The historical profiles used in the model are based on detailed case histories for a number of years and the level of granularity applied in the model means that it is not possible to determine the sensitivity to changes to these inputs.

Civil representation work in progress model inputs	Basis
Estimated cost	Historical case data profiles
Duration	Historical case data profiles

The above inputs are case data driven, with an overlay of management judgement, for example choosing the number of years of historical case data to use in creating historical profiles. Based on movements in the above inputs, the WIP estimate could crystallise at a materially different amount.

The expectation is that despite possible alternative assumptions being available, the current assumptions will remain unchanged. However, they will be reviewed periodically and changed if there is sufficient evidence that such action is appropriate.

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 16 - Financial risk identification and management (*continued*)****Cash**

Cash balances are maintained with strong investment grade banks or financial institutions. Banks are selected for their credit status and their ability to meet the Fund's day to day banking requirements. The credit ratings are monitored on a continuing basis. The Fund has not recorded impairments against cash or cash equivalents, nor have any recoverability issues been identified with such balances, including third party assets. Such items are typically recoverable on demand or in line with normal banking arrangements.

**Note 17 - Third party assets**

The total third party assets held by the Commission are summarised below:

	31 March 2011 £000	Gross inflows £000	Gross outflows £000	31 March 2012 £000
Monetary assets such as bank balances and monies on deposit	19,199	27,179	(25,257)	<b>21,121</b>

Total third party assets are comprised of the following:

**Damages**

The Commission holds awards for damages on behalf of funded clients (see note 1 l)).

	31 March 2011 £000	Gross inflows £000	Gross outflows £000	31 March 2012 £000
Monetary assets such as bank balances and monies on deposit	15,486	19,104	(21,058)	<b>13,532</b>

The Commission receives awarded damages awaiting the final settlement of a case and contribution monies from clients towards legal costs. The assets held at the end of the reporting date comprise pooled investment funds, cash and building society deposits as follows:

	31 March 2012 £000	31 March 2011 £000
Cash	<b>344</b>	2,398
Building Society deposits	<b>5,001</b>	4,949
Pooled investment funds	<b>8,187</b>	8,139
	<b>13,532</b>	15,486

## Financial reports 2011-12

### Note 17 - Third party assets (continued)

#### Crown Court means test

The Commission holds Crown Court means test contributions (see note 1 l)).

	31 March 2011 £000	Gross inflows £000	Gross outflows £000	31 March 2012 £000
Monetary assets such as bank balances and monies on deposit	3,713	8,075	(4,199)	<b>7,589</b>

The Commission receives contributions towards costs awaiting the final judgement and calculation of the total costs of a case. The outcome of the case will determine whether the third party asset transfers to the Fund or is returned to the third party. The assets held at the end of the reporting date comprise cash as follows:

	31 March 2012 £000	31 March 2011 £000
Cash	<b>7,589</b>	3,713
	<b>7,589</b>	3,713

### Note 18 - Accountability notes

#### Losses statement

During the year the LSC identified 24,229 accounts involving losses totalling £48.1m, comprised of CLS £47.9m and CDS £0.2m. As described further in note 1 q) to the accounts, these losses have been allocated to the appropriate periods to which they relate in the Statement of Comprehensive Net Expenditure, with £8.8m of these losses reallocated to 2010-11 and £34.9m of these losses reallocated to 2009-10. Following the restatement, the losses for the year as disclosed in the 2011-12 Statement of Comprehensive Net Expenditure are £4.4m (2011 restated: £31.9m).

In accordance with *Managing Public Money*, losses over £250,000 are separately disclosed. There were three (2011: two) supplier balances written off over £250,000 as a result of the suppliers going into bankruptcy with no prospect of a dividend. The balances were £622,113, £1,084,324 and £1,718,427 and the debts arose from the normal course of business. There were no (2011: nil) funded client balances written off over £250,000. The Commission has offset these debt write offs against the related impairment provision.

Under the terms of the Unified Contract agreed with the Law Society in April 2008, in respect of historical cases as defined in the contract, providers can opt to accept payments on account as the final bill without providing further documentation. As there is no supporting documentation these payments are deemed to be a loss to the Fund. All of these payments on account were accounted for in prior year financial statements. The total payments on account opted as final bills under the agreement were £616k (2011: £1.8m). Before the Unified Contract the Fund would have expected a proportion of these payments on account to be repaid. No cases starting after April 2002 are affected by this agreement. The Commission estimates that approximately 99% of the cases expected to be closed through the Unified Contract agreement have been processed at 31 March 2012, and it is expected that 100% of the cases will be closed by 31 March 2013.

### Note 19 - Subsequent events

In accordance with the requirements of IAS10 Events after the Reporting Period, events are considered up to the date on which the financial statements are authorised for issue, which is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

The Legal Aid, Sentencing and Punishment of Offenders Act received Royal Assent on 1 May 2012. Under this Act the Commission will be abolished on 31 March 2013 and from 1 April 2013 a new body, the Legal Aid Agency, an Executive Agency of the Ministry of Justice, will be created to administer legal aid. There are no balances in the financial statements impacted by this subsequent event.

There are no other subsequent events to report.

## Financial reports 2011-12

### The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Legal Services Commission for the year ended 31 March 2012 under the Access to Justice Act 1999. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

#### Respective responsibilities of the Commission, Accounting Officer and auditor

As explained more fully in the Statement of the responsibilities of the Accounting Officer of the Commission, the Commission and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Access to Justice Act 1999. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the

circumstances of the Legal Services Commission and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Legal Services Commission; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report and Management Commentary to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

#### Opinion on regularity

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

#### Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Legal Services Commission's affairs as at 31 March 2012 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Access to Justice Act 1999 and directions made thereunder by the Lord Chancellor.

#### Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with directions made by the Lord Chancellor under the Access to Justice Act 1999; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament (*continued*)

## Matters on which I report by exception

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

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

## Report

I have no observations to make on these financial statements.

**Amyas C E Morse**

Comptroller and Auditor General

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

10 July 2012

## Financial reports 2011-12

## Legal Services Commission Statement of Comprehensive Net Expenditure

For the year ended 31 March 2012

	Note	2011-12 £000	2010-11 £000
<b>Administration costs</b>			
Employment costs	3	(45,844)	(56,953)
Other operating charges	8	(41,109)	(46,593)
Amortisation	6	(4,314)	(3,557)
Depreciation	7	(4,199)	(3,602)
<b>Programme costs</b>			
Employment costs - pensions	3	(5,567)	(7,485)
Impairment of intangible assets	6	(258)	-
Impairment of property, plant and equipment	7	(151)	-
Movement in provisions	20	218	(544)
		<b>(101,224)</b>	<b>(118,734)</b>
<b>Administration income</b>			
Income from activities	12	689	211
<b>Programme income</b>			
Gains on curtailment of pension scheme	4	16,276	-
Pension past service credit	4	-	19,352
<b>Net expenditure</b>		<b>(84,259)</b>	<b>(99,171)</b>
<b>Other expenditure</b>			
Other finance costs	10	(184)	(169)
Tax expense	11	(23)	(29)
Notional recharge from the Ministry of Justice	13	(1,166)	(1,287)
<b>Other income</b>			
Interest receivable	9	90	141
Other finance income	10	3,424	1,305
<b>Net expenditure after interest, tax and notional recharges</b>		<b>(82,118)</b>	<b>(99,210)</b>

The notes on pages 91 to 119 form part of these financial statements.

**Legal Services Commission**  
**Statement of Comprehensive Net Expenditure (continued)**

Other comprehensive expenditure	Note	2011-12 £000	2010-11 £000
Net gain/(loss) on revaluation of intangibles		10	(1,244)
Net gain/(loss) on revaluation of property, plant and equipment		20	(290)
(Decrease)/increase in surplus - No. 4 Pension Scheme	4	(43,154)	-
(Decrease)/increase in surplus - No. 3 Pension Scheme	4	(166)	(556)
Actuarial (loss)/gain recognised - No. 4 Pension Scheme	4	(13,910)	29,217
Actuarial (loss)/gain recognised - No. 3 Pension Scheme	4	136	412
<b>Total comprehensive expenditure for the year</b>		<b>(139,182)</b>	<b>(71,671)</b>

All income and expenditure are derived from continuing operations.

