

Legal Services Commission Annual Report and Accounts 2007/08

HC841

ISBN 978-0-10-295352-7

CORRECTION

Page 10 – Formatting correction

The figures for cash spend interest receivable should have brackets around it to indicate a receipt rather than a payment:

Table 1: Community Legal Service, Criminal Defence Service and Commission payments 2007/08¹

	Resource spend £m	Cash spend £m	Acts of assistance 000s ²
CLS Licensed Work (gross)	776.5	801.9	165.8 ³
less operating receipts	(220.7)	(210.4)	-
Interest receivable/received etc.	(14.8)	(7.8)	-
CLS Licensed Work (net) ⁴	541.1	583.8	-
CLS Controlled Work	253.7	260.4	834.6
CLS total	794.8	844.1	1,000.4
CDS general criminal contracts (gross) ⁵	476.0	486.7	1,378.5 ⁵
CDS Crown Court and higher courts representation (gross)	675.7	693.4	123.5
less operating receipts, etc.	(1.4)	(1.1)	-
CDS total (net)	1,150.3	1,178.9	1,502.1
CLS and CDS total (net)	1,945.1	2,023.0	2,502.5
LSC administration	113.5	132.5	-

1 CLS payments include Commission funded payments only.

2 Based on starts reported as at 16 June 2008. These figures may not sum to the total due to rounding. Some clients may have received more than one act of assistance during the year, and some acts of assistance may help more than one person.

3 Includes eligible clients in family mediations.

4 Excludes release of provision of £350m for costs of dormant cases.

5 Acts of assistance include CDS Direct matters completed.

August 2008
London: The Stationery office

Legal Services Commission Annual Report and Accounts 2007/08

Laid before Parliament by the Lord Chancellor and Secretary of State for Justice pursuant to paragraph 14, and in respect of the financial statements on behalf of the Comptroller and Auditor General under paragraph 16 (4), of Schedule 1 to the Access to Justice Act 1999.

Ordered by the House of Commons to be printed 21 July 2008.

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ISBN: 978-0-10-295352-7

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Chair's review: Transforming legal aid

I joined the LSC in April 2005, at an exciting time for legal aid as the pace of its challenging but essential transformation programme stepped up. Legal aid funding in England and Wales amounts to £2 billion of public money, and helps two million people each year, including some of the most vulnerable. Legal aid makes an essential contribution to safeguarding people's rights in a fair and democratic society, and creating a sustainable scheme for the future is something I feel passionate about. At the end of my three and a half years as Chair of the organisation I am optimistic that we have laid a sound foundation for such a scheme, but there is still a lot to do.

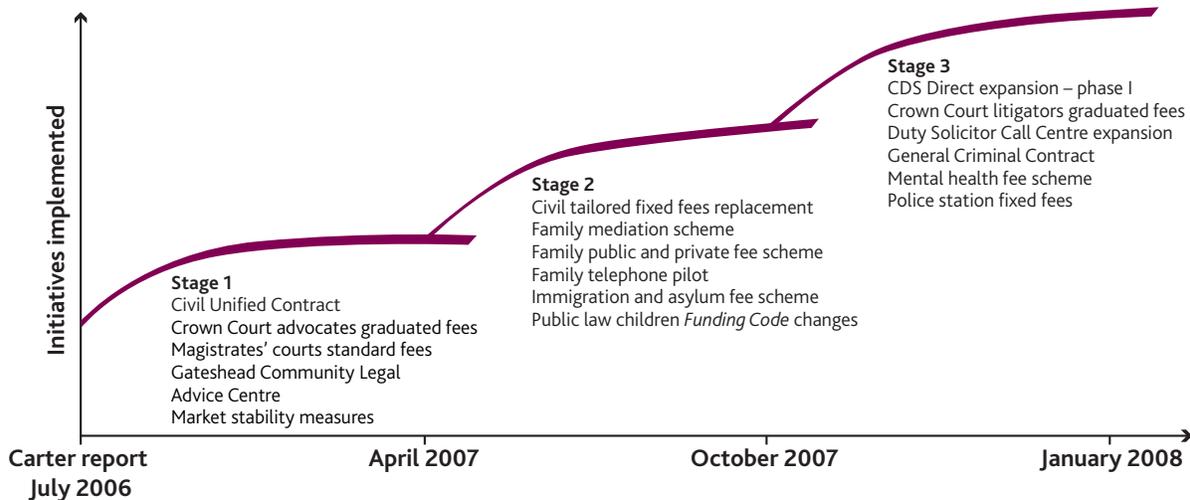
Legal aid ranges from basic advice and assistance, most of which is available to everyone, through to representation in court. It helps people on low incomes who could not otherwise afford to be legally represented and covers civil problems relating to social welfare law, family matters, divorce, children's issues and mental health matters. It also helps people going through the criminal justice system to be properly advised and represented.

There have been inefficiencies in the legal aid system that we need to address so that the scheme becomes affordable and we can help more people with their problems. We are in a transition phase where we are moving from paying by the hour to paying a fixed price for the work done, but I firmly believe that achieving this will enable good quality and efficient providers to run an effective and profitable business. 70% of legal help is now paid through fixed and graduated fees.

The LSC has also focused on improving efficiency across the whole justice system, to enable legal aid providers to reduce their overheads in a fixed fee environment. We share this aim with the Ministry of Justice, our sponsor in Government.

This period of great change has been very challenging, and inevitably we have faced some criticism from our providers. However, we reached agreement on the Unified Contract this year, which gives formal structure to our relationship with providers. This signifies a new era of collaborative working with solicitors. We have tried to improve our own communications and aim to support providers and prepare them for the reforms.

Summary of achievements in 2007/08





Longer term the LSC believes that a competitive market may be the ultimate way of ensuring quality services for the right price to the taxpayer. This year we have been consulting on proposals for best value tendering as part of our long-term strategy of transformation. We believe this can offer providers certainty and stability in return for affordability for taxpayers and fairness for clients. Commissioning specific services to meet specific local needs means we can ensure more consistent access and better coverage in a locality.

As we move from simply paying bills towards becoming a commissioning organisation focused on quality, access and value for money, we recognise the need to change our internal structures as well. The LSC as an organisation is becoming more efficient, and is aiming to simplify and improve the way we do business with providers through electronic working. We have tried new and innovative approaches, including a new IT system this year. Although we experienced initial performance issues, we are reducing these and will launch an improved system shortly.

We remain focused on improving services to clients, as they are the core purpose of the legal aid scheme. We are as committed to solving their problems as the solicitors, barristers and advisers in not-for-profit organisations that deliver services direct to the public.

We have set up new types of services to improve access to justice. The Community Legal Advice telephone helpline enables people to receive free legal advice from their own home. Working with other funders, we are setting up Community Legal Advice centres, where people can access joined-up services in the heart of their own community, as we know that people often have a range of related problems that can best be addressed through integrated services. We've also improved the efficiency of services delivered through the Criminal Defence Service, including introducing telephone advice at police stations.

This annual report contains more information about the highlights in the year 2007/08, and includes quotes and

case studies that demonstrate the real value of legal aid to society. Together with providers we can achieve life-changing results for some of the most socially excluded people, like those with debt problems, facing eviction or imprisonment.

We welcomed two new Commissioners recently: Peter Smith, a procurement expert and Professor Carolyn Hamilton, an expert in children and family law. Both of them will play a key role in helping the Commission to shape the legal services market of the future.

On behalf of everyone at the LSC I would like to thank Commissioner Dr Lily M Segerman-Peck who left the LSC at the end of October 2007 and Executive Director for Service Delivery, Mike Jeacock, who left in April 2008. My best wishes go also to David Edmonds CBE who left the Commission at the end of June 2008 to chair the new Legal Services Board.

Throughout my time as Chair of the LSC I have continued to be highly impressed by the dedication of LSC staff as well as the service providers we work with in the justice system. This is my last report as Chair as I will be leaving the organisation in August 2008 to take up a new role. I would like to take this opportunity to say thank you to all those who have shaped and continue to develop legal aid reforms in England and Wales. I am sure that the reforms will provide exciting opportunities to those who share our common values and the belief in ensuring quality and affordable access to justice.

Sir Michael Richard
Chair, Legal Services Commission
July 2008

About the Legal Services Commission



“I thought my legal problem was complicated but once I spoke to an advisor and was given instructions the matter was settled in a matter of days.” – Community Legal Advice client

The Legal Services Commission (LSC) is responsible for delivering, through high quality service providers, legal aid, advice and representation to people with problems in England and Wales.

The LSC enables people to safeguard their rights and address their problems. Our work is essential to the fair, effective and efficient operation of the civil and criminal justice systems. It is also critical in helping to provide access to justice and fair trials for all.

We commission the services people need from solicitors, barristers and advice agencies. The skills and commitment of legal aid service providers are essential to helping people resolve their problems.

We deliver legal services through two schemes: the Community Legal Service and the Criminal Defence Service.



community
legal advice

The Community Legal Service (CLS)

The CLS is a network of organisations which funds, provides and promotes civil legal advice and representation.

The LSC is responsible under the Access to Justice Act 1999 for developing and maintaining the CLS. We are meeting our responsibility by concentrating on:

- providing specialist legal services
- identifying client need for services
- facilitating joint planning and funding through integrated services.

**Criminal
Defence Service**



The Criminal Defence Service (CDS)

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

We manage the duty solicitor schemes for police stations and magistrates' courts so that those who need advice and representation can see a solicitor. We also fund services in the higher courts. Our Public Defender Service provides criminal defence services directly to the public.

Our Vision

The core purpose of the LSC is to help people in genuine need to receive high quality legal advice, assistance and representation. We are a key component of the Government's plans to modernise justice.

Our Vision, as set out in our *Corporate Plan 2007/08 – 2009/10*, is to be resolutely focused on clients, delivering positive outcomes and providing value for money.

About the Legal Services Commission

Our strategic objectives

To help us achieve our Vision and deliver our objectives, we had four strategic objectives for 2007/08:

- Strategic objective 1:** Clients have access to quality services that meet their needs
- Strategic objective 2:** Providers deliver quality, value for money and client focused services
- Strategic objective 3:** An affordable scheme delivered within the resources available and that demonstrates effective financial control
- Strategic objective 4:** A transformed organisation that enables the delivery of objectives and excellence in all it does.

These strategic objectives match those published in our *Corporate Plan 2007/08 – 2009/10* though we have changed the order of them to ease understanding.

Our relationship with Government

The LSC was established under the Access to Justice Act 1999, replacing the Legal Aid Board in April 2000. We are a non-departmental public body sponsored by the Ministry of Justice (until May 2007 the Department for Constitutional Affairs). The Lord Chancellor and Secretary of State for Justice is accountable to Parliament for our activities and performance.

The Ministry of Justice (MoJ) agrees its overarching Public Service Agreement targets with the Treasury. The LSC in turn sets its objectives through dialogue with the MoJ.

About our annual report

The LSC must provide evidence to Parliament each year that it has successfully met its four statutory responsibilities:

- maintaining and developing the Community Legal Service and the Criminal Defence Service
- funding legal and advice services in England and Wales
- identifying where there are unmet legal and advice needs
- developing providers and innovative services to meet the priority needs identified.

Our annual report reviews the LSC's progress during the year towards fulfilling our objectives and targets, as agreed with the Lord Chancellor and set out in our *Corporate Plan 2007/08 – 2009/10*. Our corporate/strategic plans are published on our website at www.legalservices.gov.uk.

Our annual report is organised into chapters focusing on each of our strategic objectives. For each objective, we set out our detailed targets and milestones. For each target or milestone, we include an assessment such as:

- **achieved**
- **not achieved**

MoJ Public Service Agreement target to which the LSC contributes

- Achieve earlier and more proportionate resolution of legal problems and disputes by:
 - increasing advice and assistance to help people resolve their disputes earlier
 - increasing the opportunities for people involved in court cases to settle their disputes out of court
 - reducing delays in resolving those disputes that need to be decided by the courts.

MoJ Public Service Agreement targets relevant to the LSC

- 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
- Reassure the public, reducing the fear of crime and anti-social behaviour and building confidence in the criminal justice system without compromising fairness
- Reduce unfounded asylum claims as part of a wider strategy to tackle abuse of the immigration laws and promote controlled legal migration
- By 2009/10, increase the proportion of care cases being completed in the courts within 40 weeks by 10%.

- **partially achieved (nearly met)** – this is used where we nearly achieved a target or milestone
- **partially achieved (met with delay)** – this is used where we achieved a target or milestone later than originally planned
- **changed** – this is used where priorities have changed
- **on track** – this is used for a milestone that we expect to achieve, but the deadline has not yet passed.

Figures given in the text are now presented on an accruals basis, unless otherwise stated. This is intended to provide a consistent basis for reporting across both the annual report and the accounts. It represents a change from previous years, when figures in the body of the annual report were generally presented on a cash basis. To ease the transition, we have this year included cash figures alongside accruals figures where appropriate for comparative purposes.

We present statistical information for 2007/08 in a headline way. A detailed statistical analysis of our work, including comparisons with 2006/07, can be found on our website at http://www.legalservices.gov.uk/aboutus/how/strategic_publications.asp.

At page 46 you can find our financial reports. These explain our financial systems and processes and report on the more technical aspects of our performance. Our financial statements for 2007/08 have been audited by the National Audit Office, and are at the end of this report. Our financial statements are prepared on an accruals basis, so that expenditure is matched to the period when the services bought with it were provided. They are in a form as directed by the Secretary of State for Justice with the approval of the Treasury in accordance with paragraph 16 of Schedule 1 of the Access to Justice Act 1999.

Key achievements during 2007/08

Legal aid has been one of the fastest growing parts of the public sector over the past 25 years, and expenditure has increased at almost 6% per year in real terms, compared to similar increases in health and education of approximately 4% and 2% respectively. At approximately £38 per head of the population, the LSC also spends more in England and Wales than is spent by any other jurisdiction for which comparative data is currently available.

2007/08 was a challenging year, in which we delivered many aspects of the legal aid transformation programme and maintained services for clients. This year we achieved or partially achieved 22 out of 35 key performance indicators. These contribute to our corporate targets, of which we partially achieved seven out of eight this year. Highlights of the year included that:

- legal aid funded over 2.5 million acts of assistance overall
- CLS providers delivered over 750,000 Legal Help acts of assistance out of over a million in total
- CDS providers delivered 1.5 million acts of assistance
- we issued new contracts for civil legal aid focusing on areas of most need
- we continued to implement the CLS Strategy including developing the Community Legal Advice services
- we maintained 100% coverage of the duty solicitor schemes so that clients could get the help they needed at courts and police stations
- we expanded the Defence Solicitor Call Centre to include requests for own solicitors
- we expanded CDS Direct to provide telephone only advice to clients for certain offences
- we implemented further changes to the civil and criminal legal aid schemes as part of the transformation programme, including new fee schemes that focus on services delivered to clients
- we have been able to establish new and mutually beneficial relationships with all representative bodies as a result of an agreement with the Law Society on the future course of the legal aid transformation programme
- we matched resources to priorities and stayed within our funding allocation on CLS, CDS and administration expenditure
- we had significant issues around the implementation of the new supplier management system/LSC Online but we implemented a recovery plan that addresses the issues and prepares the way for relaunch
- we achieved 93% against a target of 90% on our national customer service score.

About the Legal Services Commission

A summary of our performance in 2007/08 is in the table below, with full details of our progress set out at the start of each chapter.

Strategic objective	Corporate targets	Key performance indicator	Status	
1. Clients have access to quality services that meet their needs	All eligible clients have access to a provider	Increase the proportion of calls to Community Legal Advice (formerly CLS Direct) within an overall target of 850,000 acts of assistance by 31 March 2008: i) 700,000 face-to-face ii) 150,000 CLS specialists	Not achieved	
		95% duty calls from police stations are accepted within 30 minutes	Achieved	
		100% provision of duty solicitors in magistrates' courts throughout the year	Achieved	
	Improve access to social welfare categories of law	Access standards		
		50 procurement areas have provision in all 5 categories of Social Welfare Law (SWL) and Family law by 31 March 2008	Partially achieved (nearly met)	
		50 procurement areas are within +/- 15% of their indicative Legal Help spend across SWL and Family law by 31 March 2008	Not achieved	
		300 contracts offer a combination of at least 3 categories of SWL by 31 March 2008	Not achieved	
2. Providers deliver quality, value for money and client focused services	Providers meet their contracted performance	80% of providers will be reviewed against key performance indicators contained within the Unified Contract and all appropriate action taken by 31 March 2008	Achieved	
		98% of appropriate contracts are reconciled by 31 March 2008	Partially achieved (nearly met)	
		Maintain 2006/07 performance from the not-for-profit sector in: i) Number of acts of assistance ii) 95% of providers to deliver 95% of their contract hours by 30 September 2007	Achieved	
	Our providers are prepared for the reforms	All crime contracts will have had a peer review or File Assessment Quality by 31 March 2008	Not achieved	
		All civil contracts with categories in SWL and Mental Health in phase 1 of the roll out plan, over or equal to £50,000 will have received a peer review by 31 March 2008	Not achieved	
		All providers that have successfully met the first criteria in achieving Preferred Supplier status by 18 January 2008 will have undergone a Value for Money Assessment by 31 March 2008	Changed	
		Our provider satisfaction score increases by 5% by 31 March 2008	Not achieved	
3. An affordable scheme delivered within the resources available and that demonstrates effective financial control	Live within our agreed funding allocation	To reduce the amount of Unrecouped Payments On Account outstanding on dormant cases in the Corporate Information System by 17.5% (around £24m), including methods such as recovery, write off or referral to Debt Recovery Unit (DRU) by 31 March 2008	Achieved	
		Review all cases on which a Land Charge should have been registered, but was not, and register a charge, refer the case to the DRU or take any other necessary steps to finalise the matter by 31 March 2008	Not achieved	
		Review all cases on which a signed interest agreement has not been received, and request such an agreement from the client. In cases where no signed agreement is forthcoming, refer cases to DRU for recovery of the debt by 31 March 2008	Not achieved	

Strategic objective	Corporate targets	Key performance indicator	Status
		Reduce the debit notes outstanding as at 31 March 2007 by £22m, including a recovery target of £14m from receipt of cash or off-setting	Achieved
		Live within the overall Fund allocation	Achieved
	Applicable elements of the reform programme are introduced on time and within agreed costs and producing predicted benefits	Crime	
		Introduce litigator graduated fee scheme from October 2007	Partially achieved (met with delay)
		Introduce police station fixed fees from October 2007	Partially achieved (met with delay)
		Launch crime Very High Cost Cases (VHCC) panel from October 2007	Partially achieved (met with delay)
		Introduce revised boundary areas from October 2007	Partially achieved (met with delay)
		Consultation on introduction of Transfer of Grant phase 2 (Crown Court) in September 2007	Not achieved
		Civil	
		Introduce Unified Contract from April 2007	Achieved
		Replacement of tailored fixed fees from October 2007	Achieved
		Introduce child care, family help – private work, Immigration and Asylum and Mental Health fee schemes from October 2007	Partially achieved (met with delay)
		Introduce fixed fees for advocates, solicitors and counsel in family cases from April 2008	Not achieved
		Whole system reform	
		All LSC regions to work with the judiciary, the magistrates' courts and providers to examine the link between operational practice and legal aid expenditure and develop an agreed action plan by 31 December 2007	Achieved
		All LSC regions to work with the family courts to examine the link between operational practice and legal aid expenditure and develop an agreed action plan by 31 December 2007	Achieved
		All LSC regions to work with the police and providers with a view to improving the fit between the provision of legal aid and operational practice at the police station and to develop an agreed action plan by 31 December 2007	Achieved
4. A transformed organisation that enables the delivery of objectives and excellence in all it does	The LSC provides a high quality service	Maintain the national customer service score at 90%	Achieved
		Maintain the human resources score at 85%	Achieved
		LSC Online – 100% of providers reporting online for billing purposes by 31 March 2008	Not achieved
	We are a more capable, efficient organisation by 2011	Defined contract activity managed through the supplier management system by October 2007	Not achieved
		Live within our agreed administration budget for 2007/08, which will lead to an overall reduction in the administration budget by 2010/11 as part of the organisational transformation programme	Achieved

About the Legal Services Commission

Legal aid expenditure in 2007/08

Table 1 summarises the expenditure and numbers of people helped in each area of legal aid. The figures in table 1 are represented in the pie charts on page 11.

