



HER MAJESTY'S
COURTS SERVICE
hmcs

Her Majesty's Courts Service

Trust Statement 2010–11



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Her Majesty's Courts Service was an Executive Agency of the Ministry of Justice.

Trust Statement presented to Parliament pursuant to section 7(2) of the
Government Resources and Accounts Act 2000

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Foreword

Background

Legislative requirements

This is the first Trust Statement for Her Majesty's Courts Service (HMCS)¹ following a new requirement from HM Treasury, introduced under section 7 of the Government Resources and Accounts Act 2000. The overall scope and form of the accounts are determined by Treasury direction.² The Statement is part of HM Treasury's Alignment (Clear Line of Sight) Project which seeks to simplify Government's financial reporting to Parliament and ensure that reporting is more consistent, transparent and straightforward.

Purpose of accounts

The Trust Statement provides an account of the collection of revenues, which by statute or convention are due to the Consolidated Fund³ and where the entity undertaking the collection is consequently acting as agent rather than principal.

HMCS acts as an agent responsible for collecting financial penalties imposed by the judiciary and the police. These impositions comprise fines (including court-imposed fines, overdue fixed penalties registered as fines, prosecutors' costs and compensation to victims imposed by the magistrates' and Crown Court), fixed penalty notices and confiscation orders.

Previous reporting arrangements

Since the creation of Her Majesty's Courts Service (HMCS) on 1 April 2005, the Departmental Resource Accounts, which included HMCS, have shown the amounts outstanding from various kinds of court impositions. This was disclosed in the former Department for Constitutional Affairs (DCA) Resource Accounts in 2005–06 and 2006–07, and the Ministry of Justice (MoJ) Resource Accounts from 2007–08 to 2009–10. Outstanding impositions were detailed within an Accounts Receivable note showing the brought forward receivables balance, impositions raised and collected in the year and the provision for uncollectable impositions. This balance was matched by an equal creditor for 'Impositions payable when received' representing the balance owed to third parties, including the HM Treasury Consolidated Fund.

With the introduction of the Trust Statement, the debtor and associated creditor for outstanding impositions are no longer included in the MoJ resource accounts, instead forming part of the Trust Statement. In addition, the Trust Statement records Income and Expenditure relating to these impositions, the third party bodies to which the funds are disbursed and the year-end balance owed to the Consolidated Fund. Furthermore, for the first time, Fixed Penalty Notice debt is included and Victims' Surcharge debt is disclosed separately from Fines.

¹ HMCS merged with the Tribunals Service on 1 April 2011 to form HM Courts & Tribunals Service (HMCTS). Where this Trust Statement makes reference to the continuing work of HMCS this will be taken forward by the merged organisation.

² FReM Chapter 13 and Treasury Accounts Direction Annex E to DAO (GEN) 02/10.

³ The Consolidated Fund is the central account administered by HM Treasury which receives government revenues and makes issues to fund expenditure by government Departments.

The Trust Statement accounts do not include the costs of running HMCS, which are reported separately in the HMCS Annual Report & Accounts 2010–11 (HC1281), which also sets out the general direction and priorities for the agency, detail of its management and the Chief Executive’s report.

Overall financial position

From the perspective of the activities affecting the figures reported in the Trust Statement, although acknowledging there is still scope for improvement, I am encouraged to be able to report a £25.4 million (5%) increase in the collection of impositions and a 7% increase (up from 86% to 93%) in the overall fine payment rate during 2010–11 compared with 2009–10 (see Financial Review below for further details).

Scope

The structure of the Trust Statement is inherently simple, reflecting the cash flows associated with the imposition and collection of fines, confiscation orders and fixed penalty notices. However the Statement also reflects the complex inter-dependencies between HMCS and a number of other departments and agencies involved in the enforcement process, including the Home Office (HO) and Crown Prosecution Service (CPS).

The Trust Statement reflects income from fines and penalties, expenditure in the form of costs of collection, where there is an express statutory provision for those costs to be deducted from the revenue collected, any provision for uncollectible amounts in accordance with IAS 36 and any amounts covered by legislation which allows the revenue collected to be retained by the entity.

HMCS collects a number of different types of imposition, which are described below:

Fines, prosecutors’ costs and compensation orders – These items are imposed by both magistrates’ and Crown court but are enforced by magistrates’ courts. Fines monies collected by HMCS are surrendered to the Consolidated Fund after costs of enforcement and collection are retained by HMCS under specified fine incentive schemes. Prosecutors’ costs and compensation order monies are passed by HMCS to either Crown or private prosecutors and the victims of the crimes committed respectively.

Confiscation Orders – Confiscation orders are imposed by the Crown Court under the Proceeds of Crime Act 2003 and are enforced by HMCS, the Crown Prosecution Service and Serious Fraud Office (SFO). Confiscation orders are inherently larger in value than other imposition items and smaller in volume. Confiscation order receipts are surrendered to the Home Office, with a portion subsequently returned to HMCS under the Asset Recovery incentive scheme.

Penalty Notices – Penalty Notices are imposed by the police and other agencies and include both Fixed Penalty Notices (FPNs) for traffic rule violations and Anti-Social Behaviour Orders (ASBOs). Notices that remain unpaid after 28 days are converted into fines and enforced as detailed above. Receipts of Penalty Notices and the associated fines are surrendered to the HM Treasury Consolidated Fund.

Victims’ Surcharge – An additional surcharge is added to fines that are imposed and are enforced as detailed above. The receipts obtained from the collection of these monies by HMCS are passed to the Justice Policy Group of the MoJ to fund victims’ services.

The HMCS Trust Statement reflects expenditure for the write off of fines and impairment of outstanding fines and confiscation orders. Subject to agreement with HM Treasury, HMCS

is also permitted to retain an element of fines collected as income through two netting-off schemes and a fine incentive scheme. The Warrant Enforcement netting off scheme permits HMCS to retain revenue equal to the Pre Courts Act 2003 cost of enforcing and collecting fines, whilst the Courts Act national roll-out netting off scheme, permits HMCS to retain an amount equal to the employment costs of the court officers appointed in compliance with the Courts Act 2003. The Fine Incentive Scheme permits HMCS to retain an amount of fines collected equating to 75% of fine receipts in excess of receipts attributable to a 75% payment rate, a measure of fine collection rates.

Magistrates' courts are responsible for the collection of fines and police forces for fixed penalty notices. The majority (85%) of confiscation orders are collected by bodies other than HMCS, including the Serious Fraud Office, Crown Prosecution Service, Department for Work and Pensions (DWP) and local authorities. Fines and ancillary receipts are remitted to the Consolidated Fund through the Trust Statement. Receipts of confiscation orders, prosecution costs and compensation orders are remitted to appropriate third parties, including government departments and the victims of crime. These remittances are reflected through the disbursements disclosed in the Statement of Revenues and Expenditure.

The role of the Trust Statement means that the 'bottom line' reflects the balance at the year-end that is due to the Consolidated Fund. The nature of the statement means that all income is offset by expenditure and disbursements to third parties. In the simplest of cases all income would be disbursed to the Consolidated Fund however in the case of the HMCS Trust Statement this value is impacted by credit losses (write offs and impairments) and disbursements to other third parties.