## Financial reports 2011-12

## Legal Services Commission Statement of Financial Position

At 31 March 2012

	Note	2012 £000	2011 £000
<b>Non-current assets</b>			
Intangible assets	6	33,305	24,325
Property, plant and equipment	7	7,873	9,662
Trade and other receivables	14	-	4
Pension asset	4	5,843	41,330
<b>Total non-current assets</b>		<b>47,021</b>	75,321
<b>Current assets</b>			
Trade and other receivables	14	2,670	4,589
Cash and cash equivalents	15	1,068	6,949
<b>Total current assets</b>		<b>3,738</b>	11,538
<b>Total assets</b>		<b>50,759</b>	86,859
<b>Current liabilities</b>			
Trade and other payables	16	(20,420)	(19,818)
<b>Total current liabilities</b>		<b>(20,420)</b>	(19,818)
<b>Total assets less current liabilities</b>		<b>30,339</b>	67,041
<b>Non-current liabilities</b>			
Trade and other payables	16	(1,212)	(1,300)
Provisions for liabilities and charges	20	(2,552)	(3,195)
<b>Total non-current liabilities</b>		<b>(3,764)</b>	(4,495)
<b>Assets less liabilities</b>		<b>26,575</b>	62,546
<b>Taxpayers' equity</b>			
Revaluation Reserve		287	16
General Reserve		26,288	62,530
		<b>26,575</b>	62,546

**Matthew Coats**

Chief Executive and Accounting Officer  
5 July 2012

The notes on pages 91 to 119 form part of these financial statements.

## Legal Services Commission Statement of Cash Flows

For the year ended 31 March 2012

	Note	2011-12 £000	2010-11 £000
<b>Cash flows from operating activities</b>			
Net expenditure after interest and notional recharges		<b>(82,118)</b>	(99,210)
<b>Adjustments for:</b>			
Amortisation	6	<b>4,314</b>	3,557
Depreciation	7	<b>4,199</b>	3,602
Operating lease amortisation		<b>(86)</b>	(123)
Impairment of intangible assets	6	<b>258</b>	-
Impairment of property, plant and equipment	7	<b>151</b>	-
Loss on disposal of property, plant and equipment	7	<b>41</b>	17
Interest receivable	9	<b>(90)</b>	(141)
Tax expense	11	<b>23</b>	29
(Increase)/decrease in trade and other receivables		<b>1,918</b>	(1,806)
(Decrease)/increase in trade and other payables		<b>(4,716)</b>	1,515
(Decrease)/increase in provisions	20	<b>(722)</b>	(119)
Gains on curtailments of pension scheme	4	<b>(16,276)</b>	-
Pension charge		<b>(1,906)</b>	(20,170)
Notional recharge from the Ministry of Justice	13	<b>1,166</b>	1,287
Net finance costs/(income)	10	<b>(3,240)</b>	(1,136)
<b>Net cash outflow from operating activities</b>		<b>(97,084)</b>	(112,698)
<b>Cash flows from investing activities</b>			
Purchase of intangible assets	5	<b>(9,427)</b>	(11,408)
Purchase of property, plant and equipment	5	<b>(684)</b>	(3,288)
Interest receivable	9	<b>90</b>	141
<b>Net cash outflow from investing activities</b>		<b>(10,021)</b>	(14,555)
<b>Cash flows from financing activities</b>			
Financing – grant-in-aid: capital		<b>15,677</b>	19,300
Financing – grant-in-aid: revenue		<b>85,923</b>	100,500
Capital element of payments in respect of finance leases		<b>(376)</b>	(447)
<b>Net cash inflow from financing activities</b>		<b>101,224</b>	119,353
Net (decrease)/increase in cash and cash equivalents in the period		<b>(5,881)</b>	(7,900)
Cash and cash equivalents at the beginning of the period	15	<b>6,949</b>	14,849
<b>Cash and cash equivalents at the end of the period</b>	15	<b>1,068</b>	6,949

The notes on pages 91 to 119 form part of these financial statements.

## Financial reports 2011-12

## Legal Services Commission Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2012

	Note	Revaluation Reserve £000	General Reserve £000	Total £000
<b>Balance at 31 March 2010</b>		<b>2,446</b>	<b>10,684</b>	<b>13,130</b>
<b>Changes in taxpayers' equity for 2010-11</b>				
<b>Grant from the Ministry of Justice</b>				
Grant-in-aid: capital		-	19,300	19,300
Grant-in-aid: revenue		-	100,500	100,500
Notional credit from the Ministry of Justice	13	-	1,287	1,287
		2,446	131,771	134,217
<b>Comprehensive expenditure for 2010-11</b>				
Net (loss)/gain on revaluation		(1,534)	-	(1,534)
Comprehensive net expenditure for the year before notional recharges		-	(68,850)	(68,850)
Notional recharge from the Ministry of Justice	13	-	(1,287)	(1,287)
Transfers between reserves		(896)	896	-
<b>Balance at 31 March 2011</b>		<b>16</b>	<b>62,530</b>	<b>62,546</b>
<b>Balance at 31 March 2011</b>		<b>16</b>	<b>62,530</b>	<b>62,546</b>
<b>Changes in taxpayers' equity for 2011-12</b>				
<b>Grant from the Ministry of Justice</b>				
Grant-in-aid : capital		-	<b>15,677</b>	<b>15,677</b>
Grant-in-aid : revenue		-	<b>85,923</b>	<b>85,923</b>
Notional credit from the Ministry of Justice	13	-	<b>1,166</b>	<b>1,166</b>
		<b>16</b>	<b>165,296</b>	<b>165,312</b>
<b>Comprehensive net expenditure for 2011-12</b>				
Intangible assets upward/(downward) revaluations relating to prior year	6	<b>266</b>	-	<b>266</b>
Property, plant and equipment upward/(downward) revaluations relating to prior year	7	<b>179</b>	-	<b>179</b>
Net gain/(loss) on revaluation		<b>30</b>	-	<b>30</b>
Comprehensive net expenditure for the year before notional recharges		-	<b>(138,046)</b>	<b>(138,046)</b>
Notional recharge from the Ministry of Justice	13	-	<b>(1,166)</b>	<b>(1,166)</b>
Transfers between reserves		<b>(204)</b>	<b>204</b>	-
<b>Balance at 31 March 2012</b>		<b>287</b>	<b>26,288</b>	<b>26,575</b>

The notes on pages 91 to 119 form part of these financial statements.

## Legal Services Commission Notes to the Financial Statements

For the year ended 31 March 2012

### Note 1 - Statement of accounting policies

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

#### a) Basis of preparation

The financial statements are presented in Sterling rounded to the nearest thousand (£000) unless otherwise stated. The accounts have been prepared under the historical cost convention, modified to account for the revaluation of non current assets at their value to the business by reference to their current costs. This complies with HM Treasury guidance.

The preparation of financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or

areas where assumptions and estimates are significant to the financial statements, are disclosed.

#### **Administration and programme - income and expenditure**

The disclosure of administration and programme income and expenditure is provided in accordance with FReM requirements. The classification of income and expenditure as administration and programme follows HM Treasury budgetary requirements.

#### **b) Disclosure of IFRS in issue and major FReM changes**

##### *IFRS in issue*

The Commission has reviewed the IFRS in issue to determine if it needs to make any disclosures in respect of those new IFRS. References to 'new IFRS' includes new Interpretations and any new amendments to IFRS and Interpretations. It has been determined that there are no new IFRS that are relevant to the Commission.

##### **Major FReM changes for 2011-12 and 2012-13**

There have been no significant accounting changes during the year and no further significant accounting changes are expected in 2012-13.

#### **c) Assets under construction**

Assets under construction are valued at historical cost within property, plant and equipment and intangible assets, and are not depreciated or amortised. An asset ceases to be classified as an asset under construction when it is ready for use. Its carrying value is then removed from assets under construction and transferred to the respective asset category. Depreciation or amortisation is then charged on the asset in accordance with the stated accounting policy.

Expenditure is capitalised where it is directly attributable to bringing an asset into working condition, such as external contractor costs and relevant employee costs.

## Financial reports 2011-12

### Legal Services Commission Notes to the financial statements (*continued*)

#### Note 1 - Statement of accounting policies (*continued*)

##### d) Intangible assets

Intangible assets comprise internally developed computer software (including assets under construction) and purchased software licences.

Development costs that are directly attributable to the design and testing of identifiable and unique software products, such as external contractor costs and relevant employee costs, are recognised as intangible assets once recognition criteria are met.

The Commission applies a capitalisation threshold for intangible assets of £10,000 (2011: £10,000). When computer software is available for its intended use these costs are amortised on a straight-line basis over an estimated life of 3 to 5 years.

Intangible assets, excluding assets under construction, are restated to fair value in existing use each year by indexation up to the year-end using Price Index Numbers for Current Cost Accounting, published by the Office for National Statistics.

