



dca

Department for
Constitutional Affairs
Justice, rights and democracy

Resource Accounts for the year ended 31 March 2006

Department for Constitutional Affairs

Resource Accounts for the year ended 31 March 2006

Presented pursuant to the Government Resources and Accounts Act 2000,
Chapter 20, Section 6

Ordered by the House of Commons to be printed on 12th October 2006

© Crown Copyright 2006

The text in this document (excluding the Royal Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Any enquiries relating to the copyright in this document should be addressed to The Licensing Division, HMSO, St Clements House, 2-16 Colegate, Norwich, NR3 1BQ.

Fax: 01603 723000 or e-mail: licensing@cabinet-office.x.gsi.gov.uk

Contents

Annual Report	1
Management Commentary	5
Remuneration Report	13
Statement of Accounting Officers' Responsibilities	24
Statement on Internal Control	25
Certificate and Report of the Comptroller and Auditor General to the House of Commons	31
The Accounting Schedules:	
Statement of Parliamentary Supply	33
Operating Cost Statement	34
Balance Sheet	36
Cash Flow Statement	37
Consolidated Statement of Operating Costs by Departmental Aims and Objectives	37
Notes to the Accounts	40

Annual Report

The Department for Constitutional Affairs (DCA) is the Government department responsible for upholding justice, rights and democracy. DCA's role is to drive forward the reform and improvement of the legal and justice system in England and Wales. It is responsible for upholding the rule of law and for reforming and safeguarding the constitution so that they serve the public effectively.

1 April 2005 saw the creation of the DCA's new executive agency, Her Majesty's Courts Service (HMCS). HMCS manages a total of 650 courts across England and Wales and employs more than 20,000 people.

Principal Activities

DCA administers the courts and tribunals in England and Wales and the legal aid budget (through sponsorship of the Legal Services Commission).

The central Department consists of a headquarters, two executive agencies and a number of associated offices. While consolidated within the Department's Resource Accounts, the two executive agencies also publish separate agency accounts. Decisions relating to the day-to-day running of them remain the responsibility of their individual Chief Executives.

The associated offices are controlled and monitored by the Department. While some report financial performance in separate annual reports, only the Office of the Legal Services Ombudsman and the Office of the Legal Services Complaints Commissioner prepare separate statutory accounts that are audited by the Comptroller and Auditor General.

The administrative functions of the Scotland Office (including the Office of the Advocate General for Scotland) and the Wales Office also fall under the DCA umbrella.

For purposes of the Department's Resource Accounts, the 'Consolidated' accounts represent those for the central Department as defined above, while the 'Core' Department accounts excludes the two executive agencies. This accords with HM Treasury requirements.

Entities within the accounting boundary of the Department

Central Department

- **Department for Constitutional Affairs Headquarters**
Responsible for supporting Ministers in policy, funding and regulatory functions as well as providing key services to intra-departmental entities.

Executive Agencies:

- **Her Majesty's Courts Service (HMCS)**
Central to the delivery of justice, it is responsible for the administration of the court system (including magistrates' courts) in England and Wales.
- **Public Guardianship Office (PGO)**
Assists in the protection and administration of the financial affairs of individuals with mental incapacity.

Associated Offices:

- Office of the Official Solicitor and Public Trustee
- Office of the Legal Services Ombudsman
- Office of the Legal Services Complaints Commissioner
- HM Inspectorate of Court Administration
- Law Commission
- Council on Tribunals
- Office of the Judge Advocate General
- Judicial Studies Board
- Commission for Judicial Appointments

Scotland Office

- **Scotland Office**
Promotes the devolution settlement and represents Scottish interests within the UK Government.
- **Office of the Advocate General for Scotland**
Provides legal services and bridges the gap between Scottish and British legal issues.

Executive non-departmental public bodies:

- **Boundary Commission for Scotland**
Reviews the parliamentary constituencies in Scotland.
- **Commission on Boundary Differences and Voting Systems in Scotland**
The Commission's remit is to examine the consequences of having four different systems of voting in Scotland, and different boundaries for Westminster and Scottish Parliament constituencies.

Wales Office

- **Wales Office**
Promotes the devolution settlement and supports the representation of Wales within the UK Government.

Executive non-departmental public bodies outside the accounting boundary

- **Legal Services Commission**
Oversees the administration of legal aid in England and Wales.
- **Information Commissioner's Office**
Reports to Parliament on aspects of data protection and freedom of information.

Both executive non-departmental public bodies fall outside the accounting boundary and prepare separate accounts that are audited by the Comptroller and Auditor General.

Three sister Departments, the Northern Ireland Court Service, HM Land Registry and The National Archives, also report to the Secretary of State for Constitutional Affairs. Each of these has a separate Parliamentary Estimate and prepares separate accounts.

Ministers, Senior Officials and report on operation of the boards

Ministers

The Secretary of State and Lord Chancellor is the Rt Hon Lord Falconer of Thoroton. For the period from 1 April 2005 until the General Election held on 5 May 2005, he was supported by three Parliamentary Under Secretaries: Baroness Ashton of Upholland, David Lammy MP and Christopher Leslie MP. Following the General Election and with effect from 9 May, he was supported for the remainder of the financial year 2005-06 by a Minister of State, the Rt Hon Harriet Harman QC, MP and two Parliamentary Under Secretaries, Baroness Ashton of Upholland and Bridget Prentice, MP.

Whilst the administrative functions of the Scotland Office and the Wales Office lie with DCA, responsibility for the relationship between Westminster and the devolved administrations in Edinburgh and Cardiff remained with, respectively, the Secretary of State for Scotland (the Rt Hon Alistair Darling MP), and the Secretary of State for Wales (the Rt Hon Peter Hain MP).

The Parliamentary Under Secretary for Scotland (Anne McGuire MP until 9 May 2005, David Cairns MP from 10 May 2005) and the Parliamentary Under Secretary for Wales (Don Touhig MP until 9 May 2005, Nick Ainger MP from 9 May 2005) are Ministers of the Department, but report to the Secretary of State for Scotland and Wales respectively. The Advocate General for Scotland, (until 18 January 2006, Baroness Clark of Calton QC), is also a Minister of the Department. Following the resignation of Baroness Clark on 18 January 2006 to become a judge in Scotland, the functions of the Advocate General were temporarily conferred on the Secretary of State for Scotland under s 87 (3) of the Scotland Act 1998. On 21 March 2006, Neil Davidson QC was appointed Advocate General for Scotland.

Changes since the end of the financial year

On 5 May 2006, Vera Baird QC, MP was appointed as an additional Parliamentary Under Secretary. Also on 5 May 2006, Baroness Ashton was appointed a member of the Privy Council. On the same date, the Rt Hon Douglas Alexander was appointed Secretary of State for Scotland.

The Departmental Boards

For the period 1 April 2005 to 16 May 2005, Ministers were supported by a Corporate Board of executive and non-executive members, led by the Permanent Secretary, Alex Allan. Executive membership of the Corporate Board comprised: Alex Allan; Ian Magee, CB, Chief Executive (Operations) and Second Permanent Secretary; Barbara Moorhouse, Director General, Finance; Sir Ron De Witt, KB, Chief Executive, Her Majesty's Courts Services; Clare Dodgson, Chief Executive, Legal Services Commission; John Lyon, CB, Director General, Legal and Judicial Services; Rod Clark, Director General, Strategy (from 3 May 2005); Lucian Hudson, Director of Communications; Helen Dudley, Director of Human Resources (from 21 April 2005); and Moira Wallace, Chief Executive, Office of Criminal Justice Reform. Independent non executive members of the Corporate Board were: Sir Peter Bonfield, CBE; Trevor Hall, CBE, Equality and Diversity Adviser to the Permanent Secretary; the Rt Hon Lord Justice Judge, Deputy Chief Justice for England and Wales; and the Hon Barbara Thomas.

On 17 May 2005, the Corporate Board was replaced by the Ministerial Executive Board and the Executive Committee by the Departmental Management Board.

Ministerial Executive Board

Membership of the board

Ministerial membership of the Ministerial Executive Board comprised: the Secretary of State and Lord Chancellor, Lord Falconer of Thoroton; Baroness Ashton of Upholland; the Rt Hon Harriet Harman, QC, MP; and Bridget Prentice, MP. Official level membership of the Ministerial Executive Board was: Alex Allan, Permanent Secretary; Ian Magee, CB, Chief Executive (Operations) and Second Permanent Secretary (until 30 September 2005); Barbara

Moorhouse, Director General Finance; John Lyon, CB, Director General, Legal and Judicial Services; Rod Clark, Director General, Strategy; Sir Ron De Witt, KB, Chief Executive of Her Majesty's Courts Service; Lucian Hudson, Director of Communications; Clare Dodgson, Chief Executive, Legal Services Commission (until 31 May 2005); and Moira Wallace, Chief Executive, Office of Criminal Justice Reform (until 2 November 2005). Clare Dodgson was replaced on the board by Brian Harvey, Acting Chief Executive of the Legal Services Commission with effect from 1 September 2005. Moira Wallace was replaced by Jane Furniss, Acting Chief Executive of the Office of Criminal Justice Reform, with effect from 2 November 2005.

Independent non executive membership of the Ministerial Executive Board comprised: Sir Peter Bonfield, CBE; Trevor Hall, CBE; the Rt Hon Lord Justice Judge (until 27 November 2005); the Hon Barbara Thomas; and Professor Georges Selim, Head of the Faculty of Management and Director of the Centre for Research in Corporate Governance at Cass Business School, City University (with effect from 7 December 2005). The Rt Hon Lord Justice Thomas, Senior Presiding Judge of England and Wales, succeeded Lord Justice Judge on 27 November 2005.

Responsibilities of the Board

The Ministerial Executive Board oversees progress on the strategy and policy priorities set by the Secretary of State and Lord Chancellor for the Department; identifies actions to ensure that the strategy and priorities are delivered effectively; maintains an oversight of the Department's financial position; maintains high standards of propriety and corporate governance; and oversees relationships with key stakeholders.

Changes since the end of the financial year

Vera Baird QC, MP joined the board on her appointment as Parliamentary Under Secretary on 5 May 2006. Ursula Brennan replaced Jane Furniss on the board with effect from 15 May 2006 on her appointment as Chief Executive of the Office of Criminal Justice Reform. Lucian Hudson will be leaving the Department in October 2006.

The Audit Committee

Membership:

Membership of the Audit Committee comprised: Professor Georges Selim (Chairman of the Committee and non executive member of the Ministerial Executive Board); Maria Stafford (independent non executive); and James Turner (independent non executive). Jane Tozer MBE was appointed as a further independent non executive member from 1 June 2006.

Responsibilities:

The Audit Committee functions as an advisory sub committee of the Ministerial Executive Board. The Audit Committee provides advice on the process and assurance for risk management, control and governance; accounting policies and accounts; the planned activity and results of internal and external audit; the adequacy of management responses to issues identified by audit activity; and the Principal Accounting Officer's Statement on Internal Control. The Chair of the Audit Committee reports formally to the Ministerial Executive Board twice a year.

The Departmental Management Board

Membership of the Board

Membership of the Departmental Management Board comprised: Alex Allan, Permanent Secretary; Ian Magee, CB, Chief Executive (Operations) and Second Permanent Secretary (until 30 September 2005); Barbara Moorhouse, Director General, Finance; John Lyon, CB, Director General, Legal and Judicial Services; Rod Clark, Director General, Strategy; Lucian Hudson, Director of Communications; Sir Ronald De Witt, KB, Chief Executive, Her Majesty's Courts Service; Helen Dudley CBE, Director, Human Resources; Annette Vernon, CBE, Chief Information Officer (from 24 November 2005); Peter Handcock, CBE, Chief Executive Designate of the Tribunals Service (from 24 November 2005); Clare Dodgson, Chief Executive, Legal Services Commission (until 31 May 2005); and Moira Wallace, Chief Executive Office of Criminal Justice Reform (until 2 November 2005). Clare Dodgson was replaced on the board by Brian Harvey, Acting Chief Executive of the Legal Services Commission with effect from 1 September 2005. Moira Wallace was replaced on the board by Jane Furniss, Acting Chief Executive of the

Office of Criminal Justice Reform, with effect from 2 November 2005 .

Responsibilities of the Board

The Departmental Management Board ensures delivery of the strategy set by the Secretary of State and Lord Chancellor, preparing a business plan with annual and longer term objectives on the basis of the Secretary of State and Lord Chancellor's priorities. It ensures delivery of the Department's Public Service Agreement, setting performance and quality targets and ensures that the Department is resourced and motivated to achieve its objectives effectively, building capacity for the future.

Changes since the end of the financial year

Ursula Brennan replaced Jane Furniss on the board with effect from 15 May on her appointment as Chief Executive of the Office of Criminal Justice Reform. Yvonne Gallagher joined the board on 26 June 2006, on her appointment as Chief Information Officer, replacing Annette Vernon.

Senior Management

The Permanent Secretary is appointed by the Prime Minister for an indefinite period under the terms of the Senior Civil Service contract. The other members of the Departmental Management Board, including those who sit on the Ministerial Executive Board, are appointed by the Permanent Secretary. These appointments are also for an indefinite period, except for Sir Ron De Witt and Barbara Moorhouse, who are employed on fixed term Senior Civil Service contracts. The rules of termination for all official level members of both boards are set out in Chapter 11 of the Civil Service Management Code.

The Scotland Office and the Wales Office

The Scotland Office and the Wales Office retained their own separate Heads of Department and Accounting Officers throughout 2005-06. Jim Wildgoose succeeded David Crawley as Head of Department and Accounting Officer for the Scotland Office on 3 May 2005. Alan Cogbill succeeded Alison Jackson as Head of Department and Accounting Officer for the Wales Office on 12 September 2005. Both report directly to their respective Ministers.

The Department's Relationship with its Non Departmental Public Bodies

Throughout 2005-06, the Department sponsored two executive non-departmental public bodies (NDPBs): the Legal Services Commission and the Office of the Information Commissioner. The Department is committed to the maintenance of sound working relationships with both bodies.

The Legal Services Commission

The post of Chief Executive of the Legal Services Commission (LSC) carries with it a seat on both the Ministerial Executive and Departmental Management Boards. The DCA Director General, Strategy, normally in conjunction with the LSC Chief Executive/Accounting Officer, is responsible for advising Ministers and the DCA Permanent Secretary (in his role as Departmental Accounting Officer) on the strategic direction of the LSC in the context of wider departmental and cross government objectives.

The performance of the LSC in supporting the delivery of Ministers' strategy and policy priorities was reported regularly to DCA throughout the year. Performance was reviewed quarterly by the Permanent Secretary with the Chairman and Chief Executive of the LSC. The Lord Chancellor and Secretary of State met the LSC Chairman regularly, also meeting the LSC Commissioners to discuss the Commission's current and future activities and policy developments relevant to those activities.

The Information Commissioner's Office

The Information Commissioner's Office (ICO) is an independent body created by statute. The Commissioner does not report to Ministers but to Parliament. The ICO is funded by (1) fees payable under the Data Protection Act which it collects and retains, and (2) grant in aid for freedom of information work. The Freedom of Information grant in aid forms part of DCA's Departmental Expenditure Limit. The relationship between the Department and the ICO is regulated by a framework document and financial memorandum.

The Secretary of State and the Permanent Secretary met the Information Commissioner on a regular basis throughout 2005-06, usually every two months. The Constitution Director (responsible for the sponsorship division) also

had regular and frequent meetings with the Commissioner. The head of the sponsorship division met or spoke to the Information Commissioner fortnightly and there was frequent contact between senior members of the division and senior officials in the ICO, in particular the Deputy Commissioners, the Chief Operating Officer, the Finance manager and the HR Director. Performance review meetings took place on 10 August 2005 and 21 October 2005, and performance and budgetary data was supplied to DCA in writing in February 2006.

Management commentary

In December 2004 the DCA published its strategy for the next five years (www.dca.gov.uk/dept/strategy/index.htm) based around the top priorities of: reducing crime; speeding up asylum and immigration appeals; protecting the vulnerable; faster and more effective dispute resolution; and renewing the relationship between the public and the state.

In parallel to this, the Spending Review in 2004 set DCA's Public Service Agreement (PSA) for the period 2005-06 to 2007-08. The PSA for this period covers the delivery of justice, increasing public confidence in the criminal justice system, reducing unfounded asylum claims, completion of care cases and achieving earlier and proportionate dispute resolution. There are five targets that support the PSA. These, and the four objectives, are explored briefly here and in more detail in the 2005-06 Departmental Report (Cm 6820), and in the Autumn Performance Report to be published later this year. The central Department was responsible for approximately £3.8bn of public spending in the financial year. The use of these resources is reported against the objectives in the Consolidated Statement of Operating Costs by Departmental Aims and Objectives of these accounts.

The aim of the Scotland Office is to support the Secretary of State for Scotland in promoting the devolution settlement and Scottish interests in Parliament. A brief review of performance is shown by objective in the Consolidated Statement of Operating Costs by Departmental Aims and Objectives. Further detailed information, in respect of performance against PSA targets is provided in the Scotland Office's

Annual Report (Cm 6834). Likewise, the Wales Office's aim is to support the Secretary of State for Wales in promoting Welsh interests and ensuring the smooth implementation of the devolution settlement in Wales. The Wales Office's Annual Report (Cm 6835) details its key achievements and performance by objective. Expenditure by objective is provided in the Consolidated Statement of Operating Costs by Departmental Aims and Objectives.

The Department as a whole was responsible for approximately £35bn of public spending in the financial year.

Performance highlights for 2005-06:

Objective I: to provide criminal, civil, family and administrative justice systems that command public respect and confidence

As part of the wider Criminal Justice System (CJS), we continue to drive forward the reform of courts and associated processes, focussing on the needs of the law-abiding citizen. We are making sure that the courts are efficient, robust and command the respect of the public, providing confidence that the system will fight crime effectively. In particular DCA has been working to develop new proposals and implement measures to improve the efficiencies of court processes and to reduce the wastage caused by ineffective trials.

- Target 1

Improve the delivery of justice by increasing the number of crimes for which an offender is brought to justice to 1.25 million by 2007-08

Provisional figures for December 2005 show that 1.267 million offences were brought to justice in England and Wales¹, up 26% on the baseline figure.

- Target 2

Reassure the public, reducing the fear of crime and anti-social behaviour, and building confidence in the criminal justice system, without compromising fairness

¹ This includes an estimate for the Hampshire and Isle of Wight areas

According to the British Crime Survey, at the end of March 2005, 43% of the public believed the criminal justice system was effective in bringing people who commit crimes to justice. The latest outturn (year to December 2005) is 44%. This represents a 5% increase from the March 2003 baseline.

According to the 2005 Home Office Citizenship Survey 31% of people from a black and minority ethnic background believe the Criminal Justice System would treat them worse than people of other races, a decrease of 2% on the 2001 baseline.

According to the British Crime Survey, at the end of March 2005, 59% of victims and witnesses are satisfied with the criminal justice system. The latest outturn (year to December 2005) is 59%. This represents a 1% increase from the (six months to) March 2004 baseline.

- Target 3

Reduce unfounded asylum claims as part of a wider strategy to tackle abuse of the immigration laws and promote controlled legal migration

This target will be met if the number of unfounded asylum cases in 2007-08 is less than in the baseline year (2002-03). The latest outturn (to March 2005) the number of unfounded asylum cases was 52,000, against a baseline of 70,200.

Objective II: to ensure the public, especially the socially excluded and vulnerable, have access to excellent services, which enable them to exercise their rights in law

- Target 4

By 2009/10, increase the proportion of care cases being completed in the courts within 40 weeks by 10 percent

This target will be met if by 2009/10 the county courts (care centres) achieve 48% and the magistrates' courts (Family Proceedings Courts) achieve 56%. In 2005-06 (to February 2006) the county courts (care centres) achieved 45.9% and the magistrates' courts (Family Proceedings Courts) achieved 56.1%.