Challenges and issues

The Libra case management system is the principal operational tool used by staff in courts to drive the enforcement function. Although the system is dated, the information provided by Libra is fit for the day to day enforcement function and it has underpinned a significant year on year improvement in collection rates. However, as a legacy 'live' case management tool it was not designed to manipulate and report financial data in the way now required by the Trust Statement to produce retrospective resource accounts. It can provide up to date information on the status of all outstanding court impositions. The Vehicle Procedures and Fixed Penalty Office (VP/FPO) system on which Fixed Penalty Notices are recorded is also set up in this way.

These limitations in functionality significantly impact upon HMCS's ability to meet the reporting requirements of the Trust Statement although the system is fit for operational purposes. Consequently the Comptroller and Auditor General has provided a disclaimer with his certificate (see pages 19 – 20). This should be read in conjunction with the C&AG's accompanying report (see pages 21 - 24) and the Statement of Internal Control.

On receipt of cash from fines, HMCTS uses the Libra system to record the receipt against a specific account for the person on whom the fine or penalty was imposed. A similar system operates at HMCTS' Fixed Penalty Offices, using the VP/FPO system. In both cases HMCTS operate controls, including bank reconciliations, to ensure that these cash receipts are identified and recorded appropriately. The NAO have completed audit work over these areas and have assurance that in all material respects, cash received in local bank accounts has been appropriately recorded.

Financial Review of 2010–11 Trust Statement

During 2010–11 the value of outstanding impositions increased from £1.5 billion to £1.9 billion, an increase of 27%. The reasons for this increase are outlined below.

Gross income receivable increased from £657 million to £951 million, an increase of 45%. However the collection of fines continued to improve with recovery rates increasing by 8% compared to the prior year. The table below shows the improvement in the fines payment rate since 2007–08.⁴

The table shows a decrease in the payment rate for confiscations in 2010–11 of 33% (from 56% to 22%). This decline is directly linked to the increase in the level of confiscation orders imposed in the year. Whilst the level of receipts increased by 4% to £95 million the level of impositions imposed in the same year increased by 158% from £173 million to £446 million, this included two impositions in year which alone totalled £198 million.

Annual Payment Rate	2008–09	2009–10	2010–11
Court Fines			
Annual Court Fine Payment Rate*	85%	86%	93%
Confiscations			
Annual Confiscations Payment Rate*	42%	56%	22%

* The payment rate is an HMCTS Key Performance Indicator (KPI) for the monitoring of the enforcement of Orders of the Court and reflects the relationship between the value of fines collected in a year and the value of fines imposed. The monies collected may relate to fines and other financial penalties imposed in that or earlier years. This information is disclosed in the HMCTS annual report.

The cause of this increase is three-fold:

Firstly, as described above the value of confiscation orders imposed in 2010–11 is significantly greater than in previous years. Confiscation orders can be very complex, and criminals are becoming wiser to the powers of the Proceeds of the Crime Act 2003 and finding increasingly astute ways of hiding their assets or secreting them overseas. For example, of the £1.3 billion an estimated £436 million are 'hidden' assets and a further £377 million are held overseas.

The total confiscation balance outstanding of £1.3 billion includes compensation and includes two cases totalling £198 million. Of the remainder 37% (£475 million) is due to 15 cases all with outstanding values in excess of £10 million.

Secondly, all outstanding confiscation orders accrue interest at a rate of 8% per year. As a consequence of this, the outstanding interest balance has increased by £51 million during 2010/11 and accounts for 17% of the total outstanding confiscation balance at the year end. This is consistent with the prior year which saw the total interest balance accounting for 18% of the total outstanding confiscation order balance.

Finally, the increase in the value of the outstanding debt is due to the statutory requirement which precludes HMCS from being able to write off any outstanding confiscation orders. This is not the case for other fines and penalties, although the policy is consistent with the principle of administering justice and ensuring that every effort is being made to collect outstanding debts prior to them being written off, and debts only being written off in those

⁴ Note that the payment rate figures have not been subject to audit.

circumstances where there is no possibility of the debt being recouped, i.e. as a result of imprisonment or the death of the individual. This statutory requirement results in the value of outstanding aged debt inevitably increasing on an annual basis.

Within the financial statements the outstanding debt balance has been presented as split between 'active' and 'inactive' debt (see note 4). The active debt includes all outstanding confiscation order balances less than 3 years in arrears and 18 months in arrears in the case of all other fines and penalties. This debt is being actively pursued using all means at the disposal of HMCS. Confiscation orders are recognised as taking longer to collect because of the frequency of assets being overseas and therefore more difficult to identify and collect. At the year end the gross value of active debt was £932 million.

The remaining, inactive, debt totals £937 million and represents confiscation orders and fines that are more than 3 years or 18 months in arrears respectively. This debt continues to be monitored and enforced by HMCS but is recognised as being more difficult to collect because of a variety of factors, including the location of the individuals and the assets.

The total net book value ('NBV') of the receivables balance of £457 million disclosed in the Statement of Financial Position increased by 4% from £438 million in 2009–10. The NBV represents the value of the outstanding debt which, following assessment of the outstanding balance, HMCS consider to be assured income. Whilst there has been a significant increase in the value of the impositions in 2010–11 the NBV remains relatively stable as a result of £274 million of debt becoming sufficiently aged to be reclassified into inactive debt, write offs in the year totalling £51 million and an increase in the impairment of the remaining debt of £110 million.

Each class of debt has been assessed separately to determine the appropriate level of impairment at the year end. In some cases, such as compensation and prosecutors' costs this has resulted in a reduction in the value of the impairment. The total increase of £110 million is predominately as a result of an increase in the impairment of fines and confiscation orders, again representing an increased aging of the debt. An assessment of individual confiscation orders with outstanding values in excess of £7 million has also identified that there are a number of assets that are either located overseas or 'hidden' (i.e. yet to be located). These have been assessed based on their anticipated collectability and the impairment adjusted as appropriate.

The increase in the expenditure (credit losses, i.e. write offs and increase in the value of impairment, and revenue retained under statute by HMCTS – see notes 2 and 3) balance in the year from £286 million to £526 million is also linked to the increase in the value of confiscation orders and the resulting increase in the year end impairment value. The prudent impairment method adopted which involved the assessment of individual cases resulted in those assets that are uncertain in terms of their collectability being appropriately impaired. HMCS and the other lead enforcement agencies are continuing work to enforce and collect these orders.

The total income and expenditure balances have resulted in a stable net revenue position of £113 million payable to the Consolidated Fund.

Future developments

As part of the planning for the integration of HMCS and the Tribunals Service (TS) with effect from 1 April 2011, all the enforcement and collection activity across the new Agency, which was previously managed and directed regionally in HMCS, has been brought together under a single national directorate. This new streamlined structure is now in place

and we are confident that this will bring further improvements in collection achievement and collection rates.