##### e) Property, plant and equipment

Property, plant and equipment assets costing more than the prescribed capitalisation level of £10,000 (2011: £10,000) are treated as capital assets. Where an item costs less than the prescribed level but forms part of an asset or grouped asset, whose total value is greater than the capitalisation level, the item is treated as a capital asset.

Assets purchased and brought into service within the same year are disclosed as additions. Where an asset under construction is brought forward from a prior year and capitalised in the current year, it is disclosed as a transfer from assets under construction.

Property, plant and equipment is restated at fair value each year by indexation up to the year-end using Price Index Numbers for Current Cost Accounting, published by the Office for National Statistics.

##### f) Depreciation and amortisation

Except for assets under construction, depreciation or amortisation is provided on all non-current assets on a

straight-line basis to write off the cost of assets over their estimated useful lives as follows:

Fixtures and fittings	5 years
Furniture and equipment	3 to 5 years
Computer equipment	3 to 5 years
Computer software	3 to 5 years

##### g) Impairment of non-financial assets

At each reporting date, the Commission reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the fair value of the asset is estimated in order to determine the extent of the impairment loss.

Impairments that reflect a permanent diminution in the value of an asset, as a result of a clear consumption of economic benefit or service potential, are charged directly to the Statement of Comprehensive Net Expenditure, with any remaining Revaluation Reserve balance released to the General Reserve.

When an asset's carrying amount decreases (other than as a result of a permanent diminution), the decrease is recognised in the Revaluation Reserve to the extent that a balance exists in respect of the asset. Decreases in excess of the revaluation surplus are charged to the Statement of Comprehensive Net Expenditure.

Any reversal of an impairment charge is recognised in the Statement of Comprehensive Net Expenditure to the extent that the original charge, adjusted for subsequent depreciation, was previously recognised here. The remaining amount is recognised in the Revaluation Reserve.

##### h) Revaluation

When an asset's carrying amount increases as a result of a revaluation, the increase is recognised in the Statement of Comprehensive Net Expenditure to the extent that it reverses a revaluation decrease of the same asset previously recognised here. Any remaining increase is credited directly to the Revaluation Reserve in the Statement of Changes in Taxpayers' Equity. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is restated to the revalued amount of the asset.

Legal Services Commission Notes to the financial statements (*continued*)**Note 1 - Statement of accounting policies**  
**(continued)**

The revalued element, representing the difference between depreciation based on the revalued carrying amount of the asset charged to the Statement of Comprehensive Net Expenditure and depreciation based on the asset's original cost, is transferred from the Revaluation Reserve to the General Reserve each year.

**i) Other operating income**

Other operating income comprises receipts authorised by the Ministry of Justice to be treated as income. Income is recognised at the point when it is probable that the economic benefits associated with the item of revenue will flow to the Commission and the amount of income can be measured with reliability.

**j) Grants-in-aid received**

Grants-in-aid received for income purposes or for the acquisition of property, plant and equipment and intangible assets are accounted for as financing and credited directly to the General Reserve. Grants are received from the Ministry of Justice periodically throughout the year and are accounted for on a cash basis.

**k) Interest receivable**

The Community Legal Service (CLS) Fund and the Criminal Defence Service (CDS) receives interest on third party deposit accounts for funded clients. The surplus interest is accounted for as "interest receivable" in the Commission's Statement of Comprehensive Net Expenditure.

**l) Cash and cash equivalents**

Cash and cash equivalents comprise bank balances held with commercial banks, including those administered through the Government Banking Service, with original maturities of three months or less.

**m) Provisions**

Provisions represent liabilities of uncertain timing or amount. Provisions are recognised when the Commission has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and for which a reliable estimate can be made for the amount of the obligation.

Provisions reflect the best estimate of the expenditure required to settle the obligation.

Where the effect is material, the estimated cashflows are discounted. The effect of discounting is reported as other finance costs.

**Restructuring**

Provisions are recognised for employee termination payments. An obligation is recognised when the Commission has a detailed formal plan of the restructure, and the plan has been communicated to those affected by it.

**Legal costs**

Provisions are made for costs when legal proceedings have commenced and there is a probability that a future liability will arise.

**Dilapidations**

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and the requirements of the relevant lease. It has then been discounted at 2.2% (2011:2.2%) based on the standard HM Treasury discount rate.

**Contractual claims**

Provisions for contractual claims are made if formal supplier claims are received. A verification process to assess the validity of claim and value is carried out prior to recognising the provision.

**n) Leased assets**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Commission. All other leases are classified as operating leases.

**Finance leases**

Assets funded through finance leases are capitalised and depreciated over their estimated useful lives. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term at the inception of the lease. The resulting lease obligations are included in liabilities net of finance charges. Finance charges on finance leases are charged directly to the Statement of Comprehensive Net Expenditure as other finance costs.

## Financial reports 2011-12

### Legal Services Commission Notes to the financial statements (*continued*)

#### **Note 1 - Statement of accounting policies** **(continued)**

##### **Operating leases**

Rental payments are charged to the Statement of Comprehensive Net Expenditure as they fall due. The Commission accounts for lease incentives (rent free periods) over the term of the lease.

##### **o) Financial instruments**

###### **Financial assets**

The Commission's financial assets are classified dependent on the purpose for which the financial assets were acquired. The Commission's financial assets comprise cash and cash equivalents, trade and other receivables.

###### **Initial recognition and measurement**

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on any market. The Commission has no intention of trading these receivables.

###### **Derecognition**

Receivables are derecognised when the rights to receive cash flows from the assets have expired.

###### **Financial liabilities**

The Commission's financial liabilities comprise trade and other payables.

###### **Initial recognition and measurement**

Trade and other payables are not revalued subsequent to initial recognition since they are simple instruments with short term maturities. The Commission is not authorised to borrow money.

###### **Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

###### **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only if there is a currently enforceable legal right

to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

###### **Fair value of financial instruments**

The fair value of the Commission's financial instruments is determined by using appropriate valuation techniques. Such techniques may include discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details of how they are measured are provided in note 23.

###### **p) Impairment of financial assets**

An assessment of whether there is objective evidence of impairment is carried out for all financial assets or groups of financial assets at the Statement of Financial Position date. This assessment may be of individual assets ('individual impairment') or of a portfolio of assets ('collective impairment'). A financial asset or a group of financial assets are considered to be impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows.

For individual impairment, the principal loss event is one or more missed payments, although other loss events can also be taken into account, including arrangements in place to pay less than the contractual payments, fraud and bankruptcy or other financial difficulty indicators. An assessment of collective impairment will be made of financial assets with similar risk characteristics. For these assets, portfolio loss experience is used to provide objective evidence of impairment.

Where there is objective evidence that an impairment loss exists on loans and receivables, impairment provisions are made to reduce the carrying value of financial assets to the present value of the estimated future cash flows discounted at HM Treasury's interest rate, currently 2.2% (2011: 3.5%).

###### **q) Accounting for Value Added Tax**

Irrecoverable VAT is charged to the relevant expenditure category or, if appropriate, capitalised with additions to non-current assets. Income and expenditure is otherwise shown net of VAT.

Legal Services Commission Notes to the financial statements *(continued)***Note 1 - Statement of accounting policies**  
*(continued)***r) Pensions**

The Commission operates two pension schemes providing benefits based on pensionable salary. The assets of the schemes are held separately from those of the Commission.

The increase in the present value of the liabilities of the Commission's defined benefit pension schemes expected to arise from employee service is charged to the operating deficit. The expected return on the schemes' assets and the increase during the period in the present value of the schemes' liabilities arising from discounting are included in the Statement of Comprehensive Net Expenditure as other finance income. In accordance with IAS 19, the Commission recognises actuarial gains and losses in full in the period in which they arise, in the Statement of Comprehensive Net Expenditure. Actuarial gains and losses incurred by the pension schemes are detailed in note 4.

**s) Tax expense**

The Commission is liable for corporation tax on bank interest.

**t) Employee benefits**

Under IAS19 Employee Benefits all staff costs must be recorded as an expense as soon as the Commission is obligated to pay them. This includes the cost of any untaken leave at the year end. The cost of untaken leave is derived from annual leave records.

**u) Notional recharge from the Ministry of Justice**

The notional recharge from the Ministry of Justice represents the Commission's usage of corporate services.

**v) Recharges to the Community Legal Service (CLS) Fund and the Criminal Defence Service (CDS)**

The Commission incurs costs relating to Grants and Direct Services on behalf of the CLS Fund and CDS. These costs are recharged by the Commission and included in the CLS Fund and CDS financial statements.

**w) Going concern**

The Commission is a statutory body established under the Access to Justice Act 1999. The Commission is charged with the responsibility for managing and accounting for the Community Legal Service Fund and the Criminal Defence Service, both of which are legal aid schemes provided for under the Access to Justice Act 1999. The Commission takes the view that the going concern concept applies as long as the provisions of the Access to Justice Act 1999 remain extant.