- Target 5

To achieve earlier and more proportionate resolution of legal problems and disputes

This target will be achieved if 49.9% of people with justiciable problems have received suitable advice and assistance, if only 38.5% of disputed claims in courts require a hearing and if 81.5% of Small Claim hearings take place within target time. The first element is measured by the English and Welsh Civil and Social Justice Survey and has not yet been assessed. The latest outturn (to February 2006) for the second and third elements is 41.3% and 83.0% respectively.

Objective III: to develop democratic institutions of Government that command public confidence

DCA aims to strengthen democracy and rights and renew the relationship between citizens and the State. Our core objectives are:

- strengthening and upholding people's human rights and rights to information
- strengthening democracy and public engagement with decision-making
- enhancing the credibility and effectiveness of our public institutions.

We are achieving these objectives by:

- maintaining an independent judiciary
- establishing the Supreme Court and the Judicial Appointments Commission (JAC)
- reform of the office of Lord Chancellor and the House of Lords
- strengthening engagement with the democratic process and ensuring the electoral process is more open and accessible
- ensuring that public services protect and respect individuals' rights
- ensuring people can effectively exercise their information access rights through the Freedom of Information (FOI) and Data Protection Acts
- making the law fairer and simpler
- developing a diverse judiciary
- maintaining the devolution settlement and managing the constitutional settlement as it

relates to the Crown, the Church and between the UK and Crown Dependencies.

Objective IV: to create a modern, efficient and effective Department that can deliver excellent public services

We have reorganised the centre of the Department. This is now smaller and more strategic, providing better support to our delivery arms and helping us to serve the public more effectively. Policy and operations have been brought together into single teams within HMCS and the Tribunals Service, meaning that policy development is integrated with operational delivery. It avoids duplication, enables faster decision-making, improves accountability and gives a clear structure with which stakeholders can engage.

We have also created more efficient corporate services through the introduction of shared service functions and better use of resources.

HMCS was launched in April 2005. HMCS' vision places the public at the heart of the courts. In practical terms this means improving facilities, managing cases effectively to avoid delays, costs and inconvenience, providing easier access to its services and continuing to improve the effectiveness and enforcement of court orders.

The Tribunals Service was created in April 2006 (see looking forward).

Financial performance

At the start of the year the core Department had secured funding through its Main Estimate of £3.488bn. During the year additional funding of £131m was approved by Parliament through the Supplementary Estimates. Included in this amount were £28m from the Criminal Justice IT Reserve, £69m take up of End Year Flexibility (EYF) and additional income of £45m from the enforcement improvement programme.

Scotland Office and Wales Office secured their initial funding, £20.884bn for the Scotland Office and £10.622bn for the Wales Office, through the Main Estimate. During 2005-06, the Scotland Office requested an additional £59m and the Wales Office requested an additional £228m to cover expected increased funding of the devolved administrations.

The Department's Net Resource Outturn in 2005-06 was £35.084bn, which was within the Estimate limit. The Department also remained within its administration costs limit. HM Treasury's end year flexibility scheme enabled the Department to carry forward its DEL underspend into 2006-07.

Further analysis of resource outturn by section, as reported in Note 2, reveals the impact of anticipated overspends on legal aid and costs from central funds (the cost of repaying privately funded defendants if found not guilty). These overspends were offset through budget cuts across the central Department and its executive agencies and the drawdown of EYF, so the Department kept within its overall available resources. The underspend in relation to the grants payable to the Scottish Consolidated Fund (SCF) and the National Assembly for Wales arose because of lower than expected drawdown by the devolved administrations. These underspends are ring-fenced for these entities and will either be paid over to them in the subsequent period or forwarded to the Consolidated Fund.

Note 2 also indicates that of the allocation of funding available to the Department, £20.943bn (59%) went to Scottish affairs, £10.850bn (31%) to Welsh interests and £3.619bn (10%) toward funding the interests of the central Department.

Of the central Department's funding, £2.890bn (81%) was spent on the court system and access to justice. This is represented by, £2.106bn (59%) to the Legal Services Commission and £784m (22%) to HMCS.

The Department's capital outturn for 2005-06 amounted to £112m, against a budget of £149m. Outturn included £9m for on-balance sheet PFI building projects and £104m assets in the course of construction. Additions to assets in the course of construction can be further analysed between £19m IT and £85m land and buildings. Of the £19m for IT, £15m relates to LIBRA case management and £4m to SUPS, the Service Update Project that will upgrade business critical IT systems in the Crown and County Courts. The £85m for land and buildings is spread across a number of projects, with £12m incurred on the Liverpool Civil Justice Centre and £30m on the Manchester Civil Justice Centre. These costs were offset by

capital disposals of £6m, arising from the sale of Bow Street, Bury and Tameside.

These accounts have been prepared on a going concern basis.

Looking forward

In April 2006, the Lord Chancellor published a paper, *Doing Law Differently*. In it he outlined the need for change and highlighted the following areas where change was essential:

- Recalibrating the boundaries between the state and the judiciary, with a clear separation from the legislature and the executive with the creation of a Supreme Court for the United Kingdom and the ending of the role of the Lord Chancellor as head of the judiciary,
- Reforming the judicial appointments process to provide greater transparency, helping strengthen judicial independence and clarifying the roles of the Lord Chancellor and the Lord Chief Justice, as well as improving the connection between judges and those they judge and promoting greater diversity in the judiciary,
- Re-engineering the criminal justice system to deliver a process that is much simpler, speedier and in which summary justice plays a more significant part,
- Reshaping legal services to ensure they provide value for money and are more responsive to consumers' needs,
- Rebalancing the funding of legal aid to bring about a greater focus on vulnerable people rather than a small number of high-cost criminal cases.

Taken together, these reforms mark a significant shift in the legal and judicial system in this country and will ensure the constituent parts – judges, the courts, legal aid and legal services – are focused much more clearly on the needs of the people.

Constitutional and judicial reform

From April 2006 the implementation of the Government's Constitutional Reform Act means that the Lord Chancellor – a politician – will no longer be the head of the judiciary and that responsibility will instead transfer to the Lord Chief Justice. The reformed office of Lord Chancellor will continue to be a ministerial role,

with responsibility for upholding the independence of the judiciary and the rule of law, but he will no longer be a judge. The Act now establishes the Lord Chief Justice as the head of the judiciary in England and Wales.

The Act means that, from April 2006, the process of selecting judges will be removed from the exclusive hand of the Lord Chancellor, and placed with the Judicial Appointments Commission (JAC). The JAC is an independent body that will select candidates solely based on merit, but will also have a statutory duty to encourage a wider pool from which judicial office-holders are selected.

Re-engineering criminal justice I : courts and the community

These constitutional and judicial changes come at a time when there is far greater understanding that the courts must co-operate much more purposefully with the public and other public service agencies. The courts must have an understanding of the communities they serve in order to retain the trust of those communities.

At the same time DCA is looking at new approaches to criminal justice. The North Liverpool Community Justice Centre is piloting a problem-solving approach, where the determination of guilt and innocence is dealt with in the conventional way, but in their sentencing arrangements, the court looks at both the problem the community is facing and what drives the defendant to crime. The Centre brings together a multi-jurisdictional courtroom that has the sentencing powers of Magistrates, Youth and Crown Courts, with a range of 'on-site' services including victim support and services dealing with drug addiction, debt and housing. This approach is also being tested in a mainstream court environment, in Salford Magistrates' Courts.

The establishment of HMCS in April 2005 unifies the administration of the courts and means that the Department is better able to raise standards and make best use of the available resources to deliver a high-quality public service. The establishment of Local Criminal Justice Boards and Courts Boards has also provided the infrastructure to deliver change in local communities.

Re-engineering criminal justice II : simple, speedy, summary

Simple, speedy and summary justice is at the heart of Government reforms to rebalance the criminal justice system and increase public confidence. The new measures include piloting courts on the move to take justice closer to the people and the concept of "next day" justice where specific offences will be heard between 24 and 72 hours. The changes will provide a modern criminal justice system responsive to 21st century needs and expectations. This means justice will be:

- **Simple:** cases that are best dealt with by way of warning, caution or some other effective remedy to prevent re-offending without the court process will not enter the courts.
- **Speedy:** those cases that require a court process will be dealt with as quickly as possible consistent with the needs of justice.
- **Summary:** a much more proportionate approach – for example dealing with appropriate cases the day after charge or during the same week.

This also involves a fundamental re-gearing of our approach to victims and witnesses. Witness Care Units, established by the police and Crown Prosecution Service, are now in place around the country helping to provide the right support to witnesses at the right time. We are testing a pilot scheme designed to allow families of murder and manslaughter victims the chance to tell courts of the impact of the death. Relatives will be able to address the court in person or through lawyer or other representative – a victim's advocate.

Rebalancing legal aid

The way the public funds legal advice and representation needs overhauling to control overall costs, to get the balance right between civil and criminal legal aid and to deliver a fairer deal for taxpayers, vulnerable people and practitioners. Lord Carter of Coles has recently reviewed the procurement of criminal defence services. His report set out reforms to deliver an integrated system from the police station through to the Crown Court. This may include consortia of suppliers working in partnership as a single contractor or large individual suppliers tendering for this work with contracts awarded

to suppliers based on the quality, capacity and price that they tender. These reforms are designed to deliver a balanced, steady, criminal legal aid budget, which in turn, will benefit civil legal aid and ensure the funding of publicly-funded legal services is stable, targeted in the right way and contributes to an efficient justice system.

Reshaping legal services

The way in which legal services are regulated and delivered is also undergoing significant reform, so that services can be provided in the way that consumers want. For many years, solicitors and barristers were regulated by the same bodies – the Law Society and the Bar Council – which also represented their interests to the outside world. From January 2006 both bodies have now formally split their regulatory and representative functions, with separate boards for each. The new system provides for greater consumer representation, with a significant lay membership on the regulatory boards.

But this will not, of course, eliminate the possibility of error. In order to retain confidence any modern system should have an effective complaints process. A new Office for Legal Complaints and a new regulator, the Legal Services Board – a strong and independent body – will oversee the whole of the legal services sector. The Board will set high standards for front-line regulators, and have powers to take tough action if those standards are breached.

Other priorities

Human Rights: we are working with the judiciary to devise a strategy for ensuring both the effectiveness of, and public confidence in, the Human Rights Act. In July 2006 the Lord Chancellor published the results of our review of the implementation of the Act. The Government remains fully committed to the European Convention of Human Rights and to the Human Rights Act 1998, but will legislate if necessary to ensure agencies gave proper weight to public protection. In addition, we will revise and strengthen central guidance for public sector managers, putting the emphasis on public safety, and lead a push across all government departments to provide better guidance.

Electoral reform and administration: we will deliver on-going electoral reform to enhance confidence in the electoral administration and ensure better engagement with the electorate. The Electoral Administration Act 2006 was given Royal Assent in July. The Act will support a healthy democracy by promoting better and equal access to elections for all, improving security and introducing deterrents against fraud and introducing a number of measures to simplify electoral law and improve the way that elections are conducted.

Delivering for the public

HMCS: published its five-year Business Strategy in February 2006, which sets out an ambitious change agenda with the end goal of a modernised court service. We have identified seven key enablers. These are:

- improved use of buildings;
- removal of high-volume bulk work from our courts;
- centralisation of some back-office administration;
- improved take-up of telephone and e-services;
- new ways of administering the £20 billion we handle each year;
- consolidation of fines and enforcement activity in the National Enforcement Service; and
- improved electronic management of documents and case files.

We have a series of initiatives planned or underway in each of these areas. But one of the most important projects for 2006-07 will be the establishment of the HMCS change programme, which will ensure that all of our individual change projects are aligned with and directed towards the Business Strategy.

The Tribunals Service: launched in April 2006, brings together the administration of the largest central government tribunals. The Tribunals Service is set up with an agenda for change and growth. Over time it will work to make the whole system of administrative justice more efficient, effective and accessible to users. It will create a service which has the flexibility to re-deploy staff and hearing rooms to manage the peaks

and troughs in workload, take advantage of economies of scale and share best practice.

It will play a major role in delivering the goals set out in the July 2004 White Paper *Transforming Public Services: Complaints, Redress and Tribunals* by bringing forward innovative pilot projects on alternative dispute resolution and finding ways of improving the quality of the original decision.

Coroner and burial services: we published the Coroner Reform Bill in June 2006, which will deliver a better service for bereaved families from inquests. The plans for reform are based on three main areas:

- giving bereaved families a proper legal status in the inquest system;
- establishing national standards with leadership through a new position of chief coroner for England and Wales; and
- strengthening the work of coroners, by establishing a proper system for appointing and training coroners, and giving them access to dedicated medical advice.

Capability Review: the report, published in July 2006, recognised the considerable progress we have made since the Department was created in June 2003. Positive examples highlighted by the review team include:

- the highly effective engagement between the whole of the Department and our Ministers;
- working effectively to deliver our PSA targets;
- developing innovative strategic thinking about how we deliver our services; and
- new ways of supporting witnesses and victims.

There are four key areas identified where we can improve our capability and on which we will focus our attention in the next 18-24 months. The four areas are around developing the senior team and engaging with staff; improving our capacity to manage change; embedding the DCA business model; and developing our delivery capability. We have developed a programme of improvement for each of the four areas which are encapsulated in a detailed action plan.

Efficiency: In the first year of delivery of the Gershon Review of government efficiency, we achieved savings of £118m. Of these, half came from legal aid, a fifth from HMCS and the remainder from various initiatives in procurement, process efficiencies in the courts and the Asylum and Immigration Tribunal, and streamlining corporate services.

In addition, we have recently begun an ambitious programme of work to restructure the workforce over the coming two years, which will enable us to meet our headcount reduction target of 1,100 full-time equivalents.

Equal opportunities

The Department is committed to equality of opportunity in employment and advancement. This is on the basis of ability to do the job, irrespective of race, nationality, colour, ethnic or national origins, sex, marital status, disability, sexual orientation, age, gender reassignment, work pattern, or membership/non-membership of a trade union. All staff are entitled to be treated with respect in an environment free from discrimination, harassment, victimisation and bullying.

The Department recognises, respects and values the diversity of the society it serves and aims to serve the interests of people from all sections of society.

Payment to suppliers

DCA complied with the British Standard for Achieving Good Payment Performances in Commercial Transactions (BS 7890). DCA policy is to pay bills in accordance with contractual conditions or, where no such conditions exist, within 30 days of the receipt of the goods and services or the presentation of a valid invoice, whichever is the later. For the financial year 2005-06 88 % (2004-05 89.1%) of invoices were paid within payment terms based on date of receipt at Liberata, which provides the payment function for DCA. Interest paid under the Late Payment of Commercial Debts (Interest) Act 1988 was £15,742 (2004-05 £470).

Audit

These accounts have been audited by the Comptroller and Auditor General. The cost of the audit for 2005-06 is £832,000 (2004-05 £585,400). This includes £450,000 for Her Majesty's Courts Service, £58,000 for the Public Guardianship Office, £9,500 for the Office of the Legal Services Ombudsman, £9,500 for the Office of the Legal Services Complaints Commissioner, and £46,500 for the Judicial Pension Scheme. The National Audit Office also undertook some non-audit work during the year. No charge was made for this work. The auditor was made aware of any relevant information and there was no relevant audit information of which the auditor was not aware.

Sections 6 and 7 of the Government Resources and Accounts Act 2000 require the Comptroller and Auditor General to examine, certify and report on the accounts before they are laid before Parliament.

Provision of information and consultation with employees

The Department attaches considerable importance to ensuring the fullest involvement of employees in delivering its aims and objectives. It is an 'Investors in People' (IiP) organisation and has fully demonstrated the levels of good practice for improving performance through its staff.

With the appointment of a Director of Communications, also a member of the Ministerial Executive Board, the Department has been able to continue with the strategic development of its communications. The Department aims to be proactive and open, working to engage more effectively with stakeholders, staff, the public and the media in the development and delivery of Departmental services.

Directorships and other significant interests

A register is maintained by the Department that includes details of company directorships and other significant interests held by Board members which may conflict with their management responsibilities. This register is available for public inspection upon request.

Alex Allan

Accounting Officer

9th October 2006

Remuneration Report

This Remuneration Report has been prepared in accordance with section 234B and Schedule 7A of the Companies Act 1985 and the requirements of the Government Financial Reporting Manual (FReM) as issued by HM Treasury. The report provided information on DCA policy for the remuneration of its Ministers, Board Members and senior managers. It also contains details of the contracts of employment for these individuals along with information relating to their pension benefits.

Remuneration Policy

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

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

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

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

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

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

Board members and senior civil servants remuneration

The salaries of the DCA Board members were determined by the Permanent Secretary in accordance with the rules set out in Chapter 7.1, Annex A of the Civil Service Management Code. The salary of other senior civil servants were set following discussions between the Permanent Secretary and his Director-Generals.

Performance based pay awards are based on an assessment of performance against objectives agreed between the individual and line manager at the start of the reporting year. Performance will also have an effect on any bonus element awarded.

Service Contracts

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

Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended until they reach the normal retiring age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

The salary, pension entitlements and the value of any taxable benefits in kind of the Ministers were as follows:

Ministers	2005-06		2004-05	
	Ministerial Salary received	Benefits in kind (rounded to the nearest £100)	Ministerial Salary received	Benefits in kind (rounded to the nearest £100)
	£	£	£	£
Lord Falconer of Thoroton Secretary of State and Lord Chancellor	103,607		96,960	-
David Lammy MP Parliamentary Under Secretary (to 8 May 2005)	3,070 (29,491 full-year equivalent)	-	28,688	-
Christopher Leslie MP Parliamentary Under Secretary (to 5 May 2005)	10,306 ² (37,960 full-year equivalent)	-	28,688	-
Baroness Catherine Ashton of Upholland Parliamentary Under Secretary	102,798	-	55,583 (99,450 full-year equivalent)	-
Harriet Harman QC MP Minister of State (from 9 May 2005)	32,378 (36,141 full-year equivalent)	-	-	-
Bridget Prentice MP Parliamentary Under Secretary (from 9 May 2005)	24,841 (27,728 full-year equivalent)	-	-	-
Baroness Clark of Calton QC Advocate General for Scotland (to 18 January 2006)	74,114 (92,326 full-year equivalent)	-	63,486	-
Lord Davidson of Glen Cova Advocate General for Scotland (from 21 March 2006)	2,782 (92,326 full-year equivalent)	-	-	-
Lord Filkin CBE Parliamentary Under Secretary (to 9 September 2004)	-	-	48,116 (109,083 full-year equivalent)	-
Anne McGuire MP Parliamentary Under Secretary for Scotland (to 8 May 2005)	3,070 (29,491 full-year equivalent)	-	28,688	-
David Cairnes MP Parliamentary Under Secretary for Scotland (from 10 May 2005)	26,320 (29,491 full-year equivalent)	-	-	-
Don Touhig Esq MP Parliamentary Under Secretary for Wales (to 8 May 2005)	3,070 (29,491 full-year equivalent)	-	28,688	-
Nick Ainger MP Parliamentary Under Secretary for Wales (from 9 May 2005)	26,373 (29,491 full-year equivalent)	-	-	-

² The amount shown includes severance payment of £7,373 to which Christopher Leslie was entitled on leaving office

Ministers	Real increase in pension and related lump sum at age 65	Total accrued pension at age 60 and related lump sum at 31 March 2006	CETV at 31 March 2005	CETV at 31 March 2006	Real increase in CETV after adjustment for contributions inflation & changes in market investment factors
	£000	£000	£000	£000	£000
David Lammy MP Parliamentary Under Secretary (to 8 May 2005)	0 – 2.5	0 – 5	12	12	0
Christopher Leslie MP Parliamentary Under Secretary (to 5 May 2005)	0 – 2.5	0 – 5	13	14	0
Baroness Catherine Ashton of Upholland Parliamentary Under Secretary	0 – 2.5	5 – 10	57	77	10
Harriet Harman MP Minister of State (from 9 May 2005)	0 – 2.5	5 – 10	91	105	6
Bridget Prentice MP Parliamentary Under Secretary (from 9 May 2005)	0 – 2.5	0 – 5	19	27	4
Baroness Clark of Calton QC Advocate General for Scotland (to 18 January 2006)	0 – 2.5	5 – 10	93	106	7
Lord Davidson of Glen Cova Advocate General for Scotland (from 21 March 2006)	0 – 2.5	0 – 5	0	1	0
Anne McGuire MP Parliamentary Under Secretary for Scotland (to 8 May 2005)	0 – 2.5	0 – 5	45	46	1
David Cairnes MP Parliamentary Under Secretary for Scotland (from 10 May 2005)	0 – 2.5	0 – 5	0	5	2
Don Touhig Esq MP Parliamentary Under Secretary for Wales (to 8 May 2005)	0 – 2.5	0 – 5	40	41	1
Nick Ainger MP Parliamentary Under Secretary for Wales (from 9 May 2005)	0 – 2.5	0 – 5	27	35	5

As the House of Commons or House of Lords and not the Department meets the Exchequer contribution to the cost of pension provision for all Ministers, the pension details are included in the Resource Account on a 'for information' basis.

Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory based (made under Statutory Instrument SI 1993 No 3253, as amended).

Those Ministers who are Members of Parliament are also entitled to an MP's pension under the PCPF. The arrangements for Ministers provide benefits on an 'average salary' basis with either a 1/50th or 1/40th accrual rate, taking account of all service as a Minister. (The accrual rate has been 1/40th since 15 July 2002 but Ministers, in common with all other members of the PCPF, can opt to increase their accrual rate from 5 July 2001, or retain the former 1/50th accrual rate and the lower rate of employee contribution.)

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate. Those members who have opted for the 1/40th accrual rate are required to pay an increased contribution. The rate was increased from 9% to 10% from 1 April 2004. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the ministerial salary.

No Ministers retired early due to ill health during the year. In the event of retirement because of serious ill health, the MPS pension is brought into payment immediately. On death, pensions are payable to the surviving spouse at a rate of 5/8th of the Minister's pension. On death in service the PCPF provides for a lump sum gratuity of three times the ministerial salary. On retirement it is possible to commute part of the pension for a lump sum.

This presentation is based on payments made by the Department and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration. The salary cost for their services as MPs and various allowances to which they are entitled was £59,085 (2004-05 £57,485) which was borne centrally. However, the arrangement for Ministers of the House of Lords is different in that they do not receive a salary but rather an additional remuneration, which cannot be quantified separately from their ministerial salaries. This remuneration is paid by the Department and is therefore shown in full in the figures above.

Under the Ministerial and Other Salaries Act, the Lord Chancellor, in his role as head of the judiciary, is paid from the Consolidated Fund and not directly by the Department. As a result, his salary is disclosed with payroll costs of the judiciary (Note 8.2) and not with other Ministers in Staff Costs (Note 8.1).

The Lord Chancellor has pension and CETV balances but as his is one of the 'three great Offices of State', Cabinet Office does not require their disclosure in the Department's Resource Accounts.

Senior Managers	2005-06		2004-05 (As restated)	
	Salary	Benefits in kind (rounded to the nearest £100)	Salary	Benefits in kind (rounded to the nearest £100)
	£000	£	£000	£
Alex Allan Permanent Secretary	155 – 160	12,400	90 – 95 (135-140 full year equivalent)	5,800
Sir Hayden Phillips Permanent Secretary (to 31 July 2004)	–	–	65-70 (170-175 full year equivalent)	2,700
Barbara Moorhouse Director General Finance	150 – 155	–	10 – 15 (145 - 150 full year equivalent)	–
Simon Ball Director General, Finance (to 20 January 2005)	–	–	155-160 (185-190 full year equivalent)	–
John Lyon Director General, Legal and Judicial Services	135 – 140	–	125 – 130	–
Sir Ron De Witt Chief Executive, HMCS	150-155	–	145-150	–
Sir Ian Magee CB Chief Executive, Operations (to 30 September 2005)	80 – 85 (155 – 160 full year equivalent)	5,700	140 – 145	–
Lucian Hudson Director, Communications	115 – 120	–	65 – 70 (100-105 full year equivalent)	–
Rod Clark Director General, Strategy (from 1 May 2005)	95 – 100	–	–	–
Jonathan Spencer Director General, Clients and Policy (to 28 February 2005)	–	–	105-110 ³ (115-120 full year equivalent)	–

³ In addition to the salary shown, Jonathan Spencer received a payment in the range of £45,000 to £50,000 for four months pay in lieu of notice and for outstanding annual leave.

Senior Managers	2005-06		2004-05 (As restated)	
	Salary	Benefits in kind (rounded to the nearest £100)	Salary	Benefits in kind (rounded to the nearest £100)
	£000	£	£000	£
Helen Dudley CBE Director, Human Resources (from 21 April 2005)	90 – 95 (95 – 100 full year equivalent)	–	–	–
Peter Handcock CBE Chief Executive, Tribunals Service (from 7 December 2005)	30 – 35 (110 – 115 full year equivalent)	–	–	–
Annette Vernon CBE Chief Information Officer (from 24 November 2005)	50 – 55 ⁴ (145 – 150 full year equivalent)	–	–	–
Jim Wildgoose Head of the Scotland Office (from 3 May 2005)	105 – 110 (115 – 120 full year equivalent)	–	–	–
David Crawley Head of the Scotland Office (to 10 April 2005)	0 – 5 (105- 110 full year equivalent)	–	140-145	–
Alison Jackson Head of the Wales Office (to 11 September 2005)	35-40 (75-80 full year equivalent)	–	75 – 80	–
Alan Cogbill Head of the Wales Office (from 12 September 2005)	50 – 55 (95 – 100 full year equivalent)	–	–	–
Trevor Hall CBE Non-executive Director Equality & Diversity Advisor	10 – 15 ⁵	–	10 – 15	–
Sir Peter Bonfield CBE Non-executive Director	5 – 10	–	10 – 15	–
Hon Barbara Thomas Non – executive Director	5 – 10	–	10 – 15	–
Professor Georges Selim Non-executive Director (from 2 November 2005)	0 – 5 (0 – 5 full year equivalent)	–	–	–

⁴ Includes grossing up for detached duty

⁵ Includes payment for Trevor Hall's role as non-executive director as well as his role as equality and diversity advisor to the Permanent Secretary.

Senior Managers	<u>Contract start date</u>	<u>Unexpired term⁶</u> <u>years</u>	<u>Notice Period</u> <u>months</u>
Alex Allan Permanent Secretary	1 August 2004	5	3
Barbara Moorhouse Director General, Finance	7 March 2005	2	6
John Lyon Director General, Legal and Judicial Services	25 August 1969	2	3
Sir Ron De Witt Chief Executive, HMCS	23 February 2004	3	6
Sir Ian Magee CB Chief Executive, Operations (to 30 September 2005)	Retired		
Lucian Hudson Director, Communications	2 November 2000	14	3
Rod Clark Director General, Strategy (from 1 May 2005)	1 May 2005	15	–
Helen Dudley CBE Director, Human Resources (from 21 April 2005)	12 April 1999	9	3
Peter Handcock CBE Chief Executive, Tribunals Service (from 7 December 2005)	4 January 1971	5	–
Annette Vernon CBE Chief Information Officer (from 24 November 2005)		Left DCA	
Jim Wildgoose Head of the Scotland Office (from 3 May 2005)	6 January 1975	3	3
David Crawley Head of the Scotland Office (to 10 April 2005)		Left DCA	
Alison Jackson Head of the Wales Office (to 11 September 2005)		Left DCA	
Alan Cogbill Head of the Wales Office (from 12 September 2005)	16 September 1974	6	–
Trevor Hall CBE Non-executive Director Equality & Diversity Advisor	19 July 1999	–	–
Sir Peter Bonfield CBE Non-executive Director	25 March 2004	–	–
Hon Barbara Thomas Non – executive Director	25 March 2004	–	–
Professor Georges Selim Non-executive Director (from 2 November 2005)	2 November 2005	–	1

⁶ Unexpired term is either remaining contract period on fixed term contracts or when individual is 60 for all other cases. Contracts for Senior Civil Servants were not issued until 1996. Where people joined before contracts were introduced, the table shows their starting date.

Senior Managers	Real increase in pension and related lump sum at age 60	Total accrued pension at age 60 and related lump sum at 31 March 2006	CETV at 31 March 2005	CETV at 31 March 2006	Real increase in CETV
	£000	£000	£000	£000	£000
Alex Allan Permanent Secretary	0 – 2.5 plus 0 – 2.5 lump sum	0 – 5 plus 0 – 5 lump sum	15	54	29
Barbara Moorhouse Director General, Finance	0 – 2.5 plus 0 – 2.5 lump sum	0 – 5 plus 0 – 5 lump sum	1	28	22
John Lyon Director General, Legal and Judicial Services	0 – 2.5 plus 5 – 7.5 lump sum	55 – 60 plus 170 – 175 lump sum	953	1,331	53
Sir Ron De Witt Chief Executive, HMCS	2.5 – 5 plus 0 – 2.5 lump sum	5-10 plus 0- 5 lump sum	53	153	58
Sir Ian Magee Chief Executive, Operations (to 30 September 2005)	0 – 2.5 plus 2.5 – 5 lump sum	60 – 65 plus 185 – 190 lump sum	1,029	1,486	33
Lucian Hudson Director, Communications	0 – 2.5 plus 2.5 – 5 lump sum	15 – 20 plus 55 – 60 lump sum	215	305	23
Rod Clark Director General, Strategy (from 1 May 2005)	2.5 – 5 plus 12.5 – 15 lump sum	25 – 30 plus 85 – 90 lump sum	287	439	66
Helen Dudley CBE Director, Human Resources (from 21 April 2005)	0 – 2.5 plus 0 – 2.5 lump sum	25 – 30 plus 85 – 90 lump sum	427	553	4
Peter Handcock CBE Chief Executive Tribunals Service (from 7 December 2005)	0 – 2.5 plus 0 – 2.5 lump sum	50 – 55 plus 0 – 5 lump sum	886	933	0
Annette Vernon CBE Chief Information Officer (from 24 November 2005)	0 – 2.5 plus 0 – 2.5 lump sum	25 – 30 plus 75 – 80 lump sum	298	385	6
Jim Wildgoose Head of the Scotland Office (from 3 May 2005)	2.5 – 5 plus 7.5 – 10 lump sum	35 – 40 plus 105 – 110 lump sum	649	790	56
David Crawley Head of the Scotland Office (to 10 April 2005)	0- 2.5 plus 0 – 2.5 lump sum	40 – 45 plus 125 – 130 lump sum	728	759	–
Alison Jackson Head of the Wales Office (to 11 September 2005)	0 – 2.5 ⁷ plus 0 – 2.5 lump sum	30 – 35 plus 90 – 95 lump sum	537	660 ⁸	15

⁷ The pension lump sum payment was paid out in September 2005, and the first monthly payment of the person was made in October 2005

⁸ The CETV value relates to pension benefits accrued as at September 2005

	Real increase in pension and related lump sum at age 60	Total accrued pension at age 60 and related lump sum at 31 March 2006	CETV at 31 March 2005	CETV at 31 March 2006	Real increase in CETV
	£000	£000	£000	£000	£000
Alan Cogbill Head of the Wales Office (from 12 September 2005)	0 – 2.5 plus 0 – 2.5 lump sum	35 – 40 plus 105 – 110 lump sum	635	711	1
Trevor Hall CBE Non-executive Director Equality & Diversity Director	0 – 2.5 plus 0 – 2.5 lump sum	0 – 5 plus 0 – 5 lump sum	8	13	3
Sir Peter Bonfield CBE Non-executive Director	–	–	–	–	–
Hon Barbara Thomas Non-executive Director	–	–	–	–	–
Professor Georges Selim Non-executive Director (from 2 November 2005)	–	–	–	–	–

Salary

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

The information given above relates to the Ministers and senior managers of the Department. Equivalent information relating to the Department's Supply-financed Agencies is given in their separate accounts.

Where a director has joined or left the Corporate Board during the year, their salary reflects only that which they received whilst a member of the Board. Where they were a member of the Board for only part of the year but have been employed by the Department throughout, their annual salary has been reported on a 'days served' basis as well as the full year equivalent salary. Accrued pension represents the director's total future entitlement to benefits payable from the Civil Service pension schemes based on reckonable service at 31 March. No adjustment has been made for service in other departments or while not a board member.

Moira Wallace and Jane Furniss had no salary, benefits in kind or pension entitlements attributable to the Department. As employees of the Home Office, their salary and pension entitlements are disclosed in the Home Office's 2005-06 Resource Accounts.

During 2005-06, Clare Dodgson and Brian Harvey had no salary, benefits in kind or pension entitlements attributable to the Department. As Chief Executive and Acting Chief Executive of the Legal Services Commission, their salary and pension entitlements are disclosed in the Legal Services Commission Annual Report.

The Rt. Hon. Lord Justice Judge, Deputy Chief Justice and Rt Hon Lord Justice Thomas, Senior Presiding Judge of England and Wales, received no additional remuneration for their role on the board.

Any amounts payable on early termination of a contract will be in accordance with the individual's circumstances. The Department does not make any provision in its accounts in respect of compensation payments for early termination of contracts.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. Alex Allan and Ian Magee had the use of a car provided by the Government Car Service.

Pension

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

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

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

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Alex Allan
Accounting Officer

9th October 2006

Statement of Accounting Officers' Responsibilities

Under the Government Resources and Accounts Act 2000, the Department is required to prepare resource accounts for the year ended 31 March 2006. This conforms to a HM Treasury direction, detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

HM Treasury has appointed the Permanent Head of Department as Accounting Officer of the Department with responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General.

Additional Accounting Officers have been appointed to be accountable for those parts of the accounts relating to the Executive Agencies. The additional Accounting Officers are responsible for the use of resources and associated assets, liabilities and cash flows under their control.

The Heads of the Scotland Office and Wales Office have been appointed by HM Treasury as additional Accounting Officers for Request for Resources 2 and 3 respectively. The Head of the Scotland Office is responsible for paying grants to the Scottish Consolidated Fund to fund the operations of the Scottish Executive and Scottish Parliament. Upon transmission the accountability for the use of these monies passes to the Scottish Parliament. Similarly, the Head of the Wales Office is responsible for the funding of the National Assembly for Wales. Under his terms of appointment the Accounting Officer for the Assembly is accountable for the use, including the regularity and propriety, of the monies received. A Memorandum of Understanding sets out how the Accounting Officer for the Assembly provides assurance to the Head of the Wales Office as to how he has discharged his responsibilities.

These appointments do not detract from the responsibility of the Permanent Head of Department as Accounting Officer for the Department.

In preparing the accounts the Accounting Officer is required to comply with the Financial Reporting Manual prepared by HM Treasury; and in particular to:

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

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

Statement on Internal Control

Scope of responsibility

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

As Accounting Officer I work with Ministers and senior DCA Management through the Ministerial Executive Board (MEB) and the Departmental Management Board (DMB), to implement the Department's plans, allocate resources and delegate financial authority to senior staff. I involve Ministers in the management of risks at a strategic level, considering major factors that could prevent DCA objectives being achieved.

A system of internal control operates in Department headquarters including sponsorship units that monitor the performance of our Agencies, Non-Departmental Public Bodies (NDPB) and Associated Offices, and their compliance with their respective Framework Document and Financial Memoranda. To the extent that those documents delegate control to the organisations, I place reliance upon their Statements on Internal Control, as published in their annual reports and accounts.

A Performance Management sub-committee group of the DMB was created in July 2006, dedicated to the review of quarterly performance reports for the main delivery arms (Her Majesty's Courts Service, Legal Services Commission and the Tribunals Service). As Accounting Officer, I together with relevant Board members meet with each Chief Executive to discuss high level operational performance, recognising areas of success, and exploring areas which require additional action. Chief Executives and relevant Directors for other areas of the business will also meet

with the sub-committee where performance issues are raised.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives: it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Department's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department for Constitutional Affairs for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

As Accounting Officer I acknowledge my overall responsibility for the effective management of risk throughout the Department.

The Department's *Risk Management Policy and Framework* document was approved by the DMB (formerly Executive Committee) and was published in June 2002, and is available to all staff on the Department's Intranet. It sets out the Department's approach to risk in the achievement of its policies and objectives, and provides guidance on the process of identifying, assessing and managing risk. Arrangements for a network for Risk co-ordinators to share best practice and inform the update of the Department's Risk Management Policy and Framework are currently being made. The policy and framework is supported by targeted guidance and training in the form of seminars and workshops available to all business areas.

The Department is represented at the HM Treasury's government-wide risk improvement forum, the remit of which includes the sharing and adoption of suitable best practice and lessons learnt.

Registers that identify, assess, and set out mitigating actions to significant risks are in place across the Department's headquarters, Agencies, NDPBs, and Associated Offices. The management and review of the risks identified are led at Board and Directorate level within each business area.

Significant risks are considered by the DMB through the Corporate Risk Report covering the entire organisation, and the Monthly Overview and Exception Report to the key programmes and projects for delivering the Department's aims and objectives.

The risk and control framework

The key elements of the Department's *risk management strategy* for identifying, evaluating and controlling risk include:

- A Risk Management Policy and Framework document, which sets out formal processes for identifying, evaluating, managing and reporting risk. Risks that threaten the achievement of the Department's objectives are identified and analysed in terms of impact and likelihood and are reported regularly in Risk Registers at Board, Directorate and Group level for each of the Departmental business areas. Ownership for each risk is assigned to a named individual and risk co-ordinators have been appointed in each of the Department's business areas to manage the reporting process.
- An annual self-certification by Senior Budget Holders, Agency Accounting Officers, NDPBs, and Associated Offices on the development and effectiveness of risk management in their business areas.
- A quarterly review by DMB of the Overview and Exception Report on performance and risk in the key programmes and projects that deliver the Department's Manifesto. The Department has a centre of excellence for programme and project management is established in accordance with Office of Government Commerce requirements, and incorporates procedures for management of risk.

Risk identification, evaluation and management are an integral part of the Department's planning process for its Public Service Agreement (PSA) delivery plans.

Further elements in the Department's control system include:

- Regular and accurate financial and other management information which were not as effective as planned during the course of the year following problems experienced during the upgrade of the Department's finance and accounting system (Oracle) in April 2005 but which have now been rectified.
- Comprehensive budgeting systems with an annual budget, which is approved at MEB, level; regular reviews by the MEB and the DMB of periodic and annual financial reports; and a system of delegation and accountability.
- The Departmental Fraud Policy and "whistle blowing" policy for confidential reporting of staff concerns.
- Business Continuity arrangements to manage the risk of disruption to business are continually developed and tested. The Business Continuity Board oversee the development of the plans and has a standing agenda item to review emerging threats (primarily to adapt protective security and continuity plans accordingly) and is supported by a board level champion. The plans are owned by business areas, which are required to identify needs and risks, and are predicated on a regime of protective security, property maintenance, and IT service arrangements that aim to avoid disruption to the business. In the event of disruption, the plans focus on maintaining key service delivery. A regime of plan testing has been instituted. Changes in threat levels and the status alert are communicated across the Department to local security officers and business areas have built upon central guidance to ensure local staff input into plans.

- The Department obtains an annual Statement of Assurance from Liberata UK Ltd to confirm that the accounting services provided by the company have been delivered in compliance with the assurance and control requirements of their contract with the Department, and areas in which action to improve is required/underway. DCA Stakeholders meet with Liberata UK Ltd on a monthly basis, monitoring service provision, acting as sponsors for new business services, and providing input into ongoing service improvement.