In relation to Confiscation Orders, there are a number of initiatives either now in place or in the process of being implemented, these include:

- Enforcement processes are being reviewed in order to enable active enforcement to commence earlier;
- We are already at the early stages of implementing civil enforcement which will enable HMCTS to apply for Charging Orders against the Defendant's property at the Regional Collection Units;
- From the 3 October 2011, legislation was approved to allow Prosecution Agencies to make an Ancillary Order which will allow them the power to interrogate Defendants as to the location of any hidden assets covered by the order; and
- Further enhancements to the Joint Asset Recovery Database (JARD), which is the cross government agency database used to track asset recovery orders to enable increased identification of assets that may be realised.

The Criminal Compliance Enforcement Blueprint is expected to continue to bring improvements to enforcement rates. Already in the first quarter of 2011–12 there were 12,344 (8%) fewer distress warrants issued to the approved enforcement agencies than in the equivalent quarter in 2008–09, which predated the introduction of the Blueprint.

Finally we developed new fine enforcement performance indicators and reports which we believe will provide management with more timely and relevant information on collection achievement and related issues and trends and enable the re-focussing of resources accordingly in the light of the trends revealed. These reports have been tested and were rolled out throughout the business during the early months of 2011/12.

Enforcement Initiatives

Cross Government Work

We continued to strengthen our links with those agencies and other government bodies who pursue recovery of debts for which they have responsibility, but which are reflected in total in this HMCS Trust Statement. As the table below illustrates, the Crown Prosecution Service and the Serious Fraud Office are pursuing the vast majority by value (83%) of the total £1,257 million outstanding in Confiscation Orders (including interest).

Government Body	Outstanding confiscation orders (value) £000 ^φ	Outstanding interest balance £000	Percentage of total debt outstanding (%)	Number of outstanding balances	Percentage of outstanding orders (%)
Crown Prosecution Service	794,825	160,942	76	3,039	18
HMCS	157,649	36,389	16	13,345	80
Serious Fraud Office	78,955	11,353	7	43	0
Other*	16,211	1,124	1	350	2
Total	1,047,640	209,806	100	16,777	100

* Primarily DWP and local authorities.

^φ Outstanding confiscation order value includes compensation balances which has been disaggregated in Note 4. The compensation balance in Note 4 includes compensation associated with both fines and confiscation orders.

Organisational Structure Changes

Centralisation in various forms across the regions has successfully reduced the cost of the enforcement function and has been a major factor in refocusing enforcement activity towards up-front compliance actions. Restructuring continued in 2010–11 and at the end of the year the following structure changes were in place.

- London centralised all compliance and enforcement functions into one unit, the London Compliance and Collection Centre;
- the South East region centralised to three enforcement, three compliance and three warrant offices for the whole region – rather than the ten of each they had previously;
- Wales centralised the whole region and now have four offices carrying out specific functions for the region;
- the North East region set up a centralised payment centre;
- the South West region centralised functions in one half of the region;
- the North West region has started to combine functions by merging two areas and reducing the number of individual offices within Greater Manchester; and
- the Midlands region reduced offices within areas and is sharing resources across areas.

These changes have enabled regions to create standardised ways of working and to streamline functions, to ensure defaulters are targeted by the most appropriate methods early in the process, resulting in more up front action and improved collection.

Payment Blitzes

As in 2009–10, in conjunction with the police and other agencies, we implemented targeted “Operation Crackdown blitzes” on specific groups of defaulters – as an example, during November 2010 9,701 warrants were executed and 71 defaulters imprisoned. We have also made increased use of sanctions such as deductions from benefits and attachment of earnings.

Criminal Compliance and Enforcement Services Blueprint

In 2009–10 the Criminal Compliance and Enforcement Services Blueprint was introduced by HMCS which resulted in the implementation of new principles for the enforcement and collection of impositions. These principles focus on directing resources to ‘up front’ compliance actions rather than ‘back end’ enforcement actions, including the warrant issue. Upfront initiatives include:

- Increased use of telephone and text messaging chasing;
- The use of intelligence tracing tools; and
- The use of sanctions such as deductions from benefits and attachment of earnings which better guarantee the payment of the imposition.

Enhanced access to the Department for Work and Pensions database, which was rolled out in 2009, has helped in the identification of offenders who are suitable for deduction from benefit orders (DBOs) and attachment of earnings (AOEs) orders resulting in an increase in DBOs of 33,591 (5%) and AEOs of 4,575 (9%) in 2010–11 compared to the prior year and 107% and 45% respectively compared to 2008–09.

Basis for the Preparation of the Trust Statement

The HM Treasury accounts direction, issued under Section 7(2) of the Government Resources and Accounts Act 2000, requires HMCS to prepare the Trust Statement to give a true and fair view of the state of affairs relating to the collection and allocations of fines, penalties, costs awarded by the courts, compensation and confiscation orders ordered by the courts and the revenue income and expenditure and cash flows for the financial year. Regard shall be made to all relevant accounting and disclosure requirements given in *Managing Public Money* and other guidance issued by HM Treasury and the principles underlying International Financial Reporting Standards (IFRS).

HMCS has worked closely with HM Treasury to ensure that the accounting policies that underpin these accounts are comprehensive, appropriate, and supported to a sufficient level of detail by reports from the business systems.

Selection of Appropriate Accounting Policies for the Trust Statement and Use of Judgements and Estimates

As Accounting Officer, it is my responsibility to apply suitable accounting policies in the preparation of the Trust Statement. The underlying approach to accruals measurement is that revenues from fines and penalties are deemed to accrue at the point at which the imposition is imposed. Revenues are recognised in the period in which the event that generates the revenue occurs.

We have used estimates in order to split the year end debtor balance into active and in-active debt and to calculate the impairment of the active outstanding debt balance. In preparing our estimates we have to take account of areas of uncertainty around those factors which determine future revenue flows. We therefore have to make judgments concerning some of these factors and we have procedures in place to do this. These calculations have been undertaken for each income stream and take into account previously set impairment thresholds, historical collections data and, for items with a value in excess of £7 million, have been assessed on an individual basis. However, because of the areas of uncertainty involved, there will inevitably be differences between our forecasts and future outturns. These differences arise because of the need to make judgments on areas of uncertainty and are not considered to be indicative of deficiencies in our procedures.

The accuracy of the estimates included in the Trust Statement will be reviewed and updated as more data becomes available. From 2011–12 new reports monitoring collections will provide additional data which can be used to further inform these calculations.

Auditors

The Trust Statement is audited by the Comptroller and Auditor General under Section 7(4) of the Government Resources and Accounting Act 2000. The C&AG's fee for the audit of the 2010–11 Trust Statement is £60,000. This is charged on a notional basis, and from 2011–12 will be recognised in the resource accounts of the Ministry of Justice.

No non-audit work was carried out by the auditors for HM Courts Service.

Peter Handcock
Accounting Officer

14 December 2011

Statement of Accounting Officer's responsibilities

Under the *Government Resources and Accounts Act 2000*, HM Treasury has directed Her Majesty's Courts Service (HMCS) to prepare for each financial year a Trust Statement detailing the revenue and other income collected by the department as an agent for others, in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of HMCS and of its revenue and expenditure, financial position and cash flows for the financial year.

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

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

HM Treasury has appointed the Permanent Secretary of MoJ as Principal Accounting Officer of the Department.