Under the Legal Aid, Sentencing and Punishment of Offenders Act the Commission will be abolished on 31 March 2013. With effect from 1 April 2013 a new body, the Legal Aid Agency, an Executive Agency of the Ministry of Justice, will be created to administer legal aid. This Act received Royal Assent on 1 May 2012 and, as such, the going concern principle has been followed. The Act makes provision for assets, liabilities and staff to transfer to the new Agency.

The future financing of the Commission's activities is met by grant-in-aid from the Ministry of Justice voted on by Parliament annually under the relevant Appropriation Act. Parliament voted on the funding for 2012-13 on 19 April 2012 (2011-12 on 26 April 2011).

**x) General Reserve**

Funding received from the Ministry of Justice is credited to the General Reserve within the Taxpayers' equity section of the Statement of Financial Position upon receipt of funds.

**Note 2 - Segmental analysis**

The Commission's accounts represent the costs of managing the Community Legal Service Fund and the Criminal Defence Service. The Commission is not reporting as per these segments, as they are administered as a single business. The costs relating to Community Legal Service Fund and the Criminal Defence Service are reported separately within the Community Legal Service Fund and the Criminal Defence Service financial statements.

## Financial reports 2011-12

Legal Services Commission Notes to the financial statements (*continued*)**Note 3 - Employment costs****The Commission's employment costs**

	2011-12 Permanently employed staff £000	2011-12 Other £000	2011-12 Total £000	2010-11 Permanently employed staff £000	2010-11 Other £000	2010-11 Total £000
Salaries and wages	33,807	8,702	42,509	37,863	7,853	45,716
Social security costs	2,826	272	3,098	3,167	190	3,357
Other pension costs	5,567	-	5,567	7,485	-	7,485
	<b>42,200</b>	<b>8,974</b>	<b>51,174</b>	48,515	8,043	56,558
Less recoveries in respect of outward secondments	(204)	-	(204)	(276)	-	(276)
Redundancy *	277	-	277	7,978	-	7,978
	<b>42,273</b>	<b>8,974</b>	<b>51,247</b>	56,217	8,043	64,260
Commissioners' costs:						
Fees to non-executives	149	-	149	160	-	160
Social security costs	15	-	15	18	-	18
	<b>164</b>	<b>-</b>	<b>164</b>	178	-	178
	<b>42,437</b>	<b>8,974</b>	<b>51,411</b>	56,395	8,043	64,438

\*Redundancy costs disclosed in the above table relate to 12 (2011: 113) full time equivalent staff.

Employment costs of £6.2m (2011: £5.4m), relating to staff working on capital projects, were capitalised during the year.

Other pension costs are the total operating charges relating to the pension schemes. Costs can be incurred in respect of both permanent and non-permanent employees of the Commission.

Fees to non-executives include reimbursement of travel expenses from home to office and taxation paid by the Commission on these expenses.

Senior Employees' and non-executive Commissioners' remuneration is included in the above table and additional detail is provided in the Remuneration Report.

Legal Services Commission Notes to the financial statements (*continued*)**Note 3 - Employment costs (*continued*)**

The average number of full-time equivalent persons employed during the year was as follows:

	2011-12 Permanently employed staff	2011-12 Other	2011-12 Total	2010-11 Permanently employed staff	2010-11 Other	2010-11 Total
Employees	1,147	384	1,531	1,216	271	1,487
The average number of full-time equivalent persons employed includes 1 (2011:1) Commissioner.						
					2011-12	2010-11
The average number of Commissioners in post during the year was					6	6

**The Community Legal Service Fund and Criminal Defence Service employment costs**

Staff costs relating to the Public Defender Service (PDS), Criminal Defence Service (CDS), the Defence Solicitor Call Centre (DSCC) and Community Legal Service (CLS) are included within the financial statements of the 'Community Legal Service Fund and Criminal Defence Service'. The disclosure of these costs and corresponding staff numbers are included below.

Public Defender Service (PDS), Criminal Defence Service (CDS) and Defence Solicitor Call Centre (DSCC)	2011-12 Permanently employed staff £000	2011-12 Other £000	2011-12 Total £000	2010-11 Permanently employed staff £000	2010-11 Other £000	2010-11 Total £000
Aggregate payroll costs were as follows:						
Salaries and wages	1,496	-	1,496	1,631	52	1,683
Social security costs	130	-	130	132	2	134
Other pension costs	230	-	230	293	-	293
	1,856	-	1,856	2,056	54	2,110
Redundancy *	20	-	20	317	-	317
	1,876	-	1,876	2,373	54	2,427
*Redundancy costs for 2011-12 disclosed in the above table relate to 1 (2011: 6) full time equivalent staff.						

## Financial reports 2011-12

Legal Services Commission Notes to the financial statements (*continued*)**Note 3 - Employment costs (*continued*)**

The average number of full-time equivalent persons employed within the PDS, CDS and DSCC during the year was as follows:

	2011-12 Permanently employed staff	2011-12 Other	2011-12 Total	2010-11 Permanently employed staff	2010-11 Other	2010-11 Total
Public Defender Service (PDS)	38	-	38	40	1	41
Criminal Defence Service (CDS) and Defence Solicitor Call Centre (DSCC)	4	-	4	6	-	6
	42	-	42	46	1	47

Community Legal Service (CLS)	2011-12 Permanently employed staff £000	2011-12 Other £000	2011-12 Total £000	2010-11 Permanently employed staff £000	2010-11 Other £000	2010-11 Total £000
Aggregate payroll costs were as follows:						
Salaries and wages	198	-	198	208	-	208
Social security costs	16	-	16	13	-	13
Other pension costs	33	-	33	37	-	37
	247	-	247	258	-	258
Redundancy*	-	-	-	-	-	-
	247	-	247	258	-	258

\*There were no (2011: nil) redundancies during 2011-12.

The Community Legal Service employment costs relate to the community legal advice team.

The average number of full-time equivalent persons employed within the community legal advice team during the year was as follows:

	2011-12 Permanently employed staff	2011-12 Other	2011-12 Total	2010-11 Permanently employed staff	2010-11 Other	2010-11 Total
Community legal advice team	5	-	5	7	-	7

## Legal Services Commission Notes to the financial statements (continued)

## Note 3 - Employment costs (continued)

## Compensation schemes

The Commission	2011-12	2011-12	2011-12	2010-11	2010-11	2010-11
	Number of compulsory redundancies	Number of other departures	Total number of exit packages	Number of compulsory redundancies	Number of other departures	Total number of exit packages
Exit package cost band						
< £10,000	1	1	2	5	4	9
£10,000 - £25,000	5	2	7	3	20	23
£25,000 - £50,000	3	-	3	6	16	22
£50,000 - £100,000	-	-	-	5	25	30
£100,000 - £150,000	-	-	-	2	18	20
£150,000 - £200,000	-	-	-	-	5	5
£200,000 - £250,000	-	-	-	-	2	2
£250,000 - £300,000	-	-	-	-	2	2
<b>Total number of exit packages by type*</b>	<b>9</b>	<b>3</b>	<b>12</b>	<b>21</b>	<b>92</b>	<b>113</b>
<b>Total resource cost (£000)</b>	<b>209</b>	<b>68</b>	<b>277</b>	<b>998</b>	<b>6,980</b>	<b>7,978</b>

## Compensation schemes

Public Defender Service (PDS), Criminal Defence Service (CDS), Defence Solicitor Call Centre (DSCC) and Community Legal Service (CLS)	2011-12	2011-12	2011-12	2010-11	2010-11	2010-11
	Number of compulsory redundancies	Number of other departures	Total number of exit packages	Number of compulsory redundancies	Number of other departures	Total number of exit packages
Exit package cost band						
< £10,000	-	-	-	-	2	2
£10,000 - £25,000	-	1	1	-	2	2
£25,000 - £50,000	-	-	-	-	-	-
£50,000 - £100,000	-	-	-	-	1	1
£100,000 - £150,000	-	-	-	-	-	-
£150,000 - £200,000	-	-	-	-	1	1
<b>Total number of exit packages by type*</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>6</b>	<b>6</b>
<b>Total resource cost (£000)</b>	<b>-</b>	<b>20</b>	<b>20</b>	<b>-</b>	<b>317</b>	<b>317</b>

\* The above tables show the number of exit packages agreed in the year and the total resource cost, accounted for on an accruals basis. The number of exit packages for the prior year have been restated so that the data is presented consistently.