Key elements of the way in which public stakeholders are involved in the management of risks include:

- Creation of a Departmental-monitoring group with representatives from interested groups and the establishment of an online portal to allow people to submit proposals.
- Consultation papers are published and distributed to identified interested public stakeholders and are made available on the Department's external web site.
- Meeting all of the criteria set out in the Government's code of practice for full consultations. On the occasions that it is not possible to comply fully with the code a limited consultation is conducted.
- Where required under current guidance, all full consultation papers issued by DCA had an accompanying partial Regulatory Impact Assessment.
- A Checklist for DCA Policy Makers is available electronically for staff and includes a Regulatory Impact Assessment and Appraisal Toolkit. The Toolkit is supported by "Risk to the Public - A Framework for Identifying and Managing Risks Resulting from or Requiring Government Intervention". Currently, the Department is updating its internal guidance and will ensure as part of that process that risk is fully considered as policy is developed.
- Closer collaboration between the strengthened DCA Communications Directorate and policy/operational areas has begun to show benefits including better identification; responsiveness and communication of risk issues.

The Department has undergone a period of significant change from 1 April 2005, with work undertaken to establish two new Agencies, new Associated Bodies and other additional responsibilities following Machinery of Government changes. I recognise the challenge of re-articulating the Department's governance arrangements and risk management processes to take account of these changes and I continue to work with my senior management team to communicate the evolving risk management strategy and further embed sound governance arrangements across the reshaped organisation.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. This review is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the results of the review by the board and the Audit Committee. Plans to address weaknesses and ensure continuous improvement are in place.

The key elements of the system of internal control (see above) and the following mechanisms and responsible bodies/officers inform my review of the system's effectiveness:

- **Ministerial Executive Board and Departmental Management Board** – which meet regularly and consider the significant risks to the Department and the controls in place to monitor them.
- **Corporate Audit Committee** – the Committee provides independent advice on internal control issues and meets a minimum of four times each year. It has a non-executive Chair who is also a member of the MEB and formally reports to it twice a year. The Committee advises on the Internal Audit work programme and considers key recommendations from Internal Audit Reports and reports made by the National Audit Office.

- **Risk Co-ordinators** – a network of risk co-ordinators has been established within the Department’s headquarters, Agencies, and NDPBs to co-ordinate the reporting of risk and control issues to the DMB, MEB, and the Audit Committee.
- **Internal Audit** – the Department has an Internal Audit Division that operates to Government Internal Audit Standards. It submits regular reports, including the Head of Internal Audit’s independent opinion on the adequacy and effectiveness of the Department’s governance, control and risk management arrangements together with recommendations for improvement. Responsibility for Departmental central fraud issues was transferred to Internal Audit Division in July 2005 and includes a responsibility for maintaining a capability to investigate any incidents of fraud. It also works closely with the Department’s Headquarters, Agencies and NDPBs to help ensure robust systems of prevention, detection, investigation, reporting and recovery are in place.
- **Risk Management Assessment Framework (RMAF)** – The HM Treasury tool has been used both to inform how the Department’s headquarters, Agencies, and NDPBs are developing their risk management capability and to identify areas where further improvements can be made and best practice shared. It also informs and provides supporting evidence to this statement.

- Departmental Risk Report to HM Treasury (annual);
- Stewardship reporting in support of Statements on Internal Control (in-year);
- Corporate governance updates to Corporate Audit Committee (periodic);
- Corporate Audit Committee’s Chair report to MEB (annual);
- DCA Autumn Performance Reports (Annual);
- DMB/MEB Performance Reports and Corporate Risks Reports;
- Head of Security’s Annual Security Assurance Certificate;
- Sponsored bodies Annual Reports and Accounts including Statements on Internal Control;
- HM Inspectorate of Courts Administration publications and annual report; and
- Assurance and quality reviews of programmes and projects by: (Internal) Programme and Project Assurance Office (PPAO)/Programme and Projects Approvals Committee (PPAC); and (External) OGC Gateway Reviews for medium and high risk programmes and projects.

Significant Control Issues

Internal Audit have been consulted regarding the following significant internal control issues⁹ for inclusion in this statement, and confirm that from the evidence of their work there are no other key issues to be included:

Other explicit review/assurance mechanisms

Information from the following sources have been reviewed in the production of this statement:

- Head of Internal Audit’s Opinion and Report (annual);
- National Audit Office Reports and Comptroller and Auditor General’s Certificate for Resource Accounts;
- HM Treasury Report on Fraud (annual);
- Human Resources Directorate Whistle blowing Report (annual);

⁹ Within this section a significant control issue is defined as an event that: seriously prejudiced or prevented achievement of a PSA target; resulted in the need to seek additional funding from HM Treasury; or, has resulted in the significant diversion of resources from another aspect of the business; (Internal and External) Audit and Audit Committee view as material; or has attracted public interest.

Libra

The Libra Project provides a standardised IT system for the Magistrates Courts, improving case management and liaison (interfaces) with other agencies within the Criminal Justice System. The project has made significant progress and the Libra system is in live use at Magistrates' Courts in Kingston, Warwickshire, North Yorkshire, and Durham. Delivery of a fit for purpose business change enabled by Libra has been delayed because of the following issues: a need for more extensive preparation by local areas on the changes from local to national business processes before migration, improvements in training and the introduction of more 'business friendly' support as a result of ongoing review of feedback from pilot sites and rectification of functional defects. Delays have resulted in the need to adjust the deployment approach and schedule and this needs to be reflected in a revised business case. The revised business case will need to take account of any changes to costs or benefits in its assessment of affordability. Discussions with the Libra Suppliers and DISC candidates will need to ensure that Libra deployment is not impacted by DISC transition. These and similar issues will continue to be reviewed as piloting/proving proceeds and remedial initiatives taken as required. The operational impact of these delays has been mitigated by the continued use of legacy systems to ensure that data capture and analysis has not been interrupted.

Court Funds Office (CFO)

Since 2003, following on from Internal Audit Review of the accounting procedures in the CFO there have been a variety of changes implemented to both the structure and working practices of the organisation. A substantial programme of improvement work has been undertaken at the CFO this year and a range of new processes and controls introduced reflecting relevant market best practice greatly enhancing client service. Strengthened governance and compliance arrangements and more efficient working practices have reduced the risk of errors regarding the management of client assets of £5 billion. Substantial cost savings have been made as a by-product of the overall improvement programme, and value added improvements enhancing propriety include:

- £24m repaid on previous unclaimed balances, in addition to the clearance of potential new unclaimed balances;
- White Paper accounts previously 5 years in arrears have been brought up to date; and
- Custodianship of client holdings moved in house resulting in savings of around £400k per annum.

Implementation of Oracle 11i finance and accounting system

The upgrade of the Department's finance and accounting system (Oracle) in April 2005 created a significant number of issues for the Department including: additional work in the reconciliation of management information and production of Management Accounts, and the timely payment of suppliers.

A comprehensive recovery plan was put in place (developed jointly in partnership between DCA, HMCS, and Liberata), and recommendations as a result of an external review were implemented. Short-term actions to stabilise implementation were introduced. These included the establishment of dedicated work streams, underpinned by strong and effective project management and governance, with regular progress meetings focusing on key risks and issues. An emergency payment system was set up with robust controls to ensure timely payment to suppliers and reduce the risk of error/duplicate payment until the upgrade issues were resolved.

As a consequence of the Oracle issues, formal regular financial reporting was not established until the second half of the year with full Corporate financial reporting restored in the final quarter.

Following accounts recovery, a Service Management Organisation (SMO) has been created to improve the delivery of finance and accounting services provided through the ARAMIS contract. The SMO will take ownership of the library of processes and controls created by the accounts recovery work and will work proactively with Liberata and the business to address any control weaknesses identified and to effect systems and process change targeting efficiency improvements and cost reductions.

Developing Innovation and Supporting Contracts (DISC) Implementation

The programme to replace the Department's existing core IT contracts (DISC) is a key enabler for the department to support planned efficiencies, legislative programmes, major policy initiatives and strategic developments. The Office of Government Commerce (OGC) recently conducted its Gateway Review 3. The overall outcome of the Review was a red status with three key issues to address: consideration of proceeding with a Conditional Award of contract (which has now been dismissed), further contingency planning and review of cost and implications of delay in concluding contracts. A full action plan is currently being drafted to address the recommendations. However, the Review team specifically commented that this does not mean that the procurement should be stopped; indeed they recommended very strongly that it should continue as planned, and praised the high quality of the procurement. The Review team found that the Programme had continued to progress in a controlled manner with extensive and appropriate consultation at all stages and that there should be no significant concerns in proceeding to the final selection of suppliers and the conclusion of the contracts. The Review reported that transition planning with the selected suppliers and the equipping of DCA to successfully deploy and exploit the new contracts remain challenging but achievable. The Review team made a number of recommendations to help meet these challenges. The most urgent matter related to addressing the concerns of the new CIO so that all parties can focus on successful completion of the Programme.

Capability Review of the Department for Constitutional Affairs

The Department has been subject of the pilot Capability Review conducted by the Prime Minister's Delivery Unit (Cabinet Office) as part of the wider civil service reform agenda to ensure that the civil service is ready for future challenges. Three areas were identified in the review as requiring urgent development:

- 'take responsibility for leading delivery and change';
- 'plan, resource and prioritise'; and
- 'develop clear roles, responsibilities and business model(s)'.

Agreed actions to be implemented to strengthen capability in these areas are already underway.

Alex Allan
Accounting Officer

9th October 2006

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

I certify that I have audited the financial statements of the Department for Constitutional Affairs for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, if I have not received all the information and explanations I

require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 22 to 26 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial

statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and

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

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London SW1W 9SP

11th October 2006

Statement of Parliamentary Supply

Summary of Resource Outturn 2005-06

Request for Resources	Note	2005-06 Estimate			2005-06 Outturn			Net total Outturn compared with Estimate saving/ (excess)	2004-05 Outturn
		Gross Expenditure	A in A	Net total	Gross Expenditure	A in A	Net Total		
		£000	£000	£000	£000	£000	£000		
1	2	4,184,358	565,827	3,618,531	4,143,038	565,827	3,577,211	41,320	3,349,126
2	2	20,943,636	965	20,942,671	20,872,704	955	20,871,749	70,922	19,073,768
3	2	10,849,934	9	10,849,925	10,634,806	9	10,634,797	215,128	9,877,364
Total Resources		35,977,928	566,801	35,411,127	35,650,548	566,791	35,083,757	327,370	32,300,258
Non-operating cost in A in A				11,663			11,663		18,200

Net cash requirement 2005-06

	Note	2005-06		2004-05 Outturn
		Estimate	Outturn	
Net cash requirement	4	35,226,407	34,912,800	32,134,623

Summary of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics)

	Note	2005-06 Forecast		2005-06 Outturn	
		Income	<i>Receipts</i>	Income	<i>Receipts</i>
		£000	£000	£000	£000
Payable to the Consolidated Fund	5	244,478	244,353	254,518	297,825

Explanation of variation between Estimate and outturn are given in the Management Commentary.

The notes on pages 40 to 79 form part of these accounts

Operating Cost Statement

for the year ended 31 March 2006

Note	2005-06 Core Dept			2005-06 Consolidated			2004-05	
	Staff costs	Other costs	Income	Staff costs	Other costs	Income	Core Dept	Consolidated
	£000	£000	£000	£000	£000	£000	£000	£000
Administration Costs								
Staff Costs	8.1	157,007		172,365			131,722	339,388
Other Administration Costs	9		220,394		261,176		153,397	605,040
Operating Income	11.1		(10,043)			(10,043)	(8,626)	(19,854)
							276,493	924,574
Programme Costs								
Request for Resources 1								
Staff Costs	8.1			542,542				
Judicial Salaries	8.2	54,868		310,174			69,285	295,486
Programme Costs	10		2,349,936		3,064,787		2,698,942	2,758,787
Income	11.1		(5,215)			(558,877)	(83,162)	(447,635)
Request for Resources 2								
Programme Costs	10		20,866,266		20,866,266		19,068,236	19,068,236
Request for Resources 3								
Programme Costs	10		10,630,516		10,630,516		9,873,510	9,873,510
NLF interest payable			58,215		58,215		182,154	182,154
NLF Interest receivable			(58,215)		(58,215)		(182,154)	(182,154)
Totals		211,875	34,067,112	(15,258)	1,025,081	34,822,745	(568,920)	
Net Operating Cost			34,263,729			35,278,906	31,903,304	32,472,958

All income and expenditure are derived from continuing operations.

The notes on pages 40 to 79 form part of these accounts

Statement of Recognised gains and Losses for the year ended 31 March 2006

	2005-06		2004-05	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Net gain on revaluation of tangible fixed assets	1,777	298,780	1,633	56,836
Recognised gains and losses for the financial year	1,777	298,780	1,633	56,836

The notes on pages 40 to 79 form part of these accounts

Balance Sheet

As at 31 March 2006

Note	2005-06 Core Department		2005-06 Consolidated		2004-05 Core Department		2004-05 Consolidated	
	£000	£000	£000	£000	£000	£000	£000	£000
Fixed Assets:								
Tangible assets	13	61,007	2,870,797		46,877		1,839,675	
Investments	14	821,868	821,868		857,006		857,006	
		882,875	3,692,665		903,883		2,696,681	
Debtors falling due after more than one year	15(a)	1,419	1,954		3,338		22,922	
Current assets:								
Debtors	15(a)	441,535	512,397		104,288		155,841	
Cash at bank and in hand	16	34,453	96,816		33,223		57,828	
		475,988	609,213		137,511		213,669	
Creditors falling due within one year	17(a)	(1,004,848)	(740,165)		(241,465)		(322,661)	
Net Current liabilities		(528,860)	(130,952)		(103,954)		(108,992)	
Total assets less current liabilities		355,434	3,563,667		803,267		2,610,611	
Creditors falling due after more than one year	17(a)	(826,406)	(999,333)		(856,825)		(916,445)	
Provisions for liabilities and charges	18	(79,929)	(420,110)		(22,740)		(25,494)	
		(906,335)	(1,419,443)		(879,565)		(941,939)	
		(550,901)	2,144,224		(76,298)		1,668,672	
Taxpayers' equity								
General Fund	19	(555,987)	1,846,722		(79,676)		911,181	
Revaluation Reserve	20	5,086	297,502		3,378		757,491	
		(550,901)	2,144,224		(76,298)		1,668,672	

Alex Allan
Accounting Officer

9th October 2006

The notes on pages 40 to 79 form part of these accounts

Consolidated Cashflow Statement

for the year ended 31 March 2006

	Note	2005-06 £000	2004-05 £000
Net cash outflow from operating activities	21a	(34,834,913)	(32,093,112)
Capital expenditure and financial investment	21b	(50,417)	87,123
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		288,060	259,874
Increase/(Decrease) in third party balances		6,115	(424)
Payment of amounts due to the Consolidated fund		(284,668)	(1,788,983)
Payments to Other Government Departments		–	(24,081)
Financing	21d	34,914,811	32,061,389
Increase / (decrease) in cash in the period		<u>38,988</u>	<u>(1,498,214)</u>

Consolidated Statement of Operating Costs by Departmental Aims and Objectives

for the year ended 31 March 2006

Request for Resources 1

Aim: Upholding justice, rights and democracy.

	2005-06			2004-05 As restated		
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
1. To provide criminal, civil, family and administrative justice systems that command public respect and confidence.	3,432,906	(522,234)	2,910,672	3,094,731	(369,632)	2,725,099
2. To ensure that the public, especially the socially excluded and vulnerable, have access to excellent services, which enable them to exercise their rights in law.	602,570	(43,488)	559,082	653,643	(85,873)	567,770
3. To develop democratic institutions of Government that command public confidence.	94,755	(196)	94,559	102,761	(389)	102,372
4. To create a modern, efficient and effective Department that can deliver excellent public services.	210,085	(2,033)	208,052	137,363	(10,778)	126,585
	<u>4,340,316</u>	<u>(567,951)</u>	<u>3,772,365</u>	<u>3,988,498</u>	<u>(466,672)</u>	<u>3,521,826</u>

The notes on pages 40 to 79 form part of these accounts

Request for Resources 2

Aim: The aim of the Scotland Office is to give the Secretary of State for Scotland the best possible support in promoting the devolution settlement and in representing Scottish interests within the UK Government.

	2005-06			2004-05 As restated		
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
1. Maintaining the stability of the devolution settlement by developing the partnership between the devolved administration in Scotland and the United Kingdom Government and contributing to informed public discussion.	1,003	–	1,003	1,018	(1)	1,017
2. To carry out the responsibilities of Secretary of State, including the payment of grant to the Scottish Consolidated Fund, the preparation of any necessary statutory instruments under the Scotland Act 1998, promotion of legislation as required on electoral matters and administrative arrangements for the conduct of parliamentary elections in Scotland.	20,867,294	–	20,867,294	19,069,258	–	19,069,258
3. To advise UK departments about distinctive Scottish interests in relation to reserved matters and to act as an effective channel of communication for Scottish opinion on such matters	1,695	(238)	1,457	1,919	(196)	1,723
4. Providing legal advice and services relating to Scots law and the Scottish devolution settlement to UK Government Departments and supporting the Advocate General for Scotland in his statutory functions under the Scotland Act and in relation to his functions as a UK law officer	2,712	(717)	1,995	2,389	(619)	1,770
	<u>20,872,704</u>	<u>(955)</u>	<u>20,871,749</u>	<u>19,074,584</u>	<u>(816)</u>	<u>19,073,768</u>

The notes on pages 40 to 79 form part of these accounts

Request for Resources 3

Aim: The aim of the Wales Office is to support the Secretary of State for Wales in discharging his role of representing Wales in the Government, representing the Government in Wales and ensuring the smooth working of the devolution settlement in Wales.

	2005-06			2004-05 As restated		
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
1. Maintain effective working relationships with the Assembly and ensure that the devolution settlement continues to operate in the best interests of Wales, including, where appropriate, exercising the Secretary of State's powers under the Government of Wales Act 1998. Consider with Cabinet colleagues whether changes should be made to the Welsh devolution settlement and implement any that are agreed.	1,502	(5)	1,497	1,350	(1)	1,349
2 Work with other Government Departments and the Assembly to ensure that the interests of Wales are fully taken into account in primary legislation which affects the Assembly's responsibilities.	1,501	(5)	1,496	1,350	–	1,350
3. Work with other Government departments to promote Welsh interests in functions retained by the Government.	429	(2)	427	385	–	385
4. Work with other Government departments and the Assembly to promote effective communication and co-ordination of policy in areas which straddle the boundary between transferred and non-transferred functions.	429	(1)	428	385	–	385
5. Keep under review, with Treasury and the Assembly Government, the operation of the funding policy for the devolved administrations.	429	(1)	428	385	–	385
Grant to the National Assembly for Wales and other programme expenditure	10,630,516	–	10,630,516	9,873,510	–	9,873,510
	<u>10,634,806</u>	<u>(14)</u>	<u>10,634,792</u>	<u>9,877,365</u>	<u>(1)</u>	<u>9,877,364</u>
Net Operating Costs	<u>35,847,826</u>	<u>(568,920)</u>	<u>35,278,906</u>	<u>32,940,447</u>	<u>(467,489)</u>	<u>32,472,958</u>

The notes on pages 40 to 79 form part of these accounts

Notes to the accounts

for the year ended 31 March 2006

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2005-2006 Financial Reporting Manual (FRoM) issued by HM Treasury. The accounting policies contained in the FRoM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the FRoM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Department, for the purpose of giving a true and fair view, has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

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

1.2 Basis of consolidation

These accounts represent a consolidation of the Department of Constitutional affairs and its supply-financed agencies, Her Majesty's Courts Service (HMCS) and the Public Guardianship Office (PGO).