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

Statement on Internal Control 2010–11

Scope of responsibility

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

I was appointed HMCS Chief Executive and Accounting Officer with effect from 1 October 2010 following the departure of Chris Mayer CBE as Chief Executive and Accounting Officer on 30 September 2010. Having completed a detailed, formal handover process prior to taking up post on 1 October 2010, I am confident that all assurances detailed within this statement were in place prior to this date.

HMCS merged with the Tribunals Service to form a new Agency, Her Majesty's Courts & Tribunals Service (HMCTS), effective 1 April 2011, for which I am Chief Executive and Accounting Officer. HMCS therefore ceased to exist as an independent Agency after 31 March 2011 however control arrangements set out in this statement have been maintained during the merger.

As HMCS Chief Executive I was responsible to the Lord Chancellor and Secretary of State for Justice and also to the Lord Chief Justice for the running, management, performance and development of HMCS. As Accounting Officer for HMCS, I was accountable to the Ministry of Justice Permanent Secretary.

I was supported by the HMCS Board, which comprised an independent Chairman, non-executive and executive members, and members of the judiciary. The HMCS Board was responsible for the leadership and broad direction of the Agency. I was responsible for the day-to-day operation of HMCS and the leadership of its staff. I worked under the general direction of the Board and in accordance with the Agency's framework document. I regularly interacted with both the Permanent Secretary and the Lord Chancellor and Secretary of State for Justice to ensure that Ministerial priorities were fully taken into account. I also had a close working relationship with the Senior Presiding Judge acting on behalf of the Lord Chief Justice and with senior colleagues in the Ministry of Justice and its delivery bodies.

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 departmental and agency policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2011 and up to the date of approval of the HMCS Trust Statements for the year 2010–11, in accordance with Treasury guidance.

Preparation of the Trust Statement

As has been clear to the Department for some time, limitations in the functionality of legacy case management systems used by the business to support its Enforcement activity, impact our ability to produce information in the form required to meet the requirements of the Trust Statement.

Although the Libra and VP/FPO case management systems, on which fine impositions and Penalty Notices are recorded respectively, are fit for the enforcement activity in the business, these were not designed to provide financial accounting information required by the Trust Statement. The systems operate in real-time, which is a key requirement of the operational function, but they are not able to report balances or transactions retrospectively.

There is a robust control framework in place around these systems to ensure that they are fit for operational purpose in terms of the recording and monitoring of impositions, therefore this is not a control issue. This control framework has been in place throughout 2010–11.

Key features of this control framework are:

- Segregation of duties and system access rights;
- Monthly and quarterly verification and checking of all system control totals including receipts, payments, outstanding impositions and monies held for third parties;
- Monthly returns to the central finance team, Liberata (the case processing team) and the Crown Prosecution Service (CPS). Standard templates and Finance Guidance Letter (FGL) ensure consistency of format and review and timeliness of preparation;
- Verification of cash balances through completion of daily, monthly and quarterly bank reconciliations;
- Changes to defendant records are monitored on a regular basis to ensure that they are fully supported by documentary evidence and approved by an appropriate officer;
- All cases that are presented in court are entered onto the Libra system prior to the case being heard mitigating the risk of cases not being recorded on the Libra system. Following the conclusion of each case the record must undergo a process of being 'resulted' in Libra to record the penalty imposed. All un-resulted records are monitored to mitigate the risk of any fines not being recorded on the system;
- Fixed Penalty Notices are recorded by fixed cameras, mobile electronic devices or hardcopy tickets. Ticket books are allocated to individual police units or, in the case of smaller units, to individual officers. This enables unused and unrecorded tickets to be monitored to ensure that all completed tickets are entered onto the system. The VP/FPO system used to record FPNs is maintained locally by each police force and the procedures concerning notice recording and monitoring are determined by the Home Office.

Capacity to handle risk

I acknowledge my overall responsibility for the effective management of risk throughout HMCS. I can confirm that leadership was given to the risk management process through HMCS Directors and that staff were trained or equipped to manage risk in a way appropriate to their authority and duties. I, as Chief Executive, led on the management of risk within HMCS and have been supported during 2010/11 by a management structure that included:

- the HMCS Board which had overall responsibility for corporate governance within HMCS and met regularly throughout the year;
- the HMCS Risk Management Committee (RMC), which was chaired by the HMCS Director of Finance and has lead delegated responsibility from the HMCS Directors Board for the management and oversight of strategic risks within the organisation, meeting at least bi-monthly to review and consider the corporate risk register and identification of new threats to HMCS' objectives. The RMC assigned Director level ownership of each risk as a basis for agreeing appropriate mitigation and control;
- the HMCS Audit Committee, which included independent representation by five non executive members and one judicial member and whose key responsibility was to support the Accounting Officer in the discharge of their responsibilities for governance, risk management, control and assurance;
- Seven Regional Risk and Audit Committees whose main responsibilities were to support the discharge of the Accounting Officer's and the HMCS Audit Committee's responsibility in the HMCS regions. These committees were disbanded from November 2010 and arrangements for reporting risks and issues were put in place through a standard internal reporting framework; and
- A Director with delegated responsibility for Enforcement within the organisation in addition to managers within the regions, who had day-to-day responsibility for enforcement operations.

The risk and control framework

A risk and control framework was in place to identify, monitor, manage and report the risks or threats to the achievement of the Agency's objectives. Key features in addition to those already identified earlier in this statement included a risk management policy and framework consistent with that in operation throughout the wider MoJ. The policy set out formal processes for identifying, evaluating, managing and reporting risk, including to the MoJ when appropriate.

As an executive Agency, HMCS had in place an organisation-wide system of internal control to facilitate the management of risk in accordance with HM Treasury requirements. The HMCS system of internal control included established governance structures to support the risk management framework; and a range of internal control processes to provide management with financial and operational assurance, including:

- An effective Internal Audit programme;
- The provision and review of regular management information including regular reviews by management of financial and operational reports indicating performance against forecasts;
- Financial and administrative procedures including delegations of financial authority and segregation of duties on key financial processes;

- Formal approval by the Board of directorate business plans and their regular review against performance by the Directors' Board;
- The HMCS Assurance Programme (HAP) which is a set of processes and tools for operational managers to measure and assess assurance on key processes and controls within their remit. This includes specific reference to requirements relating to enforcement policies, procedures and legislative powers;
- A series of fraud risk management policies designed to prevent and detect fraudulent activity; and
- Detailed policies and procedures in relation to criminal enforcement.

Review of effectiveness

As Accounting Officer, I had responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control was informed by the work of Internal Audit Division (IAD) and the executive managers within the Agency who had responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the HMCS Board, the HMCS Audit Committee and the Risk Management Committee. Where required, a plan to address weaknesses and ensure continuous improvement of the system was put in place.

The HMCS Board and the Directors' Board were updated on the HMCS risk profile and effectiveness of the systems of internal control through the receipt of minutes from the HMCS Audit Committee, the Risk Management Committee and also through a review of the HMCS performance reports.

My Directors provided me with quarterly statements on internal control, which included control issues raised by directorate and regional management teams, escalated and reviewed by senior management teams. These statements included reporting on sources of internal control assurance and this in turn provided assurance of managements' compliance with operational policies, procedures and established key risks and controls.