Table 1: Community Legal Service, Criminal Defence Service and Commission payments 2007/08¹

	Resource spend £m	Cash spend £m	Acts of assistance 000s ²
CLS Licensed Work (gross)	776.5	801.9	165.8 ³
less operating receipts	(220.7)	(210.4)	-
Interest receivable, etc.	(14.8)	7.8	-
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CDS Crown Court and higher courts representation (gross)	675.7	693.4	123.5
less operating receipts, etc.	(1.4)	(1.1)	-
CDS total (net)	1,150.3	1,178.9	1,502.1
CLS and CDS total (net)	1,945.1	2,023.0	2,502.5
LSC administration	113.5	132.5	-

1 CLS payments include Commission funded payments only.

2 Based on starts reported as at 16 June 2008. These figures may not sum to the total due to rounding. Some clients may have received more than one act of assistance during the year, and some acts of assistance may help more than one person.

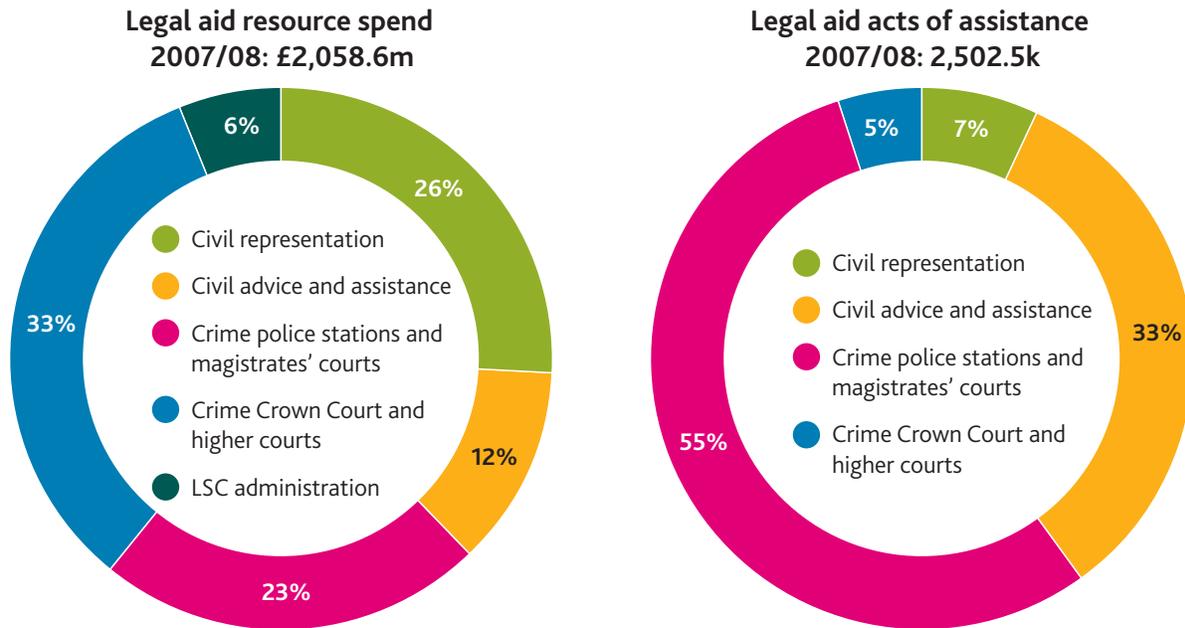
3 Includes eligible clients in family mediations.

4 Excludes release of provision of £350m for costs of dormant cases.

5 Acts of assistance include CDS Direct matters completed.

Controlled Work is work under the civil contract that covers the basic levels of legal advice and representation, including initial meetings and in family cases negotiations, and is referred to as Legal Help or as Family Help Lower. It also encompasses Help at Court and representation in front of Mental Health Review Tribunals and the Asylum and Immigration Tribunal. In Controlled Work an act of assistance is every instance in which a service provider gives legal help to a client, not including representation in court.

Licensed Work is work under the civil contract that covers all Legal Representation (representation by solicitors and barristers for civil cases which could go to court) except work covered by Controlled Work or Very High Cost Cases, which are managed under separate contracts.



Net CLS payments

Total resource spend from the CLS Fund during 2007/08 was £795m. Of this, £541m comprised Licensed Work, Very High Cost Cases and family mediation contracts and £254m was spent on Controlled Work. The expenditure on Controlled Work included £27m on grants, projects and other non-contract work. Of the Controlled Work expenditure, £76m was spent on immigration matters and £151m on Family Help and on social welfare matters such as debt, welfare benefits and housing. This enabled service providers to deliver over a million civil acts of assistance.

Net CDS payments

We spent £1,150m on the CDS during 2007/08. This enabled service providers to deliver 1.5 million crime acts of assistance.

Administration expenditure

The final resource spend for the year was £113.5m, excluding an additional pension fund contribution of £13.0m.

About the Legal Services Commission

Our non-executive Commissioners

A board of independent non-executives oversees the work of the LSC. Commissioners are appointed by the Lord Chancellor. They are responsible for establishing and maintaining the overall strategic direction of the LSC, within a framework agreed with the Lord Chancellor.



Sir Michael Bichard

Sir Michael was appointed Chair of the Legal Services Commission in April 2005. He also chairs the Commission's Finance and General Purposes Committee.



Angus Andrew

Angus was appointed to the Commission on 1 March 2004. He is a solicitor who chairs the Public Interest Advisory Panel and co-chairs the Multi-Party Action Committee. He is also a member of the Costs Appeals Committee and the Finance and General Purposes Committee.



Barry Elliott

Barry was appointed to the Commission on 1 June 2007. He chairs the Audit Committee and the Change Programme Board (from 1 July 2008), and is a member of the Finance and General Purposes Committee.



Tom Jones OBE

Tom was appointed to the Commission on 1 March 2004. He has a special interest in Wales issues and chairs the Wales Committee for the CLS. He is also a member of the Audit Committee.



Lionel Joyce OBE

Lionel was appointed to the Commission on 1 July 2005. Lionel is the Commission's mentor on mental health issues and is a member of the Public Interest Advisory Panel.



Tina Fahm

Tina was appointed to the Commission on 1 November 2004. As the Commission's equalities and diversity mentor, she chairs the Provider Diversity Reference Group and is a member of the Audit Committee and the Human Resources Committee.



Professor Carolyn Hamilton

Carolyn was appointed to the Commission on 1 April 2008. A barrister and academic, she is an expert in family and children law.



Jane Hickman

Jane was appointed to the Commission on 1 June 2007. A practising solicitor, Jane is the Commission's criminal defence specialist and the Professional Head of Service for the Public Defender Service.



Beryl Seaman CBE JP

Beryl was appointed to the Commission on 1 July 2005. She chairs the Customer Redress Committee and the Human Resources Committee.



Peter Smith

Peter was appointed to the Commission on 1 April 2008. He is a member of the Finance and General Purposes Committee and an expert in public sector procurement.



Dr David Wolfe

David was appointed to the Commission on 1 October 2005. A practising barrister, David is the Commission's advocacy specialist. He also co-chairs the Multi-Party Action Committee.

Other members

- Dr Lily M Segerman-Peck served as a non-executive Commissioner and a member of the Finance and General Purposes Committee until 31 October 2007.
- David Edmonds CBE served as a non-executive Commissioner until 30 June 2008. He also chaired the Audit Committee and the Change Programme Board and was a member of the Finance and General Purposes Committee.

About the Legal Services Commission

Our Executive Team

With a head office in London, the LSC currently employs around 1,600 staff at 14 sites across England and Wales (see map on page 15). Led by the Chief Executive, our organisation is divided into four directorates each headed by a member of our Executive Team.



Carolyn Regan
Chief Executive

Carolyn joined the LSC in September 2006. She has overall responsibility for the performance and management of the LSC and is accountable to the Commission.



Richard Collins
Executive Director for Policy

Richard was appointed to this role in June 2004. He is responsible for the external implementation of the legal aid transformation programme, in particular the criminal and civil programmes. Rod Clark is currently the temporary Executive Director for Policy while Richard Collins receives planned medical treatment.



David Godfrey
Executive Director for
Corporate Services

David joined the LSC in April 2005. His main role is to pull together under one remit all of the services on which the LSC depends to drive and support its operations and the changes it needs to make as an organisation.



Gary Robertson
Interim Executive Director for
Service Delivery

Gary was appointed to this role in May 2008. He is responsible for developing and delivering services that give consistent, high quality outcomes for legal aid clients.



Helen Riley
Executive Director for
Organisational Transformation

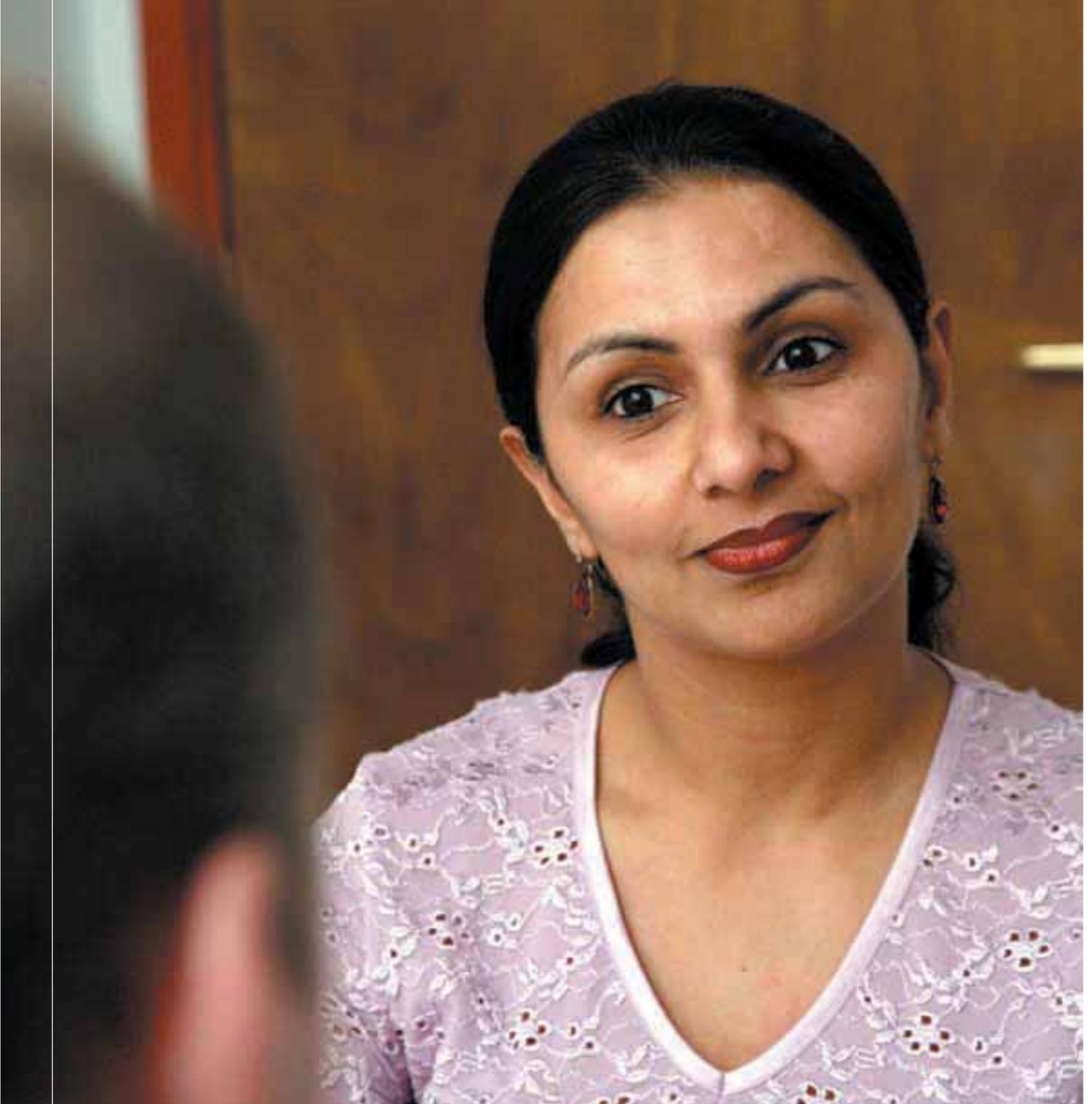
Helen was appointed to this role in April 2007. She is accountable for the coherence and deliverability of the entirety of the LSC's transformation programme.

Other members

- Mike Jeacock was Executive Director for Service Delivery until 30 April 2008.
- Jonathan Lindley was Executive Director for Change and Organisational Transformation until 25 April 2007.



Strategic objective 1



Clients have access to quality services that meet their needs

Corporate targets 2007/08

Corporate target: All eligible clients have access to a solicitor		
Key performance indicator	Status	Progress
Increase proportion of calls to Community Legal Advice (formerly CLS Direct) within an overall target of 850,000 acts of assistance by 2008: i) 700,000 face-to-face ii) 150,000 CLS specialists	Not achieved	In 2007/08 we increased our target in this key area of work. This year, we achieved 752,642 (excluding immigration and asylum). Of this figure, 668,067 acts of assistance were delivered face-to-face and 84,575 were delivered through specialist telephone advice. Further information is available on page 19.
95% of duty calls from police stations are accepted within 30 minutes	Achieved	Over 2007/08, 95% of duty calls were accepted within 30 minutes by a solicitor.
100% provision of duty solicitors in magistrates' courts throughout the year	Achieved	We continued to maintain 100% provision of duty solicitors in magistrates' courts.

Corporate target: Improve access to social welfare categories of law		
Key performance indicator	Status	Progress
50 procurement areas have provision in all 5 categories of Social Welfare Law (SWL) and Family law by 31 March 2008	Partially achieved (nearly met)	49 areas met this target by 31 March.
50 procurement areas are within +/- 15% of their indicative Legal Help spend across SWL and Family law by 31 March	Not achieved	Due to issues regarding the implementation of the LSC Online IT system we did not meet this target.
300 contracts offer a combination of at least 3 categories of SWL by 31 March 2008	Not achieved	209 contracts met this target in 2007/08 and we will continue to work to improve SWL provision in 2008/09.

Project milestones

Milestone	Status	Progress in 2007/08
Six Community Legal Advice centres open from Spring 2008	Not achieved	We opened four centres by Spring 2008. These were in Gateshead, Portsmouth, Leicester and Derby.
CDS Direct extended for own client work by October 2007	Partially achieved (met with delay)	CDS Direct was extended in April 2008.

Strategic objective 1

Community Legal Service

The Community Legal Service (CLS) funds civil legal help and legal representation for some of the most vulnerable people in society through solicitors and not-for-profit agencies. The contracts awarded to providers are split by category of civil law, which allows the Legal Services Commission (LSC) to target provision on the areas where need is greatest.

Ensuring access to justice

The core purpose of the LSC is to provide access to high quality advice and legal representation to people in genuine need. We aim to provide innovative legal services to the people of England and Wales. Through forming new ways to deliver quality services, the LSC is working with our partners to meet the challenges of the legal aid transformation programme. Throughout this process, clients remain our top priority. The LSC accepts that the legal aid budget is fixed, so is continuing to develop innovative ways of providing high quality legal services.

CLS Strategy

The LSC published its five-year strategy for civil legal aid in 2006. Endorsed by the Lord Chancellor, *Making Legal Rights a Reality* outlined the reforms that the LSC believes are necessary to create a system of publicly funded legal services that best meet the needs of legal aid clients.

In 2007/08 the LSC continued to implement key elements of the CLS Strategy. We introduced new fee schemes for various categories of civil cases that will mean that the legal aid provided to clients is better focused and better value (see page 35).

We ran a new civil bid round that closed in November 2007. A bid round allows the LSC to adapt funding according to need and provide more services where need is greatest. The bid round was very popular with providers with over 400 bidding for 84 tenders. This allowed the LSC to fund 67,000 extra Legal Help acts of assistance in 2007/08 across five categories of civil law, and was targeted at priority client groups such as domestic violence victims.

We are continuing to work with local authorities to move towards joint commissioning of civil advice provision. This approach ensures that clients can access services offering a greater range of categories of law at all levels without the need for frequent referral. During 2007/08 the Gateshead Community Legal Advice centre provided quality, accessible advice in six categories of civil law. Although the Centre experienced a challenging first year,

the LSC, Gateshead Council and the Gateshead centre are pleased with progress and committed to making 2008/09 even more successful.

On 1 April 2008 three new Community Legal Advice centres in Derby, Leicester and Portsmouth started seeing clients. This is another milestone in the delivery of joined-up services for clients and a step forward in the reform programme. We continue to have encouraging discussions with a number of local authorities, all of whom can see the benefits of working together to deliver better services for clients.

CLS Strategy in Wales

In recognition of the governance structures of Wales and the role of the Welsh Assembly Government, the LSC has been proactive in exploring the unique opportunities for and challenges to delivering the vision for the CLS in Wales. In September 2007, the LSC and Welsh Assembly Government published a joint policy document, *Making Legal Rights a Reality in Wales*. This policy framework sets out the shared vision for how legal aid and advice for non-criminal matters such as welfare benefits, debt, housing, community care and employment will be funded, purchased and delivered across Wales in future. The document is based on the principles in the overarching CLS Strategy, and is fully aligned with the Welsh Assembly Government's framework for public services, *Making the Connections*.

The LSC's Wales Committee for the CLS held its inaugural meeting in March 2007 and has continued to meet during 2007/08 to discuss and reflect on the LSC's key areas of reform and the wider role of the CLS, in the light of devolution, geography, language and culture in Wales.

Family strategy

High quality publicly funded legal services in family cases are essential to many families to resolve difficult and distressing situations in a timely and satisfactory manner. In March 2007 the LSC published *Making Legal Rights a Reality for Children and Families* which set out the priorities for family legal aid. Family legal aid expenditure comprises over half of all civil legal aid spend and is central to the LSC's plans to transform legal aid.

In October 2007 the LSC introduced new fee schemes for solicitors providing family legal aid and for solicitors and not-for-profit organisations providing mediation services in family disputes. The aim of these schemes is to focus resources where possible on resolving cases out of court and to provide a transitional step towards commissioning services through best value tendering.

In October 2007 the LSC began piloting the provision of family legal aid through the Community Legal Advice telephone line. This service has proved to be very popular and was extended in January 2008. A full service will be introduced in early 2009.

Further information on all aspects of the strategies outlined above is available on the LSC website: www.legalservices.gov.uk.

Delivering access to justice

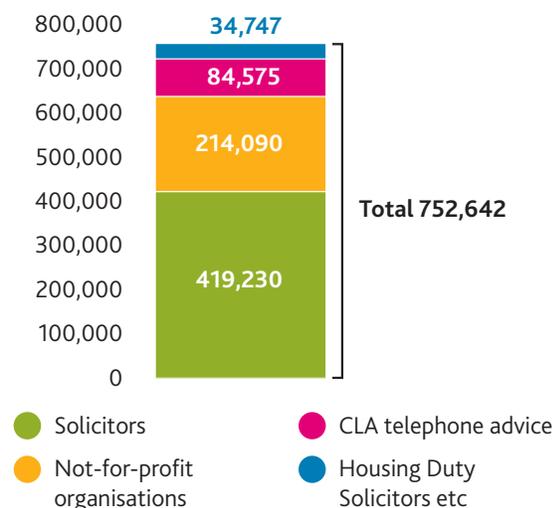
In 2007/08 we spent £795m funding service providers to give over a million acts of civil legal assistance. 147,557 people received representation, with a further 19,739 eligible for legal aid taking part in family mediation. Providing legal help and assistance to clients is our main priority and the LSC will continue to reform the legal aid system to provide as much assistance as possible within a finite budget.

Acts of assistance target

The LSC set a target for 2007/08 to deliver 850,000 acts of assistance via face-to-face and specialist telephone advice. This measures certain key areas of our Controlled Work acts of assistance. We increased the target on 2006/07 and have been doing so for the last three years. This year we funded 752,642 acts of assistance against this target.

When we set the target we expected the telephone operator service to deal with about 80,000 calls without the need to transfer them to specialist advisers. The number of calls dealt with by the operators was almost double what we expected (see page 20).

Chart 1: Acts of assistance target 2007/08¹



1. Based on starts reported as at 16 June 2008.

These acts of assistance were delivered to people in two ways:

- face-to-face advisers delivered 668,067 new cases, a slight decrease from last year. This was due in part to guidance issued in October 2007 which encouraged the immediate issuing of representation certificates in domestic violence cases. It is estimated that the impact of this on acts of assistance was in the region of 6,000 cases.
- telephone advisers from Community Legal Advice started 84,575 acts of assistance.