## Financial reports 2011-12

### Legal Services Commission Notes to the financial statements (*continued*)

#### Note 4 - Pension costs

The Commission operates two pension schemes, the No. 4 Scheme and the No. 3 Scheme, providing benefits based on final pensionable salary. The assets of the Schemes are held separately from those of the Commission, being invested in funds managed by Legal & General Investment Management Limited. Contributions to the Schemes are charged to the Statement of Comprehensive Net Expenditure so as to spread the cost of the pensions over employees' working lives with the Commission. The contributions are set by the Trustees having taken advice from the schemes' actuary (Hymans Robertson LLP). The most recent finalised formal valuations were as at 31 March 2010.

The assumptions have been updated to ensure the valuations are in line with the requirements of IAS 19 for the current year disclosure.

Both pension scheme's assets are measured using market values. Both pension scheme's liabilities are measured using a projected unit credit method and discounted at the current fixed rate of 2.1% p.a. (2011: 2.5%) above the expected future price inflation.

#### **The Legal Services Commission Staff Pension and Assurance Scheme (No. 4)**

A full actuarial valuation of the No.4 Scheme was carried out at 31 March 2010 by qualified independent actuaries Hymans Robertson LLP.

The Commission made an advanced payment of £7m into the No 4 Scheme in 2011-12 (2011: £7.5m). The Commission also paid £376k (2011: £675k) to the Scheme, to cover the cost of a total of 3 (2011: 9) benefit improvements under the terms of the early retirement and early severance scheme.

The Commission is not expected to contribute to the No. 4 Scheme in the financial year beginning 1 April 2012 due to the early payment of contributions.

The surplus asset on the No. 4 Scheme has reduced by £35m in the current year. This is primarily due to the actuary preparing the IAS 19 valuation of the No. 4 Pension Scheme based on the assumption that the Commission will be abolished and a new body, the Legal Aid Agency, created following the granting of Royal Assent of the Legal Aid, Sentencing and Punishment of Offenders Bill.

Since the Commission has paid all necessary contributions required up to the transition to an Executive Agency, and no contributions are expected after this date, the surplus asset of £43m (net of £6m service costs for 2012-13) is considered to be irrecoverable. In the prior year, an assumption was made that the Scheme would continue in its current form and the accumulation surplus had no restrictions.

#### **The Legal Services Commission Staff Pension and Assurance Scheme (No. 3)**

A full actuarial valuation of the No.3 Scheme was carried out at 31 March 2010 by qualified independent actuaries Hymans Robertson LLP.

The Scheme is closed to new entrants and there are no active members. The Commission did not contribute to the Scheme in the period ended 31 March 2012 (2011: nil).

Legal Services Commission Notes to the financial statements (*continued*)**Note 4 - Pension costs (*continued*)**

The major assumptions used by the actuary were (in nominal terms):

	<b>No. 4 Scheme</b>	<b>No. 3 Scheme</b>	No. 4 Scheme	No. 3 Scheme
	<b>% pa</b>	<b>% pa</b>	% pa	% pa
	<b>2012</b>	<b>2012</b>	2011	2011
Discount rate	<b>4.60</b>	<b>4.60</b>	5.50	5.50
Rate of increase in salaries	<b>4.3**</b>	<b>N/A</b>	4.5*	N/A
Deferred pension increase before retirement	<b>2.50</b>	<b>2.50</b>	2.75	2.75
Rate of increase in pensions in payment	<b>2.50</b>	<b>2.50</b>	3.00	3.00
Inflation assumption	<b>2.50</b>	<b>2.50</b>	3.00	3.00

\* 3% until 31 March 2013

\*\* Assumed Government pay restrictions for one year and that all active members will be deferred in 2013.

**Future life expectancies**

The future life expectancies below are based on the 2012 post retirement mortality assumptions used for both schemes, namely standard actuarial tables S1PMA and S1PFA with an allowance for future improvements in line with the long cohort assumption. This assumption assumes a scaling factor of 85% for males and 75% for females; a ten year time lag; a one year age rating; and a 1.5% underpin for males and a 1% underpin for females.

	<b>Male</b>	<b>Female</b>	Male	Female
	<b>years</b>	<b>years</b>	years	years
	<b>2012</b>	<b>2012</b>	2011	2011
Future life expectancy for a pensioner aged 60 at 31 March	<b>28.2</b>	<b>29.9</b>	28.2	29.9
Future life expectancy at age 60 for a non pensioner aged 45 at 31 March	<b>31.4</b>	<b>31.9</b>	31.4	31.9

The expected rate of return of the assets of the No. 4 Pension Scheme at 31 March were as follows:

	<b>Expected long-term rate of return at 31 March 2012</b>	Expected long-term rate of return at 31 March 2011
	<b>%</b>	%
<b>No. 4 Pension Scheme</b>		
Equities	<b>6.3</b>	7.3
Gilts and cash	<b>3.3</b>	4.3
Insured pensions	<b>4.6</b>	5.5

## Financial reports 2011-12

Legal Services Commission Notes to the financial statements (*continued*)**Note 4 - Pension costs (*continued*)**

The expected rate of return of the assets of the No. 3 Pension Scheme at 31 March were as follows:

	Expected long-term rate of return at 31 March 2012 %	Expected long-term rate of return at 31 March 2011 %
<b>No. 3 Pension Scheme</b>		
Equities	N/A	N/A
Gilts and cash	3.3	4.3
Insured pensions	4.6	5.5

The expected return on assets has been based on the long term expectation for each asset class at the beginning of the period (i.e. as at 31 March 2012 for the year to 31 March 2013). The return on equities has been taken as 3% per annum above the yield on government bonds at the year end. This is consistent with the approach followed at the previous year end.

Pension scheme costs include:

	No. 4 Scheme 2011-12 £000	No. 3 Scheme 2011-12 £000	No. 4 Scheme 2010-11 £000	No. 3 Scheme 2010-11 £000
Current service cost - Commission	5,191	-	6,810	-
Termination benefits	376	-	675	-
Current service cost - CLS and PDS	263	-	330	-
	<b>5,830</b>	-	7,815	-
Past service credit	-	-	(19,239)	(113)
Gains on curtailment of pension scheme	(16,276)	-	-	-
<b>Total</b>	<b>(10,446)</b>	-	(11,424)	(113)

The CLS and PDS operating charge is recognised in the Community Legal Service Fund and Criminal Defence Service financial statements. The pension scheme costs are based on all active members deferring from 2013. This results in a gain of £16m relating to the replacement of salary increases with deferred pensioner revaluations. The gains on curtailment is of such materiality that it is shown separately on the face of the Statement of Comprehensive Net Expenditure.

Legal Services Commission Notes to the financial statements (*continued*)**Note 4 - Pension costs (*continued*)**

Analysis of amounts charged to other finance income	<b>No. 4 Scheme 2011-12 £000</b>	<b>No. 3 Scheme 2011-12 £000</b>	No. 4 Scheme 2010-11 £000	No. 3 Scheme 2010-11 £000
Expected return on Scheme assets	<b>16,133</b>	<b>162</b>	15,123	203
Interest on Scheme liabilities	<b>(12,738)</b>	<b>(133)</b>	(13,849)	(172)
<b>Net return</b>	<b>3,395</b>	<b>29</b>	1,274	31

Analysis of amounts recognised in other comprehensive expenditure	<b>No. 4 Scheme 2011-12 £000</b>	<b>No. 3 Scheme 2011-12 £000</b>	No. 4 Scheme 2010-11 £000	No. 3 Scheme 2010-11 £000
Actual return less expected return on Scheme assets	<b>9,525</b>	<b>298</b>	4,445	(59)
Experience gains and losses arising on Scheme liabilities	<b>(23,340)</b>	<b>(111)</b>	15,259	131
Changes in assumptions underlying the present value of the Scheme liabilities	<b>(95)</b>	<b>(51)</b>	9,513	340
Actuarial (loss)/gain before irrecoverable surplus	<b>(13,910)</b>	<b>136</b>	29,217	412
(Decrease)/increase in surplus*	<b>(43,154)</b>	<b>(166)</b>	-	(556)
<b>Total recognised in other comprehensive expenditure</b>	<b>(57,064)</b>	<b>(30)</b>	29,217	(144)

\* The surplus on the scheme is only recoverable to the extent that the Commission can benefit from either the refunds formally agreed or from future contribution reductions.