HMCS Compliance and Enforcement unit managers across the organisation reported regularly to the Regional Heads of Enforcement who are responsible for enforcement operations in their region. Regional heads of enforcement reported to the Director of Enforcement on key risks within their remit.

The HMCS Audit Committee oversaw the adequacy and effectiveness of the risk management process and the system of internal control for HMCS in accordance with its terms of reference. The committee reviewed the planned activity and results of external audit, IAD and other review bodies, reviewed and received updates from the Corporate Governance team which included the corporate risk register.

The MoJ's Internal Audit Division provided a comprehensive programme of internal audit across HMCS activities, operating to Government Internal Audit Standards. IAD submitted regular reports, including the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Agency's governance, control and risk management arrangements together with recommendations for improvement. The opinion arising from IAD's work undertaken for 2010/11 is that overall, HMCS had a rating of Green/Amber. Weaknesses were however identified in the process for the administrative cancellation of criminal financial penalties. A lower rating was given which reflected a need to improve and standardise the process for cancellation of such penalties in addition to improving the reporting of the risks associated with non collection. Steps have been taken to ensure that these actions are implemented as required.

Other elements of the system of internal control that informed my review of the system's effectiveness included National Audit Office Reports HMCS undertook the implementation of actions arising from NAO reports including the support of the wider MoJ in the actions required in the MoJ Financial Management Report and a report on Fines Enforcement (HC1049 2005–2006 Department of Constitutional Affairs Fines Collection and HC187 2010–2011 Ministry of Justice Financial Management). The majority of the actions have now been completed and the new HMCTS is in the final stages of business verification testing of the new performance indicators for financial penalties which were recommended by the Public Accounts Committee report.

My review of the effectiveness of the system of internal control has not highlighted any issues with the performance of Libra as a case management system, and as such I have confidence that it is fit for purpose for HMCS, and remains fit for purpose for HMCTS. Each case recorded on Libra has a full payment and enforcement history. Courts are required to carry out daily, monthly and quarterly bank reconciliations. When these have been satisfactorily completed courts are required to retain their paperwork, and totals are then cleared down on Libra, leaving the current position. In addition, Libra provides management information on amendments to creditor and debtor accounts, the current position on enforcements, and time allowed for debts to be paid. The issues faced with regards to the preparation of the Trust Statements relates solely to the availability of accounting records to support the figures that are being included, and these are largely due to Libra's inability to produce retrospective reporting.

We have carried out extensive reviews of the functionality in the Libra system, both to explore potential work-arounds that could provide financial information in the form required by the Trust Statement, or to address issues raised by the magistrates' court issue reported below. These forensic reviews have identified potential weaknesses in the linkages between Libra and the external systems in the Crown Prosecution Service, other Prosecuting Authorities or stakeholders. One specific reporting breakdown has been identified and addressed. Although there is no evidence to suggest other significant weaknesses, arrangements are being made for joint work with the external Agencies to further assure the robustness of the end-to-end processes.

Significant internal control issues

The following significant control issues have been highlighted:

As noted above, it has been clear from the outset of the Trust Statement preparation process that limitations in the functionality of legacy case management systems used by the business to support its enforcement activity, impact our ability to produce information in the form required to meet the requirements of the Trust Statement.

Although the Libra and VP/FPO case management systems, on which fine and fee impositions and Penalty Notices are recorded, are fit for the Enforcement activity in the business, these were not designed to provide financial accounting records required by the Trust Statement. The systems operate in real-time, which is a key requirement of the operational function but they are not able to report balances or transactions retrospectively.

A member of staff from a magistrates' court has been found guilty under the Bribery Act. This case is restricted to the processing of driving penalties in a single accounting office. The individual has been dismissed, and two additional staff members have been suspended. A joint review with MoJ Internal Audit and Assurance has reported on the effectiveness of current internal controls and made a number of recommendations for improvement. These are currently being addressed as a matter of priority across the organisation. It would be inappropriate to comment further as criminal proceedings are on-going.

In addition, IAD undertook a follow up review of HMCS' Fixed Penalty Performance Measurement arrangements. That review identified some improvements over an earlier audit report. These included the formally established ownership of Fixed Penalty Performance and the ongoing development of a new Fixed Penalty replacement computer system. The report still issued an Amber / Red rating report indicating that there was still much uncertainty about the fixed penalty environment and that there was only a Medium/Low level of assurance over the receipt, collection and accurate reporting of fixed penalties due to be paid. Further recommendations for improvement in this area are currently reliant on the introduction of the new Fixed Penalty computer system, currently under development jointly with the National Police Improvement Agency.

I am confident that the above control issues have been subjected to rigorous review and that comprehensive action plans are in place to address identified weaknesses.

Future developments

Over the last three years HMCS has delivered year on year improvements in the amount of cash collected from court fines whilst significantly reducing the cost base of the enforcement operation. HMCTS is now considering plans to modernise the enforcement regime, possibly in partnership with a private partner who can both invest in new systems and restructure the business. Whilst the plans are developed there are potential risks of disruption to the successful enforcement of fine collection. These include decreasing resource allocation, an increasing number of uncosted policy changes, ongoing recession, and a period of change for staff as they understand the potential implications of the introduction of a private partner. HMCTS is mitigating these risks through control of resource allocation, liaison with policy teams, and regular engagement with staff.

Details of further initiatives have been disclosed in detail in the Future Developments section of the Foreword above.

Peter Handcock CBE
Chief Executive and Accounting Officer

The Certificate of the Comptroller and Auditor General to the House of Commons

I certify that I have audited HM Courts Service's (the Agency's) Trust Statement for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Revenue and Expenditure, the Statement of Financial Position, the Statement of Cash Flows 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

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

Scope of the audit of the financial statements

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

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

Basis for disclaimer of opinions

The audit evidence available to me was limited because the Agency was unable to provide me with proper accounting records supporting the revenues, expenditure or financial position disclosed in the financial statements.

Disclaimer of opinion on regularity

Because of the significance of the matter described in the Basis for Disclaimer of Opinions paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly I do not express an opinion on whether the revenue and expenditure reported in the financial statements have been applied to the purposes intended by Parliament or whether the financial transactions conform to the authorities which govern them.

Disclaimer of opinion on financial statements

For the same reason, I do not express an opinion on the financial statements.

Opinion on other matter

Notwithstanding my disclaimer of an opinion on the financial statements, in my opinion the information given in the Foreword to the Trust Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

Arising from the limitation of my work referred to above, and in my accompanying report:

- I was unable to determine whether adequate accounting records have been kept; and
- I have not obtained all the information and explanations that I considered necessary for the purpose of my audit.

Furthermore:

- I am required to report if I am of the opinion that the accounts are not in agreement with the accounting records or return. In this matter, I have nothing to report in respect of agreement with the aggregated financial information presented to me. However, since I was not provided with adequate accounting records supporting that information, I was ultimately unable to determine whether the financial statements were in agreement with underlying records.

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

- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

Details of the matters leading to the disclaimer of opinions are set out in my accompanying report.