Methods of delivery

For initial advice and assistance, members of the public often use **Community Legal Advice**. This includes a telephone helpline, information leaflets and a website.

For face-to-face advice, CLS contracts operate under two mechanisms:

Controlled Work: this covers the basic levels of legal advice and representation, including initial meetings and in family cases negotiations, and is referred to as Legal Help or as Family Help Lower. It also encompasses Help at Court and representation in front of Mental Health Review Tribunals and the Asylum and Immigration Tribunal. In Controlled Work an act of assistance is every instance in which a service provider gives legal help to a client, not including representation in court.

Licensed Work: all other types of civil work are referred to as Licensed Work, except for Very High Cost Cases, which are managed using specialist contracts. Licensed Work puts no limits on the amount of work that can be done, but does require an application for funding to be sent to the LSC for each case. It is then up to the LSC to decide if the client meets the funding criteria and the case meets the merits test.

For Controlled Work and Licensed Work we report the headline movements in the number of contracts, numbers of acts of assistance and trends that these statistics show. The costs are reported in table 1 on page 10. More detailed figures are available on our website at www.legalservices.gov.uk.

Community Legal Advice

Since its launch in 2007, Community Legal Advice (formerly Community Legal Service Direct) has had a major impact on the LSC's ability to ensure quality legal advice and provision in all areas of England and Wales. It combines a telephone service, internet based information and leaflets under one recognisable brand.

Strategic objective 1

Those seeking legal advice can call 0845 345 4 345 or visit <http://www.communitylegaladvice.org.uk> to get free information, help and advice regarding a wide range of common legal problems.

In addition people can now text "LegalAid" to 80010 and an operator will call them back.

Performance and use

Community Legal Advice puts access to legal services as close to the client as possible, so they can more easily access legal advice at what is a difficult time.

Community Legal Advice allows people to access publicly funded legal services in the comfort of their own home through the telephone helpline and website or to pick up a leaflet on a particular category of civil law at a wide variety of locations throughout the country.

The telephone service is primarily aimed at people who are financially eligible for legal aid. If callers are not eligible for legal aid or have a problem outside one of the areas where we offer specialist advice we will still seek to help them resolve their problems by offering them an appropriate information resource, an alternative helpline or referring them to face-to-face advice. Advice providers answer 95% of calls live, and offer a full specialist casework service, as well as initial advice.

The helpline is reaching diverse clients. The service is available in English and Welsh, and offers three-way translation services in 170 languages or Tynetalk and Minicom to assist deaf and hard-of-hearing clients. 24% of our clients consider themselves to be of black or minority ethnic background and 20% consider themselves to have a disability.

In 2007/08 250,877 members of the public were helped by Community Legal Advice. Our specialist telephone advisers handled 84,575 cases and 166,302 clients' enquiries were closed by the operator service by either resolving the issue to the client's satisfaction or referring to a non-LSC funded source.

From October 2006 to March 2007 the operator service dealt with approximately 35,000 cases. In 2007/08 the total number of calls dealt with or referred by the service was 70% higher than in 2006/07. The introduction of the operator service led to a greater number of calls being closed at the initial advice stage, without the need to refer people to a specialist adviser.

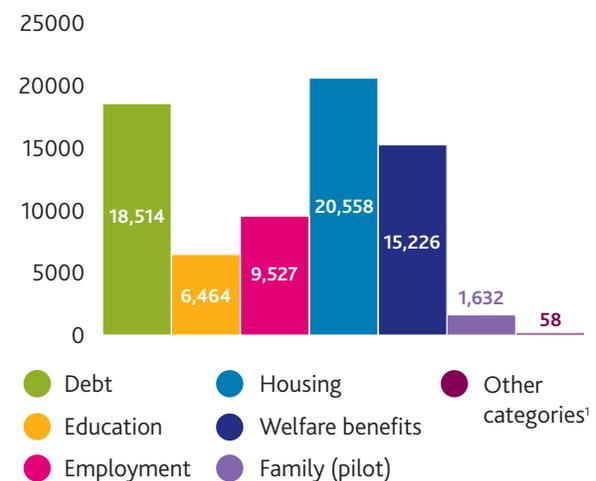
A breakdown by category of cases completed by our telephone specialists is shown in chart 2.

In a survey carried out last year, 96% of clients said the service met their expectations and 92% said they would recommend the service.

The Community Legal Advice website had an estimated 2.07 million visits in 2007/08, which represents a monthly visitor rate of 172,299. We are now able to measure traffic on our website with greater accuracy. Whilst the number of visits for 2007/08 is lower than the figure in last year's annual report, visits are in fact up by 32% on last year when we apply our new measurement processes to last year's data.

In addition, an estimated 250,000 leaflets were downloaded from the Community Legal Advice website. The LSC recognises that electronic sources of information are not open to everyone, so we also provided over 2.1 million leaflets to pick up from a variety of locations.

Chart 2: Breakdown of Community Legal Advice Legal Help acts of assistance by category 2007/08



1. Some work is carried out under 'tolerance', which means it is not category specific.

CLS Controlled Work

Movement in the number of civil contracts

The LSC introduced the civil Unified Contract in April 2007. Prior to the introduction of the Unified Contract, organisations would have had different contracts for each location. Under the Unified Contract the LSC brought all of a provider's offices under one contract. As at 31 March 2008 the total number of service providers holding a CLS contract who could take on new clients was 2,734. Of these contracts, 2,362 were held by solicitors and 372 by not-for-profit agencies. These covered a total of 3,627 offices compared to 3,895 as at 31 March 2007, a reduction of 7%. This follows the trend of the last few years of increasing consolidation of services.

Categories of Controlled Work

The LSC grants contracts for specific areas of law to target resources where the need is greatest. These contracts decreased by 4% from 6,463 as at 31 March 2007 to 6,177 as at 31 March 2008. This is linked to the trend outlined above as well as a decrease in the work available under certain categories, such as immigration.

CLS Licensed Work

Table 2 gives the figures for the numbers of applications the LSC received for civil and family legal aid funding, the numbers of certificates for funding that we issued, the number of bills we paid for cases that were finished and the percentage of cases reported to be beneficial to the client.

Family

Applications for family legal aid

From 1 October 2007 we introduced a new fee structure and a new division of work in family legal aid (see page 18), encouraging and enabling providers to do much more to resolve cases out of court. From that date, clients only need apply for a representation certificate at the point where all attempts at mediation or settlement have failed, rendering the former General Family Help and Help with Mediation types of certificate effectively obsolete.

The impact of this change was substantial and immediate:

- applications for General Family Help and for Help with Mediation fell by 48% and 41% respectively over the year as a whole.
- although domestic violence proceedings are not susceptible to a greater emphasis on mediation and negotiation, applications for representation certificates fell by 10%. This may be partly as a result of the implementation in July 2007 of the Domestic Violence Crime and Victim Act 2004. As this is a priority area for the LSC we are investigating what other reasons there might be.

- in categories where the previous path was normally to apply for a General Family Help certificate and then apply for an amendment for full representation, the effect was the reverse. Clients who had exhausted the possibilities of mediation or negotiation began applying for full representation certificates. As a result, applications for certificates for private law Children Act cases increased by 57% to 37,203 for the year as a whole and applications for certificates for ancillary relief and for other miscellaneous family proceedings by 123% to 13,179.
- although not subject to the same fee structure, other external factors meant that applications for representation in public law Children Act proceedings decreased by 6%. The reduction was only 4% for non-means, non-merits tested parties directly involved in care proceedings, but applications for other public law proceedings fell by 10%.

Certificates issued for family legal aid

The shifting pattern of applications received produced corresponding changes in the numbers of certificates issued:

- Help with Mediation certificates fell by 47% over the year as a whole as the category became obsolete
- certificates issued for private law Children Act proceedings, for domestic violence proceedings and for ancillary relief fell by 5%, 12% and 19% respectively
- certificates for other family proceedings and combined proceedings increased by 14%
- certificates issued for public law Children Act proceedings fell by 5% for non-means, non-merits tested applicants and by 14% for other public law proceedings, an overall reduction of 5%.

Costs of completed family legal aid cases

As part of the change to reporting on an accruals basis, we have moved from reporting average spend per first main bill paid to reporting on the actual gross cost of cases with the final main bill paid during the year. This gives a better picture of the actual cost of completed

Table 2: Work started, completed and billed 2007/08

	Funding applications received	Certificates issued	Final bills paid	Substantive benefit to client %
Family	141,596	115,086	120,734	58
Non-family	30,824	22,877	26,823	48
Total 2007/08	172,420	137,963	147,557	56
Total 2006/07	189,476	151,773	152,133	54

Strategic objective 1

cases. For comparative purposes, equivalent figures for the previous two financial years are now available from our website at http://www.legalservices.gov.uk/aboutus/how/strategic_publications.asp.

The number of family cases completed in 2007/08 was 1% down on 2006/07, but average cost per case increased by 7%, resulting in an increase of 6% in the gross cost of completed cases to £531m.

The main changes were:

- public law Children Act cases completed increased by 3% in volume and by 8% in average cost, an overall increase of 11% in total cost
- completed cases involving only private law Children Act proceedings increased by 1% in volume to 39,994 cases and by 7% to 6,050 in cases where domestic violence was also an issue
- cases involving children and financial matters fell by 11% to 4,280
- the volume of cases involving financial matters and domestic violence together also fell by 7% to 1,770 and cases involving only finance fell by 12% to 15,998
- domestic violence cases fell by 3% to 11,077

- the overall volume of private law cases fell by 2% but average cost per case increased by 4%, producing an increase of 2% in total cost.

Outcomes reported in family legal aid

Service providers reported a benefit to the client in 58% of completed cases, up from 54% in 2006/07. The picture overall was very stable with only minor variations between service providers.

Family mediation

In 2007/08 cash payments totalling £13.2m were authorised to fund 13,159 mediation case starts. (Mediation spend has been running at around £13m for several years, so cash spend and resource spend are fairly closely matched.) During the same period, 68% of closed cases had a successful outcome. At the end of 2007/08, the LSC had contracts with 139 for-profit and 60 not-for-profit family mediation services.

Non-family

Applications for non-family legal aid

Applications for non-family representation continued the downward trend of recent years with a fall of 5%. There

CASE STUDY: Joan Louis

Help with debt problems

Some years ago, Ms Louis fell into rent arrears as she was not working and had difficulties with her housing benefit. She was taken to court.

Ms Louis was not very well at the time. She had told her housing officer that she would pay all the arrears – and she was therefore told not to go to court. In her absence, an outright possession order was made. However, she did pay off all the arrears within a short period and the local council decided not to apply for a warrant to evict her. She remained in the property, although she had lost her tenancy.

Ms Louis came to Law for All solicitors a few years after these initial problems. She had again fallen ill and had time off work. This meant she had not been able to keep up with the rent. However, she was working two jobs to try to pay her rent, despite being in obvious pain.

Law for All applied for the warrant to be suspended and for the earlier possession order to be set aside or varied so she could again be a tenant. At the time they applied for the warrant she was only in about £600 of arrears.



Law for All managed to get Ms Louis's housing benefit problems resolved for the time that she was off work, and she continued to pay the arrears. The application to suspend the warrant was successful and resolved quickly. The application to set aside or postpone the possession order was also successful as – due to Ms Louis's hard work despite being ill – she paid all the arrears.

Without public funding, Ms Louis would be homeless now, despite working extremely hard and doing all she could to pay the arrears.

were small increases in the numbers of applications for some of the smaller categories such as community care, mental health and public law, but housing applications fell by 5%, clinical negligence by 10% and consumer matters by 10%.

Certificates issued for non-family legal aid

New certificate numbers reflected the fall in applications, reducing by 4% overall. Clinical negligence certificates were down by 8% and housing by 3%, but certificates for community care and mental health cases both increased by 11% and public law cases by 14%, reflecting the increase in applications in those categories.

Costs of completed non-family legal aid cases

The *Funding Code*, which sets out who is eligible for legal aid, was considered and approved by Parliament in April 2000. Some older cases started prior to April 2000 in areas of law which the LSC no longer funds are still ongoing and we are still required to fund providers dealing with these cases. As these older cases finish the number and cost of non-family bills also continues to reduce.

Non-family cases include a large number of 'set-off' cases, where the costs are actually agreed and paid by the opponents, sometimes with a small element remaining to be paid out of the CLS Fund. The fees in these cases are agreed and paid at market rates. As the number of historical cases managed on this basis continues to end, so will the expenditure on these cases. Reporting on a 'final main bill' basis enables us to separate out the costs in these cases, giving a clearer picture of the cost of publicly funded cases.

The main changes were:

- cases paid out of the CLS Fund reduced by 10% in volume to 21,734 and by 20% in average cost to £4,090, resulting in a total gross cost of £89m to the Fund
- cases where the costs were agreed and paid by the opponents reduced by 15% in volume to 5,089 and the average value increased by 13% to £24,089, resulting in a total gross claim of £123m of which £120m was paid by opponents and £3m from the CLS Fund.

Outcomes reported in non-family legal aid

The proportion of non-family cases where providers reported a substantive benefit to the client was 48%, up from 44% in 2006/07. The clinical negligence category involves a two-stage process including a wider investigative stage and representation only in cases which have a reasonable prospect of success. The proportion reporting a substantive benefit to clients remained stable in 2007/08 at 37% overall and 64% in cases which had passed the investigative stage.

Funding appeals and reviews

Any legal aid applicant who is refused legal aid under the Licensed Work contract is allowed to appeal against that decision.

During 2007/08 there were 8,574 appeals in total. Of these 5,811 were granted after an internal review by the relevant regional office. Of the remaining cases, 2,772 were continued to a full review by either an Independent Funding Adjudicator or a panel of Adjudicators. Independent Funding Adjudicators are drawn from an independent panel of solicitors and barristers. Of these cases 625 were granted in full or in part. Many of the cases that were subsequently granted were granted on the basis of further information being given by the applicants.

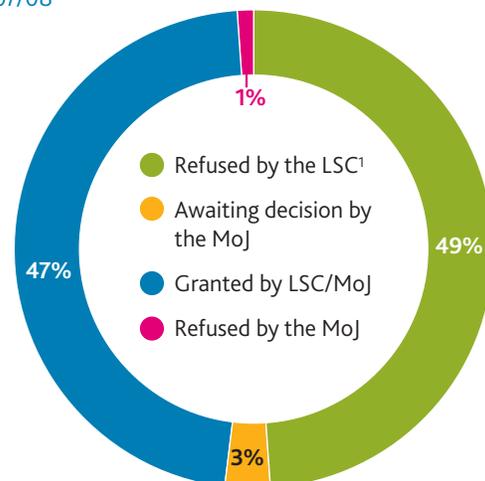
Exceptional funding

Sometimes when cases fall outside the remit of conventional legal aid funding, a client can make an application to the LSC for exceptional funding. Cases granted this variety of funding are often in the public interest or will set important legal precedents. These cases can include disputes, inquests and tribunal hearings.

All applications for funding, except custody inquests, go through an approval process by the LSC and then, if successful, are passed to the Ministry of Justice for consideration and a final decision by ministers. Custody (otherwise known as 'in scope') inquests are considered by the LSC without the need to refer to the MoJ.

In 2007/08 there were 230 applications for exceptional funding, which is fewer than the 304 received in 2006/07. The outcomes of exceptional funding applications determined during 2007/08 are shown in the chart below.

Chart 3: Exceptional funding applications determined 2007/08



1. Includes abandoned and withdrawn cases.

Strategic objective 1

Criminal Defence Service

The Criminal Defence Service (CDS) is responsible for providing funding for legal representation in all criminal legal proceedings in which a defendant is eligible.

The LSC's responsibilities in relation to the CDS include:

- providing criminal defence services in police stations and magistrates' courts through contracts with private practice solicitors' firms
- managing the national network of police station and magistrates' court duty solicitor schemes
- assessing the financial eligibility of all legal aid applicants in the magistrate's courts
- assessing and paying all claims for legal aid work in the Crown Court and above
- managing individual case contracts for Very High Cost Cases, working closely with defence teams

- providing services directly to the public through the Public Defender Service
- contributing to the development of the criminal justice system.

Movement in the number of criminal contracts

The LSC awards CDS contracts to quality assured providers. At 31 March 2008, 2,230 solicitors' offices operated under a CDS contract, a net decrease of 11.1% on 2006/07.

The reduction in the number of contracts held reflects the trend over the last several years for offices doing small amounts of legal aid work to drop out of the market or merge with other offices, so that the work is done in larger volumes at fewer offices. As the LSC continues to pursue higher quality legal services, the number of providers is reducing. These trends have not significantly affected the ability of the public to obtain legal aid when they require it.

CASE STUDY

Working with WHIST

Women's Health in South Tyneside (WHIST) contacted the LSC to ask if we could help them find some advice for their clients on domestic violence and public law childcare.

WHIST is based in South Shields and was set up in 1985 by a group of local women to offer advice and information to other women in the area on a voluntary basis. The demand for their services has grown and now over 200 women access them every week.

Deborah Challis, Contracts Manager for the LSC's South Tyneside regional office, visited WHIST and found out more about the services they offer and what advice provision they needed.

WHIST were looking for a female solicitor with experience in domestic violence and public law childcare to provide a regular outreach service at their premises.

South Shields already had a number of family providers who fitted this bill. However, WHIST clients are often uncomfortable entering the formal offices of a solicitor's practice. Therefore they wouldn't normally access their services to get the advice so desperately needed.

Deborah wrote to all of the contracted advisors in the South Tyneside area to tell them about the services WHIST



provides and to ask anyone interested in providing an outreach service to contact WHIST to make arrangements.

Two local firms, Graeme Cook solicitors and Marshall Hall Levy solicitors, contacted WHIST and between them arranged a regular outreach session at WHIST's premises and an emergency call-out service for those clients who have an urgent domestic violence problem.

Deborah Challis says: "One of our objectives for 2008/09 is to be more in touch with those who need our services and to make a positive impact in terms of access and quality. The work we have done with WHIST, Graeme Cook and Marshall Hall Levy solicitors really shows how easy and effective it can be."

The LSC issued a new crime contract in January 2008, prior to the introduction of a Unified Contract for crime work, which brings all of a provider's offices under one contract.

The LSC ran an application process in April 2008 and a total of 1,799 providers were awarded a crime Unified Contract, which began on 14 July 2008 and lasts for 18 months. 2,333 provider offices were included in these applications, ensuring full coverage for police stations and courts across every region of England and Wales. This represents an increase of 8% in the number of offices contracted to undertake publicly funded defence services.

Services provided through the CDS

During 2007/08 we spent £1,150m on the CDS, which enabled us to provide 1.5 million acts of assistance. Throughout 2007/08 we continued to maintain 100% coverage of the 24-hour duty solicitor scheme at police stations across England and Wales.

Table 3 shows a breakdown of the services provided to CDS clients and the levels of service provided. These range from providing legal aid so that a solicitor can be present at the police station through to defending clients in court if charges have been brought.

In 2007/08 the number of people receiving advice and assistance, including that delivered by CDS Direct at police stations, fell by 4% from 2006/07, whilst the cash value of claims for providing advice fell by 7%.

CDS Direct and the Defence Solicitor Call Centre (DSCC)

CDS Direct is a telephone helpline that provides non-means tested legal advice direct to members of the public who are suspected of less serious criminal offences and detained by the police. In 2007/08 CDS Direct dealt with 77,908 cases, on issues like driving with excess alcohol, failure to provide a specimen and breach of bail conditions. In terms of response times, CDS Direct made 97% of outgoing calls to clients within 15 minutes (against a target of 90%) and 99% within 30 minutes (against a target of 95%).

CDS Direct was expanded in early 2008 to cover own client work as well as duty work for the same offences. This change, as well as providing better value for money, enables clients to receive quicker access to advice, which reduces their time in custody. Clients may change to their own solicitor at a later stage if their case goes to court.

In early 2008 the LSC expanded the DSCC to deal with all requests for legal advice from people arrested at police stations. The channelling of all cases through one call centre will allow the LSC to collect better data on criminal cases, which will inform our policy decisions on funding.

Help at the Crown Court

In October 2005 the Lord Chancellor introduced changes aimed at reducing expenditure in Crown Court cases. In 2007/08 legal aid resource spend in the Crown Court and above totalled £676m, which is a small increase from £670m in 2006/07 but still well below the £694m spent in 2005/06.