Consequent to the Machinery of Government changes announced on June 12 2003, the results of the Scotland Office and the Wales Office are now also consolidated and are no longer reported separately. Both agencies, HMCS and the PGO, produce their own annual report and accounts.

The Department is also responsible for the funding and monitoring of the following other offices: the Law Commission, the Office of the Legal Services Ombudsman for England and Wales, the Office of the Legal Complaints Commissioner, HM Inspectorate of Court Administration, Council on Tribunals, Office of the Judge Advocate General, the Official Solicitor and Public Trustee, the Judicial Studies Board and the Commission for Judicial Appointments. These, together with various tribunal and advisory non-departmental public bodies, fall within the departmental accounting boundary and are incorporated into the consolidated resource accounts.

1.3 Tangible fixed assets

Land and buildings are included on the basis of professional valuations, which are conducted for each property at least once every five years. Most properties are valued at depreciated replacement cost because they are specific and specialised buildings, whilst other properties, such as offices, are valued on the basis of existing use value. When properties are vacated and are awaiting disposal they are valued at open market value.

As part of a professional valuation rolling programme, the Valuation Office Agency (VOA) carries out the valuations in accordance with the Royal Institute of Chartered Surveyors *Appraisal and Valuation Manual*. Each year 20% by number of the property assets, together with the four most highly valued properties, are revalued through on-site inspections by professional surveyors. The 20% is drawn from a range of property and geographical areas. The remaining property assets are revalued by the VOA via a desktop valuation system using market knowledge and earlier surveys.

Plant, equipment, furniture and vehicles are included at cost in the month of purchase and are restated annually thereafter using Price Index Numbers for Current Cost Accounting (Office for National Statistics).

The threshold for capitalisation of fixed assets across most of the Department is £10,000 (including irrecoverable VAT). However the Scotland Office applies a threshold of £5,000 to plant and machinery and a threshold of £1,000 to furniture and fittings, information technology and vehicles. The PGO applies a threshold of £1,000 across the board. In terms of monetary value, the difference in policy is not material in the context of the Department's total asset holding.

Assets costing in excess of the stated capitalisation limits are treated as capital assets. An item is also treated as a capital asset when it costs less than the prescribed threshold but forms an integral part of a package whose total value exceeds the capitalisation limit.

Furniture is currently treated on an individual asset basis. However, pre-1 April 2005 furniture (with the exception of high-density storage and operational antiques) was recorded on a pooled basis. The residual pool as recorded is being written down over its remaining useful life.

Items of antique furniture are valued individually at open market value. Professional valuations are carried out at least once every five years. Non-operational antiques, such as paintings and other works of art, are not considered material and are not capitalised.

The threshold for capitalisation of software development and licences are £1 million and £10,000 respectively (including irrecoverable VAT).

1.4 Depreciation

Freehold land and buildings considered surplus to requirements are not depreciated. Assets in the course of construction are depreciated only when they are ready for use. Depreciation is spread in equal instalments over estimated useful economic lives of the assets. For lease assets it is spread over the life of the lease.

Lives are normally in the following ranges:

Freehold buildings	Remaining life, or 60 years, whichever is shorter.
Leasehold buildings	Remaining life, remaining lease period or 50 years whichever is shortest.
Leasehold land	Remaining lease period, except for leases with more than 125 years remaining, which are not depreciated.
Information Technology	5 to 10 years
Plant and machinery	3 to 7 years
Furniture and fittings including antiques	5 to 50 years

1.5 Investments

Financial interests in bodies which are outside the departmental boundary are treated as fixed asset investments since they are held for the long term. These comprise:

National Loans Fund (NLF)

Advances from the National Loans Fund are treated as investments and disclosed at historical cost. The balances within these accounts represent loans from the NLF on-lent by the Secretary of State for Scotland to Registers for Scotland and the three Scottish Water Authorities, as well as a loan to the Welsh Development Agency, issued by the Secretary of State for Wales through the National Assembly for Wales.

Interest on, and repayments of, loans, made from the National Loans Fund are collected by the sponsor Department, i.e. the Scotland Office and the Wales Office, and surrendered to the Fund. Loan balances are treated as a creditor (see Note 17).

Shares in limited companies/special shares

The Secretary of State for Scotland holds the following 'special' or 'golden' shares:

British Energy (GB) Ltd 1 special rights redeemable preference share of £1

The investment is included at market value if this can be readily ascertained, or is valued on a basis agreed as being appropriate with HM Treasury. The market value of the share capital of the Department cannot be readily ascertained and it has been agreed with HM Treasury that it should be shown at the book value of its net assets.

For further details on shares held, see Note 14.

1.6 Stock

Stocks of stationery and other consumable stores are not considered material and are written off in the Operating Cost Statement as they are purchased.

1.7 Pensions

Most of the Department's staff are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), the Judicial Pension Scheme (JPS) or the Local Government Pension Scheme (LGPS) which are non contributory except in respect of dependants' benefits. Although they are defined benefit schemes, liability for payment of future benefits is a charge to the relevant scheme. The Department, its Agencies and other bodies covered by the relevant schemes recognise the expected cost of providing pensions on a systematic and rational basis over the period during which they benefit from the employee's services by payment of charges calculated on an accruing basis. Employer contributions to this scheme are charged to the operating cost statement.

The Department has separate schemes for the Law Commissioners and Immigration Adjudicators, which are 'by analogy' or similar to the PCSPS. Provision has been made for the future cost of benefits under these schemes.

The Department also administers the Judicial Pension Scheme which provides for the pensions of judicial office holders of five participating Departments across Government. A percentage of the accruing superannuation liability charge paid by these Departments is appropriated in aid in its own accounts.

In respect of the defined contribution schemes, the Department recognises the contributions payable in the year.

1.8 Early departure costs

The Department is required to pay the additional cost of benefits beyond the normal PCSPS and LGPS benefits in respect of employees who retire early, unless the retirement is on approved medical grounds. The total cost is provided in full when the early departure programme has been announced and is binding on the Department. The estimated cash flow is discounted using HM Treasury's discount rate of 2.8% in real terms. However, the Scottish Executive provides for the additional costs in respect of the Scotland Office staff. These amounts are not provided for in these accounts.

1.9 Research and Development

Expenditure on research is charged to the Operating Cost Statement as it is incurred. Development expenditure is capitalised if it meets the criteria specified in the Financial Reporting Manual. Expenditure which does not meet the criteria for capitalisation is charged to the operating cost statement as it is incurred.

1.10 Operating income

Operating income is income which relates directly to the operating activities of the Department. It predominantly comprises of fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work. It also includes other income such as that from investments. It includes both income appropriated in aid of the Estimate and income due to the Consolidated Fund, which in accordance with the FReM, is treated as operating income. Operating income is stated net of VAT.

The Information Commissioner, though not consolidated in the resource accounts, is bound by paragraph 9(1), Schedule 5 of the Data Protection Act 1998. This stipulates that all fees and other sums received by the Commissioner in the exercise of his functions shall be paid to the Secretary of State and Lord Chancellor. However, it has been agreed with the Information Commissioner, with the consent of the Treasury, that the Information Commissioner may retain the data protection fees collected with effect from 1 April 2005 for expenditure on data protection purposes, rather than drawing grant-in-aid for such functions.

HMCS records each fee in full at the time it is raised. In a number of cases fees taken will relate to work which will not be completed within the accounting period. Deferred income is estimated at period end using a standard time per case workflow model to adjust the total income recorded in the period.

The PGO recognises all material fee types on an accrual basis. A year-end adjustment is made to accrue for fees charged under the Mental Health Act 1983 for each customer account.

The Official Solicitor and Public Trustee (OSPT) earns fees from its estates, litigation and trust activities. In estates, a bill of costs is either raised once a year, in the majority of case types, or on completion of the case, for conveyancing and administration of estates. In litigation, a bill of costs is drawn on completion of the case. For trust activities, administration fees are due on 1 April and are based on the capital value of the case. Other fees charged are recognised when they fall due for payment.

Note 3b highlights the income which, under the administration cost control regime, is allowed to be offset against gross administration costs to determine the outturn against the administration cost limit.

An analysis of fees and charges to customers inside and outside the public sector is found in Note 11.2. It shows income, full cost and surplus or deficit as required by HM Treasury's Fees and Charges Guide.

1.11 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme costs. Administration expenditure reflects the costs of running the Department while programme costs relate to service delivery activities.

Net administration costs include administrative staff salaries, accommodation charges, depreciation and associated operating income. Income is analysed in the notes between that which, under the administrative costs regime, is allowed to be offset against the gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not.

Programme costs, on the other hand, include grants made to the Legal Services Commission to fund legal aid and grants to the Scottish Consolidated Fund and the National Assembly for Wales.

1.12 Grants payable and paid

The Department recognises grants due to its executive non-departmental public bodies in the period which they are paid.

From 1 April 2003 responsibility for the funding of legal aid in the higher criminal courts passed to the Legal Services Commission (LSC), an executive non-departmental public body. The function of assessing and paying Crown Court Bills, with the exception of cases conducted under individual case contracts, will remain with the Department which will levy a charge for the service on the LSC under a prescribed service level agreement. The resulting increase in the LSC's expenditure will be funded by an increased grant from the Department.

From 1 April 2005 following the creation of HMCS, the Department funds the costs associated with running the magistrates' courts directly.

The Department also makes a small number of grants to a variety of public sector, private sector and voluntary bodies. These grants are recognised at the point at which an authorised request is received from the recipient body, in accordance with the relevant financial memoranda, adjusted for the amount unspent at 31 March.

1.13 Operating Leases

Rentals under operating leases are charged to the Operating Cost Statement on a straight-line basis over the lease term.

1.14 Finance leases

Where assets are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the fair value of the leased assets. The corresponding leasing commitments are shown as obligations to the lessor. Assets held under finance leases are depreciated over the shorter of the lease term and the useful life of equivalent owned assets.

1.15 Private Finance Initiative

The Department has contracts under the Government's Private Finance Initiative (PFI) for the provision of accounting, IT and building services. The accounting treatment of the contracts is in accordance with HM Treasury's guidance as outlined in Technical Note No1 (revised) issued in July 1999.

Where the PFI operator bears the balance of the risks and rewards of ownership, the PFI payments are recorded as an operating cost.

Where the Department bears the responsibility the asset is recognised on the Balance Sheet, with the liability to pay for it accounted for as a finance lease. Where the Department has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract by a charge to the Operating Cost Statement. See Notes 13 and 26 for further information.

1.16 Non-cash costs

Capital Charge

A charge reflecting the cost of capital utilised by the Department is included in operating costs. The charge is at the Government's standard rate of 3.5% on the average net book value of the asset over the year with the following exceptions:

For land and buildings, including dwellings, the charge will be calculated using opening balances plus additions at cost less disposals at their opening balance sheet values, less impairment and depreciation, and

The charge will be nil for amounts due to or from the Consolidated Fund, liabilities in respect of advances from the Contingencies Fund and cash holdings with the Office of HM Paymaster General.

Other

Other non-cash costs in the Operating Cost Statement include the external auditors' remuneration, which represents the cost of the audit of the financial statements carried out by the National Audit Office, notional rent as well as judicial salaries and election expenses met from the Consolidated Fund.

1.17 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department discloses, for Parliamentary reporting and accountability purposes, certain contingent liabilities where the likelihood of transfer of economic benefit is remote. These comprise:

Items over £100,000 (or lower where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by Departmental Minute prior to the Department entering into the arrangement,

All items, whether or not they arise in the normal course of business, over £100,000, or lower, where required by specific statute or where material in the context of the resource accounts, which are required by the Financial Reporting Manual to be noted in the resource accounts.

1.18 Value Added Tax

Irrecoverable VAT is charged to the relevant expenditure category, or if appropriate, capitalised. Income and expenditure are otherwise shown net of VAT.

1.19 Third party assets

The Department and its executive agencies hold, as custodian or trustee, certain assets belonging to third parties. These assets are not recognised on Balance Sheet and are disclosed within Note 31 since neither the Department nor Government has a direct beneficial interest in them. For further details on these assets, see Note 31.

Any third party monies held at the Office of HM Paymaster General at 31 March are recognised as both cash at bank and creditors. See Notes 16 and 17.

1.20 Consolidated Fund Extra Receipts (CFERs)

Consolidated Fund extra receipts balances are calculated on an accruals basis, unless stated otherwise.

Magistrates' courts fines

The core Department accepts fines imposed and collected in the magistrates' courts for onward transmission to the Consolidated Fund. Prior to 1 April, magistrates' courts were deemed to be outside the departmental accounting boundary and fines were accounted for on a cash received basis.

Since 1 April 2005 and the creation of HMCS, magistrates' courts have moved inside the departmental boundary. Fines are recognised as a debtor as they are imposed. At the same time, a corresponding creditor is raised to recognise the obligation of onward transmission. At the point of imposition it is not possible to say with certainty whether this onward transmission will be to the Consolidated Fund or to another Government Department, under one of the netting-off schemes (see Note 1.21).

Fines are not income of the Department.

As fines imposed are not always successfully collected, the Department recognises a provision for bad and doubtful debts. This allows for full provision to be made for fines uncollected that are more than six months old. This provision serves to reduce the debt in the DCA balance sheet, but also reduces the creditor for onward transmission.

The creation of this provision, and any subsequent movement to it, does not score in the Operating Cost Statement.

See also Notes 15 and 17.

Scotland Office CFERs

The Department acts as an intermediary for collection of income from the Scottish Consolidated Fund. This represents excess funds collected from the Scottish Executive which, in accordance with the Scotland Act 1998 (Designation of Receipts) Order 2000, are to be surrendered to the Consolidated Fund.

Wales Office CFERs

The Department acts as an intermediary for collection of income from the National Assembly for Wales for onward transmission to the Consolidated Fund. These amounts represent income received by the National Assembly for Wales which, in accordance with the Government for Wales Act 1998, cannot be retained.

National non-domestic rates (NNDR)

The Department collects NNDR from the National Assembly for Wales for surrender to the Consolidated Fund. In accordance with Annex 1.3 of the FReM, these transactions are outside the scope of the resource accounts.

1.21 Inter-departmental schemes

The Department participates in four schemes in conjunction with Other Government Departments. They are safety cameras, Automated Number Plate Recognition, Warrant Enforcement and Confiscation Orders.

Safety Cameras

Under this scheme, receipts of safety camera fixed penalties from all magistrates' courts are paid to the Department for Transport (DfT) to offset the cost of maintenance. The DfT surrenders amounts over and above maintenance costs to the Consolidated Fund.

Automatic Number Plate Recognition

Receipts from fixed penalty notices issued in respect of the scheme and collected by specific magistrates' courts are paid to the Home Office. They are then used in the identification and recovery of stolen vehicles and, generally, in the reduction of crime.

Warrant Enforcement

The receipts under this scheme go to enforcing the collection of financial penalties, community penalties and maintenance warrants in England and Wales. This was brought about by the high incidence of non-payment of fines and inadequate funding following the transfer of enforcement to magistrates' courts from the police.

From 2003-04 an approved amount of the income is retained by the Department as appropriations in aid and a small proportion paid to the National Assembly for Wales and the Office of the Deputy Prime Minister (now known as the Department for Communities and Local Government)

Confiscation Orders

This scheme is underpinned by the Proceeds of Crime Act (2002), the Criminal Justice Act (1988) and the Drug Trafficking Offences Act (1988). As with the other schemes, the receipts come from designated magistrates' courts and are paid over entirely to the Home Office to combat drug related crime.

1.22 Comparatives

The 2004-05 Resource Accounts represented a consolidation of the DCA with its two Supply-financed agencies, Court Service and the PGO. With effect from 1 April 2005 the Court Service ceased to exist. 1 April 2005 also saw the creation of HMCS, as a new DCA agency. These 2005-06 Resource Accounts represent a consolidation of the DCA with the new HMCS and PGO.

The application of merger accounting was not deemed appropriate in this case and no attempt has been made to re-state the 2004-05 comparatives. Where necessary, for example in Note 13, Court Service balances have been removed and replaced with those introduced on the creation of HMCS.

2. Analysis of net resource outturn by section

					Outturn	Estimate	2005-06	2004-05	
	Admin	Other	Gross Resource		A in A	Net Total	Net Total	Net Total	
	£000	current	Grants	Expenditure	£000	£000	£000	£000	
		£000	£000	£000			Savings/	Prior year	
							(excess)	Outturn	
							£000	£000	
Request for Resources 1:									
Headquarters and Associated Offices	370,923	250,007	2,532	623,462	(10,440)	613,022	684,099	71,077	435,086
Judicial Pensions Administration	401	-	-	401	(400)	1	1	-	-
Her Majesty's Court Service	35,928	1,285,589	1,424	1,322,941	(539,222)	783,719	867,104	83,385	375,721
Public Guardianship Office	14,390	1,016	-	15,406	(15,765)	(359)	480	839	663
Costs from Central Funds	-	69,201	-	69,201	-	69,201	45,000	(24,201)	48,694
Magistrates' Courts Grants	-	-	-	-	-	-	-	-	290,166
Magistrates' Courts Capital Grants	-	-	-	-	-	-	-	-	36,953
Magistrates Courts Grants on Loan Changes	-	-	-	-	-	-	-	-	8,844
Legal Services Commission:									
- Administration	-	-	105,480	105,480	-	105,480	86,732	(18,748)	102,260
- Criminal Defence Service	-	-	1,204,631	1,204,631	-	1,204,631	1,050,935	(153,696)	1,190,107
- Community Legal Service	-	-	795,975	795,975	-	795,975	867,881	71,906	857,530
Information Commissioner's Office	-	-	5,100	5,100	-	5,100	4,999	(101)	3,102
Core Capital Grants to Local Authorities	-	-	441	441	-	441	11,300	10,859	-
Net Resource Outturn	421,642	1,605,813	2,115,583	4,143,038	(565,827)	3,577,211	3,618,531	41,320	3,349,126
Request for Resources 2:									
Scotland Office	3,876	-	-	3,876	(238)	3,638	4,789	1,151	4,050
Office of the Advocate General	2,562	-	-	2,562	(717)	1,845	1,579	(266)	1,483
Boundary Commission for Scotland	-	141	-	141	-	141	300	159	177
Commission on Boundary Differences & Voting Systems in Scotland	-	135	-	135	-	135	100	(35)	108
Grant payable to the Scottish Consolidation Fund	-	-	20,865,990	20,865,990	-	20,865,990	20,935,903	69,913	19,067,950
Net Resource Outturn	6,438	276	20,865,990	20,872,704	(955)	20,871,749	20,942,671	70,922	19,073,768
Request for Resources 3:									
Wales Office	4,290	27	-	4,317	(9)	4,308	4,519	211	3,883
Grants Payable to the National Assembly for Wales	-	-	10,630,489	10,630,489	-	10,630,489	10,845,406	214,917	9,873,481
Net Resource Outturn	4,290	27	10,630,489	10,634,806	(9)	10,634,797	10,849,925	215,128	9,877,364
Total Net Resource Outturn	432,370	1,606,116	33,612,062	35,650,548	(566,791)	35,083,757	35,411,127	327,370	32,300,258

This note analyses the net resource outturn into requests for the resources and then into functions. The net resource outturn is the total of expenditure and income to be compared against the Estimate for net total resources in the Statement of Parliamentary Supply. These functions do not correspond to Departmental objectives which represent a disaggregation of the Department's aims. These give direction to the organisation's activities and are expressed in a way that allows their achievement to be assessed.

This analysis is required for control purposes and to obtain parliamentary approval.