Amyas C E Morse

Comptroller & Auditor General

National Audit Office

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14 December 2011

Report of the Comptroller and Auditor General to the House of Commons on the HM Courts Service Trust Statement for the year ended 31 March 2011

Introduction

1. Certain government entities collect revenues from taxation, duties, fines or penalties. These are required to be paid over to the Consolidated Fund⁵ except where there is specific provision for them to be retained by the collecting body. From 1 April 2010 all revenues of this type must be accounted for by the collecting organisations in a separate account known as a 'Trust Statement'. Previously, Trust Statements were only required in respect of certain taxes and duties.
2. HM Courts & Tribunals Service ('HMCTS'),⁶ an Executive Agency of the Ministry of Justice ('the Ministry'), is responsible for the collection of fines and confiscation orders (imposed by the judiciary in magistrates' and Crown court) and penalties (imposed by the police service). HMCTS is also responsible for remitting these collections to the relevant parties as established in cross-government agreements, including: victims of crime; the Home Office; HMCTS itself,⁷ and, for any remaining balance, the Consolidated Fund. From 1 April 2010, HMCTS has been required to account for these revenues through a Trust Statement.

Disclaimer of opinion

3. I have not been able to reach an opinion on whether the HMCTS Trust Statement shows a true and fair view of the revenues, expenditure and financial position disclosed in the financial statements or of the regularity of the transactions described. This is because HMCTS has been unable to provide me with supporting information for the transactions and balances within the account. I have therefore been unable to consider whether the transactions and balances in the account are complete, proper to this account or have been appropriately raised in accordance with the relevant legislative provisions.
4. The purpose of the remainder of this report is to outline the reasons for the lack of appropriate records and supporting information, my findings in relation to collection procedures operated by HMCTS, and the action the Ministry and HMCTS propose to take in order to improve their accountability in this area.

Lack of ability to extract full transaction data from underlying systems and impact on audit opinion

5. The 2010–11 Trust Statement is the first that HMCTS have been required to produce. Under direction from HM Treasury, HMCTS are required to present an account, on an accruals basis, of the revenues (relating to the fines, confiscation orders and penalties

⁵ The Consolidated Fund is the central account administered by HM Treasury which receives government revenues and makes issues to fund expenditure by government Departments.

⁶ HM Courts Service merged with the Tribunals Service on 1 April 2011 to form HMCTS. These accounts are prepared in the name of HM Courts Service since the period of account pre-dates this merger. Throughout this report I refer to HMCTS except when referring to activity prior to the merger date.

⁷ HMCTS is permitted by cross-government agreement to retain a percentage of fine and compensation order collections to contribute to the cost of its operations.

imposed), expenditure (relating to potentially irrecoverable debt and contributions payable to other government departments) and of any associated balances.

6. No accounting ledgers are maintained which link directly to the transactions underlying the Trust Statement. HMCTS has compiled the accounts from Libra – the case management system used by magistrates’ courts – and information provided by local police forces, based principally on the Vehicle Procedures and Fixed Penalty Office (VP/FPO) systems that they maintain.
7. The table below describes how management have prepared significant areas of the accounts, and the impact on my audit.

Account area(s)	Method of preparation	Impact on my audit
Revenue and receivables (except fixed penalties)	Management obtained hard copy summary reports (from Libra) for each HMCTS accounting centre. These reports show the aggregate level of fines and confiscation orders imposed on individuals (revenue) and the associated outstanding debt (receivables). HMCTS has not been able to provide the individual accounting records supporting this aggregated data for either revenue or receivables.	Since HMCTS has not been able to provide information at the individual transactional level for revenue or receivables, I have been unable to examine the transactions for accuracy or completeness, and therefore to give an opinion on whether the revenue and receivables recorded in the Trust Statement are fairly stated.
Revenue and receivables (fixed penalties)	Management have based revenue and receivables for fixed penalties on HMCTS’ own cash records, supplemented by additional information from local police forces, who are responsible for recording fixed penalty notices at point of issue. HMCTS has not been able to provide individual accounting records supporting these balances, and has relied to a significant degree on estimation to compensate for missing returns from local police forces.	For the same reason I have been unable to examine the regularity of these transactions.
Expenditure, disbursements, payables	The Trust Statement recognises, on an accruals basis: expenditure (estimated credit losses and the amount of revenue that will be retained by HMCTS); disbursements (the amount of revenue payable to other bodies); and payables (the amount due to HMCTS and other bodies). These elements are all calculated based on the figures for either revenue or receivables.	Expenditure, disbursements and payables are derived from revenue and receivables as outlined above, which I have not been able to examine because adequate accounting records are not available. I am therefore not able to give an opinion on these areas.

8. The impact of these uncertainties is that I have been unable to examine any element of the Statement of Revenue Expenditure or Statement of Financial Position. As this is pervasive to the financial statements as a whole, I am unable to offer an audit opinion on the accounts.
9. Furthermore, since management have not been able to provide information at the individual transaction level, I have not been able to determine whether adequate accounting records have been kept. I have been able to agree the accounts to aggregated financial information, but not to underlying accounting records. I have reported on these issues in my audit certificate.

Collection of fines, confiscation orders and penalties

10. As well as performing audit work on revenue, expenditure and the related balances, I have reviewed the procedures in place to ensure that cash received by HMCTS and subsequent remittances to the Consolidated Fund or to other parties are appropriately recorded. HMCTS is solely responsible for the collection of the fines and penalties described in this account, and for making appropriate remittances to third parties. HMCTS also has lead responsibility for enforcement, although in respect of confiscation orders this lead is shared with partner organisations.
11. On receipt of cash from fines, HMCTS uses the Libra system to record the receipt against a specific account for the person on whom the fine or penalty was imposed. A similar system operates at HMCTS' Fixed Penalty Offices, using the VP/FPO system. In both cases HMCTS operate controls, including bank reconciliations, to ensure that these cash receipts are identified and recorded appropriately. From my audit work, I am content that in all material respects, cash received in local bank accounts has been appropriately recorded.

Remittances to third parties

12. Once debts are collected, HMCTS ensures that cash is sent to other bodies and the Consolidated Fund in accordance with the relevant cross-government agreements. I am content on the basis of my audit work that the payments to the Consolidated Fund recorded in the accounts have been accounted for correctly.

Management of outstanding fines, confiscation orders and penalties

13. The total level of outstanding fines, confiscation order and penalties debt (receivables) at 31 March 2011 is £1.9 billion, which has increased from £1.5 billion in the previous year. Management have outlined the reasons for this increase in the Financial Review section of the Foreword. However, the debt (receivables) balance in the Statement of Financial Position is £457 million. The difference between this accounts figure and total debt of £1.9 billion comprises a provision against live debt to reflect doubts about its recoverability (£476 million) and an increasing balance of aged debt which is classified as 'inactive' (£937 million) due to the difficulties encountered in enforcement work from a number of factors such as the assets being located overseas. While in legal terms inactive debt remains due for collection, for the purposes of these accounts it has been fully impaired and so does not form part of the receivables balance in the accounts.
14. I reported on the collection of fines, confiscation orders and penalties in my recent report (*Ministry of Justice: Financial Management Report, HC 1591 2010-12*). I concluded in this report that there is room for improvement in the collection of these balances within the Ministry of Justice family. HMCTS and the Ministry have made some recent improvements, such as new performance measures to monitor collection rates, timeliness and levels of arrears for fines. Management have outlined further changes and developments in the Foreword, including a blueprint for enforcement and collection, and more collaborative working with other government departments and agencies with responsibilities for imposing fines, confiscation orders and penalties.