Table 3: CDS types of service, numbers and total claimed 2007/08

Advice or representation	Types of service	Numbers ¹	Total claimed £000
Police station: suspects not yet charged	Free standing advice and assistance	12,379	1,585
	Police station advice and assistance	754,981	163,244
Lower courts: defendants who have been charged	Court Duty Solicitor sessions	83,253	20,987
	Representation orders	473,837	248,380
	Advice, assistance and advocacy where no representation order granted	55,250	20,114
Higher courts: defendants who have been charged	Very High Cost Criminal Case ² contracts let	394	124,566
	Representation orders	123,519	567,656

1. This is not necessarily reflective of the number of cases.

2. Criminal cases with an expected trial length of 41 days or over.

Strategic objective 2



Providers deliver quality, value for money and client-focused services

Corporate targets 2007/08

Corporate target: Providers meet their contracted performance		
Key performance indicator	Status	Progress
80% of providers will be reviewed against key performance indicators contained within the Unified Contract and all appropriate action taken by 31 March 2008	Achieved	We reviewed 95% of providers against the key performance indicators and undertook all appropriate action.
98% of appropriate contracts are reconciled by 31 March 2008	Partially achieved (nearly met)	We reconciled 97% of contracts, which is broadly similar to our performance in 2006/07. This good performance was produced despite considerable challenges during the year.
Maintain 2006/07 performance from not-for-profit sector in: i) Number of acts of assistance ii) 95% of providers to deliver 95% of their contract hours by 30 September 2007	Achieved	i) Not-for-profit providers delivered 214,090 Legal Help acts of assistance, a rise of 6% on 2006/07. ii) By 30 September 99.8% of providers were delivering 95% of their contract hours.
Corporate target: Our providers are prepared for the reforms		
Key performance indicator	Status	Progress
All crime contracts will have had a peer review or File Assessment Quality by 31 March 2008	Not achieved	We started this process but progress was slower than expected. We also reviewed the target to better focus resources on priority areas. We are streamlining our file sampling and internal processes to meet the peer review target in 2008/09.
All civil contracts with categories in Social Welfare Law and Mental Health in phase 1 of the roll out plan, over or equal to £50,000 will receive peer review by 31 March 2008	Not achieved	Due to other priorities we decided not to pursue this target this year. We will continue to carry out civil peer reviews in 2008/09.
All providers that have successfully met the first criteria in achieving Preferred Supplier status by 18 January 2008 will have undergone a Value for Money Assessment by 31 March 2008	Changed	We do not now plan to implement the key elements of Preferred Supplier as a separate strand of the transformation programme but as an integral part of all the legal aid reforms.
Our provider satisfaction score increases by 5% by 31 March 2008	Not achieved	We did not feel it was appropriate to continue to pursue this target, due to the challenges around the civil Unified Contract and the supplier management system. We will continue to work hard to improve provider satisfaction.

Strategic objective 2

Project milestone

Milestone	Status	Progress in 2007/08
Introduce Unified Contract for all criminal providers by April 2008	Partially achieved (met with delay)	We introduced the Unified Contract for criminal providers in July 2008.

Working in partnership

The Legal Services Commission (LSC) commissions solicitors, barristers and not-for-profit agencies to provide legal help and representation to clients throughout England and Wales.

The LSC is currently in the process of implementing a challenging reform programme, which will affect all aspects of the legal aid system. The LSC believes that the legal aid system and its providers will be able to meet this challenge through careful and constructive working relationships.

Quality assurance and performance standards

The LSC has developed several mechanisms for ensuring quality supply, including peer review, file assessment and quality profiles.

Our policy paper *Assuring and Improving Quality in the Reformed Legal Aid System*, published in March 2006, set out our proposals for a Preferred Supplier scheme. In December 2007 the LSC confirmed we no longer intended to implement Preferred Supplier as a distinct scheme. Instead we made key elements of it integral to the reforms which we are taking forward within the transformation programme.

These key elements include:

- quality assurance through peer review, a direct independent assessment of quality of advice and legal work

- electronic working
- giving providers more responsibility for making decisions on civil cases
- remote performance monitoring
- relationship management.

Integrating the Preferred Supplier scheme into the main transformation programme allows the LSC to prepare providers for the proposed introduction of best value tendering in the future.

The LSC is working closely with a group comprising representative bodies, justice system partners and the Institute of Advanced Legal Studies to review our current quality assurance processes. Through this engagement we aim to ensure that we maintain high standards of provision and that clients have access to good quality services.

During the year the LSC and the MoJ consulted on *Creating a Quality Assurance Scheme for Publicly Funded Defence Advocates*. This pilot scheme of quality assurance for advocates practising in the Crown Court and above is expected to be piloted in early 2009. This scheme will allow the LSC to look for the first time at the quality of advocacy.

New legal aid lawyers

The LSC first introduced a training grants scheme in 2002. In 2007/08 we awarded 100 training grants. The grants contribute to an individual's fees for training as a legal aid lawyer and also a proportion of their initial salary with a law firm. To target new solicitors in the areas in most need, priority is given to those solicitors wanting

“My advisor worked miracles for me and my four debts enabling me to work with manageable repayments. Her ongoing feedback was excellent throughout negotiations.” – Community Legal Advice client

to practice in Social Welfare Law, mental health, family, immigration and crime.

This year we carried out a short telephone survey of 147 trainees past and present. The results showed that 82% of trainees want to stay in legal aid and 74% of trainees are still with the firm they trained with.

We are planning to expand and improve the training grant scheme in line with feedback from past and current scheme participants to ensure that more legal aid lawyers are given funding to train and remain financially viable during the beginning of their legal aid careers.

The LSC has provided over 590 grants to help fund solicitors through the training process and we now also sponsor the 'Young Solicitor' category at the Legal Aid Lawyer of the Year awards.

Equality and diversity

The LSC is committed to equality of opportunity in all areas of the legal aid system, including within the organisation, within the providers it funds and for the clients that require publicly funded legal services.

We have a diverse provider base that we want to sustain and develop so that it better reflects the communities it serves. We aim to work with our providers and partners to promote diversity within the legal profession so that services take account of the diversity of local populations, without compromising quality.

As part of this process we work closely with the Provider Diversity Reference Group. Set up in July 2006, the group advises and constructively challenges the LSC as it develops its vision and strategy. The group has continued to look at all aspects of the LSC's transformation programme to ensure that all necessary and desirable considerations of equality and diversity are considered. This includes working with us to develop an effective impact assessment process.

Legal aid contracting

The Unified Contract

Following the introduction of civil contracting in 2000, separate crime and not-for-profit contracts were developed to set out the basis on which providers would deliver legal aid services across England and Wales. In *Legal Aid Reform: the Way Ahead*, published in 2006, we

announced that we would move towards a single Unified Contract for all providers.

The Unified Contract for civil legal aid providers took effect from 1 April 2007, and 95% of existing providers signed up to it. It united the contracts for not-for-profit organisations and solicitors' firms for work carried out as part of the Community Legal Service. The LSC ensured that there were transitional arrangements in place for not-for-profit organisations to help them manage the change.

The Unified Contract was the first stage of the reform programme. It paved the way for the wider reforms designed to offer improved services for clients and better value for taxpayers, in particular the new fixed and graduated fees for civil work.

Although the actual provisions in the civil Unified Contract were very similar to earlier contracts, the LSC faced significant challenge to the Unified Contract and the reforms it sought to introduce. Following litigation in the courts and extended discussions and negotiations, the Law Society and the LSC, together with Ministry of Justice (MoJ), reached an agreement in April 2008 that directed the way for the future of the Unified Contract in particular and the legal aid transformation programme in general.

The key elements of the agreement are:

- in return for certain conditions, an agreement by the LSC and MoJ not to terminate the contract before its expiry in 2010
- targeted pay increases in relation to certain fees
- concessions in relation to contractual provisions on work following the end of the contract, regular monthly payments and historic payments on account of costs
- the setting up of groups to review auditing, quality and the development of contracts generally
- a commitment to constructive engagement in good faith for the future.

The LSC is firmly committed to civil reform, which remains on track, and to the development of high quality legal aid services. We are pleased with the constructive agreement we have reached on the way forward with the legal aid transformation programme and the commitment from all parties to continue working collaboratively in the future.

We anticipate that the civil Unified Contract will run its course until April 2010. We will work with the Law Society and other stakeholders on the likely content of future contracts, including through consultation.

Strategic objective 2

We introduced the Unified Contract for crime providers in July 2008, bringing all of a provider's offices under one contract (see page 24).

Third sector engagement

The LSC aims to engage with all aspects of the legal and advice community and cash expenditure on contracts with not-for-profit advice agencies in 2007/08 was over £80m. These contracts account for 31% of our annual Legal Help expenditure, including almost 67% of our provision in Social Welfare Law.

We will continue to work with the third sector and are committed to the Compact between the Government and voluntary sector, which sets out the common values that both sectors share and a commitment to build upon these values in the future. The LSC's full statement on the Compact is available on the LSC website.

We are also contributing to developing the MoJ's *Third Sector Strategy* and plan to continue our investment and engagement with the sector to deliver better public services. More information is available at www.justice.gov.uk.

Contract review

The LSC aims to drive performance and quality forward. If a provider does not meet the standards necessary to ensure quality the LSC can terminate the provider's contract. If a provider does not agree with the LSC's decision or any other action taken or not taken under the terms of the contract they are entitled to ask for a formal review.

There were 23 requests for contract review during 2007/08. Of these, 21 were resolved on formal review and two were referred to the Contract Review Body. The Contract Review Body upheld the LSC's decision in one case and the provider withdrew the other request for review before the Contract Review Body hearing. No reviews proceeded to mediation or arbitration.

Public Defender Service (PDS)

The PDS was established in 2001 as the first salaried criminal legal aid service in England and Wales. PDS staff are directly employed by the LSC, whereas the majority of criminal legal aid work is contracted out to private firms.

In 2006/07 the LSC reviewed the structure of the PDS in light of research findings and the wider transformation programme. Although the PDS can deliver high quality legal advice, it was decided that it should be concentrated on the areas where the offices were most cost effective.

There are currently four PDS offices: in Cheltenham, Darlington, Pontypridd and Swansea. In 2007/08 the PDS dealt with 3,703 cases. Full PDS statistics for 2007/08 are published on the LSC website at: http://www.legalservices.gov.uk/aboutus/how/strategic_publications.asp

"I thought my legal problem was complicated but once I spoke to an advisor and was given instructions the matter was settled in a matter of days." – Community Legal Advice client

CASE STUDY

Provider Reference Groups

Provider Reference Group meetings have been taking place across England and Wales since March 2008, with separate sessions for crime and civil legal aid providers.

The groups have been set up so that the LSC and non-executive Commissioners (who chair the groups) can hear at first hand the views of legal aid providers. They aim to bring a representative range of providers into discussions of policy implementation at a local level.

Discussion topics at the first round of meetings have included:

- what support is available and needed from the LSC provider readiness team to help providers transfer to electronic working
- initiatives and successes across the justice system to make processes and systems more efficient
- ways to increase access to domestic violence and mediation advice
- crime contract awards and consultation on plans for best value tendering
- the effectiveness of communication between the LSC and providers.

James O'Reilly, Provider Readiness Manager at the LSC, is responsible for coordinating the meetings, which he reports have so far been very positive: "Providers have said that



the discussions in their regions have been very useful and a good way for them to feed into national decisions.

"The Provider Reference Groups are a real step forward in the way we work with providers. It makes sense that we should talk to providers as much as possible about our plans for the future. The discussions are constructive, informative and will make a genuine difference to the way we work.

"Over the next year we'll be holding more sessions. We're trying hard to encourage new members of the groups, so that the views of a wide variety of providers are represented. We're particularly keen to hear from niche providers, not-for-profit agencies and those from ethnic minorities so that we can gain a broad range of views and understand the impacts on different providers."

Strategic objective 3



An affordable scheme delivered within the resources available and that demonstrates effective financial control

Corporate targets 2007/08

Corporate target: Living within our agreed funding allocation		
Key performance indicator	Status	Progress
To reduce the amount of Unrecouped Payments On Account outstanding on dormant cases in the Corporate Information System by 17.5% including methods such as recovery, write off or referral to Debt Recovery Unit (DRU) by 31 March 2008	Achieved	This year we reduced Unrecouped Payments On Account by £23.37m. This exceeds our target by approximately £1.3m.
Review all cases on which Land Charge should have been registered, but was not, and register a charge, refer the case to DRU, or taken other necessary steps to finalise the matter by 31 March 2008	Not achieved	We reviewed 85% of all cases by 31 March 2008. We will continue to allocate appropriate resources to this area to ensure that the target is met at the earliest possible opportunity.
Review all cases on which signed interest agreement has not been received, and request such an agreement from the client. In cases where no signed agreement is forthcoming, refer cases to DRU for recovery of the debt by 31 March 2008	Not achieved	We undertook work on 3,239 cases. This successfully generated 690 signed interest agreements from funded clients. Work is continuing on the remainder of cases.
Reduce the debit notes outstanding as at 31 March 2007 by £22m, including a recovery target of £14m from receipt of cash or off-setting	Achieved	During 2007/08 we reduced debit notes by £25m and have recovered £15.3m from receipt of cash or off-setting. Off-setting occurs when a solicitor submits a bill that is authorised for payment; the resultant credit reducing the money owed by the provider to the LSC.
Live within overall Fund allocation	Achieved	We did not exceed our budget allocation in 2007/08.

Strategic objective 3

Corporate target: Applicable elements of the reform programme are introduced on time within agreed costs and producing predicted benefits

Key performance indicator	Status	Progress
Crime		
Introduce litigator graduated fee scheme from October 2007	Partially achieved (met with delay)	We introduced the litigator graduated fee scheme on 14 January 2008. The delay was due to uncertainties with the contract, stemming from the Unified Contract judicial review, which necessitated a re-tendering exercise.
Introduce police station fixed fees from October 2007	Partially achieved (met with delay)	We introduced police station fixed fees on 14 January 2008. The delay was due to uncertainties with the contract, as above.
Launch Very High Cost Cases (VHCC) panel from October 2007	Partially achieved (met with delay)	We launched the VHCC panel on 2 April 2008. The delay was due to uncertainties with the contract, as above.
Introduce revised boundary areas from October 2007	Partially achieved (met with delay)	We introduced revised area boundaries on 14 January 2008. The delay was due to uncertainties with the contract, as above.
Transfer of Grant – consultation on introduction of Transfer of Grant in the Crown Court in September 2007	Not achieved	Following the lessons we learnt from means testing in the magistrates' court, we decided that means testing needed to be successfully embedded prior to further work being undertaken.
Civil		
Introduce Unified Contract from April 2007	Achieved	We introduced the civil Unified Contract on 1 April 2007. 95% of existing providers signed up to it.
Replacement of tailored fixed fees from October 2007	Achieved	We introduced the replacement for tailored fixed fees on 1 October 2007.
Introduce child care, family help – private work, Immigration and Asylum and Mental Health fee schemes by October 2007	Partially achieved (met with delay)	We introduced new fee schemes on 1 October 2007 and the new Mental Health fee schemes on 1 January 2008.
Fixed fees for advocates, solicitors and counsel in family cases from April 2008.	Not achieved	Fixed fees for advocates, solicitors and counsel in family cases have been deferred until April 2010, in accordance with the Unified Contract judicial review settlement.
Whole system reform		
All LSC regions to work with the judiciary, the magistrates' courts and providers to examine the link between operational practice and legal aid expenditure and develop an agreed action plan by 31 December 2007	Achieved	Plans were agreed on time and implemented thereafter. Key achievements included defence involvement in implementing criminal justice reforms, LSC membership of 41 of 42 Local Criminal Justice Boards and introduction of block listing in some courts.

Key performance indicator	Status	Progress
All LSC regions to work with the family courts to examine the link between operational practice and legal aid expenditure and develop an agreed action plan by 31 December 2007	Achieved	Plans were agreed on time and implemented thereafter. Key activities included supporting the implementation of the Public Law Outline case management initiative and delivering training to Her Majesty's Courts Service and the judiciary on the new LSC fixed fee scheme in public law children cases.
All LSC regions to work with the police and providers with a view to improving the fit between the provision of legal aid and operational practice at the police station and to develop an agreed action plan by 31 December 2007	Achieved	Plans were agreed on time and implemented thereafter. The main focus was to seek to improve 'bail to returns', resulting in a reduction in waiting times and number of attendances at the police station.

Project milestones

Milestone	Status	Progress in 2007/08
Roll out of the new boundaries for the General Criminal Contract by October 2007	Changed	We introduced revised boundary areas on 14 January 2008, but only a small number were changed.
Best value tendering for criminal legal aid to commence by October 2008	Changed	We launched a 12-week consultation on proposals for best value tendering early in 2008.

Legal aid transformation

The legal aid budget helps two million people each year. To help the maximum number of eligible clients possible within a fixed budget, we are moving to a system that pays for services delivered for clients rather than hours worked.

The Legal Services Commission (LSC) and the Ministry of Justice (MoJ) outlined a major programme of reforms in November 2006 in *Legal Aid Reform: The Way Ahead*. Our reforms are based on the principles set out by Lord Carter following his review of legal aid procurement. The detailed transformation programme is based on our consultations on his recommendations.

The overall aim for the reforms is to achieve a legal aid system that demonstrates quality, access, and value for money, ensuring the future sustainability of services for the people who need them.

We believe that moving to a competitive market for the majority of legal aid services may be the best way to deliver quality services at the best possible price. It could also give providers the advantage of an agreed price, which they have offered and which they know is profitable for them. Fixed fees are a transitional stage to enable both

providers and the LSC to adjust our ways of working ready for the potential competitive market we propose.

The LSC has now delivered the first phase of the legal aid transformation programme, with fixed and graduated fees in place for many categories of law. This builds on changes already made in recent years, when fixed and graduated fees were introduced in some areas of legal aid work and the Community Legal Service Strategy had already started to shape services more effectively around clients' needs (see page 18).

Civil legal aid

Key civil initiatives implemented in 2007/08 included:

- a Unified Contract in April 2007 (see page 29)
- a tailored fixed fee replacement for civil Legal Help work (excluding family and mental health) in October 2007
- an immigration and asylum fee scheme in October 2007
- family public and private fee schemes (excluding advocacy) in October 2007
- a family mediation scheme in October 2007
- public law family *Funding Code* changes in October 2007

Strategic objective 3

- a family telephone pilot in October 2007
- a mental health fee scheme in January 2008.

Criminal legal aid

Key crime initiatives implemented in 2007/08 included:

- revised standard fees for magistrates' courts in urban areas in April 2007
- a revised Crown Court advocates' graduated fee scheme in April 2007
- market stability measures in April 2007
- police station fixed fees in January 2008
- phase 1 expansion of CDS Direct in February 2008
- a Crown Court litigators' graduated fee scheme in January 2008
- expansion of the Defence Solicitor Call Centre to include own client cases in January 2008
- a new General Criminal Contract in January 2008, prior to a Unified Contract (Crime) in July 2008
- a crime Very High Cost Case panel in April 2008
- participation in the successful roll out of the Criminal Justice: Simple Speedy Summary initiative.

Our statutory obligation in criminal legal aid - as well as civil - is to ensure that we buy services of the appropriate quality at the best price for the taxpayer. The LSC's preferred future procurement strategy to achieve this is best value tendering. In the meantime fixed, graduated or standard fees aim to control fund spend, and encourage efficiency. This will help the market prepare for any future best value competition.

From December 2007 we ran a 12-week consultation on the principles of best value tendering and how it might work for criminal legal aid services. This consultation is part of a two-stage process covering the principle and initial detail of any scheme. Depending on the results of this, a second consultation on any proposed full scheme is likely to follow later in 2008.

Whole system initiatives

The LSC is also contributing to wider changes across the whole justice system. Our key performance indicators that focus on improving the justice system cover both magistrates' and family courts and bail backs at police stations. The magistrates' courts target is aligned with the wider Criminal Justice: Simple, Speedy Summary, initiative

which MoJ rolled out nationally during 2007/08. The family targets have been linked to the implementation of the Public Law Outline.

People in our regional offices have been working with providers and partners in the judiciary and magistrates' courts, family courts and police. This includes examining links between operational practice and legal aid provision and expenditure, so that we can work together to improve processes and efficiency for the benefit of clients.

Use of experts

The LSC's transformation programme has focused on our providers which comprise the bulk of the legal aid spend. However, we estimate that we spend approximately £130m a year on experts, and so addressing the cost, quality and processes relating to experts is the next logical step.

In 2007 we began a comprehensive data collection exercise to gain an understanding of the way in which legal aid providers use experts. We are using this data to develop a strategy for how and when we commission experts.