Analysis of cumulative actuarial (loss)/gain	<b>No. 4 Scheme 2011-12 £000</b>	<b>No. 3 Scheme 2011-12 £000</b>	No. 4 Scheme 2010-11 £000	No. 3 Scheme 2010-11 £000
Actuarial (loss)/gain recognised in other comprehensive expenditure	<b>(13,910)</b>	<b>136</b>	29,217	412
Actuarial (loss)/gain at the beginning of the year	<b>(22,563)</b>	<b>(155)</b>	(51,780)	(567)
<b>Cumulative actuarial (loss)/gain</b>	<b>(36,473)</b>	<b>(19)</b>	(22,563)	(155)

## Financial reports 2011-12

Legal Services Commission Notes to the financial statements (*continued*)**Note 4 - Pension costs (*continued*)**

<b>Reconciliation of defined benefit obligation</b>	<b>No. 4 Scheme 2011-12 £000</b>	<b>No. 3 Scheme 2011-12 £000</b>	<b>No. 4 Scheme 2010-11 £000</b>	<b>No. 3 Scheme 2010-11 £000</b>
The movement in the liabilities during the year arose as follows:				
Liabilities at beginning of year	(230,950)	(2,548)	(257,182)	(3,223)
Current service cost - Commission	(5,191)	-	(6,810)	-
Current service cost - CLS and PDS	(263)	-	(330)	-
Interest cost	(12,738)	(133)	(13,849)	(172)
Benefits accrued in respect of contributions by plan participants	(2,108)	-	(2,302)	-
Actuarial gains/(losses)	(23,435)	(162)	24,772	471
Termination benefits	(376)	-	(675)	-
Curtailment gains/(losses)	16,276	-	-	-
Past service costs	-	-	19,239	113
Benefits paid	6,249	251	6,187	263
<b>Liabilities at end of year</b>	<b>(252,536)</b>	<b>(2,592)</b>	<b>(230,950)</b>	<b>(2,548)</b>
<b>Reconciliation of fair value of plan assets</b>				
The movement in the assets during the year arose as follows:				
Assets at beginning of year	272,280	3,741	247,964	3,860
Expected return on assets	16,133	162	15,123	203
Contributions by plan participants	2,108	-	2,302	-
Contributions by the Commission	7,736	-	8,633	-
Actuarial gains/(losses)	9,525	298	4,445	(59)
Benefits paid	(6,249)	(251)	(6,187)	(263)
<b>Assets at end of year</b>	<b>301,533</b>	<b>3,950</b>	<b>272,280</b>	<b>3,741</b>
Irrecoverable surplus	(43,154)	(1,358)	-	(1,193)
<b>Net pension asset/(liability)</b>	<b>5,843</b>	<b>-</b>	<b>41,330</b>	<b>-</b>

Legal Services Commission Notes to the financial statements (*continued*)**Note 4 - Pension costs (*continued*)****The major categories of Scheme assets as a percentage of total Scheme assets**

	<b>No. 4 Scheme 2011-12 %</b>	<b>No. 3 Scheme 2011-12 %</b>	<b>No. 4 Scheme 2010-11 %</b>	<b>No. 3 Scheme 2010-11 %</b>
Equities	47	-	51	-
Gilts and cash	50	85	45	84
Insured pensions	3	15	4	16
<b>Total Scheme assets</b>	<b>100</b>	<b>100</b>	100	100

**The No. 4 Pension Scheme history of experience gains and losses over the period 1 April 2007 to 31 March 2012 was as follows:**

	<b>No. 4 Scheme 2011-12 £000</b>	<b>No. 4 Scheme 2010-11 £000</b>	<b>No. 4 Scheme 2009-10 £000</b>	<b>No. 4 Scheme 2008-09 £000</b>	<b>No. 4 Scheme 2007-08 £000</b>
Fair value of plan assets	301,533	272,280	247,964	180,259	204,486
Present value of defined benefit obligation	(252,536)	(230,950)	(257,182)	(185,592)	(206,054)
(Decrease)/increase in surplus	(43,154)	-	-	-	-
Surplus/(deficit)	5,843	41,330	(9,218)	(5,333)	(1,568)
Experience adjustments on Scheme assets amount	9,525	4,445	44,089	(44,073)	(5,757)
Percentage of Scheme assets	3.2%	1.6%	17.8%	(24.4)%	(2.8)%
Experience adjustments on Scheme liabilities amount	(23,340)	15,259	5,074	4,619	-
Percentage of present value of Scheme liabilities	(9.2)%	6.6%	2.0%	2.5%	-
Total actuarial gains/(losses) on obligation amount	(23,435)	24,772	(54,052)	40,527	18,208
Percentage of present value of Scheme liabilities	(9.3)%	10.7%	21.0%	21.8%	8.8%

One individual retired early on ill-health grounds (2011: none); the total additional accrued pension liabilities in the year amounted to £1k (2011: nil).

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Legal Services Commission Notes to the financial statements (*continued*)**Note 4 - Pension costs (*continued*)**

The No. 3 Pension Scheme history of experience gains and losses over the period 1 April 2007 to 31 March 2012 was as follows:

	<b>No. 3 Scheme 2011-12</b>	No. 3 Scheme 2010-11	No. 3 Scheme 2009-10	No. 3 Scheme 2008-09	No. 3 Scheme 2007-08
	<b>£000</b>	£000	£000	£000	£000
Fair value of plan assets	<b>3,950</b>	3,741	3,860	3,512	3,858
Present value of defined benefit obligation	<b>(2,592)</b>	(2,548)	(3,223)	(3,065)	(3,748)
(Decrease)/increase in surplus	<b>(1,358)</b>	-	-	-	-
Surplus/(deficit)	-	1,193	637	447	110
Experience adjustments on Scheme assets amount	<b>298</b>	(59)	458	(246)	(57)
Percentage of Scheme assets	<b>7.5%</b>	(1.6)%	11.9%	(7.0)%	(1.5)%
Experience adjustments on Scheme liabilities amount	<b>(111)</b>	131	73	113	-
Percentage of present value of Scheme liabilities	<b>(4.3)%</b>	5.1%	2.3%	3.7%	-
Total actuarial gains/(losses) on obligation amount	<b>(162)</b>	471	(260)	596	(113)
Percentage of present value of Scheme liabilities	<b>(6.3)%</b>	18.5%	(8.1)%	19.4%	(3.0)%

**Liability and insured pension sensitivity at 31 March to changes in key assumptions**

The table below shows the sensitivity of the liability and insured pensions for both schemes as at 31 March 2012 to changes in key assumptions. These figures have been calculated in a consistent manner to the rest of the figures in the financial statements. The changes are considered in isolation.

Changes in assumptions	(Increase)/decrease to value of liabilities		Increase / (decrease) to value of insured pensions	
	No 4 Scheme £000	No 3 Scheme £000	No 4 Scheme £000	No 3 Scheme £000
Discount rate increased by 0.25% p.a.	13,366	60	215	11
Salary linkage retained after 2012-13 rather than switching to CPI	(16,276)	N/A	No change	N/A
Pension increases and deferred pension increases increased by 0.25% p.a.	(10,308)	(48)	No change	No change
1 year increase in member life expectancy	(7,576)	(104)	(410)	(24)

Legal Services Commission Notes to the financial statements (*continued*)**Note 5 - Reconciliation of asset additions to capital expenditure**

	2011-12 £000	2010-11 £000
Purchase of intangible assets	9,427	11,408
Capital accrual	3,850	-
Intangible asset additions (Note 6)	13,277	11,408
Purchase of property, plant and equipment	684	3,288
Capital accrual	1,716	1,027
Property, plant and equipment additions (Note 7)	2,400	4,315
<b>Total asset additions</b>	<b>15,677</b>	<b>15,723</b>

**Note 6 - Intangible assets**

	Assets under construction £000	Computer software £000	Total £000
Cost at 1 April 2011	11,128	19,476	30,604
Additions	13,277	-	13,277
Transfers	(4,271)	4,271	-
Revaluations	-	23	23
Cost at 31 March 2012	20,134	23,770	43,904
Amortisation at 1 April 2011	-	6,279	6,279
Charged in year	-	4,314	4,314
Revaluations	-	6	6
Amortisation at 31 March 2012	-	10,599	10,599
<b>Net book value at 31 March 2012</b>	<b>20,134</b>	<b>13,171</b>	<b>33,305</b>

The assets under construction balance includes £17m (2011: £9.5m) of costs relating to the development of new software for the Integrated Delivery Programme (IDP). An initial pilot of IDP is expected to begin during 2012.

The total additions include £3.85m (2011: nil) of capital accruals at 31 March 2012.

Impairments on intangible assets of £266k taken to the Revaluation Reserve in the prior year have been reversed and charged to the Statement of Comprehensive Net Expenditure this year. This impairment charge has been offset by an upwards revaluation of £8k on the related assets in the current financial year.