Further steps planned and required by the Ministry and HMCTS

15. For 2011–12, the Ministry plans to work with HMCTS and build on the progress to date.
16. The Ministry plans to investigate further the functionality of Libra to determine whether it is possible to provide evidence to support accruals-based financial reporting. In particular, the Ministry and HMCTS believe that it may be possible to obtain evidence over fines and confiscation orders if a suitable report is run shortly after the month end.
17. However, the Ministry and HMCTS have informed me that they may not be able to address these fundamental issues until Libra is significantly enhanced or replaced with a new case management and accounting system. The timing of this enhancement or replacement is currently uncertain. However, the Ministry have committed to ensuring that any replacement for Libra includes accounting functionality to enable financial reporting.
18. Similarly, the Ministry and HMCTS have informed me that improvements in respect of fixed penalties are unlikely to progress significantly until the roll-out of the national replacement for the current VP/FPO system, Pentip. The Home Office is responsible for the implementation of Pentip, but as a key stakeholder the Ministry plans to ensure as far as it can that the new system includes adequate accounting functionality.
19. Separately from developments in financial reporting, HMCTS continues to develop its processes around enforcement and collection activities with the aim of maximising the recovery of fines, confiscation orders and penalties. Whilst these developments are welcome, challenges remain in improving the quality of data and pursuing outstanding balances.

Amyas C E Morse

Comptroller & Auditor General

National Audit Office

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14 December 2011

Statement of Revenue and Expenditure for the year ended 31 March 2011

	Notes	2010–11 £000	2009–10 £000
Impositions Revenue			
Fines and Penalties			
Court Fines		210,010	194,686
Fixed Penalty Notices		100,118	111,680
Crown Prosecutors' Costs		44,286	41,735
Prosecutors' Costs		55,261	60,781
Compensation		82,021	51,031
Confiscation Orders		446,494	173,088
Victims' Surcharge		12,552	23,870
Total Impositions Revenue		950,742	656,871
Less Expenditure			
Credit Losses	2	434,693	201,727
Revenue retained under statute by Her Majesty's Courts Service towards the cost of collection and administration	3	91,774	84,100
Total Expenditure		526,467	285,827
Less Disbursements			
Prosecutors' Costs Revenue for the Crown Prosecution Service		26,715	39,894
Prosecutors' Costs Revenue for other parties		60,325	52,159
Compensation Revenue for other parties		82,838	37,792
Confiscation Order Revenue for the Home Office		127,452	89,147
Victim's Surcharge Revenue for the Ministry of Justice		13,604	22,529
Total Disbursements		310,934	241,521
Total Expenditure and Disbursements		837,401	527,348
Net Revenue for the Consolidated Fund		113,341	129,523

NB: 'Disbursements' above are stated on an accruals basis, and are not payments of cash in the period. They represent accruals value of impositions for the year (net of impairment), payable once received to parties other than the Consolidated Fund.

Statement of Financial Position as at 31 March 2011

	Note	2010–11 £000	2009–10 £000
Current Assets			
Receivables	4	456,703	438,230
Cash at Bank and in Hand		69,600	65,938
Total Assets		526,303	504,168
Current Liabilities			
Payables	5	333,037	266,964
Total Liabilities		333,037	266,964
Total Net Assets		193,266	237,204
Represented by:			
Balance on Consolidated Fund	6	193,266	237,204

Peter Handcock
Accounting Officer
14 December 2011

The notes on pages 28 to 33 form part of this statement.

Statement of Cash Flows for the year ended 31 March 2011

	Notes	2010–11 £000	2009–10 £000
Cash collected by HMCS		497,575	472,224
Cash paid to Third parties		(318,529)	(292,430)
Cash paid to the Consolidated Fund		(175,384)	(186,191)
Increase/(decrease) in cash in this period		3,662	(6,397)

Notes to the Cash Flow Statement

Analysis of Changes in Net Funds

	2010–11 £000	2009–10 £000
Increase/(decrease) in Cash in this Period	3,662	(6,397)
Net Funds at 1 April (Net Cash at Bank)	65,938	72,335
Net Funds at 31 March (Closing Balance)	69,600	65,938

Notes to the Trust Statement

1. Statement of accounting policies

1.1 Basis of Accounting

The Trust Statement is prepared in accordance with:

- the accounts direction issued by HM Treasury under section 7(2) of the Government Resources and Accounts Act 2000;
- the 2010–11 Financial Reporting Manual (FReM) issued by HM Treasury, in particular Chapter 13 which deals with Trust Statements; and
- the accounting policies detailed below which have been agreed between HMCS and HM Treasury and have been developed in reference to International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context and other relevant guidance. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

The income and associated expenditure contained in these statements are those flows of funds which HMCS handles on behalf of the Consolidated Fund and other entities, where it is acting as an agent rather than as principal. The sense in which these financial statements elements are used is described within the Foreword above.

The financial information contained in the statements and in the notes is rounded to the nearest £000.

1.2 Accounting Convention

The Trust Statement has been prepared on an accruals basis in accordance with the HM Treasury's accounts direction and the FReM as detailed in "Basis of Accounting" above.

1.3 Revenue Recognition

Fines and penalties are measured in accordance with IAS 18. They are measured at the fair value of amounts received or receivable net of judicial remissions. Revenue is recognised when a penalty is validly imposed and an obligation to pay arises. Revenue is de-recognised if a penalty is cancelled due to settlement by another valid means, including imprisonment or undertaking a training course.

1.4 Expenditure

Credit losses (imposition write offs and the change to the value of impairment in year) are accounted for on an accruals basis.

Subject to agreement with HM Treasury, HMCS is permitted to retain an element of fines collected as income. The income comprises netting-off and fine incentive scheme income. There are two netting off schemes; the Warrant Enforcement Scheme, permitting HMCS to retain an amount equal to the pre courts act 2003 cost of enforcing and collecting fines; the Courts Act national roll-out scheme, permitting HMCS to retain an amount equal to the employment costs of the court officers appointed in compliance with the Courts Act 2003. There is only one Fine Incentive Scheme. The scheme permits HMCS to retain an amount of fines collected equating to 75% of fine receipts in excess of receipts attributable to a 75% payment rate. These monies are accounted for as expenditure. This treatment is

required by the FReM where legislation permits that part of the revenue collected be retained by the entity. The associated impositions are therefore recorded gross within revenue.

1.5 Receivables

Receivables are shown net of impairments in accordance with the requirements of the FReM and IAS 36.

1.6 Payables

Payables are shown net of impairments and are accounted for on an accruals basis. They represent the value of impositions that have been collected and are due to be paid to parties other than the Consolidated Fund

1.7 Disbursements

Disbursements are shown net of impairments in accordance with the requirements of the FReM and IAS 36. Disbursements are accounted for on an accruals basis and represent the value of impositions for the year payables to parties other than the Consolidated Fund.