3. Reconciliation of outturn to net operating cost against Administration Budget

3(a) Reconciliation of net resource outturn to net operating cost

			2005-06 Outturn compared with	2004-05
	Outturn	Supply Estimate	Estimate	Outturn
	£000	£000	£000	£000
Net Resource Outturn	35,083,757	35,411,127	327,370	32,300,258
Non-Supply income (CFERs)	(2,129)	–	2,129	(2,577)
Non-supply Expenditure	197,278	159,000	(38,278)	175,277
Net operating cost	35,278,906	35,570,127	291,221	32,472,958

3(b) Outturn against final Administration Budget

	2005-06		2004-05
	Budget	Outturn	Outturn
	£000	£000	£000
Gross Administration Budget	456,529	432,370	944,428
Income Allowable against Administration Budget	–	(10,043)	(19,854)
Net outturn against final Administration Budget	456,529	422,327	924,574

4. Reconciliation of resources to cash requirement

		Estimate	Outturn	Net total Outturn compared with Estimate Saving/ (excess) Net
	Note	£000	£000	£000
Resource Outturn	2	35,411,127	35,083,757	327,370
Capital				
Acquisition of Fixed Assets		161,717	118,309	43,408
Non operating in A in A				
Proceeds of fixed asset disposals		(11,663)	(11,663)	–
Accruals Adjustments				
Non-cash items		(355,132)	(255,708)	(99,424)
Changes in working capital other than cash		(1,642)	(64,239)	62,597
Use of provision	21	22,000	42,344	(20,344)
Net cash requirement		35,226,407	34,912,800	313,607

5. Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics)

Note	Forecast 2005-06		Outturn 2005-06	
	Income	<i>Receipts</i>	Income	<i>Receipts</i>
	£000	£000	£000	£000
Operating income and receipts- excess A in A	-	-	805	<i>805</i>
Other operating income and receipts not classified as A in A	-	-	1,324	<i>1,256</i>
	-	-	2,129	<i>2,061</i>
Non-operating income and receipts – excess in A in A	-	-	7,704	<i>7,704</i>
Other non-operating income and receipts not classified in A in A	-	-	-	-
Other amounts collectable on behalf of the Consolidated Fund	244,478	<i>244,353</i>	244,685	<i>288,060</i>
Excess cash surrenderable to the Consolidated Fund	-	-	-	-
Total Income payable to the Consolidated Fund	244,478	<i>244,353</i>	254,518	<i>297,825</i>

6. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2005-06 £000	2004-05 £000
Operating Income	11.1	568,920	467,489
Adjustments for transactions between RfRs			
Gross Income		568,920	467,489
Income authorised to be appropriated-in-aid		566,791	464,912
Operating income payable to the consolidated fund	5	<u>2,129</u>	<u>2,577</u>

7. Non-operating income – Excess in A in A

	2005-06 £000	2004-05 £000
Disposal of fixed assets	19,367	21,862
Less: Income authorised to be appropriated-in-aid	(11,663)	(18,200)
Excess A-in-A	<u>7,704</u>	<u>3,662</u>

8. Staff and Judiciary numbers and related costs

8.1 Staff Numbers and Related Costs

The aggregate payroll costs of these persons were as follows:

					2005-06	2004-05
	Permanently Employed			Special	Total	Total
	staff	Others	Ministers	Advisors	£000	£000
	£000	£000	£000	£000	£000	£000
Wages and Salaries	521,211	67,673	309	225	589,418	286,608
Social security costs	39,233	338	30	27	39,628	20,180
Other pension costs	88,569	686	-	-	89,255	33,234
Sub Total	649,013	68,697	339	252	718,301	340,022
Less recoveries in respect of outward secondments	(3,394)	-	-	-	(3,394)	(634)
Total net costs	645,619	68,697	339	252	714,907	339,388
Of which						
Core Department	113,847	42,569	339	252	157,007	131,722

Wages and salaries include £51.895m (2004-05 £22.101m) relating to agency staff costs.

8.2 Payroll costs of the Judiciary

	2005-06			2004-05		
	Paid from voted resources	Paid from Consolidated fund	Total	Paid from voted resources	Paid from Consolidated fund	Total
	£000	£000	£000	£000	£000	£000
Wages and Salaries	118,055	113,202	231,257	111,056	108,628	219,684
Social Security Costs	13,310	13,076	26,386	12,539	12,619	25,158
Other Pension Costs	52,531	-	52,531	50,644	-	50,644
	183,896	126,278	310,174	174,239	121,247	295,486

8.3 Average number of persons paid

The average number of full-time equivalent persons employed during the year is shown in the table below. These figures include those working in the Department as well as in agencies and other bodies brought into account from the start of the financial year.

	2005-06					2004-05
	Total	Permanent staff	Others	Ministers	Special Advisors	Total
Request for Resource 1						
Objective 1	18,789.78	17,972.16	812.99	3.09	1.54	10,351.98
Objective 2	3,610.88	3,453.76	156.23	0.59	0.30	2,177.95
Objective 3	611.15	584.56	26.44	0.10	0.05	367.90
Objective 4	1,336.74	1,278.57	57.84	0.22	0.11	480.27
	<u>24,348.55</u>	<u>23,289.05</u>	<u>1,053.50</u>	<u>4.00</u>	<u>2.00</u>	<u>13,378.10</u>
Request for Resource 2						
Objective 1	15.17	–	14.00	0.67	0.50	16.40
Objective 2	21.33	–	21.00	0.33	–	23.20
Objective 3	13.83	–	13.00	0.33	0.50	15.40
Objective 4	31.67	–	31.00	0.67	–	32.00
	<u>82.00</u>	<u>–</u>	<u>79.00</u>	<u>2.00</u>	<u>1.00</u>	<u>87.00</u>
Request for Resource 3						
Objective 1	18.76	6.33	11.38	0.35	0.70	20.28
Objective 2	18.76	6.33	11.38	0.35	0.70	20.29
Objective 3	5.36	1.81	3.25	0.10	0.20	5.80
Objective 4	5.36	1.81	3.25	0.10	0.20	5.80
Objective 5	5.36	1.81	3.25	0.10	0.20	5.80
	<u>53.60</u>	<u>18.09</u>	<u>32.51</u>	<u>1.00</u>	<u>2.00</u>	<u>57.97</u>
	<u>24,484.15</u>	<u>23,307.14</u>	<u>1,165.01</u>	<u>7.00</u>	<u>5.00</u>	<u>13,523.07</u>
Core Department	<u>4,276.40</u>	<u>3,550.90</u>	<u>713.50</u>	<u>7.00</u>	<u>5.00</u>	<u>4,004.11</u>

8.4 Retirement due to ill health

During 2005-06 42 (2004-05, 34) persons retired early on ill health grounds. The total additional accrued pension liabilities in the year amounted to £190,311 (2004-05, £164,236).

9. Other Administration costs

	2005-06		2004-05	
	Core		Core	
	Department	Consolidated	Department	Consolidated
	£000	£000	£000	£000
Rentals under operating leases				
Property Rents	38,005	38,005	28,161	53,565
Hire of plant and machinery	298	301	577	1,135
Other operating leases	372	372	203	952
Interest charges	8	35	–	34
PFI services charges	173,626	177,350	62,795	122,899
Research and development expenditure	1,290	1,969	940	1,001
Staff training and development costs	5,865	6,338	5,908	6,607
Travel, subsistence and hospitality	5,487	6,370	4,488	7,556
Accommodation, maintenance and utilities	31,678	31,750	26,147	129,173
Non-cash items				
Depreciation	4,017	4,964	10,991	59,728
Downward revaluation of assets below depreciated historic cost	2,465	2,543	583	15,469
Reversal of impairment	–	–	–	(2,166)
Fixed asset write-off	–	–	–	5,428
(Profit)/loss on disposal of fixed asset	169	169	(4,729)	(5,938)
PFI contracts deferred benefit	1,911	2,171	1,982	2,264
Increase in provisions	1,269	1,506	8,899	9,291
Increase in bad debt provision	(3)	20	66	149
Cost of capital charges	(9,922)	(9,674)	2,068	61,522
External auditors	324	832	278	585
Allocation of overheads	(104,525)	(73,752)	(87,381)	–
Indirect costs and overheads	–	–	(72)	–
Notional rent	–	–	–	1,962
Losses written off	35	108	–	–
Other expenditure	68,025	69,799	91,493	133,824
Total	220,394	261,176	153,397	605,040

The creation of HMCS saw a reassessment of the Department's Administration Budget outside of the usual Spending Review cycle. From 2005-06 only the costs of running the new Agency's headquarters have been designated as administration costs. The remaining costs are incurred in the delivery of front-line services and are classified as programme costs.

10. Programme Cost

	2005-06		2004-05	
	Core		Core	
	Department	Consolidated	Department	Consolidated
	£000	£000	£000	£000
Request for Resources 1				
Rentals under operating leases				
Property Rents	–	29,611	–	–
Hire of plant and machinery	–	1,462	–	–
Other operating leases	–	1,207	–	–
Interest charges	–	1	–	–
PFI services charges	–	35,937	–	–
Research and development expenditure	–	4	–	–
Staff training and development costs	–	1,236	–	–
Travel, subsistence and hospitality	–	8,601	–	6,555
Accommodation, maintenance and utilities	–	198,378	–	–
Judicial costs	14,100	37,058	7,651	16,052
Juror costs	–	39,580	–	37,919
Court reporting	11	7,740	1	6,737
Cost from Central Funds	69,201	69,201	46,545	48,695
Current grants				
Grants to Legal Services Commission in respect of CLS and CDS	2,000,606	2,000,606	2,047,637	2,047,637
Grants to local authorities in respect of magistrates' courts	–	7,354	362,438	362,438
Grants to Legal Services Commission Administration	102,480	102,480	98,099	98,099
Other Grants in Aid	8,073	9,498	15,255	15,255
Capital Grants				
Grants to local authorities in respect of magistrates' courts	–	–	36,953	36,953
Grants to Legal Services Commission	3,000	3,000	4,161	4,161
Other expenditure	9,765	114,011	21,932	19,273
Non-cash costs				
Depreciation	–	81,760	–	–
Downward revaluation of assets below depreciated historic cost	–	22,553	–	–
(Profit)/Loss on disposal of fixed assets	–	(3,169)	–	–
PFI contracts deferred benefit	–	45	–	–
Increase in pension provisions	–	–	–	228
Increase in other provision	71,700	78,777	4,204	4,784
Decrease in bad debt provision	–	(148)	36	(29)
Cost of capital charges	–	70,756	–	–
Allocation of overheads	–	73,752	–	–
Notional rent	–	2,301	–	–
Losses written off	–	195	–	–
Election expenses	71,000	71,000	54,030	54,030
	<u>2,349,936</u>	<u>3,064,787</u>	<u>2,698,942</u>	<u>2,758,787</u>

	2005-06		2004-05	
	Core		Core	
	Department	Consolidated	Department	Consolidated
	£000	£000	£000	£000
Request for Resources 2				
Funding to the Scottish Executive	20,865,990	20,865,990	19,067,950	19,067,950
Other Expenditure	276	276	286	286
	<u>20,866,266</u>	<u>20,866,266</u>	<u>19,068,236</u>	<u>19,068,236</u>
Request for Resources 3				
Funding of the National Assembly for Wales	10,630,489	10,630,489	9,873,481	9,873,481
Other Expenditure	27	27	29	29
	<u>10,630,516</u>	<u>10,630,516</u>	<u>9,873,510</u>	<u>9,873,510</u>
Total	<u>33,846,718</u>	<u>34,561,569</u>	<u>31,640,688</u>	<u>31,700,533</u>

11. Income

11.1 Analysis of operating income

	2005-06			2004-05	
	Request for Resource 1	Request for Resources 2	Request for Resources 3	Total	Total
	£000	£000	£000	£000	£000
Her Majesty's Courts Service	537,897	-	-	537,897	360,754
Public Guardianship Office	16,109	-	-	16,109	15,317
Magistrates Courts	-	-	-	-	63,429
Office of the Information Commissioner	-	-	-	-	9,398
Official Solicitor and Public Trustee	5,024	-	-	5,024	4,906
Tribunals	2,819	-	-	2,819	185
Other	6,102	955	14	7,071	13,500
	<u>567,951</u>	<u>955</u>	<u>14</u>	<u>568,920</u>	<u>467,489</u>
				<u>2005-06</u>	<u>2004-05</u>
				£000	£000
Administration				10,043	19,854
Programme				558,877	447,635
				<u>568,920</u>	<u>467,489</u>

11.2 Fees and charges

	2005-06			2004-05		
	Income	Full cost	Deficit	Income	Full costs	Deficit
	£000	£000	£000	£000	£000	£000
Her Majesty's Courts Service						
Civil Business	407,954	555,911	(147,957)	348,298	429,098	(80,800)
Court Funds Office	15,000	15,000	-	10,495	10,495	-
Lands Tribunal	262	625	(363)	204	675	(471)
Public Guardianship Office	16,029	19,252	(3,223)	16,139	19,924	(3,785)
Official Solicitor and Public Trustee						
Litigation	653	5,389	(4,736)	632	3,647	(3,015)
Trust and Estates	4,375	7,319	(2,944)	4,274	6,407	(2,133)
	444,273	603,496	(159,223)	380,042	470,246	(90,204)

12. Analysis of net operating cost by spending body

	2005-06		2004-05
	Budget	Outturn	Outturn
	£000	£000	£000
Spending body:			
Central Department	800,100	645,565	463,180
Scotland Office	20,942,671	20,871,749	19,073,768
Wales Office	10,849,925	10,634,792	9,877,365
HMCS	955,104	1,010,509	564,197
Public Guardianship Office	480	4,664	5,487
Non Departmental Public Bodies	2,010,547	2,111,186	2,152,999
Local Authorities	11,300	441	335,962
Net Operating Cost	35,570,127	35,278,906	32,472,958

13. Tangible Fixed Assets

	Land & Buildings excluding Dwellings	Dwellings	Information Technology	Plant & Machinery	Furniture & Fittings	Payments on Account & Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
At 1 April 2005	1,648,901	19,535	145,691	16,818	47,173	42,271	1,920,389
Court Service ¹⁰	(1,618,009)	(19,535)	(114,947)	(14,520)	(31,875)	(42,271)	(1,841,157)
HMCS ¹¹	2,378,762	22,329	84,039	5,412	11,384	23,709	2,525,635
Adjustments ¹²	496	-	(10,681)	102	5,254	3,663	(1,166)
	<u>2,410,150</u>	<u>22,329</u>	<u>104,102</u>	<u>7,812</u>	<u>31,936</u>	<u>27,372</u>	<u>2,603,701</u>
Additions	9,733	-	3,768	270	472	104,066	118,309
Disposals	(6,086)	-	(427)	(878)	(268)	-	(7,659)
Revaluations	225,189	615	(26,374)	137	1,500	-	201,067
Reclassifications	22,400	-	39,015	-	-	(61,415)	-
Transfer							
At 31 March 2006	<u>2,661,386</u>	<u>22,944</u>	<u>120,084</u>	<u>7,341</u>	<u>33,640</u>	<u>70,023</u>	<u>2,915,418</u>
Depreciation							
At 1 April 2005	8,720	-	37,785	14,387	19,822	-	80,714
Court Service	-	-	(23,712)	(12,869)	(16,237)	-	(52,818)
	<u>8,720</u>	<u>-</u>	<u>14,073</u>	<u>1,518</u>	<u>3,585</u>	<u>-</u>	<u>27,896</u>
Charged in Year	64,515	280	16,677	2,783	2,565	-	86,820
Disposals	(94)	-	(339)	(436)	(55)	-	(924)
Revaluations	(63,865)	(280)	(5,588)	(27)	589	-	(69,171)
At 31 March 2006	<u>9,276</u>	<u>-</u>	<u>24,823</u>	<u>3,838</u>	<u>6,684</u>	<u>-</u>	<u>44,621</u>
Net book Value:							
At 31 March 2006	<u>2,652,110</u>	<u>22,944</u>	<u>95,261</u>	<u>3,503</u>	<u>26,956</u>	<u>70,023</u>	<u>2,870,797</u>
At 31 March 2005	<u>1,640,181</u>	<u>19,535</u>	<u>107,906</u>	<u>2,431</u>	<u>27,351</u>	<u>42,271</u>	<u>1,839,675</u>
Asset Financing:							
Owned	2,298,263	17,944	85,194	3,263	26,956	67,385	2,499,005
Finance Leased	164,655	5,000	-	240	-	2,638	172,533
On-balance sheet PFI Contracts	189,192	-	10,067	-	-	-	199,259
Net book value at 31 March 2006	<u>2,652,110</u>	<u>22,944</u>	<u>95,261</u>	<u>3,503</u>	<u>26,956</u>	<u>70,023</u>	<u>2,870,797</u>

¹⁰ The published 2004-05 Resource Accounts included balances in respect of the Court Service, which no longer exists.

¹¹ The 2005-06 Resource Accounts include those balances introduced on the creation of HMCS.

¹² Adjustments relate primarily to assets which either transferred to the core department or were written off on the cessation of Court Service.

13. Tangible Fixed Assets *continued*

	Land & Buildings excluding Dwellings	Dwellings	Information Technology	Plant & Machinery	Furniture & Fittings	Payments on Account & Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Analysis of tangible fixed assets							
The net book value of tangible fixed asset comprises:							
Core Department 2006	19,621	-	23,080	586	15,576	2,144	61,007
Agencies 2006	2,632,489	22,944	72,181	2,917	11,380	67,879	2,809,790
Core Department 2005	19,333	-	15,500	623	11,421	-	46,877
Agencies	1,620,848	19,535	92,406	1,808	15,930	42,271	1,792,798

In 2005-06 a recurring rolling programme of professional revaluations was undertaken by the Valuation Office Agency (VOA). This 2005-06 revaluation exercise of the estate was 20% physical and 80% desktop by quantity. Over 80% of the estate is deemed to be specialist in nature and is valued at depreciated replacement cost.

Transfer of Property Scheme

The Lord Chancellor created a Property Transfer Scheme (PTS), the Transfer of Property (Abolition of Magistrates' Courts Committee) Scheme 2005, which states under para 5(1) that 'the estates in land of transferor authorities and the Greater London Magistrates' Courts Authority shall on the appointed day, transfer to and vest in the First Secretary of State'.

The principal PTS objective was for HMCS to secure full functionality and control of the magistrates' courts, including the Greater London Magistrates' Courts Authority, as required by the Courts Act 2003.

The primary legislation for the PTS was drawn up by Parliamentary Solicitors and was based on previous examples of this type of statutory property transfer. This legislation was found to be flawed at a very late stage in the transfer process. The flaw came to light when the Land Registry, and later one of the transferor authorities – the London Borough of Barking and Dagenham, elected to challenge the powers assumed by the Lord Chancellor under the PTS. The challenge resulted in the 2005 High Court judgement Mr Justice Stanley Burnton, who declared invalid 51 new 999-year leaseholds and questioned the validity of further intended transfers under the Courts Act 2003.

The 51 new leasehold properties have been excluded from the 2005-06 financial statements.

In addition to the 51 new 999-year leaseholds, the Judge further declared that for existing leases the Courts Act 2003, specifically section 6(3) and Schedule 2, did not empower the Lord Chancellor to effect the transfer of any properties, freehold or leasehold, where third party occupations exist.

As a result of this judgement, HMCS has recognised a contingent fixed asset to reflect the likelihood of these assets coming under its control in the near future. See also Note 28.

The value of freehold land included in Land and Buildings excluding Dwellings is £495.576m (2004-05 £308.131m).

14. Investments

	National Loans Fund £000	Shares in nationalised industries £000	Total £000
Balance at 1 April 2005	857,005	1	857,006
Loans repayable within 12 months transferred to debtors	(35,138)	–	(35,138)
Balance at 31 March 2006	<u>821,867</u>	<u>1</u>	<u>821,868</u>

British Energy plc

The Secretary of State holds one special rights redeemable preference share of £1 in British Energy Generation (UK) Ltd. This share does not carry any rights to vote at general meetings, but entitles the holder to attend and speak at such meetings. It confers no rights to participate in the capital or profits of the company beyond its nominal value. The prior written consent of the special shareholder is required to any proposal to vary specific sections of the company's Articles of Association. This share is designed to ensure the continued existence of Scottish Nuclear with its own Board within British Energy.