Following from the Chief Medical Officer's 2006 report *Bearing Good Witness*, we have been working with the Department of Health to develop a pilot which aims to commission multi-disciplinary teams of health professionals from the NHS and other public, private or voluntary sector organisations to provide jointly instructed health expert witness services to family courts in public law childcare proceedings.

We have been developing our relationships with external organisations and other Government departments in order to link in and develop initiatives and share best practice.

Managing the transition

To prepare legal aid providers and LSC staff for the changes outlined above:

- we have carried out impact assessments on our main policy proposals, including a cumulative impact assessment on the reforms introduced up to December 2007, to inform our decision-making, and we are improving our management information to ensure we have a full understanding of the market
- we held provider workshops in England and Wales early in 2008 to give people the opportunity to hear more about our proposals and speak with LSC staff

- we are building stronger links with national and local stakeholders, including meeting regularly with the profession, the not-for-profit sector and other interested parties to discuss legal aid issues, and increasing LSC representation on Local Criminal Justice Boards
- we have improved our communication with providers through a fortnightly e-mail update on key news and developments
- we are working on provider readiness initiatives to help providers to adjust to the new market and systems, including transitional arrangements for the not-for-profit sector
- we established regional Provider Reference Groups to improve our understanding and implementation of change at a local level. The groups have representatives of both civil and crime providers and meet in each region up to three times a year.

Further details of the legal aid transformation programme, including consultation papers, impact assessments and policy papers can be found on the LSC website at www.legalservices.gov.uk.

Effective financial control

Criminal means testing

A new means testing scheme was introduced on 2 October 2006 in all magistrates' courts to ensure that all those who can pay for their criminal defence are now doing so.

The post implementation review of the first six months of means testing was published in October 2007 and is available on the LSC website. The scheme is a core element of our legal aid reforms and is continuing to develop annual net savings of approximately £33m.

CASE STUDY

Recovering costs

The LSC's Debt Recovery Unit (DRU) is responsible for the pursuit and recovery of all outstanding money due to the Commission. This can range from orders for costs and damages against a third party to claiming costs back from a former funded client following the revocation of their certificate.

In March 2008 the Special Investigations Unit (SIU) of the DRU collected £454,371.20 against a Recovery of Defence Costs Order (RDCO) - the LSC's biggest ever recovery of criminal legal aid defence costs. That money will help another 1,500 people to get free legal help.

The RDCO was issued against Mohammed Faruq, the ringleader of an international immigration and benefits scam. Mr Faruq was sentenced to four years in jail.

The caseworker from the SIU on the Faruq case explains, "This was a complex investigation into a very sophisticated fraud. My colleagues in SIU investigated Mr Faruq's means, and were able to use that information to get a trial judge to issue the RDCO. It then took me three months of negotiations to obtain the money the court had ordered to be paid back.



"Recovering this amount of money is a great result and really satisfying – but every debt we recover, whatever the amount, is important. It all goes back into increasing access to justice for those who need it most."

Strategic objective 3

The savings generated by the means test will help control criminal legal aid expenditure and enable the targeting of resources where they are most needed, on civil and family advice and assistance.

Controlling Very High Cost Cases (VHCCs)

The LSC aims to help more people by controlling case costs, and historically a disproportionate amount has been spent on the highest cost cases.

Civil cases

To help control expenditure, the LSC manages civil cases where the costs are likely to exceed £25,000 under individual case contracts. Each case is managed using an individual contract based on an agreed case plan (which is updated as the case progresses) and a price for each fully costed proposed stage. These cases are an exception to our overall move away from hourly rates due to the unique nature of the cases. The contracting and expenditure/savings figures are shown in tables 4 and 5 below.

In order to strengthen control of expenditure, in December 2006 contracting and case planning of family and Children Act cases not requiring instruction of QCs was reintroduced (see the statement on internal control on page 63). This has resulted in an increase in the number of new contracts and size of the portfolio of ongoing cases. This reduced the expenditure materially, although there is a short term low in the spending as the new arrangements settle in.

Table 4: Civil high cost case contracting 2007/08

	New contracts	Ongoing cases at 31 March 2008	Ongoing cases at 31 March 2007
Civil VHCCs	1,744	2,893	2,174

Since 2000/01 the LSC has made significant efficiencies in high cost civil cases while continuing to increase the success rates. For example, the cost of clinical negligence and actions against the police cases has halved with success rates rising by 10% and 20% respectively.

“Without the LSC we would never have got this far. We want people to know this so that legal aid might be able to help people in similar situations. This settlement means that our son will have a better quality of life.” – Parent of a cerebral palsy sufferer awarded compensation due to clinical negligence at birth.

Table 5: Civil VHCCs cash expenditure

	Authorised payments £m	Projected spend £m	Individual cases £m	Multi-party actions £m	Cash saving ¹ £m	Damages secured for legal aid clients £m
Funded under the Access to Justice Act 1999	64.7	78.9	63.6	1.1	15	123
Funded under the Legal Aid Act 1988 ²	12.4 recovery	3.2 recovery	10.7 recovery	1.7 recovery	n.a.	255

1. Compared with historic spend rate on high cost cases.

2. VHCCs can take five to ten years to litigate. There are cases completing where costs have exceeded £25,000, which began being funded under the Legal Aid Act 1988. If a civil case is successful, the costs are recovered from the opponents and the legal aid fund repaid, hence the overall recovery.

Criminal cases

The LSC also manages individual case contracts on all criminal high cost cases for trials lasting 41 days or over using case plans to help us to achieve the best possible value for money (see table 6 below). Contracting for crime VHCCs has reduced spend on these cases by an estimated £52m per year and the extension of graduated fee schemes has saved an estimated £5m compared to the previous 'after the event' costs assessment scheme, by reducing the average cost of cases.

Table 6: Criminal high cost case contracting 2007/08

	New contracts	Cash expenditure in 2007/08 £m	Cash expenditure in 2006/07 £m
Crime VHCCs	372	124 ¹	105

1. The above figures include residual 25-40 day cases from pre-2003/04 when these cases were within the scope of the VHCC scheme.

Crime VHCC panel

Legal Aid Reform: the Way Ahead recommended forming a specialist panel of defence teams made up of litigators and advocates by a best value tender process. This applied to cases where the trial is expected to last for 41 days or more and a small number of cases where the trial is expected to last for 25 days or more.

The panel was due for implementation in October 2007, following consultation with the representative bodies. Implementation was delayed for three months in order to implement through the January 2008 General Criminal Contract.

Due to the lower than expected number of advocates who signed up to the VHCC panel, it was necessary for the LSC to consult with the Law Society and Bar Council on a revised contract that would allow solicitor firms who are on the panel to work with advocates who are not on the panel. These contracts were entered into in April 2008 with nearly all the panel members accepting the offers. The MoJ arranged for Parliamentary approval of a revised Funding Order to support the use of advocates who are not on the panel.

Parliamentary scrutiny

The Justice Committee for the House of Commons (formerly the Constitutional Affairs Select Committee) examines the expenditure, policy and administration of the Ministry of Justice and associated bodies.

In 2007/08 there were no specific investigations into legal aid but the Commission Chair liaised with the Committee about the status of the legal aid transformation programme to keep the Committee updated on progress.

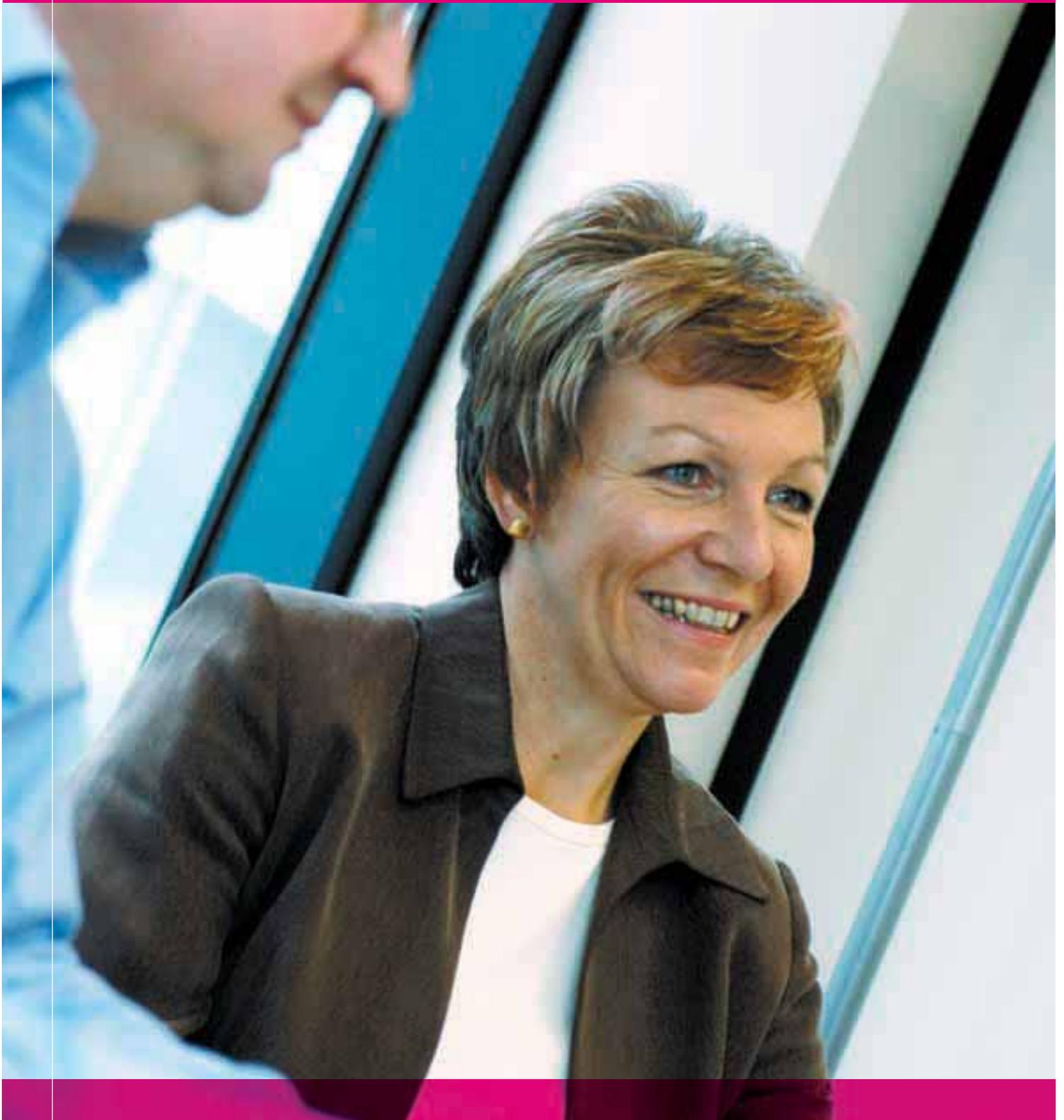
The LSC and MoJ also jointly responded to the Public Accounts Committee report on the National Audit Office report *Legal aid and mediation for people involved in family breakdown*. Both reports found that family mediation is an effective way of solving family disputes. It is more helpful than litigation for the client and less costly for the taxpayer.

The LSC aims to increase the number of family disputes resolved via mediation where this is appropriate for the client. We have already started to implement many of the National Audit Office and Public Accounts Committee recommendations.

"It would have been much harder for this case to be brought without legal aid funding. Much, much harder."

– *Legal aid solicitor*

Strategic objective 4



A transformed organisation that enables the delivery of objectives and excellence in all it does

Corporate targets 2007/08

Corporate target: The LSC provides a high quality service		
Key performance indicator	Status	Progress
Maintain the national customer service score at 90%	Achieved	We maintained the national customer service score, with an average of 93%.
Maintain the human resources score at 85%	Achieved	We exceeded the human resources score by achieving 90%.
LSC Online – 100% of providers reporting online for billing purposes by 31 March 2008	Not achieved	We did not achieve this key performance indicator as the LSC Online system was withdrawn from providers in November 2007.
Corporate target: We are a more capable efficient organisation by 2011		
Key performance indicator	Status	Progress
Defined contract activity managed through supplier management system by October 2007	Not achieved	Due to issues regarding the implementation of the LSC Online system it was not possible to meet this target. We are working hard to rectify these issues as soon as possible and aim to meet this target in the future.
Live within our agreed administration budget for 2007/08, which will lead to an overall reduction in the administration budget by 2010/11 as part of the organisational transformation programme.	Achieved	We balanced the administration budget in 2007/08.

Project milestones

Milestone	Status	Progress in 2007/08
Delivery transformation: business case completed by June 2007	Partially achieved (met with delay)	The delivery transformation business case was completed in October 2007. We launched a 12-week consultation on our proposals in April 2008.
Organisational transformation programme: restructure the LSC by April 2010	On track	We continue to implement and prepare for our ambitious internal organisational transformation programme.

Strategic objective 4



“Many people commented on the professionalism, skill and dedication of all those involved in the provision of legal services, which fosters a high degree of service to the users of the service. This has the effect of demonstrating excellent customer service.” – Charter Mark assessor

Organisation and people

As well as transforming legal aid, the Legal Services Commission (LSC) itself is changing how it works to become a leaner, more efficient organisation.

The structure of the LSC is evolving as the organisation responds to changing business needs. As part of our ongoing transformation programme we moved to a provisional new structure from 1 February 2008 of four English regions – North, Midlands, South and London – together with our existing Wales office.

A people strategy project has been set up to oversee the processes involved in these changes and to ensure we have the right people, with the right skills, in the right place at the right time. This includes an advanced leadership development programme and a management skills programme, which is accredited by the Institute of Leadership and Management. Through these programmes we are ensuring that performance and change are managed effectively as well as promoting a culture of respect and inclusion. In addition, we launched an Employee Charter in 2007/08, setting out the standards of behaviour for all of our people.

We also continued to focus on implementing equalities legislation to maintain an effective and fair organisation and demonstrate best practice within the public sector. Our *Single Equality Scheme* and our equalities annual reports are available on our website at www.legalservices.gov.uk.

Delivery transformation

The LSC is transforming the way we work with providers to support the civil and criminal transformation programmes. As part of this we are developing new technologies and increasing the amount of electronic working we do with providers.

Electronic working will play a vital part in transforming our business, improving efficiency, simplifying business processes and reducing costs. In April 2008 we launched a 12-week consultation on delivery transformation, which is available on the LSC website. We believe the major benefits of the delivery transformation process will include:

- faster decision-making and progression of cases
- increased client understanding of the financial status of their case

- a move to electronic working with reduced paper-based transactions
- reduced cost and time of administration for providers and the LSC.

LSC Online

In 2007, the team responsible for LSC Online won the Whitehall and Westminster World Civil Service Award 2007 for technology.

After this, during 2007/08 we aimed to launch our new supplier management system. This included an updated and enhanced electronic billing service to support the new fee schemes that came into effect for cases started from 1 October 2007.

The enhanced LSC Online was launched on time in early November but, although it operated well with low levels of users, problems emerged as the user base increased.

Contingency plans were put into operation in late November and the system was withdrawn from external users until further notice. Our staff worked together to deliver an effective contingency plan, focusing on ensuring that all of our providers were paid and that accurate records of all of their claims were maintained. At the same time we have been working to further develop and test LSC Online and it will be re-launched in stages later in 2008.

“On behalf of my late mother and the family, please accept our joint thanks for your financial support at a particularly difficult time for the family.” – Legal aid client

Strategic objective 4



Customer service and complaints

In September 2007 the LSC was awarded the Charter Mark, the Government's national standard for customer service excellence.

In 2007/08 we exceeded our customer service target by achieving 93% on our customer service score.

We aim to continue to improve our customer service and complaints procedures to deal with the challenges and changes in the future of legal aid. Although LSC complaints have been steadily decreasing over the last few years (see chart 4), we saw a slight increase in 2007/08. Most of this is attributable to the issues around launching the supplier management system. Overall, complaints increased by 9% in 2007/08 compared with last year.

Table 7 shows the levels of escalation in pursuing a complaint, from the numbers of complaints received to the small number referred to the Parliamentary and Health Service Ombudsman (PHSO).

CASE STUDY: Paul Thorn

Employee volunteering

In 2004 the LSC introduced an employee volunteering scheme, allowing any employee to apply for time off work to volunteer or for sponsorship money to support a volunteering activity.

Legal aid and legal advice services funded by the LSC benefit some of the poorest and most vulnerable people in our society – and many organisations that require volunteers work with people in similar situations.

The employee volunteering scheme encourages LSC employees to seek out opportunities that will benefit themselves, their communities and the LSC.

Paul Thorn is one employee who successfully applied for sponsorship money – and who will bring his valuable experience back to the organisation.

He explains, "A few months ago I decided to take a career break to volunteer with a charity based in India called Children Walking Tall. The charity aims to give children living in the slums of Goa a childhood worth remembering.

"For me each day with the charity includes some basic teaching and structured activities, helping to serve lunch to a horde of hungry kids, sorting out clothing and toy donations, supervising clothes washing, lots of games and general playing.



"It can be exhausting (particularly in the Indian sunshine), but it is such good fun. Seeing children that have such difficult lives enjoying themselves makes it so rewarding. They have very little in life but rarely complain about their situation and it makes me realise how lucky I am not to have faced their difficulties.

"This has so far been a life-enriching experience and I am very grateful for the time off and sponsorship that allowed me to come out here and volunteer."

As well as individual volunteers, larger groups have also given up their time to help good causes. Ten employees from the LSC's Bristol office were granted sponsorship to take part in a volunteer reading scheme in local schools. Several employees from the Service Delivery Support department have given over 115 hours of their time to their local community, ranging from conducting online research to being a school governor.

Table 7: Complaints, compensation and PHSO cases

	2007/08	2006/07
New complaints ¹ received	1,867	1,701
Total complaints closed out	1,624	1,631
Regional further complaints ² received	58	58
Total complaints closed out	41	52
Head office complaints ³ received	383	423
Number that were not via a Member of Parliament or MoJ	174	191
Total complaints closed out	316	201
Compensation cases ⁴ received	145	162
Compensation cases decided	151	158
Compensation payments made £	63,658	113,435
PHSO statements of complaint received	4	3
PHSO preliminary enquiries received	19	11
PHSO complaints proceeding to statutory investigations ⁵ received	0	25

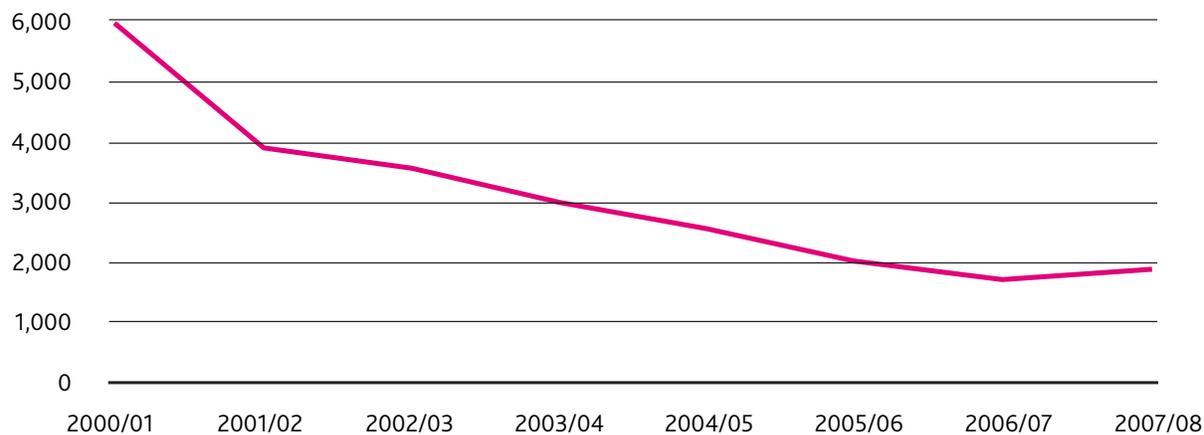
1. New complaint: any initial complaint received by a regional office or head office central function.

2. Regional further complaint: any complaint dealt with previously by a regional office.

3. Head office complaint: any complaint dealt with previously by a regional office or head office central function or any complaint received directly in head office from a Member of Parliament or the MoJ.

4. Through our compensation scheme we make payments for financial loss incurred as a result of maladministration.

5. Following a change in the PHSO's business approach, from 23 November 2006 complaints were re-categorised as preliminary enquiries or statements of complaint. Until this point all complaints were categorised as statutory investigations.

Chart 4: New complaints received

“You are a mine of information and have been of great assistance. Thanks so much for your help and support.”