1.8 Net revenue for the Consolidated Fund

Net Revenue for the Consolidated Fund is the value of impositions for the year (net of impairment) that are payable to the Consolidated Fund for those categories of imposition applicable (Court Fines and Fixed Penalty Notices only)

1.9 Critical accounting judgments and estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

When preparing the Trust Statement, HMCS makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i) Impairment of debt

Receivables are shown net of impairments in accordance with the requirements of the FReM and IAS 36.

ii) Credit losses

Debt written off as uncollectible and any change in value of impairment are shown as expenditure. Confiscation Orders can not be written off by default because of underlying legislation.

1.10 First time reporting

This is the first Trust Statement prepared by HMCS as required by HM Treasury and in line with the Accounts Direction on page 10. Some of the comparative figures were previously reported within the Ministry of Justice's 2009–10 Resource Accounts (HC number 194).

2. Credit Losses

	Note	2010–11 £000	2009–10 £000
Debts written off	2.1	50,974	47,400
Increase/(Decrease) in Impairment of Debt for year	4	383,719	154,327
Total		434,693	201,727

2.1 Debts written off

	2010–11 £000	2009–10 £000
Court Fines	38,685	33,853
Crown Prosecutors' costs	2,823	3,161
Prosecutors' Costs	7,915	6,916
Compensation	1,046	2,970
Victims' Surcharge	505	500
Total	50,974	47,400

'Debts written off' are the amounts reportable to Parliament under rules on disclosure of Losses and Write Offs in *Managing Public Money* Annex A.4.10.24 under the category 'Claims waived or abandoned'. A statutory requirement precludes HMCS from being able to write off any outstanding confiscation orders.

3. Expenditure

Revenue retained under statute by Her Majesty's Courts Service towards the cost of collection and administration

	2010–11 £000	2009–10 £000
Warrant Enforcement revenue	66,600	66,600
Fine Incentive revenue	18,274	10,600
Courts Act revenue	6,900	6,900
Total	91,774	84,100

HMCS is entitled under statute to retain elements of fines collected as revenue. These costs of collection and administration are charged as expenditure in the Trust Statement.

4a. Receivables – active debt

The table below details the active debt, which includes all outstanding confiscation order balances less than 3 years in arrears and 18 months in arrears in the case of all other fines and penalties.

2010–11	Fines £000	Fixed Penalty Notices £000	Crown Prosecutors' Costs £000	Prosecutors' Costs £000	Compensation £000	Confiscation Orders £000	Victims' surcharge £000	Total £000
Impositions outstanding								
At 1 April 2010 b/f	277,954	7,793	36,496	33,417	89,442	354,837	4,178	804,117
New impositions	210,010	100,118	44,286	55,261	82,021	446,494	12,552	950,742
Collections	(158,751)	(100,412)	(37,623)	(44,309)	(50,728)	(95,236)	(10,516)	(497,575)
Write offs	(38,685)	-	(2,823)	(7,915)	(1,046)	-	(505)	(50,974)
Transferred to inactive debt	8,473	-	913	4,399	1,447	(290,636)	1,509	(273,895)
At 31 March 2011	299,001	7,499	41,249	40,853	121,135	415,459	7,219	932,415
Impairment (provision for uncollectible debt)								
At 1 April 2010 b/f	83,288	1,898	1,413	18,970	57,800	199,524	2,994	365,887
Increase/(Decrease) for the year	62,585	(72)	18,484	(666)	630	28,406	457	109,824
At 31 March 2011	145,873	1,826	19,897	18,304	58,430	227,930	3,451	475,711
Net Book Value at 31 March 2011	153,128	5,673	21,352	22,548	62,706	187,529	3,767	456,703
Net Book Value at 1 April 2010	194,666	5,895	35,083	14,447	31,642	155,313	1,184	438,230

4b. Receivables – inactive debt

In addition, the table below details the inactive debt balance that is being enforced. This represents confiscation orders and fines that are more than 3 years or 18 months in arrears respectively.

	Fines £000	Fixed Penalty Notices £000	Crown Prosecutors' Costs £000	Prosecutors' Costs £000	Compensation £000	Confiscation Orders £000	Victims' surcharge £000	Total £000
Inactive Debt at 31 March 2011	109,377	-	15,695	19,281	46,095	743,805	2,828	937,081
Inactive Debt Net Book Value at 31 March 2011	-	-	-	-	-	-	-	-
Inactive Debt at 31 March 2010	117,850	-	16,608	23,680	47,541	453,169	4,338	663,186
Inactive Debt Net Book Value at 31 March 2010	-	-	-	-	-	-	-	-

4c. Receivables – changes in impairment of debt

The table below provides further detail for how the change in impairment provision for uncollectible debt has been determined. This change consists of the movement in the impairment value for each type of imposition and the additional debt which becomes sufficiently aged to be reclassified as inactive.

	Fines £000	Fixed Penalty Notices £000	Crown Prosecutors' Costs £000	Prosecutors' Costs £000	Compensation £000	Confiscation Orders £000	Victims' surcharge £000	Total £000
Change in impairment in 2010–11	62,585	(72)	18,484	(666)	630	28,406	457	109,824
Additional inactive debt in 2010–11	(8,473)	-	(913)	(4,399)	(1,446)	290,636	(1,510)	273,895
	54,112	(72)	17,571	(5,065)	(816)	319,042	(1,053)	383,719

5. Payables

2010–11	Creditors On which Cash Received £000	Creditors On which Cash Receivable £000	2010–11 Total £000
Home Office	28,520	187,529	216,049
Crown Prosecution Service	170	21,352	21,522
Others*	6,445	89,021	95,466
Total	35,135	297,902	333,037

2009–10	Creditors On which Cash Received £000	Creditors On which Cash Receivable £000	2009–10 Total £000
Home Office	21,775	155,313	177,088
Crown Prosecution Service	64	35,083	35,147
Others*	7,456	47,273	54,729
Total	29,295	237,669	266,964

* Others includes payables relating to prosecutors' costs, compensation and victim surcharge which are payable to both government and non-government third parties.

6. Balance on the Consolidated Fund Account

2010–11	On which Cash Received £000	On which Cash Receivable £000	2010–11 Total £000
Balance on Consolidated Fund Account as at 1 April	36,643	200,561	237,204
Balance on Consolidated Fund Account as at 31 March	34,465	158,801	193,266
2009–10	On which Cash Received £000	On which Cash Receivable £000	2009–10 Total £000
Balance on Consolidated Fund Account as at 1 April	53,665	203,036	256,701
Balance on Consolidated Fund Account as at 31 March	36,643	200,561	237,204



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CORRECTION

Correction made to page 12, paragraph 3

Following, "HM Treasury has appointed the Permanent Secretary of MoJ as Principle Accounting Officer of the Department."

Add:

"Peter Handcock as Chief Executive of HMCS holds the role of Accounting Officer for the purposes of the Trust Statement."

December 2011

LONDON: THE STATIONERY OFFICE