The revaluation surplus balance includes £223k (2011: £57k) relating to intangible assets at 31 March 2012.

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Legal Services Commission Notes to the financial statements (*continued*)**Note 6 - Intangible assets (*continued*)**

	Assets under construction £000	Computer software £000	Total £000
Cost at 1 April 2010	8,901	11,990	20,891
Additions	7,501	3,907	11,408
Transfers	(5,274)	5,274	-
Revaluations	-	(1,695)	(1,695)
Cost at 31 March 2011	11,128	19,476	30,604
Amortisation at 1 April 2010	-	3,173	3,173
Charged in year	-	3,557	3,557
Revaluations	-	(451)	(451)
Amortisation at 31 March 2011	-	6,279	6,279
Net book value at 31 March 2011	11,128	13,197	24,325

**Note 7 - Property, plant and equipment**

	Assets under construction £000	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2011	1,551	7,329	3,220	5,782	17,882
Additions	2,360	-	-	40	2,400
Disposals	-	(1,536)	(1,106)	-	(2,642)
Transfers	(1,177)	-	-	1,177	-
Revaluations	-	92	31	8	131
Cost at 31 March 2012	2,734	5,885	2,145	7,007	17,771
Depreciation at 1 April 2011	-	4,236	2,088	1,896	8,220
Charged in year	-	1,902	846	1,451	4,199
Disposals	-	(1,509)	(1,092)	-	(2,601)
Revaluations	-	57	21	2	80
Depreciation at 31 March 2012	-	4,686	1,863	3,349	9,898
<b>Net book value at 31 March 2012</b>	<b>2,734</b>	<b>1,199</b>	<b>282</b>	<b>3,658</b>	<b>7,873</b>

The total additions include £1.7m (2011: £1m) of capital accruals at 31 March 2012.

Impairments on property, plant and equipment of £179k taken to the Revaluation Reserve in the prior year have been reversed and charged to the Statement of Comprehensive Net Expenditure this year. This impairment charge has been offset by an upwards revaluation of £28k on the related assets in the current financial year.

The revaluation surplus balance includes £64k (2011: £(41)k) relating to property, plant and equipment at 31 March 2012.

Legal Services Commission Notes to the financial statements (*continued*)**Note 7 - Property, plant and equipment (*continued*)**

	Assets under construction £000	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2010	1,602	7,779	3,357	6,211	18,949
Additions	1,549	211	8	2,547	4,315
Disposals	-	(668)	(91)	(3,659)	(4,418)
Transfers	(1,600)	385	163	1,052	-
Revaluations	-	(378)	(217)	(369)	(964)
Cost at 31 March 2011	1,551	7,329	3,220	5,782	17,882
Depreciation at 1 April 2010	-	3,619	1,667	4,407	9,693
Charged in year	-	1,710	649	1,243	3,602
Disposals	-	(668)	(90)	(3,643)	(4,401)
Revaluations	-	(425)	(138)	(111)	(674)
Depreciation at 31 March 2011	-	4,236	2,088	1,896	8,220
Net book value at 31 March 2011	1,551	3,093	1,132	3,886	9,662

**Asset financing**

	Assets under construction £000	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Owned	<b>2,734</b>	<b>1,199</b>	<b>282</b>	<b>2,775</b>	<b>6,990</b>
Finance leased	-	-	-	<b>883</b>	<b>883</b>
<b>Net book value at 31 March 2012</b>	<b>2,734</b>	<b>1,199</b>	<b>282</b>	<b>3,658</b>	<b>7,873</b>

	Assets under construction £000	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Owned	1,551	3,093	1,132	2,433	8,209
Finance leased	-	-	-	1,453	1,453
Net book value at 31 March 2011	1,551	3,093	1,132	3,886	9,662

## Financial reports 2011-12

Legal Services Commission Notes to the financial statements (*continued*)**Note 8 - Other operating charges**

	2011-12 £000	2010-11 £000
Accommodation and related costs	5,000	4,710
Managed facility - outsourced contracts	4,846	4,646
Office, IT and service running costs	6,600	4,722
Staff and committee member related costs	1,793	2,071
Operating leases	5,434	5,705
Other administration costs	540	748
Audit fee	308	328
Legal and professional costs	4,771	7,856
Service level agreements with HMCTS	10,823	14,529
Other legal aid service costs	994	1,278
	<b>41,109</b>	46,593

**Note 9 - Interest receivable**

	2011-12 £000	2010-11 £000
Interest from CLS Fund and CDS*	90	141
Interest receivable	90	141

\* Includes interest earned on the bank deposit account held in the accounts of the Criminal Legal Service (CLS) Fund and Criminal Defence Service (CDS). Interest earned on this account is used to meet administration costs incurred by the Commission.

**Note 10 - Other finance costs/income**

	2011-12 £000	2010-11 £000
<b>Finance costs</b>		
Discount on provisions (note 20)	79	46
Finance lease charges	105	123
	<b>184</b>	169
<b>Finance income</b>		
Return on Pension Scheme No. 4 (note 4)	3,395	1,274
Return on Pension Scheme No. 3 (note 4)	29	31
	<b>3,424</b>	1,305

Legal Services Commission Notes to the financial statements (*continued*)**Note 11 - Tax expense**

	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
Corporation tax on bank deposit interest	<b>23</b>	29

The Commission is liable to corporation tax on bank interest. The applicable rate of corporation tax of 26% (2011: 28%) is that which applies to the Ministry of Justice.

**Note 12 - Income**

	<b>2011-12</b>	2010-11
	<b>£000</b>	£000
Income	<b>689</b>	211

Income received in 2011-12 comprises receipts from other government departments and other miscellaneous income.

**Note 13 - Notional recharge from the Ministry of Justice**

	<b>2012</b>	2011
	<b>£000</b>	£000
Notional recharge	<b>1,166</b>	1,287

## Financial reports 2011-12

Legal Services Commission Notes to the financial statements (*continued*)**Note 14 - Trade and other receivables**

	2012 £000	2011 £000
<b>Amounts falling due within one year:</b>		
Other receivables	587	214
Amounts due from CLS Fund and CDS	901	1,409
Prepayments and accrued income	1,182	2,966
	<b>2,670</b>	<b>4,589</b>
<b>Amounts falling due after more than one year:</b>		
Other receivables	-	4
	-	4
<b>Amounts falling due within one year by organisational type:</b>		
Local authorities	-	1
Central government bodies	1,242	1,680
Bodies external to government	1,428	2,908
	<b>2,670</b>	<b>4,589</b>
<b>Amounts falling due after more than one year by organisational type:</b>		
Bodies external to government	-	4
	-	4

Non-current other receivables of nil (2011: £4k) comprise interest free staff car loans.

**Note 15 - Cash and cash equivalents**

	2012 £000	2011 £000
Balance at 1 April	6,949	14,849
Net change in cash and cash equivalent balances	(5,881)	(7,900)
<b>Balance at 31 March</b>	<b>1,068</b>	<b>6,949</b>
<b>The balances at 31 March were held at:</b>		
Government Banking Service	744	-
Commercial banks	324	6,949
<b>Total cash and cash equivalents</b>	<b>1,068</b>	<b>6,949</b>

Legal Services Commission Notes to the financial statements (*continued*)**Note 16 - Trade and other payables**

	<b>2012</b>	2011
	<b>£000</b>	£000
<b>Amounts falling due within one year:</b>		
Other payables	611	2,748
Amounts due to HMCTS	3,526	1,425
Amounts due to the Ministry of Justice	6,909	2,974
Corporation tax	18	-
Other taxation and social security costs	1,090	1,446
Finance lease creditors	290	512
Accruals and deferred income	7,976	10,713
	<b>20,420</b>	19,818
<b>Amounts falling due after more than one year:</b>		
Finance lease creditors	920	929
Accruals and deferred income	292	371
	<b>1,212</b>	1,300
<b>Amounts falling due within one year by organisational type:</b>		
Local authorities	1	31
Central government bodies	12,560	6,480
Bodies external to government	7,859	13,307
	<b>20,420</b>	19,818
<b>Amounts falling due after more than one year by organisational type:</b>		
Central government bodies	75	93
Bodies external to government	1,137	1,207
	<b>1,212</b>	1,300

For payables with a life of one year or less, the carrying amount is deemed to reflect fair value.

**Note 17 - Going concern**

The Statement of Financial Position at 31 March 2012 shows net assets of £26.6m.

The going concern principles outlined in note 1 w) have been followed.