– Legal aid provider

Financial reports 2007/08

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Management commentary 2007/08

Introduction

The Legal Services Commission (LSC) is a non-departmental public body responsible for the provision of legal aid in England and Wales through the Community Legal Service (CLS) and the Criminal Defence Service (CDS).

A description of our main activities during the year is set out in our 2007/08 annual report.

Development and performance

Review of the year

The past year has been a challenging one for the LSC as we moved forward with the transformation programme. However, we have now largely introduced the first phase of the reform programme for civil and criminal legal aid and have had some significant successes.

In 2007/08 legal aid funded 750,000 Legal Help acts of assistance delivered by CLS providers, out of over 1 million in total, and 1.5 million acts of assistance delivered by CDS providers.

During the year we introduced tailored fixed fee replacement fees, advocates graduated fees, the immigration and asylum fee scheme, standard magistrates' court fees in urban areas, family public and private fee schemes, and in early 2008, the new crime contract was implemented, as were mental health fees, police station fixed fees and litigator graduated fees.

Further information about our performance during 2007/08, including a detailed analysis of performance against our targets and key performance indicators for 2007/08 can be found in our annual report.

Forward look

Our *Strategic Plan 2008 – 2011* sets out our high-level three-year strategy. The plan is specific about the milestones and intended outcomes and clearly shows what we believe success will look like. It can be found at www.legalservices.gov.uk.

Despite some delays and changes to our original plans, we are committed to delivering the transformation programme. Our key areas of work for the coming year are set out below.

Supplier Management System (SMS)

SMS is the LSC IT's system that enables the management of provider data and allows the LSC to make all standard monthly payments, reconciliations and ad hoc payments and changes to providers' contracts and schedules. Shortly after launching in November 2007 we had to close down the system as it was having difficulty dealing with the number of users.

We now have a plan in place leading up to the full re-launch of LSC Online (the external facing element of SMS). Further information about SMS can be found in our annual report on page 45 and in our statement on internal control on page 67.

Delivery Transformation

In April 2008 we launched a consultation on our proposals to move to electronic working and simplified business processes; known as Delivery Transformation. The aim of the proposals is to reduce the cost and time involved in administering legal aid, both for providers and for the LSC. This represents a significant step and milestone within our overall transformation programme and the proposals will significantly impact on how we work with providers in the future. See page 45 of the annual report for more information.

Unified Contract

We announced in April 2008 that along with the Law Society and the Ministry of Justice (MoJ) we had reached agreement on the best way forward following the Court of Appeal's judgment in November 2007 on the civil Unified Contract. This will ensure a period of certainty and stability for providers of legal aid.

As a result of this agreement, we anticipate that the civil Unified Contract will run its course until April 2010. The LSC will be working with the Law Society and others on the likely content of future contracts over the next few months, with plans to undertake a full consultation later

Management commentary 2007/08 (*continued*)

this year. The main elements of the agreement with the Law Society are set out on page 29 of our annual report.

Key to moving forward with the civil and crime reform programmes will be maintaining a period of stability for providers and the LSC which will give all of us the time to adequately adjust to the reform programme so far. The route map for the civil reform programme is available at www.legalservices.gov.uk.

Best value tendering

We recently consulted practitioners on our initial thinking about how a system of best value tendering might work for police station advice and assistance and for magistrates' courts work. More information about the consultation can be found on page 36 of the annual report.

Transforming ourselves

The LSC is changing how it works to deliver a leaner, smarter working organisation. We are also working towards transforming our organisation to make sure that we have the right people, with the right skills, in the right place at the right time. We set out how we intend to do this in the organisation and people section on page 43 of our annual report.

The organisation

Equal opportunities and diversity

The LSC is committed to equality of opportunity both as an employer and in the provision of services. The LSC opposes all forms of discrimination and is committed to the principle that no job applicant or employee shall face discrimination. We do not discriminate in the promotion, training and development of staff. We value the variety of backgrounds, perspectives, values and beliefs that diversity brings and aim to be an organisation where everyone has an equal right to dignity and respect.

Our employee assistance programme supports employees who have become disabled to continue their employment. We reviewed our employee assistance programme during

the year and now provide a more comprehensive package of assistance as part of a more proactive health and well-being strategy.

The LSC does not tolerate any practices that result in the provision of a lower standard of service to any group or individual because of unfair or unlawful discrimination. Our *Single Equality Scheme*, which encompasses equality and diversity, gender and disability together with our *Equalities Annual Report* can be found at www.legalservices.gov.uk.

Social and community matters

LSC staff are able to participate in the Give As You Earn scheme, meaning that any employee can donate tax-free to any charitable organisation in the UK (including places of worship) directly from their payroll.

The LSC's *Employee Volunteering Policy* enables employees to take a maximum of 42 hours a year as paid time off to devote to voluntary work. It also supports employees who have to raise money in order to undertake their chosen activity by giving them the opportunity to apply for sponsorship from the LSC (see page 51). See page 46 of our annual report for a case study about employee volunteering.

Environmental matters

We are committed to reducing our impact on the environment and being an organisation that operates in accordance with best environmental practices. As part of the LSC's *Environmental Policy and Strategy*, Commissioners have a responsibility for ensuring that the Commission operates sound environmental policies in accordance with the Government's policy for greening government operations. We outline our commitments to the environment in an organisation-wide *National Environment Protocol* and we held our second national environment day in March 2008. There are also recycling representatives and Green Teams across our offices.

In March 2008 we introduced new recycling facilities in every office and desk waste paper bins were removed and

Management commentary 2007/08 (*continued*)

replaced by communal recycling bins. We also rolled out new 'green' targets across the organisation. Over the next year we will aim to recycle 50% of all of our waste and reduce our:

- electricity consumption by 5% relative to 2007/08 levels
- business travel costs by 5% relative to 2007/08 levels
- paper consumption by 10% per head relative to 2007/08 levels.

The LSC's *Environmental Policy and Strategy* is available at www.legalservices.gov.uk.

Employee involvement

As well as being awarded the Charter Mark in September 2007 (see page 46 of the annual report), the LSC began the process for achieving Investors in People (IiP) accreditation across the organisation. The aim of seeking IiP accreditation is to become an organisation that has the policies, practices and leadership to enable it to achieve success. Five of our offices already have IiP accreditation and we hope to make this organisation-wide by the end of 2008/09.

In order to achieve the transformation programme, we need to change as an organisation. This includes the values and beliefs that underpin what we do. During 2007/08, we launched the LSC's *Employee Charter*. The Charter is a set of cultural values and behaviours for our staff to aspire to, in line with our changing organisation. The Charter supports our values to be clear, confident, competent and courageous. These values in turn underpin our reform programme and the drive for change.

The LSC formally communicates with its staff on issues and changes to the terms and conditions of employment through the Joint Consultative and Negotiating Committee. The Committee is made up of representatives of management, employees and elected members of the GMB (Britain's General Union) and the First Division Association, the two unions recognised by the LSC to represent staff members of the respective unions.

A senior leadership group within the LSC was consulted on the objectives set for the organisation and on the development of the *Strategic Plan 2008 – 2011*. Staff have also had the opportunity to contribute to the business planning process.

Managers hold regular section and team meetings to communicate the LSC's objectives to all staff, where everyone can ask questions and give their views. These meetings include discussion of the *Core Brief*, a short monthly summary of our main corporate news. The briefing session gives staff the chance to discuss and ask questions about organisational issues and to find out what this information means for them. As the organisation undergoes a significant period of transformation, the Executive Team and the Chief Executive have kept staff updated with briefings, face-to-face or via videoconferencing and regular updates on the staff intranet.

We hold an annual staff conference for a cross-section of staff to allow an opportunity for open and honest debate about the organisation. The key themes of the staff conference are then cascaded to all staff at events around the LSC.

Research and development

The LSC prides itself on tailoring its legal services to suit the people most in need. Strategic research in the civil and criminal justice fields is conducted by the Legal Services Research Centre (LSRC), the independent research division of the LSC. Among the research projects undertaken by LSRC during 2007/08 were: the English and Welsh Civil and Social Justice Survey, the money advice outreach evaluation, the impact of geography on vulnerability to problems and patterns of advice seeking, diversity of the supplier base, delays in the youth court, and user perspectives of the criminal justice system. More information about the work of LSRC can be found at www.lsrc.org.uk.

Management commentary 2007/08 (*continued*)

Corporate governance

The LSC is committed to adhering to the highest standards of corporate governance by promoting corporate fairness, transparency, openness and accountability.

The LSC's Commission board discusses key strategic and high-level matters, with the aim of ensuring that the LSC fulfils its statutory duties in relation to the operation of the CLS and CDS and achievement of our strategic objectives.

The Commission met 11 times during 2007/08. Generally all Commissioners are present at Commission meetings and attendees include the Executive Team and the Legal Director. Further information about our Commissioners can be found on pages 12 to 13 of the annual report and summary minutes of LSC meetings are available at www.legalservices.gov.uk.

In addition, the Commission also has several sub committees. The Finance and General Purposes (F&GP) Committee has four Commissioner members. It monitors the LSC's financial performance, oversees the corporate and business planning process and operational policy developments. During 2007/08 membership of the F&GP Committee comprised:

- Sir Michael Bichard (Chair)
- Angus Andrew
- David Edmonds CBE
- Barry Elliott
- Dr Lily M Segerman-Peck (to 31 October 2007).

The Human Resources (HR) Committee ensures that the LSC has in place people strategies that are aligned to its corporate plans and targets and that those strategies are put into effective operation. Members include two Commissioners and two independent external members, with senior executives such as the Chief Executive and HR Director also in attendance. The Committee sits as a Pay Committee annually with an additional independent member. Further information about the Pay Committee, including details of membership, can be found in the LSC's 2007/08 remuneration report on page 56.

The LSC's Audit Committee ensures that the LSC adheres to the highest standards of propriety in the use and stewardship of public funds and encourages proper accountability for the use of those funds. The Committee also promotes the development of internal control systems which help satisfy the Commission that the organisation will achieve its objectives and targets. During 2007/08 membership of the LSC's Audit Committee comprised:

- David Edmonds CBE (Chair)
- Barry Elliott
- Tina Fahm
- Tom Jones OBE.

David Edmonds stepped down from the Commission on 30 June 2008. Barry Elliott will take up the Chair of the Audit Committee from July 2008.

Principal risks

The areas of activity that we consider to be high risk include:

- control of CLS Fund and CDS expenditure and the LSC's administration expenditure
- delivery of the transformation programme
- delivery of high quality legal services to meet clients' needs
- effective management of high-level relationships with the MoJ and Ministers.

We continuously monitor these risks and our policy for managing risk is set out in our *Risk Management Statement*, which is available at www.legalservices.gov.uk. Our 2007/08 statement on internal control is on page 63.

Reportable accidents

During 2007/08 there were two reportable accidents or occurrences under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995.

Management commentary 2007/08 (*continued*)

Timeliness in paying bills

The LSC aims to collect receipts and promptly pay all properly authorised invoices from the administration budget in accordance with the terms of contracts or within 30 days. We paid 97% of properly authorised administrative invoices within 30 days during 2007/08. We will continue to monitor payment performance on a monthly basis during 2008/09.

Except where they are governed by a relevant contract, payments from the CLS Fund and the CDS were exempt from the requirements of the Late Payment of Commercial Debts (Interest) Act 1998. However, internal targets are set for the timely payment of these bills. Details of the percentage of bills paid on time are shown below.

Charitable donations

During 2007/08 the LSC made several charitable donations including:

- a single donation of £500 to the charity Crisis
- donations amounting to £500 to charities chosen by winners and runners-up of one of our national employee awards
- a total of £1,118 through our volunteering policy which allows for sponsorship of individuals.

More information about the volunteering policy is on page 48 of this report.

Financial review 2007/08

Accounting standards

The financial statements for the LSC's administration and the CLS Fund and the CDS are prepared in accordance with the Treasury's *Government Financial Reporting Manual* and applicable accounting standards. They are in a form as directed by the Secretary of State for Justice with the approval of the Treasury.

The figures in this management commentary are shown on an accruals basis for consistency with the financial statements.

LSC administration

The administration expenditure for 2007/08, including service level agreements with Her Majesty's Courts Service, was £113.5m against the £116.8m budget as set out in our *Management Commentary 2006/07*.

The pension fund

The Commission has a recovery plan to eliminate the pension shortfall over the period to 31 March 2016. However, with the agreement of the MoJ, an advanced payment of £13m was made in March 2008. Under the terms of this special contributions payment the Commission is not obliged to make further contributions to the scheme for a period of about a year. Details of the pension schemes' assets, liabilities, and contributions are set out in note 3 of the LSC financial statements.

Bills paid	Targets 2007/08	Performance 2007/08	Targets 2006/07	Performance 2006/07
Civil bills – taxed & assessed	8 weeks (100%)	100%	8 weeks (100%)	97%
Family Graduated Fee bills	8 weeks (100%)	100%	8 weeks (100%)	99%
Criminal non-standard fees	8 weeks (100%)	100%	8 weeks (100%)	97%

Management commentary 2007/08 (*continued*)

Community Legal Service Fund

Community Legal Service

The CLS expenditure before the dormant provision release was £61m lower than the forecast set out in the 2007/08 corporate plan. Of this lower spend, £41m is attributable to civil representation and £20m to Legal Help. Civil representation expenditure is lower than planned due in part to a lower volume of civil representation work started in the year and family legal aid costs not increasing as much as expected. The Legal Help variance of £20m was due to the volume of Legal Help being lower than planned. The lower spend was identified early in the year and a bid round for 67,000 legal help acts of assistance was announced in November 2007.

Immigration

There is still a backlog of immigration and asylum cases at the Home Office and a continuing uncertainty in quantifying the effect of the backlog on legal aid expenditure. The level of expenditure is down on last year, though £4m higher than that forecast in our *Corporate Plan 2007/08 – 2009/10*.

The forecast for immigration and asylum is the same as last year, with a similar number of cases forecast next year to this year. However, this is subject to any change in the economic and political environment.

Criminal Defence Service

Crime Lower

Crime Lower was £29m over the estimate set out in the *Corporate Plan 2007/08 – 2009/10*. Last year's corporate plan assumed that £25m of the cost of committals would be transferred to the Crown Court, but this transfer has been deferred. Taking this into account the expenditure is close to that set out in the corporate plan. However, within this there has been a higher than forecast increase in the cost of prison law and this is expected to further increase in the coming year; the Commission is looking at ways to control these costs. There have also been additional costs due to delays in savings from the reforms set out in *Legal Aid Reform: the Way Ahead* and increased costs relating to

domestic violence. Lower volumes towards the end of the year have largely off-set these costs.

The reintroduction of means testing in the magistrates' courts has overall delivered the expected level of savings and we are continuing to monitor the successful implementation of this policy.

Crime Higher

Crime Higher was £27m under the estimates set out in last year's corporate plan. Taking into account the transfer of committals mentioned above, this equates to expenditure £2m lower than the last corporate plan. The expenditure for the year is close to the corporate plan even though high cost cases, including very high cost cases, have cost more than expected in part due to higher than forecast expenditure on terrorism cases.

International Financial Reporting Standards (IFRS)

It was announced in the Budget 2007 that from 2008/09 the accounts of all central government departments and entities in the wider public sector would be produced using IFRS as interpreted for the public sector. This has proved challenging for some government departments and as a result, implementation has been pushed back a year to 2009/10. In preparation for the move to IFRS we have set up a steering group and carried out an IFRS impact assessment that has been reviewed by Deloitte and Touche LLP. We are also represented on the Ministry of Justice's IFRS Steering Committee. We are fully committed to ensuring a controlled transition to IFRS.

Grant and loan making powers

Under section 6 (3)(c) of the Access to Justice Act 1999, the LSC may fund services as part of the CLS by making grants or loans to persons or bodies to enable them to provide, or facilitate the provision of services. During the year, we made grants in accordance with the Secretary of State's specific direction. This expenditure is reported in note 3 of the CLS Fund and CDS financial statements; Grants and similar.

Management commentary 2007/08 *(continued)*

Post balance sheet events

Post balance sheet events are set out in note 23 to the CLS Fund and CDS financial statements and note 25 to the LSC administration financial statements.

Going concern

The going concern basis is set out in note 1m) and note 16 of the CLS Fund and CDS financial statements and in note 1m) and note 17 of the LSC administration financial statements.

Managing our resources

Resource management is crucial to ensuring that the best use is made of the funds available to us. We have a number of ongoing resource management activities.

Headcount

The number of staff permanently employed by the LSC fell during the year, however there was an increase in the number of temporary staff. This was partly due to the requirement to staff the SMS contingency plan. In the short-term, as we work towards transforming into a leaner organisation, we will continue to draw on temporary staff, as we believe that this is the best way to effectively manage our staff numbers. Staff numbers are shown in note 2 of the administration financial statements.

Contributions for civil legal aid

Before civil legal aid is granted, applicants' financial means are tested. If they have sufficient money, they may be expected to contribute to the cost of their case. In 2007/08, 12% of all certificates issued required the applicant to pay a contribution compared to 13% in 2006/07. Generally, these are paid in instalments. They are shown as contributions by CLS funded clients in note 2 of the CLS fund and CDS financial statements. The contributions, including revoked cases, receivable from CLS funded clients in 2007/08 were £23m (2006/07: £24m).

Statutory charge and doubtful debt

Under the relevant legislation, the LSC has a first charge on money or property recovered or preserved during civil proceedings funded by legal aid where the expenditure for legal aid is more than any contributions made and costs paid by the other side.

The balance on statutory charge debt was £254m in 2007/08 (2006/07: £257m) and is shown in note 9 of the CLS Fund and CDS financial statements.

Recovery of defence costs

CDS clients whose cases are considered at the Crown Court are sometimes required to pay a contribution towards their legal aid costs. This is dependent on the defendants' financial means and ability to pay. The LSC liaises closely with the courts, and where cases are referred by the Crown Court to us for investigation, we assist them in determining the level of Recovery of Defence Costs Order (RDCO) that should be made in particular cases.

In March 2008 we collected our biggest ever RDCO; £454,371. This was against the ringleader of an international immigration and benefits scam who had been sentenced to four years in jail (see page 38 of the annual report).

During 2007/08 we recovered RDCOs to a value of £1.3m compared to £3.4m in 2006/07. Orders can take two to three years to enforce if there are appeals against convictions or if there are confiscation proceedings.

Provision for amounts outstanding on funded cases

The effect on the operating expenditure of the release of provision on dormant cases is disclosed in note 12 of the CLS Fund and CDS financial statements. In 2007/08, £350m of provision was released that related to dormant cases (2006/07: £350m). Dormant cases are those cases that are open but unlikely to be billed. This may be, for example, because an intervention has taken place on the firm.

Management commentary 2007/08 (continued)

Contractual arrangements

The LSC has contractual arrangements with legal aid service providers. Information about contracts with service providers can be found on pages 20 and 24 of the annual report.

Cost recovery through Cost Compliance Auditing (CCA)

We monitor the cost of cases through auditing activities. If an audit highlights that a service provider has been over-claiming, the LSC will investigate and where necessary recover the money. In more serious cases, providers can be served contract notices or in extreme cases contracts can be terminated. We will review the process and operation of CCA going forward in light of the agreement with the Law Society (see page 31 of the annual report).

Special investigations

We conduct investigations into those legal aid applicants and service providers suspected of abusing the system. In 2007/08, our costs were reduced by £1.1m as a result of investigations into service providers (2006/07: £0.8m).

An estimated £2.1m was saved as a result of investigations into civil legal aid applicants (2006/07: £2.7m).

Full investigations by our investigators took place in 123 civil cases during 2007/08 and they conducted enquiries into a further 139 directorship cases¹. 89% of full investigations, and 86% of directorship enquiries, led to either the client being refused funding, having funding withdrawn, or an increase in the level of financial contributions payable.

Security of data

Reporting of personal data related incidents

Following a review of data handling procedures by the Cabinet Office, we are now required to report on personal data incidents. In 2007/08 there were two personal data related incidents formally reported to the Information Commissioner's Office (see Table A). Seven incidents were recorded centrally but did not fall into the criteria for reporting to the Information Commissioner's Office (see table B). The LSC does not have records for personal data related incidents prior to 2007/08.