The Secretary of State, jointly with the Secretary of State for the Department of Trade & Industry, also holds one special rights redeemable preference share of £1 in British Energy plc. The terms of this shareholding are the same as for British Energy (UK) Ltd above. In particular, the joint shareholders must consent to any proposal to change the place of company registration and the location of its headquarters. This share is accounted for by the first named shareholder, the Secretary of State for the Department of Trade & Industry.

Both of these shares are held without limit of time and cannot be redeemed before 30 September 2006. After that time, they may be redeemed, at par, at the option of the Secretary of State, after consulting the company.

15. Debtors

15(a) Analysis by type

	2005-06		2004-05	
	Core		Core	
	Department	Consolidated	Department	Consolidated
	£000	£000	£000	£000
Amounts falling due with one year				
Trade debtors	839	15,459	1,397	5,742
VAT	17,587	24,202	6,562	12,804
Deposits and Advances	936	3,217	1,134	2,132
Prepayments and accrued income	17,718	42,596	11,755	25,103
Prepayments – PFI contracts deferred benefit	19	41	1,974	7,279
Amounts due to the Consolidated Fund as CFERs	494	494	43,800	43,800
Amounts due from the Consolidated Fund in respect of Supply	3,446	3,446	–	–
Amounts due to the National Loans Fund				
– interest payable	10,984	10,984	11,058	11,058
– capital	35,138	35,138	10,146	10,146
Other debtors	3,336	25,782	16,462	37,777
Impositions outstanding	351,038	351,038	–	–
	441,535	512,397	104,288	155,841

Amounts falling due after more than one year:

	2005-06		2004-05	
	Core		Core	
	Department	Consolidated	Department	Consolidated
	£000	£000	£000	£000
Deposits and advances	–	62	–	57
Prepayments	1,413	1,691	1,421	1,424
Prepayments-PFI contracts deferred benefit	6	201	1,917	4,825
Other debtors	–	–	–	16,616
	1,419	1,954	3,338	22,922

Trade debtors are shown net of a provision for doubtful debts of £0.173m (2004-05 £0.134m). Other debtors are shown net of a provision for doubtful debts of £0.094m (2004-05 £0.134m). Fines imposed are shown net of a provision for doubtful debts of £568.873m.

The prepayments on the PFI contracts represent either the open market value of assets transferred to the PFI supplier or the amount by which upfront payments exceed the cost of fixed assets purchased

Included in Other Debtors is £15.843m due within one year, which relates to the sale of property.

The advances due after one year relate to relocation loans made to staff.

15(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2005-06 £000	2004-05 £000	2005-06 £000	2004-05 £000
Balances with other central government bodies	103,575	62,721	195	–
Balances with local authorities	3,028	33,229	–	–
Balance with public corporations and trading funds	–	77	–	–
Balance with bodies external to government	405,794	59,814	1,759	22,922
	512,397	155,841	1,954	22,922

16. Cash at bank and in hand

	2005-06 Core		2004-05 Core	
	Department £000	Consolidated £000	Department £000	Consolidated £000
Balance at 1 April	33,223	57,828	1,531,064	1,556,042
Net change in cash balances	1,230	38,988	(1,497,841)	(1,498,214)
Balance at 31 March	34,453	96,816	33,223	57,828
The following balances at 31 March were held at:				
Office of HM Paymaster General	34,374	87,577	33,193	56,273
Commercial banks and cash in hand	79	9,239	30	1,555
Balance at 31 March	34,453	96,816	33,223	57,828

The balances of cash at bank and in hand include £10.904m (2004-05 £4.789m) held by the Department and its agencies on behalf of third parties. This amount is also disclosed as a creditor.

17. Creditors

17 (a) Analysis by Type

	2005-06		2004-05	
	Core		Core	
	Department	Consolidated	Department	Consolidated
	£000	£000	£000	£000
Amounts falling due within one year				
Other taxation and social security	5,464	20,613	3,671	12,881
Trade Creditors	8,051	11,980	26	38
Other Creditors	27,751	73,208	77,929	82,862
Accruals and deferred income	82,629	184,261	40,928	101,651
Creditor for capital value of PFI contracts	–	6,329	–	2,224
Obligations under finance leases	(2)	12	(1)	173
Amounts due to the National Loans Fund				
Interest payable	10,984	10,984	11,058	11,058
Capital	35,138	35,138	10,146	10,146
Amounts issued from the Consolidated Fund for				
Supply but not spent	–	–	30,300	30,300
Consolidated Fund extra receipts due to be				
paid to the Consolidated Fund				
Received	23,034	23,034	18,311	18,387
Receivable	494	494	43,800	43,800
Amounts due to the Consolidated Fund for excess				
appropriation in aid				
Machinery of Government changes	–	–	690	690
Impositions surrenderable once received	351,038	351,038	–	–
Intradepartmental creditors	447,150	–	–	–
	<u>1,003,901</u>	<u>729,261</u>	<u>240,520</u>	<u>317,872</u>
Third party monies	947	10,904	945	4,789
	<u>1,004,848</u>	<u>740,165</u>	<u>241,465</u>	<u>322,661</u>
Amounts falling due after more than one year:				
Accruals and deferred income	4,538	16,050	(181)	3,812
Obligations under finance leases	–	136	–	290
Control value of PFI contract	–	161,279	–	55,337
Amounts payable to the National Loans Fund	821,868	821,868	857,006	857,006
	<u>826,406</u>	<u>999,333</u>	<u>856,825</u>	<u>916,445</u>

17 (b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2005-06	2004-05	2005-06	2004-05
	£000	£000	£000	£000
Balances with other central government bodies	529,812	176,265	821,868	857,006
Balances with local authorities	(1,232)	34,239	8,500	-
Balances with public corporations and trading funds	-	-	-	-
Balance with bodies external to government	211,585	112,157	168,965	59,439
	740,165	322,661	999,333	916,445

18. Provisions for liabilities and charges

Core Department	Judicial Long Service Award	Early Departure Costs	By-analogy pension scheme	Other provisions	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2005	-	10,357	3,746	8,637	22,740
Transferred to HMCS	-	-	(2,433)	(2,032)	(4,465)
Provided in year	71,700	695	163	350	72,908
Unwinding of discount	-	61	-	-	61
Utilised in the year	-	(6,045)	(164)	(5,106)	(11,315)
Balance at 31 March 2006	71,700	5,068	1,312	1,849	79,929

Consolidated	Provision for Pension Transfer Deficit	Judicial Long Service Award	Early Departure Costs	By-analogy pension scheme	Other provisions	Total
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2005	-	-	11,044	3,746	10,704	25,494
Court Service	-	-	(528)	-	(1,413)	(1,941)
On creation of HMCS	268,000	-	88,472	2,433	4,249	363,154
Transfer from Core Department	-	-	-	(2,433)	(2,032)	(4,465)
	268,000	-	98,988	3,746	11,508	382,242
Provided in year	-	71,700	21	284	2,868	74,873
Unwinding of discount	-	-	5,339	-	-	5,339
Utilised in the year	(25,000)	-	(10,949)	(269)	(6,126)	(42,344)
Balance at 31 March 2006	243,000	71,700	93,399	3,761	8,250	420,110

Provision for Pension Transfer Deficit: Staff who are ex-employees of the former Magistrates' Courts Committees were given the option to transfer their past service credits accrued in the LGPS (Local Government Pension Scheme) into the Principal Civil Service Pension Scheme (PCSPS). Due to the under funding within the LGPS, it was not possible to obtain fully funded transfers of accrued benefits and agreement was reached for the Department to pay for the shortfall assessed on 1 April 2005.

The transfers from the 42 LGPSs are currently in progress. The potential shortfall relating to the transfers cannot be ascertained in detail until this exercise is complete and the LGPSs have responded with the calculated share of fund assets. The Government Actuary's Department (GAD) has provided an estimate of the potential liability based on a sample of data collated from a number of the LGPS.

Based on this assessment, a provision has been made in the accounts for £243 million as at 31 March 2006. This reflects the mid point of the estimated range within which the deficit is likely to fall as indicated by GAD and includes an allowance for interest due to the PCSPS on the amount payable. To date a payment of £25 million has been made to the PCSPS against the overall potential deficit.

Judicial Long Service Award: The Judiciary Long-Service Award was created to equalise the tax position of judicial pensions affected by the provisions of the Finance Act 2004. The scheme comes into force in April 2006. A Provision has been created in the 2005/06 Balance Sheet to reflect the benefits already accrued under the scheme at its inception. The Provision was calculated by the Government Actuary's Department (GAD) taking into account the number of reckonable years served by the existing judiciary and an estimate of the projected final salaries of existing members. The result was discounted to present value using the rate set by HM Treasury (2.2%).

Early Departure Costs: Provision has been made for the costs of providing for unfunded early retirement benefits in respect of staff who are ex-Magistrates' Courts Committees employees previously paid and accounted for by local authorities. The provision represents the present value of the costs of the pension benefit payable to staff on Crombie and on local government early retirement terms. The provision at the year end was £87.9 million.

Also included in early departure costs is a provision for unfunded early retirement costs in respect of staff who are ex-DCA employees in the Civil Service Pension.

By-analogy pension provision: This relates to two small pension schemes that the Department operates for the Law Commissioners and the Immigration Adjudicators which are 'by analogy' or similar to the PCSPS.

Other provisions: These relate primarily to instances where judges may determine that the Department should cover court costs.

19. General Fund

	2005-06		2004-05	
	Core		Core	
	Department	Consolidated	Department	Consolidated
	£000	£000	£000	£000
General fund at 1 April	(79,676)	911,181	(17,032)	995,660
Court Service	-	(983,199)	-	-
On creation of HMCS	-	1,983,579	-	-
Transfer of functions to Core Department	-	45,559	-	-
Other transfers	-	(961)	-	-
	-	1,956,159	-	-
Net Parliamentary funding:				
drawn down	34,879,053	34,879,053	32,164,923	32,164,923
deemed supply	30,300	30,300	-	-
Consolidated Fund Standing Services				
Judicial salaries paid from the Consolidated Fund	289	126,277	12,778	121,247
Election expenses paid from the Consolidated Fund	71,000	71,000	54,030	54,030
Payable to the Consolidated Fund:				
Consolidated Fund debtor/(creditor) for cash unspent	3,446	3,446	(30,300)	(30,300)
Excess appropriations in aid	(8,509)	(8,509)	(3,662)	(3,662)
Net transfer from Operating Activities:				
Net operating cost for the year	(34,263,729)	(35,278,906)	(31,903,275)	(32,472,958)
Income not appropriated in aid payable to the Consolidated Fund	(1,324)	(1,324)	(2,379)	(2,577)
Transfer funding to other operating units	(1,118,319)	-	(275,201)	-
Non-Cash Charges:				
Cost of capital charge	(9,922)	61,082	2,068	61,522
External auditors' remuneration and expenses	324	832	278	585
Corporate overhead charge	(104,525)	-	(87,381)	-
Transfer to parent	-	-	(481)	-
Notional rent	-	2,301	-	1,962
Fixed Asset adjustment in respect of prior periods	(23)	(27)	2	1,931
Transferred to general fund in respect of realised element of revaluation reserve	69	5,038	5,956	18,818
Transfer of net assets	45,559	-	-	-
General fund at 31 March	<u>(555,987)</u>	<u>1,846,722</u>	<u>(79,676)</u>	<u>911,181</u>

20. Revaluation Reserve

	2005-06		2004-05	
	Core		Core	
	Department	Consolidated	Department	Consolidated
	£000	£000	£000	£000
Balance at 1 April	3,378	757,491	7,701	719,473
Court Service	-	(753,731)	-	-
		3,760		
Arising on Revaluation during the year (net)	1,777	298,780	1,633	56,836
Transferred to general fund in respect of realised element of revaluation reserve	(69)	(5,038)	(5,956)	(18,818)
Balance at 31 March	5,086	297,502	3,378	757,491

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

21. Notes to the Consolidated Cash Flow Statement

21(a) Reconciliation of operating cost to operating cash flows

	2005-06	2004-05
	£000	£000
Net operating cost	35,278,906	32,472,958
Adjustment for non cash transactions	(452,986)	(328,554)
Increase/(Decrease)in debtors	335,588	(48,202)
Less movement in debtors relating to items not passing through the Operating Cost Statement	26,849	57,385
(Increase)/Decrease in creditors	(500,392)	1,495,230
Less movement in creditors relating to items not passing through the Operating Cost Statement	104,604	(1,578,085)
Use of provisions	42,344	22,380
Net cash outflow/(inflow) from operating activities	34,834,913	32,093,112

21(b) Analysis of capital expenditure and financial investment

	2005-06	2004-05
	£000	£000
Purchase of tangible fixed assets	100,321	75,529
Proceeds of disposal of fixed assets	(39,758)	(41,862)
Loan repayments from other bodies	(10,146)	(120,790)
Net cash outflow from investing activities	50,417	(87,123)

21(c) Analysis of capital expenditure and financial investment by Request for Resources

	Capital expenditure	Loans	A in A	Net Total
	£000	£000	£000	£000
Request for Resources 1	100,090	–	(39,758)	60,332
Request for Resources 2	64	(10,106)	–	(10,042)
Request for Resources 3	167	(40)	–	127
Net movement in debtors /creditors	17,988	–	3,991	21,979
Total 2005-06	118,309	(10,146)	(35,767)	72,396
Total 2004-05	144,707	(100,366)	(41,862)	2,479

21(d) Analysis of financing

	2005-06	2004-05
	£000	£000
Received from the Consolidated Fund (Supply) – current year	34,879,053	32,164,923
Received from the Consolidated Fund (Supply) – prior year	–	19,022
National Loans Fund – principal repayments received	(10,146)	(120,790)
Cash introduced on creation of HMCS	53,466	–
Capital element of payments in respect of finance leases and on balance sheet PFI contracts	(7,562)	(1,766)
Net Financing	34,914,811	32,061,389

21(e) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	2005-06	2004-05
	£000	£000
Net cash requirement	(34,912,800)	(32,134,623)
From the Consolidated Fund (Supply) – current year	34,914,811	32,061,389
Amounts due to the Consolidated Fund received in year not paid over		
- surplus Appropriation in Aid	8,509	3,662
- CFERs	22,555	18,387
Amounts due to the Consolidated Fund received in prior year paid over		
- surplus Appropriation in Aid	(2)	(1,465,242)
- CFERs	(17,908)	(79,836)
Amounts due to Other Government Departments received in prior year paid over		(24,081)
NLF loans – principal payments received	10,146	120,790
NLF loans – interest received from other bodies	58,215	189,461
NLF loans – interest paid to the NLF	(58,215)	(189,461)
Increase/(Decrease) in third party balances	6,115	(424)
Repayment of capital element of finance lease	7,562	1,766
Prior year adjustment	–	(2)
Increase/(Decrease) in cash	38,988	(1,498,214)

22. Notes to the Consolidated Statement of Operating Costs by Departmental aims and Objectives

Apportionment of overheads is by way of staff numbers and space utilised. Allocation by objective takes established management reports, considered management assumptions and then maps these to a full cost model. Smaller cost centres are apportioned through management review and reviews by central Finance Divisions.

The bulk of the Department's net assets are employed by HMCS in pursuit of objectives one and two. The capital charge in respect of these assets has therefore been apportioned across these objectives.

Programme grants and other current expenditure, as reported in Note 10, have been allocated as follows:

	<u>2005-06</u>	<u>2004-05</u>
	<u>£000</u>	<u>£000</u>
Request for Resources 1		
Objective 1	2,637,865	2,026,392
Objective 2	507,153	432,726
Objective 3	73,553	69,411
Objective 4	140,055	78,109
Request for Resources 2		
Objective 2	20,866,266	19,068,236
Request for Resources 3		
Grant	10,630,516	9,873,510
Net Programme Costs	<u>34,855,408</u>	<u>31,548,384</u>

23. Resources by departmental aim and objectives

The DCA revised its objectives during 2005-06. The table below shows both the current and prior year costs against the former objectives.

Request for Resources 1

Aim: The aim of the Core Department is to ensure effective and accessible justice, protect the rights of citizens, and modernise the law and constitution.

	2005-06			2004-05		
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
Objectives						
1. To ensure the effective delivery of justice.	2,569,307	(68,525)	2,500,782	2,247,651	(64,431)	2,183,220
2. To ensure a fair and effective system of civil and administrative law.	915,205	(409,982)	505,223	847,080	(305,201)	541,879
3. To reduce social exclusion, protect the vulnerable and children, including maintaining contact between children and the non-resident parent after a family breakdown, where appropriate.	712,162	(88,565)	623,597	756,404	(86,262)	670,142
4. To modernise the constitution and ensure proper access to information by citizens.	105,114	(348)	104,766	100,250	(9,661)	90,589
5. To increase consumer choice in legal services by improving information and by promoting competition	11,400	(110)	11,290	10,385	(717)	9,668
6. To deliver justice in partnership with the independent judiciary.	27,128	(421)	26,707	26,728	(400)	26,328
	<u>4,340,316</u>	<u>(567,951)</u>	<u>3,772,365</u>	<u>3,988,498</u>	<u>(466,672)</u>	<u>3,521,826</u>

24. Capital Commitments

	2005-06		2004-05	
	Core		Core	
	Department	Consolidated	Department	Consolidated
	£000	£000	£000	£000
Contracted capital commitments at 31 March 2006, for which no provision has been made	–	62,778	–	47,300

25. Commitments under leases

25.1 Operating leases

At 31 March 2006 the Department was committed to making payments during the year in respect of operating leases expiring within the following periods:

	2005-06		2004-05	
	Core		Core	
	Department	Consolidated	Department	Consolidated
	£000	£000	£000	£000
Obligations under operating leases comprise:				
Land and buildings:				
Expiry within one year	–	2,555	2,636	5,010
Expiry after one year but not more than five years	5,009	11,198	3,691	8,650
Expiry thereafter	22,146	45,772	20,302	46,370
	<u>27,155</u>	<u>59,525</u>	<u>26,629</u>	<u>60,030</u>
Other:				
Expiry within one year	1,154	1,316	1	78
Expiry after one year but not more than five	1,256	1,614	67	269
Expiry thereafter	16	17	–	42
	<u>2,426</u>	<u>2,947</u>	<u>68</u>	<u>389</u>

25.2 Finance leases

At 31 March 2006 the Department was committed to making payments during the year in respect of finance leases expiring within the following periods:

	2005-06		2004-05	
	Core		Core	
	Department	Consolidated	Department	Consolidated
	£000	£000	£000	£000
Obligations under finance leases are as follows:				
Rentals due within one year	–	43	–	207
Rentals due after one year but within five years	–	136	–	290
	–	–	–	–
	–	179	–	497
Less interest element	–	27	–	34
	–	<u>152</u>	–	<u>463</u>

The Department has entered into 12 private finance initiative arrangements. A summary of each contract is set out below.

Libra

The PFI contract with Fujitsu Services is for the provision of office automation (OA) and IT infrastructure services to the magistrates' courts (called the Libra OA infrastructure). The contract came into effect in December 1998 but was renegotiated in July 2002. Under this re-negotiation the contract term was shortened to March 2007 to enable the Department to align the contract with its replacement contract strategy called DISC. At the time of re-negotiation the forecast contract value was £232m which included a capital value of £37.55m. Since 2002 the Department has implemented enhancements to the services bringing the current forecast contract value to March 2007 to £263.7m.

CCS (formerly LOCCS)

The CCS PFI Project with Electronic Data Systems Limited (EDS) supplies IT services. The contract was signed on 30 September 1996 and covers the provision of computer systems, software development, support and maintenance for operational systems to HMCS. The contract has been extended for a further three years to run for a total of 10 years. The majority of assets used in the provision of this contract are deemed to be on balance sheet under FRS5. Some assets have also been provided under finance lease arrangements within the contract. The capital value of the contract is currently estimated to be £39.5 million of a total contract value of £361 million. The costs have increased due to the SUPS Pilot, Link Infrastructure, continued rollout of Xhibit system, Money Claims Online and roll-out of the Possession Claims Online Service. Disclosures regarding the assets and related liabilities are made in the appropriate notes.