## Financial reports 2011-12

Legal Services Commission Notes to the financial statements (*continued*)**Note 18 - Capital commitments**

Contracted capital commitments at 31 March not otherwise included in these financial statements

	<b>2012</b>	2011
	<b>£000</b>	£000
Intangible assets	<b>3,803</b>	2,911
	<b>3,803</b>	2,911

The total capital commitments includes £3.7m (2011: £2.9m) of costs associated with implementation of the Integrated Delivery Programme (IDP).

**Note 19 - Commitments under leases****a) Operating leases**

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

	<b>Land and buildings</b>	<b>Other</b>	<b>Total</b>	Land and buildings	Other	Total
	<b>2011-12</b>	<b>2011-12</b>	<b>2011-12</b>	2010-11	2010-11	2010-11
	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000	£000	£000
<b>Obligations under operating leases comprise:</b>						
Not later than one year	<b>3,527</b>	<b>365</b>	<b>3,892</b>	5,164	373	5,537
Later than one year and not later than five years	<b>10,195</b>	<b>907</b>	<b>11,102</b>	18,146	577	18,723
Later than five years	<b>2,043</b>	-	<b>2,043</b>	7,636	-	7,636
	<b>15,765</b>	<b>1,272</b>	<b>17,037</b>	30,946	950	31,896

Under the terms of the lease agreements, no contingent rents are payable and there are no rights to purchase.

The commitments are calculated based on the full unexpired lives of the leases.

Legal Services Commission Notes to the financial statements *(continued)***Note 19 - Commitments under leases *(continued)*****b) Finance leases**

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

	2011-12 £000	2010-11 £000
<b>Obligations under finance leases comprise:</b>		
Other than buildings		
Not later than one year	376	614
Later than one year and not later than five years	1,357	1,010
Less interest element	(523)	(183)
<b>Present value of obligations</b>	<b>1,210</b>	<b>1,441</b>

	2011-12 £000	2010-11 £000
<b>Present value of obligations under finance leases comprise:</b>		
Other than buildings		
Not later than one year	290	512
Later than one year and not later than five years	920	929
<b>Present value of obligations</b>	<b>1,210</b>	<b>1,441</b>

## Financial reports 2011-12

Legal Services Commission Notes to the financial statements (*continued*)**Note 20 - Provision for liabilities and charges**

	Provision for contractual claims £000	Provision for legal costs £000	Provision for dilapidations £000	Total £000
At 1 April 2011	96	230	2,869	3,195
Additions and increases to provision	-	155	11	166
Amounts used in the period	(96)	(227)	(181)	(504)
Unused amounts reversed in the period	-	(3)	(381)	(384)
Finance charges (note 10)	-	-	79	79
<b>At 31 March 2012</b>	-	155	2,397	2,552

	Provision for restructuring costs £000	Provision for contractual claims £000	Provision for legal costs £000	Provision for dilapidations £000	Total £000
At 1 April 2010	200	-	145	2,923	3,268
Additions and increases to provision	68	96	550	347	1,061
Amounts used in the period	(268)	-	(395)	-	(663)
Unused amounts reversed in the period	-	-	(70)	(447)	(517)
Finance charges (note 10)	-	-	-	46	46
At 31 March 2011	-	96	230	2,869	3,195

The provision for contractual claims covered supplier claims against the Commission and was fully utilised in the year.

Provision is made for legal costs associated with ongoing litigation.

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and discounted at 2.2% (2011: 2.2%). The costs are expected to be incurred between 2012 and 2018 as each lease expires. A dilapidation provision on vacated buildings is maintained until dilapidation negotiations have been finalised.

Legal Services Commission Notes to the financial statements (*continued*)**Note 20 - Provision for liabilities and charges (*continued*)**

Analysis of expected timing of discounted flows	Provision for legal costs £000	Provision for dilapidations £000	Total £000
Not later than one year	155	377	532
Later than one year and not later than five years	-	1,004	1,004
Later than five years	-	1,016	1,016
<b>Balance at 31 March 2012</b>	<b>155</b>	<b>2,397</b>	<b>2,552</b>

There are no provisions expected to be called beyond 2018.

**Note 21 - Contingent liabilities**

The Commission is currently involved in three employee related matters at varying stages of resolution for which there is a potential total liability of £107k.

**Note 22 - Related party transactions**

The Commission is a Non-Departmental Public Body sponsored by the Ministry of Justice. The Ministry of Justice is regarded as a related party. During the year, the Commission had various material transactions with the Ministry of Justice. The Commission has also had various material transactions with Her Majesty's Courts and Tribunals Service, an Agency of the Ministry of Justice, relating to work provided by that organisation on behalf of the Commission.

During the year the Commission entered into material arms length transactions on normal commercial terms with the related party detailed below.

Amanda Illing, the Practice Director at Hardwicke Chambers, is married to Dr David Wolfe QC, a Commissioner. Barristers at Hardwicke Chambers contribute a percentage of their earnings to its central costs which include Amanda Illing's salary. Payments totalling £89,001 were made to barristers at Hardwicke Chambers for work carried out under instruction by the Commission's legal team. The total amount owed to barristers at Hardwicke Chambers at 31 March 2012 is £1.3k (2011: nil).

## Financial reports 2011-12

### Legal Services Commission Notes to the financial statements (*continued*)

#### Note 23 - Financial instruments

##### a) Carrying amount and fair values

The fair value of cash and short-term deposits, trade payables and other liabilities approximate their carrying amount largely due to the short-term maturities of these instruments.

##### b) Financial risk identification and management

The Commission's financial risk management process seeks to enable the early identification, evaluation and effective management of key risks facing the Commission. Systems have been established to review and reflect changes in the legal aid market and the Commission's activities.

The Commission is exposed to the following financial risks from its use of financial instruments:

##### Liquidity risk

The Commission is financed by grant-in-aid received from the Ministry of Justice. As such it is not exposed to significant liquidity risks.

##### Credit risk

Credit risk is the risk that counterparties to financial instruments do not perform according to the terms of the contract or instrument. The Commission is exposed to credit risk from certain financing activities.

The immediate credit exposure of financial instruments is represented by those instruments that have a net positive fair value by counterparty at 31 March. The Commission considers its maximum exposure to credit risk to be:

	31 March 2012 £000	31 March 2011 £000
Cash at bank	1,068	6,949
Trade and other receivables	2,670	4,593
	<b>3,738</b>	11,542

Cash balances are maintained with strong investment grade banks or financial institutions.

Though the Commission has seen no direct evidence of changes to the credit risk of its counterparties, the current economic condition has increased financial volatility.

The Commission uses market knowledge and changes in credit ratings to identify significant changes to the financial profile of its counterparties.

##### Interest rate risk

The Commission is not exposed to any significant interest rate risk.

##### Foreign currency risk

The Commission presents its accounts in Sterling. The Commission procures legal aid in England and Wales. Foreign currency would not usually form part of the Commission's assets or liabilities and the Commission is not exposed to any significant foreign currency risks.

#### Note 24 - Other financial commitments

The Commission has entered into non-cancellable contracts at 31 March 2012. The payments to which the Commission is committed are as follows:

	31 March 2012 £000	31 March 2011 £000
Not later than one year	323	-
Later than one year and not later than five years	73	-
<b>Present value of obligations</b>	<b>396</b>	-

Other financial commitments relate to professional fees associated with the Integrated Delivery Programme (IDP).

Legal Services Commission Notes to the financial statements (*continued*)**Note 25 - Accountability notes****Losses**

There were no known incidences of cash reported stolen in the period (2011: nil)

There were no known incidents of fraud in the year (2011: nil).

**Special payments**

Special payments include ex-gratia amounts paid to individuals for errors made by the Commission. The Commission made 67 ex-gratia payments totalling £287,851 in the year. In the prior year, the total amount of special payments did not exceed £250k, the level at which disclosure of the value and number of ex-gratia payments is required in accordance with *Managing Public Money*.

**Note 26 - Subsequent events**

In accordance with the requirements of IAS10 Events after the Reporting Period, events are considered up to the date on which the financial statements are authorised for issue, which is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

The Legal Aid, Sentencing and Punishment of Offenders Act received Royal Assent on 1 May 2012. Under this Act the Commission will be abolished on 31 March 2013 and from 1 April 2013 a new body, the Legal Aid Agency, an Executive Agency of the Ministry of Justice, will be created to administer legal aid.

The Commission has treated the Act as an adjusting subsequent event for the purpose of the IAS 19 valuation of the No. 4 Pension Scheme. The Actuary prepared the IAS 19 actuary report based on the assumption that the Commission will be abolished and a new body, the Legal Aid Agency, created following the granting of Royal Assent of the Legal Aid, Sentencing and Punishment of Offenders Bill. There are no other balances in the financial statements impacted by this subsequent event.

There are no other subsequent events to report.