Table A: Summary of protected personal data related incidents formally reported to the Information Commissioner's Office (ICO) in 2007/08

Date of incident	Nature of incident	Nature of data involved	Number of people potentially affected	Notification steps
December 2007	Requests for credit reference reports to assess clients' eligibility for legal aid lost by courier service.	Paper reports containing personal data and financial data relating to clients' credit history.	16	The LSC notified the ICO and MoJ and wrote to the potentially affected clients either directly or care of their solicitor.
January 2008	An audio CD lost by a third party contractor in recorded delivery post.	Recordings of confidential conversations between operators and clients seeking legal advice.	95	The LSC notified the ICO and MoJ. The contractor wrote to all potentially affected clients where appropriate.
Further action on information risk	The LSC will continue to monitor and assess its information risks in light of the events noted above in order to identify and address any weaknesses and ensure continuous improvement of its systems. Planned steps for the coming year are set out in our <i>statement on internal control 2007/08</i> on page 66.			

1. When the legal aid applicant is a director of a company, additional enquiries into means are carried out.

Management commentary 2007/08 (*continued*)

Incidents deemed by the LSC not to fall within the criteria for report to the ICO but recorded centrally within the LSC are set out in the table below. Small, localised incidents are not recorded centrally and are not cited in these figures.

Table B: Summary of other protected personal data related incidents in 2007/08

Category	Nature of incident	No. of incidents
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	0
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	3
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	0
IV	Unauthorised disclosure	4
V	Other	0

Auditors

Paragraph 16 of Schedule 1 to the Access to Justice Act 1999 provides that the Commission's external auditor is the Comptroller and Auditor General. The cost of the audit is disclosed in note 7 to the LSC administration financial statements and relates solely to statutory audit work.

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

Signed for and on behalf of the Legal Services Commission

Carolyn Regan

Chief Executive and Accounting Officer

8 July 2008

Remuneration report 2007/08

Introduction

This report summarises the Legal Services Commission's (LSC) policy on remuneration as it relates to our non-executive Commissioners and Executive Team. Biographical details and the dates of appointment of Commissioners and members of our Executive Team are set out in our annual report. Registers of financial and other interests for Commissioners and the Executive Team were maintained throughout the year and can be found at www.legalservices.gov.uk.

The two principal features of this report are:

- a summary and explanation of the LSC's remuneration and employment policies and the methods used to assess performance of senior staff
- details of salaries and allowances paid, benefits in kind and accrued pension entitlement.

Details of remuneration and benefits are set out in the tables within this report. The tables on pages 59 to 62 have been subject to audit by the external auditor, the Comptroller and Auditor General, appointed under the Access to Justice Act 1999.

Pay Committee

The LSC's Human Resources Committee sits annually as a Pay Committee to determine the contractual arrangements and the salaries of the Chief Executive and the Executive Team. Its responsibilities include:

- making decisions about individual performance bands and bonuses
- monitoring results by gender, ethnicity, disability and working patterns for equal opportunities purposes

- advising the Chief Executive and Executive Team on the quality of evidence and making recommendations to continuously improve performance management.

Membership of the Pay Committee consists of two Commissioners and three independent members. The members do not have any day-to-day involvement in the running of the LSC. The five members of the Pay Committee in 2007/08 were:

- Beryl Seaman CBE JP (Chair)
- Tina Fahm
- Duncan Brown*
- Helen Murlis*
- Beverley Shears*.

To assist the Pay Committee in its deliberations, it also invites the views of the Chief Executive, Executive Director for Corporate Services and the Human Resources Director from time-to-time. These individuals do not participate in any decisions relating to their own remuneration.

The LSC's Executive Team

The Executive Team is chaired by the Chief Executive, and is the senior executive group of the Commission. It is responsible for the day-to-day management of the organisation. All members of the Executive Team are employed on a full-time basis. On 30 April 2008, Mike Jeacock, Executive Director for Service Delivery, left the LSC. Gary Robertson took up the post of Interim Executive Director for Service Delivery on 6 May 2008. Rod Clark is also currently the temporary Executive Director for Policy, which Richard Collins receives planned medical treatment.

* Helen Murlis and Beverley Shears are both independent members of the HR Committee. Duncan Brown attends only when the HR Committee sits as a Pay Committee. Duncan Brown is a leading expert on reward and the Director of HR Practice at PriceWaterhouseCoopers. Helen Murlis is a remuneration specialist and is a Senior Director for HayGroup. Beverley Shears is the Director of HR at the Ministry of Justice and has a background in change management and organisational transformation. Helen and Beverley were appointed on 1 March 2008 and so did not participate in decision making for 2006/07 pay awards.

Remuneration report 2007/08 (*continued*)

Remuneration policy

Base pay for members of the Executive Team is determined by allocating them to one of three performance bands based on the assessment and feedback rating which they are awarded by the Chief Executive, and by the Chair for the Chief Executive. Performance levels and position in the pay band then determine a percentage award. The amount by which salary scales are increased and the values that are populated into the 'pay matrix' follow the recommendations of the Senior Salaries Review Body (SSRB), an independent body which makes recommendations to the Government about the salaries of a number of groups. Further information about the work of the SSRB can be found at www.ome.uk.com.

The value of salary and allowances paid to members of the Executive Team in 2007/08 is set out in table A on page 60. The other components of Executive Team remuneration are set out below.

Bonuses

All members of the Executive Team are eligible for a bonus up to a maximum of 20% of their individual salaries as part of their terms and conditions of employment. Bonuses are based on performance for the previous financial year so the bonus payments for each member of the Executive Team set out in table A have been made for performance in 2006/07.

The bonus scheme places emphasis on the achievement of shared objectives. In 2006/07, achievement of each shared and individual objective was tied to a set percentage payment of 1% of the total bonus pot with a further discretionary element of up to 3%. This meant that there was a clear link between effort and reward. The Executive Team's performance objectives for 2006/07, both shared and individual, were linked to our corporate priorities set out in the *Corporate Plan 2006/07 – 2008/09*.

The bonus scheme for 2007/08 is similar to 2006/07. However, to reflect the evolution of the LSC's strategic

performance framework and to reinforce a team culture, the 2007/08 bonus opportunities will have a greater sense of shared responsibility. As well as being tied in with the LSC's corporate targets, there are also culture and leadership targets for all Executive Directors. We will report on 2007/08 bonus payments to the Executive Team in our 2008/09 remuneration report.

The process of assessing whether 2006/07 corporate targets were met was independently validated by the LSC's Head of Corporate Assurance. The value of the bonus for each member of the Executive Team for their performance in 2006/07 is set out in table A.

Benefits in kind

As part of their remuneration package, Executive Directors are entitled to taxable benefits in kind. Benefits in kind may consist of a leased car, accommodation, reimbursement of travel expenses from home to office and subsistence. The value of benefits in kind for each member of the Executive Team is set out in table A.

Termination

The LSC does not operate a fixed policy on termination payments outside the provisions of its early retirement and early severance scheme.

Pensions

Members of the Executive Team, together with all other current employees, are invited to participate in the Commission's No. 4 Staff Pension and Life Assurance Scheme when they join the LSC. LSC employees contribute at the rate of 6.5% of basic annual salary. The amount that the LSC contributes is determined every two years by the scheme's actuary after assessment and valuation of the scheme. The LSC's contribution in 2007/08 was 29.1% of employees' salaries. During 2007/08, all members of the Executive Team were members of the No. 4 Scheme. The LSC's pension scheme is a final salary scheme that is contracted out of

Remuneration report 2007/08 *(continued)*

the State Second Pension, an additional component to the basic state pension. Executive Team pension costs are set out in table B on page 61.

The trustee body of the Commission's staff pension and assurance schemes is chaired by an independent member and during 2007/08 included two member-nominated trustees.

Non-executive Commissioners' remuneration

The Secretary of State for Justice appoints non-executive Commissioners and determines the policy regarding their remuneration. Commissioners' remuneration is based on judicial salaries. Increases to pay are based on the average increases paid to the judiciary. Revised judicial salary levels were introduced with effect from 1 April 2006 following the recommendations of the SSRB.

Although the Secretary of State for Justice appoints Commissioners with different time commitments, all members, with the exception of the Chair, are paid salaries at the same full-time equivalent rate. In 2007/08, this rate was calculated on the basis of £348 per day, after a 1.5% increase in April 2007 and a further 0.9% in November 2007. The remuneration for Commissioners includes reimbursement of travel expenses from home to office and the taxation paid by the LSC on those expenses. Travel expenses vary according to the geographical location, the role and the time commitment of the individual Commissioner. The value of the remuneration for each Commissioner is set out in table C on page 62.

The remuneration paid to Commissioners is neither performance-related nor pensionable and appointment to the Commission does not attract any other benefits, special arrangements or other remuneration.

Termination arrangements

In the event of a Commissioner ceasing to be a member of the Commission for reasons other than the expiry of their term, the Secretary of State for Justice may require the LSC to compensate that person. The amount payable would be determined by the Secretary of State for Justice and would be based on the nature of the termination and the length of the term remaining. There were no terminations in the period under report.

Appointments

In accordance with guidance issued by the Office of the Commissioner for Public Appointments, Commissioners can be re-appointed once without the role being subject to open competition. Commissioners cannot serve for longer than a total of ten years. In exceptional circumstances, the Commissioner for Public Appointments can agree a limited extension beyond the maximum term.

Remuneration report 2007/08 (*continued*)

The Commissioners, including the Chair, in post during 2007/08 and details of their appointments are set out below:

	Date of appointment	Length of current term (years)
Sir Michael Bichard (Chair) ¹	1 April 2005	5
Angus Andrew	1 March 2004 (renewed 1 March 2007)	4
David Edmonds CBE ²	1 March 2004 (renewed 1 March 2007)	4
Barry Elliott	1 June 2007	4
Jane Hickman	1 June 2007	3
Tina Fahm	1 November 2004 (renewed 1 November 2007)	4
Tom Jones OBE	1 March 2004 (renewed 1 March 2008)	4
Lionel Joyce OBE	1 July 2005 (renewed 1 July 2008)	3
Beryl Seaman CBE JP	1 July 2005 (renewed 1 July 2008)	3
Dr Lily M Segerman-Peck ³	1 November 2004	3
Dr David Wolfe ⁴	1 October 2005	3

¹ Sir Michael Bichard resigned from the Commission with effect from 31 August 2008.

² David Edmonds CBE resigned from the Commission on 30 June 2008.

³ Dr Lily M Segerman-Peck retired from the Commission on 31 October 2007.

⁴ Dr David Wolfe's appointment has been renewed with effect from 1 October 2008 for a term of four years.

Remuneration report 2007/08 (*continued*)**Table A:** Senior employees – employment costs

	Salary and allowances 2008 £000	Bonuses 2008 £000	Benefits in kind 2008 £000	Total 2008 £000	Total 2007 £000
Carolyn Regan <i>Chief Executive</i> (from 25 September 2006)	183.8	16.2	-	200.0	91.0
Richard Collins <i>Executive Director for Policy</i>	126.9	21.5	-	148.4	129.9
David Godfrey <i>Executive Director for Corporate Services</i>	136.6	23.4	-	160.0	153.7
Mike Jeacock <i>Executive Director for Service Delivery</i>	172.5	22.1	40.8	235.4	214.4
Helen Riley <i>Executive Director for Transformation</i> (from 26 April 2007)	128.1	18.7	13.3	160.1	-
Jonathan Lindley <i>Executive Director for Change and Organisational Transformation</i> (to 25 April 2007)	20.5	21.3	-	41.8	191.8

Notes

Bonuses awarded relate to performance for the 2006/07 financial year.

Brian Harvey OBE served as the LSC's Acting Chief Executive from 1 June 2005 to 30 September 2006 and before that as Deputy Chief Executive. During 2007/08 he received a bonus of £13,500 for performance in the 2006/07 financial year.

Benefits in kind may consist of a leased car and travel, subsistence and accommodation and income tax and National Insurance reimbursed by the LSC. These income tax and National Insurance figures may vary slightly from the final tax assessments by the Inland Revenue.

There were no additional expense allowances other than reimbursement of actual expenses incurred directly.

Remuneration report 2007/08 (continued)

Table B: Senior employees – pension costs

	Total accrued pension payable at age 60 at 31 March 2008 and related lump sum £000		Real movement in pension and related lump sum payable at age 60 £000		CETV at 31 March 2008 £000	CETV at 31 March 2007 £000	Real increase in CETV £000	Employer contribution to pension account including risk benefit cover £000
Carolyn Regan <i>Chief Executive</i> (from 25 September 2006)	Pension	61.2	Pension	60.4	1,185 ¹	12	483	32.8
	Lump sum	183.6	Lump sum	181.4				
Richard Collins <i>Executive Director for Policy</i>	Pension	12.7	Pension	1.4	207	156	15	32.8
	Lump sum	38	Lump sum	4.2				
David Godfrey <i>Executive Director for Corporate Services</i>	Pension	4.1	Pension	1.4	76	42	18	32.8
	Lump sum	12.3	Lump sum	4.2				
Mike Jeacock <i>Executive Director for Service Delivery</i>	Pension	8.1	Pension	1.4	168	120	22	32.8
	Lump sum	24.3	Lump sum	4.2				
Helen Riley <i>Executive Director for Transformation</i> (from 26 April 2007)	Pension	2.7	Pension	1.4	45	19	15	32.8
	Lump sum	8.3	Lump sum	4.2				
Jonathan Lindley <i>Executive Director for Change & Organisational Transformation</i> (to 25 April 2007)	Pension	37.5	Pension	(1.5)	529 ¹	550 ¹	(22)	2.6
	Lump sum	112.3	Lump sum	(4.5)				

¹ Includes a transfer from previous pension scheme.

Notes

A one off payment of £13m towards the pension shortfall made during 2007/08 has not been allocated against senior employees. Employer contribution is at the rate of 18.6% with an additional 10.5% paid this year towards the pension shortfall.

Cash Equivalent Transfer Value (CETV)

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

Remuneration report 2007/08 (continued)

The pension figures shown relate to benefits accrued for total membership of the pension scheme, not just in a senior capacity, and include the value of any pension benefit in another scheme, which has been transferred to the Commission's pension scheme. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

Real increase reflects the increase in CETV effectively funded by the employer (excluding the effect of fluctuations in the transfer value due to factors beyond the control of the Commission, such as investment market movements). It does not include the increase in accrued pension in line with inflation or 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.

Table C: Non-executive Commissioners' remuneration

	Remuneration 2008 £000	Expenses ¹ 2008 £000	Total 2008 £000	Total 2007 £000
Sir Michael Bichard (Chair)	71	1	72	69
Angus Andrew ²	24	1	25	25
David Edmonds CBE	30	1	31	30
Barry Elliott (from 1 June 2007)	15	3	18	-
Tina Fahm	30	4	34	38
Jane Hickman (from 1 June 2007)	13	-	13	-
Tom Jones OBE	30	16	46	49
Lionel Joyce OBE	30	10	40	40
Beryl Seaman CBE JP	30	14	44	41
Dr Lily M Segerman-Peck (to 31 October 2007)	10	-	10	25
Dr David Wolfe ²	16	-	16	7
Juliet Herzog ³ (to 31 March 2007)	-	1	1	-

¹ Expenses may vary according to the geographical location, the role and the time commitment of the individual Commissioner.

² Angus Andrew was paid £1,568 in 2007/08 for additional days worked during 2006/07 and Dr David Wolfe was paid £7,226 in 2007/08 for additional days worked during 2005/06 and 2006/07.

³ Payment was made in 2007/08 for expenses claimed in 2006/07.

Signed for and on behalf of the Legal Services Commission

Carolyn Regan

Chief Executive and Accounting Officer

8 July 2008

Statement on internal control 2007/08

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Legal Services Commission's (LSC) 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 *Managing Public Money*.

The following internal controls have been established and maintained within the LSC during 2007/08:

Structures

- a separation and clear distinction of the roles of Chair and Chief Executive
- an independent Commission, which comprised 12 non-executive members, including the Chair
- an Audit Committee, with four non-executive members who provide an oversight and challenge role, which is attended by representatives from the Ministry of Justice (MoJ) and the internal and external auditors
- a Finance and General Purposes Committee, which can make policy decisions in the context of financial impacts
- a Transformation Board whose members included the Chair, a Commissioner, the Chief Executive and the MoJ's Director General, Strategy which provided high-level support to and scrutiny of the LSC's change programme
- Human Resources Committee, with two non-executive members and two independent members that ensures that the Commission has in place people strategies that are aligned to its corporate plans and targets
- a Change Programme Board, with a non-executive chair, that oversees the transformation of legal aid services and supporting administration
- an Executive Team member with responsibility for corporate risk – the Executive Director for Transformation

- an executive Risk Management Committee made up of directors from across the LSC who have significant responsibility for the ownership and management of risk
- an external, independent body as auditor.

Standards

- codes of conduct for both Commissioners and staff
- a robust anti-fraud policy, fraud response plan and fraud strategy. The strategy was updated during 2007/08 to reflect latest developments
- a clear *Risk Management Statement*, which can be found at www.legalservices.gov.uk.

Processes

- an annual risk-based internal audit programme
- recognised processes for delegated financial authorities
- high standards of financial reporting
- financial management for the administration accounts, including Finance Managers in key business areas
- a continuous planning process and coordination of management performance and strategy reports
- effective risk management, coordinated by a Risk Management Committee.

The LSC reports monthly to the MoJ on the management of risk. The LSC's key risk exposures are consistently reported to the MoJ and incorporated as necessary into its overarching risk schedule.

Effective communication links were maintained with the MoJ during 2007/08. For example:

- I attended meetings of the MoJ's Departmental Management Board, which considers updates to the LSC's key risks on a monthly basis
- a representative from the MoJ attended the Commission's Audit Committee which regularly reviews the effectiveness of the LSC's risk management and internal control processes

Statement on internal control 2007/08 (continued)

- the Audit Committee Chair attended meetings of the MoJ Audit Committee Chairs
- during 2007/08 I, along with other members of the Executive Team, sat on the MoJ's Legal Aid Programme Board which met bi-monthly and was chaired by the MoJ's Permanent Secretary
- the Commission's Chair and I met frequently with the Secretary of State, the Legal Aid Minister and the MoJ's Permanent Secretary
- a Minister from the MoJ met with members of the Commission several times; risk management issues were escalated to Ministers where appropriate.

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 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 LSC for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

Effective risk management is fundamental to the LSC's success and the reform of legal aid. We are committed to embedding effective risk management mechanisms in all of our management processes.

The Commission delegates responsibility for oversight of the risk management system to the Audit Committee which carries out a review quarterly. As Accounting Officer, I am responsible for the overall operational

management of the system, and I designate management responsibility for specific corporate risks to individual members of the Executive Team as appropriate. They then meet with the LSC's Risk Manager to discuss their specific areas monthly. The Executive reports bi-annually to the Commission on the management of risk. The LSC's Change Programme Board reviews a summary of the strategic risks from the change perspective at each meeting. The Senior Management Team considers risk management matters monthly.

All LSC staff have a responsibility to manage risk as an integral part of their job and effective risk management is linked to business performance and project objectives. Risk management workshops have been delivered to key areas of the business. During the year we worked closely with the MoJ and were involved in the development of the MoJ's new risk management framework. In January 2008 we launched a new *Risk Management Strategy, Policy and Framework* and a *Risk Management Handbook* to all staff via an article on our intranet. Both documents were adapted from guidance developed by the MoJ for use across the MoJ family. This, as well as the development of risk management training methods with MoJ, ensures consistency in the approach to risk and its management across the MoJ family.

The risk and control framework

The LSC recognises that risk cannot be eliminated entirely. Our strategy aims to achieve best value for money in delivering services, by balancing the costs and the benefits of either reducing or accepting those risks that have been highlighted. Key to this is the need to identify those strategic risks that threaten to impact on the successful delivery of the LSC's corporate objectives. These may be risks to the LSC's reputation, business operations, projects/programmes or activity associated with business innovation or development.

Throughout 2007/08 we have been working hard to further embed systems of risk management in the organisation. We have developed a new risk register that incorporates all of the LSC's recognised risks and controls

Statement on internal control 2007/08 (continued)

as well as setting out how success and effectiveness of controls will be evidenced. All of the LSC's recognised operational risks are identified, assessed, prioritised, managed and reviewed by business units. As part of the 2008/09 business planning process, all business units have developed local risk registers. Risks are evaluated in terms of their impact on corporate objectives and key priorities and likelihood of occurrence. A detailed control plan sets out how risks will be managed. The priority that is given to a risk is used to inform the most appropriate response to that risk. Risks that would have a high impact if they were to occur and a high likelihood of being realised are given the highest priority. Where significant risks have been identified that threaten to impact on the successful delivery of our agreed corporate and business objectives they are assessed, owned and managed by senior managers and the Executive Team.

The Commission's Risk Management Statement extends to business innovation and development. The LSC is committed to taking opportunities to improve performance and quality of service when it is based on a fully rounded assessment of the long and short-term business implications.