ARAMIS

The ARAMIS PFI Project with Liberata UK Limited provides accounting, management information and corporate IT services to HMCS and DCA Headquarters. The nine-year contract commenced in January 1998 and expires on 7 January 2007. The majority of assets underlying the services provided are deemed to be off balance sheet under FRS 5. IT assets relating to the provision of the estate management system are included in the balance sheet at a cost of £239,000. The capital value of the contract is currently estimated to be £39.5 million, of a total expected contract value of £217 million. At the start of the contract some IT assets owned by the HMCS transferred to Liberata. This created an initial prepayment of £225,000, which is amortised over the life of the project.

Probate Records Scheme

The Probate Records Scheme with Iron Mountain Europe Limited provides storage and retrieval services. This contract was signed on 27 July 1999 for a period of 25 years. The assets underlying the services provided are deemed to be off balance sheet under FRS 5. The capital value of the contract is estimated to be £10.9 million of a total expected contract value of £56 million. The contract has been operational since January 2002.

Exeter

The Exeter PFI Project with Enterprise Civic Buildings Limited provides a new courthouse comprising four criminal courts, one civil court and four District Judges Hearing rooms. Accommodation for the Probate Registry and for the Area Director is also included. The contract was signed in November 2002 and runs for 30 years from completion of the building. The scheme has been assessed as being on balance sheet under FRS 5. At the inception of the contract, the arrangement had a capital value of £20.1 million. The building was operational on 15 November 2004 when the first court session took place. At the end of the PFI term the building will revert to the Department at no cost.

East Anglia

The East Anglia PFI Project with Modern Courts East Anglia Limited provides new Crown Court centres in Ipswich and Cambridge required to replace poor existing accommodation. Ipswich Crown Court consists of five criminal courtrooms; Cambridge Crown Court consists of three criminal courtrooms. The contract was signed on 31 October 2002 and has a term of 25 years from completion of the buildings. The scheme has been assessed as on balance sheet under FRS 5. At the inception of the contract, the arrangement had a capital value of £34.5 million. Both sites became fully operational on 7 June 2004. At the end of the PFI term the buildings in Ipswich and Cambridge will revert to the Department at no cost.

Sheffield

The Sheffield PFI Project with Palecastle Limited provides a new Family Hearing Centre in Sheffield to enable the court to deal with increasing workload levels and provide more appropriate facilities for family hearings. The new hearing centre consists of two family courtrooms, two hearing rooms and a training room, which is capable of being converted into one large, or two small hearing rooms. The contract was signed on 21 November 2002 and has a term of 25 years from completion of the building. The scheme has been assessed as on balance sheet under FRS 5. At the inception of the contract, the arrangement had a capital value of £7.7 million. The new centre became operational on 15 June 2004, and court sittings commenced on 5 July 2004. At the end of the PFI term the Department has the option of acquiring the underlease at the lower of its open market value, or £2 million.

Derbyshire

The Derbyshire Magistrates Court PFI Project with Derbyshire Courts Limited provides serviced accommodation for Magistrates' courts in Derbyshire. This involves the replacement of all Magistrates' Courts premises in Derbyshire with the exception of Ilkeston, which is to be refurbished. The Courts will be replaced with the new serviced accommodation for Magistrates' Courts at New Mills, Chesterfield and Derby. The scheme has been assessed as on balance sheet under FRS 5. As at 31 March 2006 the arrangement had a capital value of £29.5 million. Construction works started in August 2001 and site was completed and opened for use at Derby in May 2003 and Chesterfield in July 2003. No construction at New Mills has taken place to date due to planning permission issues.

Hereford and Worcester

The Hereford and Worcester PFI Project provides serviced accommodation for Magistrates' Courts. Existing Magistrates' Courts were replaced at Bromsgrove, Kidderminster and Worcester. Redditch was a refurbishment of the existing court. The 25 year concession commenced on 28 February 2000 and includes the period of construction. The scheme has been assessed as on balance sheet under FRS 5. At the inception of the contract, the arrangement had a capital value of £30.6 million. The length of this PFI contract can be extended for another 10 years by giving notice at least twelve months before the date on which the contract would otherwise expire. The Magistrates' Courts opened for business in October 2001.

Manchester

The Manchester PFI project with UK Courts Services (Manchester) provides for serviced accommodation in Crown Square, Manchester. The arrangement will provide an 18-courtroom courthouse in Manchester as part of an overall complex including retail units and coroner's court. The 25-year contract commenced on 29 March 2001 and excludes the period of construction. The scheme has been assessed as on balance sheet under FRS 5. At the inception of the contract, the arrangement had a capital value of £32.9 million. The Magistrates' Court opened for business in May 2004.

Humberside

The Humberside Magistrates' Courts PFI Project with Modern Courts (Humberside) Limited provides for serviced magistrates' courthouses in Hull; Beverley and Bridlington. The 25 year concession commenced on 31 March 2000. The scheme has been assessed as on balance sheet under FRS 5. At the inception of the contract, the arrangement had a capital value of £21.6 million. The length of this PFI contract can be extended for another 20 years subject to the mutual consent of the parties. On expiry, HMCS has the option of taking the assets back for a nominal amount of £3 million. The Magistrates' Courts opened for business in November 2001.

Avon and Somerset

The Avon and Somerset Magistrates' Court PFI Project is for the provision of serviced accommodation for Magistrates' Courts and offices in Bristol, Weston-Super-Mare and Flax Burton. This includes an 11 courtroom Magistrates' courthouse, with an extra courtroom capable of use by Avon District Coroner and an integral Probation Service field office in Bristol; a 5 courtroom Magistrates' courthouse with integral Probation Service field office; and headquarters office and training accommodation in Worle, North Somerset. The scheme has been assessed as on balance sheet under FRS 5. As at 31 March 2006 the arrangement had a capital value of £9.2 million. The MCC and Probation Service Headquarters offices and Probate Service training-suite opened in November 2005. The two other sites will open in 2006-07 (Worle Magistrates' Court) and 2007-08 (Bristol Magistrates' Court).

27. Other financial commitments

Following the variation of the Libra contract with Fujitsu Services, the Department entered into contracts with the Technologies Group Ltd (STL) to provide the Libra case management application software and with Accenture UK Ltd to provide a management information system (MIS) and act as Systems Integrator.

STL

The contract with STL was let in January 2003 to provide a modernised case management software called the Libra application. STL will also produce migration software to transfer data to the new application and provide training and support.

A variation to the contract was signed in October 2003. The effect of this variation was to move the development from a Microsoft environment using Net and SQL to Java / Oracle and to move from a three phase delivery to six phases. Delays with delivery of the second phase of the application has reduced some of the charges expected to arise under the contract, the value of which is currently forecast to be £30m.

Although the contract could run for five years to January 2008 and be extended by a further three years, the Department has now consolidated all its contracts through two new suppliers under its DISC strategy and hence the STL contract may be terminated early and their responsibilities passed to the DISC Application supplier.

Accenture Ltd

Signed on 22 October 2003, the contract with Accenture is primarily for hosting (installing and supporting) the Libra application software (being developed by STL), hosting the MIS software (being developed by Accenture) and implementing a means of data exchange with other criminal justice organisations and the banks of the magistrates' courts.

Accenture are also responsible for migrating magistrates' courts off their old legacy case management systems to Libra and training the magistrates' courts staff in the use of this new software.

The contract will run for five years and the Department has the option to extend it by three. Apart from additional work commissioned from Accenture (such as work related to interfaces), delays arising from late delivery of the Libra application from STL have increased charges arising under this

contract, the value of which is currently forecast to be £69.8m. Given the Department is about to consolidate all its contracts through two new suppliers under its DISC strategy, the Accenture contract may be terminated early and their responsibilities passed to the DISC Application supplier.

28. Contingent liabilities and assets

The Department has several small works of art on loan other than from the Government Art Collection. A contingent liability is recognised in respect of any damage or loss to these items.

The Department is involved in a number of cases that have been brought before the European Court of Human Rights. Offers to encourage early settlement have already been made where it was thought sensible to do so by the Department. The final outcome and costs to the Department and the number of these cases cannot be reliably predicted at this time.

The Department is involved in seven cases before the Employment Tribunal. They involve fee paid judicial office holders claiming retrospective pension rights. It is not possible to calculate the potential liability to the Department of a negative judgement, as a precedent might be set for up to 5000 other office holders with potential claims dating back 20 years.

In a separate employment tribunal case, the Department is being sued in respect of discrimination by a judicial post holder. The aim is to settle the case for a total of no more than £0.150m excluding costs.

The Department has a legal obligation under the Administration of Justice Act 1982 to make good any default that the Accountant General or manager of the Common Investment Scheme may be guilty of, with respect to any money, securities and effects for which they are responsible. There is no known liability at present.

The Department is involved in a court case relating to dilapidation on a building that has now been vacated. The final outcome and costs to the Department cannot be reliably predicted at this time.

The Department is involved in a number of legal cases dealing largely with *ex gratia* and compensation claims. The estimated cost of settlement in these cases is £0.375m.

As detailed in Note 13 Tangible Fixed Assets, the result of the July 2005 High Court challenge has meant that the Department has not been able to gain control over a number of properties intended to come within the 31 March 2005 Property Transfer Scheme. In addition to the contingent assets, the Department faces a contingent accommodation liability for the properties it has yet to gain control of. If it is not able to effect a transfer of ownership and control of these properties it faces potential accommodation obligations to the parties who ultimately own the property rights and will control the underlying economic benefits. Based on current market rental yields, it is estimated the Department could be exposed to additional costs of up to £21m per annum.

Contingent assets

In addition to creating an accommodation contingent liability, the July 2005 High Court challenge has created a contingent property asset of approximately £527m. Note 13 Tangible Fixed Assets provides further details on this contingency and the process the Department is working through to facilitate its crystallisation.

As a result of past property sales the Department may, at a future date, be entitled to receipts from further development of these properties by developers. It is estimated that these contingent assets could entitle the Department to future income streams of up to £6 m.

29. Losses and special payments

Losses Statement

There were 6,370 (2004-05 23,575) cases involving losses totalling £6.221m (2004-05 £7.814m)

This statement includes two amounts of £0.250m. These have been written off as irrecoverable as the debtors were insolvent and there was no realistic prospect of recovery.

Special payments

There were 1,201 (2004-05 534) special payments totalling £0.652m (2004-05 £0.303m)

Fees remitted

There were 47,914 (2004-05 35,652) cases where fees were remitted. The total value was £5.990m (2004-05 £3.835m)

30. Related parties

Associated Departments and other central Government bodies

The Department for Constitutional Affairs is the parent of HMCS and the PGO and sponsor of the Legal Services Commission and the Information Commissioner's Office. All of these bodies are regarded as related parties with which the Department has had various material transactions during the year.

The Scotland Office works closely with the Scottish Executive from which most of the staff are loaned. Advice and assistance were provided by the Executive for some specialised areas where they have greater expertise, such as IT, accommodation and finance. Not all of these services were covered by Service Level Agreements during the year.

The Wales Office funds the National Assembly for Wales. The National Assembly for Wales is thus regarded as a related party with which the Wales Office has had various material transactions during the year.

In addition the Department for Constitutional Affairs has had a small number of transactions with Other Government Departments and other central Government bodies.

Private companies

Registry Trust Limited is a private company limited by guarantee with no share capital. It maintains, on behalf of the Secretary of State and Lord Chancellor, the Register of County Court Judgments. In view of its role and its relationship with the Secretary of State and Lord Chancellor, Registry Trust Limited is regarded as a related party. Income received from Registry Trust Limited in the year to 31 March 2006 amounted to £0.127m (2004-05 £0.121m) with a total debtor balance as at 31 March 2005-06 of £0.04m (2004-05 £0m).

Graduated Fees Scheme

It is the Lord Chancellor's role to authorise the rates of payment under the Graduated Fees Scheme. These rates are implemented by the Legal Services Commission, when calculating remuneration of Family Barristers involved in legally aided proceedings. The Lord Chancellor's spouse, Marianna Hildyard QC, is a Family barrister in receipt of such payments. Details of the payments made to Marianna Hildyard QC are disclosed in the related parties note in the Legal Services Commission 2005-06 Annual Report.

There have been no changes to this scheme during the 2005-06 financial year.

Salary paid in respect of Recorder fees

It is also the Lord Chancellor's role to authorise changes to the annual salaries of the Judiciary, including Recorders. The Lord Chancellor's spouse, Marianna Hildyard QC, is a Recorder in receipt of such payments. Fees paid directly to her by the Department in respect of performance of duties amounted to £6,360 (2004-05 £10,808).

Legal Aid

Legal Aid Payments have been made to Harman and Harman totalling £475,144 where Harriet Harman's sister, Sarah Harman, is a Senior Partner. Legal Aid payments have also been made to Denniss Matthews totalling £61,900 where Harriet Harman's sister, Virginia Harman, is the Head of Family Law Department. Payments totalling £126,404 have also been made to Marianna Hildyard QC for Legal Aid casework.

Legal Services

Payments have been made for Legal Services to Cripps Harries Hall LPP totalling £107,683. Harriet Harman's sister, Janet Higbee, is an employee of the company.

Information Technology Services

Payments to Electronic Data Systems Ltd (EDS) have been made for £64.6 million, primarily for the provision of I.T. services on the CCS project (formerly LOCCS) [see note 26: Commitments under PFI Contracts]. The partner of Annette Vernon, Chief Information Officer for 2005-06 and a DCA Board member from 24 November 2005, is an employee of EDS, being Regional Manager (Information Technology Outsourcing) for UK, Ireland, Middle East and Africa. He has no responsibility for, or influence over, contractual decisions affecting the DCA, but is responsible for the day to day operation of EDS systems for all clients in the geography.

Council for Licensed Conveyancers

The Council for Licensed Conveyancers (CLC) was established by the Administration of Justice Act 1985 ('the Act'). The CLC makes rules under section 38 of the Act with the concurrence of the Lord Chancellor. The Lord Chancellor is also responsible for concurring any changes in the fees imposed by the Council for Licensed Conveyancers.

31. Third party assets

The Department holds additional third party assets, over and above those monies disclosed in notes 16 and 17 of this account. It holds these through its two agencies, HMCS and the PGO, and also through an associated office, the Official Solicitor and Public Trustee (OSPT). Its current systems do not support full disclosure of third party assets but the Department is taking the necessary steps to address this.

HMCS

	31 March 2005	HMCS opening balance adjustment	Gross inflow	Outflows	31 March 2006
	£000	£000	£000	£000	£000
Third Party Monies	3,844	(3,844)	70,317	(60,360)	9,957

Court Funds Office

The Court Funds Office manages money held in court on behalf of clients who may be involved in a civil legal action; patients, under the Court of Protection, who are not able to manage their property and affairs; or children under the age of 18. These are non-agency assets and are not included in the financial accounts. The assets held at the balance sheet date comprised cash, the Index Tracker Funds and securities.

The main items, with their market value as at 28 February 2006 are:

- Cash - sterling held and invested on behalf of the Accountant General through the Commissioners for the Reduction of National Debt's Court Funds Investment Account (CRND) – £4,470m (2004-05 £4,260m).

- The Index Tracker Fund (formerly the Common Investment Fund) - administered on behalf of the Accountant General by an appointed Fund Manager. The beneficiaries have unit shares in the fund. The fund itself consists of a balanced portfolio managed by the Fund Manager in accordance with the investment strategy in force at the time - net asset value of £57.9m (2004-05 £36.300m).
- Securities – a combination of units and stock holdings held in the name of the Accountant General - market valuation of approximately £208m.

Public Guardianship Office (PGO)

The Agency holds as custodian certain assets belonging to third parties. These are not recognised in the Accounts since neither the Agency nor government more generally has a direct beneficial interest in them. The Chief Executive of the Public Guardianship Office has a duty as Receiver of Last Resort (Receiver) to account for clients' financial position in a manner which ensures accuracy and efficiency and allows for timely recording and reporting. The Chief Executive is therefore responsible for the effective stewardship of clients' assets and monies including the maintenance of proper financial control and accounting systems. The Chief Executive responsibility remains until another Receiver is appointed and assets transferred or in the event of a client's death, the client's nominated Personal Representative accepts transfer of assets to them. Once a new Receiver or Personal Representative has been appointed, the Chief Executive has custodial responsibility of assets until the actual transfer has taken place. The assets held have declined significantly during the financial year due to a reduction in the number of last resort cases being administered. This decline will continue as this activity is being progressively migrated out to external Receivers.

	31 March 2006 £000	31 March 2005 £000
Cash Balances at PGO	476	1,537
Securities	1,627	3,508

In addition to the above amounts there is also a Cash Balance of £2.899m (2004-05 £11.747m) held at the Court Funds Office which is included in their respective figures above.

Other significant assets held at the balance sheet date to which it was not practical to ascribe monetary values comprised physical assets, being of the number and asset category as listed below:

	31 March 2006	31 March 2005
Unlisted financial assets	49	198
Residential property	34	66
Other property assets	-	3
Chattels	1,194	1,064

Official Solicitor and Public Trustee

The Official Solicitor (OS) administers estates and trusts as Administrator/Trustee of Last Resort. He might be called upon to manage an estate for someone entitled to a Grant of Administration, but who is incapable of applying because of mental illness. He may also act as the administrator of the estate of a deceased person, to facilitate a claim being brought under the Inheritance Act. The OS might act as Judicial Trustee in disputes involving the trustees and/or beneficiaries about the administration of an estate. The OS also manages a number of trust funds for children.

The Public Trustee (PT) acts as Executor or Trustee where he has been appointed under a will or new settlement. The PT may also be asked to administer the estate of an individual who has died intestate. He may be asked to take over existing trust or settlement, by the existing trustees or by order of court. The PT also administers certain pension, friendly society and other institutional funds.

	31 March 2006	31 March 2005
	£000	£000
Cash and deposits		
Cash	40,541	49,268
Investments	177,732	242,648
Non Cash Assets	31,526	33,709

32. Financial Instruments

FRS 13, Derivatives and Other Financial Instruments: Disclosures, requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which Government departments are financed, the Department is not exposed to the degree of financial risk faced by business entities.

Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Department has no powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

As permitted by FRS 13, debtors and creditors that mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

The Department's net resource requirements are financed by resources voted annually by Parliament, just as its capital expenditure largely is. It is not, therefore, exposed to significant liquidity risks.

Interest rate risk

Most of the Department's cash balances carry nil or fixed rates of interest. It is not, therefore, exposed to significant interest rate risk. Balances with the National Loans Fund attract a variable rate of interest. This interest is paid over directly to the Consolidated Fund.

Foreign currency risk

Foreign currency income and expenditure are negligible.

33. Post Balance Sheet events

There have been no events since 31 March 2006 that would have a material effect on these accounts.

Published by TSO (The Stationery Office) and available from:

Online

www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries 0870 600 5522

Fax orders 0870 600 5533

Order through the Parliamentary Hotline Lo-call 0845 7 023474

E-mail book.orders@tso.co.uk

Textphone 0870 240 3701

TSO Shops

123 Kingsway, London WC2B 6PQ

020 7242 6393 Fax 020 7242 6394

68-69 Bull Street, Birmingham B4 6AD

0121 236 9696 Fax 0121 236 9699

9-21 Princess Street, Manchester M60 8AS

0161 834 7201 Fax 0161 833 0634

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

18-19 High Street, Cardiff CF10 1PT

029 2039 5548 Fax 029 2038 4347

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders 020 7219 3866

TSO Accredited Agents

(see Yellow Pages)

and through good booksellers

ISBN 0-10-293650-1



9 780102 936506