The following developments indicate how risk management is embedded in the activity of the organisation:

- the corporate risk register was fully revised to reflect the MoJ's risk framework and is now underpinned with a control plan that requires managers to evidence the success and effectiveness of controls. The risk register is available to all managers when undertaking a risk assessment of their individual business plans
- the Commission approved a revised *Risk Management Statement* in April 2008 which sets out the relationship between corporate, operational and programme/project risk and how the LSC's approach fits into the MoJ's and the wider risk work across Government. This was communicated to all staff via the intranet
- a Risk Manager was appointed during the year whose remit is focused on developing the LSC's risk framework and on ensuring a more joined up approach and consistency to the way in which risk is managed at the LSC
- the Risk and Internal Control Steering Group was reconstituted as a Risk Management Committee. The Committee has significant responsibility for the ownership and management of risk. Membership consists principally of directors, with other relevant members of staff participating as attendees
- project managers are required to maintain a project risk register in accordance with accredited methodology. These are reviewed by the Risk Manager and the relevant Project Board and key risks are escalated to the Change Programme Board and Transformation Board where necessary
- since April 2008 all business units have local risk registers which have been developed as part of the business planning process. These are reviewed by the Risk Manager and escalated where necessary
- the behavioural framework for the organisation, which will underpin all of our future people management processes, was launched during 2008 and aims to strengthen the quality of performance objective setting for those responsible for managing risk within the LSC
- the work of the LSC is joined up with government departments and representative bodies through consultation and other channels of communication like strategic boards. For example, during 2007/08, I sat on the MoJ Ministerial Executive Board, as did the Chief Executive of the HM Courts Service
- the LSC is committed to end-to-end planning and assessment of whole justice system impacts and now carries out an impact assessment on all new policies
- the LSC launched a *Code of Practice for Impact Assessments* during 2008 which is part of a package that also incorporates the LSC's *Code of Practice for Consultations*. These documents are available to the public via the LSC's website and represent a step towards honoring our commitments to improve our impact assessment process.

Statement on internal control 2007/08 (*continued*)

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the LSC 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 result of my review of the effectiveness of the system of internal control by the Commission board, the Audit Committee and the Risk Management Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control has included the following:

- bi-annual reviews of corporate risk by the Commission, including approving an updated *Risk Management Statement* in April 2008 and a new risk register in November 2007
- quarterly reviews of risk management developments by the Audit Committee, in accordance with the recommendations in the *Audit Committee Handbook*, including continual liaison between the Risk Management Committee Chair and the Audit Committee Chair
- continual oversight and drive for improvement by the Risk Management Committee, including contributing to discussions about the risk management structure within the LSC
- oversight of risk management at programme level by the Change Programme Board, which reviews risks from a change perspective monthly, and the Transformation Board
- continuation of the quality assured environment.

Specific actions to support the mitigation of risks during 2007/08 included:

- developing the Commission's risk register to reflect the MoJ's risk management framework and to include control plans
- ongoing consultations with stakeholders on the legal aid transformation programme
- reviewing the security of data in our possession and that of our sub-contractors (this does not extend to providers, who are data controllers in their own right) and looking into what steps can be taken to improve the level of that security. Steps taken so far include a review of personal data handling by the Corporate Assurance department and the re-establishment of an IT and data security working group
- reviewing the Audit Committee's processes in accordance with the recommendations of the revised *Audit Committee Handbook*
- minimising risk to ensure the delivery of services to legal aid clients
- demonstrating effective financial control over the administration budget and continuing regular communications and analysis with the MoJ in relation to financial forecasting and budgeting.

As Accounting Officer, I am satisfied that these and other actions fully support my review of the effectiveness of the system of internal control.

Information assurance

As a result of recent high-profile data losses in government departments, there have been a number of directives from the Cabinet Office for the more secure protection of personal data whilst stored on removable media. The LSC has now encrypted all of its laptops, and encryption or password protection of backup media is being progressed. Encryption and device control for other methods of removable media are being evaluated and will be implemented accordingly during 2008. To ensure longer-term compliance, we will run an information assurance programme throughout 2008/09 and will aim to achieve compliance with the ISO 27000 Information

Statement on internal control 2007/08 (continued)

Security standard. We report on any instances of data loss management commentary 2007/08. on page 54.

Significant control issues identified during 2006/07

In our 2006/07 statement on internal control we identified three control issues: control of very high cost family cases that did not involve the instruction of a QC, means testing in the magistrates' courts and civil Legal Help.

Control of very high cost family cases

We have rectified the control issue identified around very high cost family cases and details of actions taken to address the issue are set out in our 2006/07 statement on internal control. As well as reintroducing case planning for family work, a programme of education and support is aiming to both improve provider knowledge and streamline the process. The introduction of case-by-case cost monitoring and electronic case planning will ensure more robust monitoring of this area of work.

Means testing in magistrates' courts

An intensive programme of work during the year focused on verifying eligibility for means testing in the magistrates' courts through post event checks which included a review of solicitors and court files and checks with HM Revenue and Customs and the Department for Work and Pensions. Going forward we are undertaking a number of activities to help establish eligibility of legal aid recipients including:

- developing further guidance for magistrates' courts staff (particularly around nil incomes and referral of cases)
- system amendments to identify Crown Court cases and age passported cases appearing in the Youth Courts
- form amendments to identify these cases and obtain further information on those who receive no benefits/nil income
- agreeing a file/evidence retention standard with HM Courts Service.

This work together with ongoing profiling and monitoring reviews on a quarterly and ad hoc basis, means that I am now satisfied that there are sufficient processes in place to ensure the eligibility of applicants receiving legal aid in the magistrates' courts.

Civil Legal Help

Civil Legal Help remains an area for priority and focus. We identified a risk in our 2006/07 statement on internal control that some elements of civil Legal Help could be provided to ineligible recipients. We have assessed the risk of non-compliance and have carried out a programme of auditing during 2007/08. Under that programme, we have audited the providers who make up the top 20% of the CLS Fund, and additionally audited a random sample of the remaining 80% of the Fund. This approach was developed in conjunction with the NAO, which they agreed met their specific concerns.

Significant control issues identified during 2007/08

Supplier Management System (SMS)

As part of the LSC's wider reform agenda we identified the need to develop an IT system to support a number of the LSC's top priority projects and business initiatives. Delivery timescales were driven from the outset by a predetermined need to meet target dates for the implementation of new remuneration schemes that would lead to early savings on the legal aid fund. This meant that delivery of the system was extremely challenging and high risk from the start.

A corporate decision was taken to buy an off-the-shelf IT package to control costs and aid with speed of delivery. The package solution was procured before the scope of the schemes and processes had been settled. This meant that the IT solution was being developed alongside finalisation of the fee schemes policy, which contributed to risk and costs.

Statement on internal control 2007/08 *(continued)*

SMS was launched in early November 2007. Although it operated well with low levels of users, problems emerged as the user base increased. Contingency plans were put into operation in late November and SMS was withdrawn for external users.

To ensure that payments to service providers were up-to-date while the problems with SMS were resolved, we made alternative arrangements for payments to be made and brought in additional staff to manage any backlogs. An interim IT Change Director was appointed in February 2008 and a recovery plan has been developed to take forward priority fixes to improve the performance of SMS. We will be testing all priority bug fixes and performance enhancements before we go live again. At the same time we will be undertaking a rigorous programme of performance testing to ensure that both software and hardware can support the predicted number of users.

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

Carolyn Regan

Chief Executive and Accounting Officer

8 July 2008

A statement of the responsibilities of the Accounting Officer and of the Commission

Under the paragraph 16 (1) of Schedule 1 to the Access to Justice Act 1999, the Secretary of State for Justice, with the approval of the Treasury has directed the Legal Services Commission (LSC) to prepare, for each financial year, a statement of accounts for the Community Legal Service (CLS) Fund and Criminal Defence Service (CDS). The accounts are prepared on an accruals basis and must give a true and fair view of its state of affairs at the year-end and of the LSC's income and expenditure and cash flows for the financial year.

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

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

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

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

Carolyn Regan

Chief Executive and Accounting Officer

8 July 2008

Certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Legal Services Commission's Community Legal Service Fund and Criminal Defence Service for the year ended 31 March 2008 under the Access to Justice Act 1999. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the remuneration report that is described in that report as having been audited.

Respective responsibilities of the Commission, Accounting Officer and auditor

The Commission and Chief Executive as Accounting Officer are responsible for preparing the annual report, the remuneration report and the financial statements in accordance with the Access to Justice Act 1999 and directions made there under by the Secretary of State and the Lord Chancellor with the approval of the Treasury and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Responsibilities of the Accounting Officer and of the Commission.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Access to Justice Act 1999 and directions made there under by the Secretary of State and the Lord Chancellor with the approval of the Treasury. I report to you whether, in my opinion, the information, which comprises the management commentary, included in the annual report is consistent with the financial

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

In addition, I report to you if the Commission 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 the Treasury regarding remuneration and other transactions is not disclosed.

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

I read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

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

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

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 Access to Justice Act 1999 and directions made there under by the Secretary of State and the Lord Chancellor with the approval of the Treasury, of the state of the Community Legal Service Fund and Criminal Defence Service's affairs as at 31 March 2008 and of its deficit 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 the Access to Justice Act 1999 and directions made there under by the Secretary of State and the Lord Chancellor with the approval of the Treasury
- information, which comprises the management commentary, is consistent with the financial statements.

Opinion on regularity

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

Report

I have no observations to make on these financial statements.

T J Burr

Comptroller and Auditor General

National Audit Office

151 Buckingham Palace Road
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London
SW1W 9SS

11 July 2008

Community Legal Service Fund and Criminal Defence Service Income and expenditure account

For the year ended 31 March 2008

	Note	2008 CLS £000	2008 CDS £000	2008 Total £000	2007 CLS £000	2007 CDS £000	2007 Total £000
Operating income	2	220,667	1,378	222,045	244,325	8,791	253,116
Operating expenditure	3	(703,359)	(1,157,107)	(1,860,466)	(734,597)	(1,199,090)	(1,933,687)
Operating deficit	5	(482,692)	(1,155,729)	(1,638,421)	(490,272)	(1,190,299)	(1,680,571)
Interest receivable and similar income	6	14,763	-	14,763	12,194	-	12,194
Other finance costs	7	-	(19)	(19)	-	13	13
Cost of capital charge	1 f)	21,749	19,255	41,004	34,091	19,327	53,418
Deficit for the year		(446,180)	(1,136,493)	(1,582,673)	(443,987)	(1,170,959)	(1,614,946)
Reversal of cost of capital charge	1 f)	(21,749)	(19,255)	(41,004)	(34,091)	(19,327)	(53,418)
Retained deficit for the year	13	(467,929)	(1,155,748)	(1,623,677)	(478,078)	(1,190,286)	(1,668,364)

All income and expenditure are derived from continuing operations.

Statement of recognised gains and losses for the period

For the year ended 31 March 2008

There are no gains or losses other than the deficit for the year.

The notes on pages 75 to 90 form part of these financial statements.

Community Legal Service Fund and Criminal Defence Service Balance sheet

At 31 March 2008

	Note	2008 CLS £000	2008 CDS £000	2008 Total £000	2007 CLS £000	2007 CDS £000	2007 Total £000
Fixed assets	4	22	226	248	31	478	509
Current assets							
Debtors	9	220,572	2,839	223,411	212,378	2,465	214,843
Cash at bank and in hand	8	3,031	1,007	4,038	3,140	1,678	4,818
		223,603	3,846	227,449	215,518	4,143	219,661
Creditors: amounts falling due within one year							
Other creditors	11	(80,306)	(46,839)	(127,145)	(83,791)	(17,166)	(100,957)
Net current assets/(liabilities)		143,297	(42,993)	100,304	131,727	(13,023)	118,704
Total assets less current liabilities		143,319	(42,767)	100,552	131,758	(12,545)	119,213
Provisions for liabilities and charges	12	(576,690)	(496,120)	(1,072,810)	(941,170)	(548,865)	(1,490,035)
		(433,371)	(538,887)	(972,258)	(809,412)	(561,410)	(1,370,822)
Capital and reserves							
Income and expenditure reserve	13	(433,371)	(538,887)	(972,258)	(809,412)	(561,410)	(1,370,822)
		(433,371)	(538,887)	(972,258)	(809,412)	(561,410)	(1,370,822)

Carolyn Regan

Chief Executive and Accounting Officer

8 July 2008

The notes on pages 75 to 90 form part of these financial statements.

Community Legal Service Fund and Criminal Defence Service Cash flow statement

For the year ended 31 March 2008

		2008	2008	2008	2007	2007	2007
	Note	CLS	CDS	Total	CLS	CDS	Total
		£000	£000	£000	£000	£000	£000
Net cash outflow from operating activities	15	(851,840)	(1,178,942)	(2,030,782)	(816,682)	(1,171,041)	(1,987,723)
Financing - grants received	13	843,970	1,178,271	2,022,241	807,315	1,171,844	1,979,159
Disposal of fixed assets	4	1	-	1	10	(19)	(9)
Interest received	14	7,760	-	7,760	9,451	-	9,451
(Decrease)/ increase in cash		(109)	(671)	(780)	94	784	878

The notes on pages 75 to 90 form part of these financial statements.

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements

For the year ended 31 March 2008

Note 1 - Statement of accounting policies

These financial statements are prepared in accordance with the Treasury's *Government Financial Reporting Manual* and applicable accounting standards. They are in a form as directed by the Secretary of State for Justice and Lord Chancellor with the approval of the Treasury.

The following accounting policies have been applied consistently in dealing with items considered material in relation to the financial statements.

a) Accounting convention

The accounts are prepared under the historical cost convention. Assets are carried at valuation in use; depreciated historical costs are used as a proxy for current value of non-property assets because the assets have short economic useful lives. Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Act and accounting standards issued by the Accounting Standards Board so far as those requirements are relevant. The accounts are also consistent, where appropriate, with generally accepted accounting practice in the United Kingdom (UK GAAP).

b) Tangible fixed assets

Tangible fixed assets are carried at their original cost less accumulated depreciation. Assets costing more than the prescribed capitalisation level of £1,000 are treated as capital assets. Where an item costs less than the prescribed limit but forms part of an asset or grouped asset, whose total value is greater than the capitalisation level, the item is treated as a capital asset.

c) Depreciation

Except for assets under construction, depreciation is provided on all fixed assets on a straight line basis to write off the cost of tangible fixed assets over their estimated useful lives as follows:

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

Assets under construction are not depreciated until they have been completed. On completion assets are transferred to their relevant category and depreciated over their estimated useful lives.

d) Income and expenditure

Income comprises contributions receivable from funded clients and amounts receivable from funded clients and others for costs and, where appropriate, damages awarded. Income can also include grants received from third parties. Income from grants is recognised when the related expenditure is incurred. Expenditure comprises sums payable, including the estimated value of work completed by legal aid service providers not yet billed, for services provided to funded clients, refunds of contributions to funded clients, costs awarded to other parties and other costs associated with the provision of legal advice and assistance. Other costs include the cost of staff, including an allocation of pension costs, employed by the Public Defender Service, CDS Direct and Community Legal Advice and Other Projects. These staff costs are disclosed in note 2 to the accounts of the Legal Services Commission.

e) Grant receivable

Grant receivable for revenue purposes or for the acquisition of general fixed assets is accounted for as financing and credited directly to the income and expenditure reserve.

f) Cost of capital charge

As required by the Treasury a charge is made to the income and expenditure account for the notional cost of capital. The notional capital charge, which reflects the cost of financing capital employed, is calculated at 3.5% (2007: 3.5%) of average net assets employed during the year. In accordance with Treasury guidance the notional

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

For the year ended 31 March 2008

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

charge is reversed out of the income and expenditure account before determining the retained surplus or deficit for the year. As the Commission has net liabilities a negative charge applies.

g) Liquid resources

All liquid resources are in the form of cash and all balances are held with commercial bodies.

h) Provisions

The Community Legal Service and Criminal Defence Service recognise their liability to pay for work completed at 31 March but not yet billed. The provision is based on the number of outstanding certificates and the elapsed time on each case.

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and discounted at 2.2% (2007: 2.2%).

i) Provision for doubtful debts

The Commission estimates the provision for doubtful debts and charges any debts written off against amounts previously provided. Movements in the provision are reflected in the income and expenditure account. The Commission utilises cash flow trends and write-off values over a three year period and the age of outstanding debts in assessing the appropriate level of the provision.

j) Operating leases

The costs of operating leases are charged to the income and expenditure account as they fall due.

k) Accounting for value added tax

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

l) Deposit accounts for funded clients

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

The movement in third party funds is reported in note 21 to these accounts.

Awards for damages paid to the Commission attract interest after a qualifying period. Any excess of interest received in the deposit accounts over the amounts due on amounts held on deposit is accounted for in the financial statements of the Legal Services Commission as interest received.

m) Going concern

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

The future financing of the Commission's liabilities is met by grants from the Ministry of Justice voted on by Parliament annually under the relevant Appropriation Act.

Parliament voted on the funding for 2008/09 on 21 April 2008.

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

For the year ended 31 March 2008

Note 2 - Operating income

	2008 CLS £000	2008 CDS £000	2008 Total £000	2007 CLS £000	2007 CDS £000	2007 Total £000
Civil representation						
Contributions by funded clients	23,160	-	23,160	23,506	-	23,506
Costs recoverable	139,580	-	139,580	136,762	-	136,762
Recoveries from damages and statutory charge	56,706	-	56,706	83,595	-	83,595
	219,446	-	219,446	243,863	-	243,863
Civil Legal Help						
Grants and sundry income received from third parties	71	-	71	203	-	203
Costs recoverable	1,150	-	1,150	259	-	259
	1,221	-	1,221	462	-	462
Criminal cases						
Costs recoverable	-	65	65	-	115	115
Recovery of defence costs orders	-	1,313	1,313	-	3,419	3,419
Wasted cost orders	-	-	-	-	5,257	5,257
	-	1,378	1,378	-	8,791	8,791
	220,667	1,378	222,045	244,325	8,791	253,116

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

For the year ended 31 March 2008

Note 3 - Operating expenditure

	2008 CLS £000	2008 CDS £000	2008 Total £000	2007 CLS £000	2007 CDS £000	2007 Total £000
Civil representation						
Solicitors' charges, counsel fees and disbursements	769,976	-	769,976	753,877	-	753,877
Refund of contributions	4,887	-	4,887	2,794	-	2,794
Costs of successful unassisted parties	1,180	-	1,180	1,159	-	1,159
Miscellaneous	460	-	460	19	-	19
	776,503	-	776,503	757,849	-	757,849
Release of provision on dormant cases	(350,000)	-	(350,000)	(350,000)	-	(350,000)
	426,503	-	426,503	407,849	-	407,849
Civil Legal Help						
Solicitors' charges, counsel fees and disbursements	151,319	-	151,319	168,306	-	168,306
Grants and similar	24,566	-	24,566	23,570	-	23,570
	175,885	-	175,885	191,876	-	191,876
Immigration and asylum						
Solicitors' charges, counsel fees and disbursements	75,873	-	75,873	93,951	-	93,951
Public Immigration Legal Services	230	-	230	157	-	157
Grants and similar	1,721	-	1,721	397	-	397
	77,824	-	77,824	94,505	-	94,505

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

For the year ended 31 March 2008

Note 3 - Operating expenditure (*continued*)

	2008 CLS £000	2008 CDS £000	2008 Total £000	2007 CLS £000	2007 CDS £000	2007 Total £000
Criminal cases						
Solicitors' charges, counsel fees and disbursements – Crime Higher	-	675,704	675,704	-	670,485	670,485
Solicitors' charges, counsel fees and disbursements – Crime Lower	-	464,475	464,475	-	525,234	525,234
Public Defender Service	-	4,025	4,025	-	4,587	4,587
Duty solicitor call service	-	7,489	7,489	-	3,497	3,497
	-	1,151,693	1,151,693	-	1,203,803	1,203,803
Bad debts written off and movement in doubtful debt provision (note 10)	23,147	5,414	28,561	40,367	(4,713)	35,654
	703,359	1,157,107	1,860,466	734,597	1,199,090	1,933,687

Figures for the Public Defender Service (PDS) and for the Public Immigration Legal Service (PILS) include the depreciation charge and loss on disposal for capital items. Note 4 shows the PDS and CLS fixed assets along with the amount provided for depreciation in the year.

Note 4 - Fixed assets

Community Legal Service

	Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2007	12	39	51
Disposals	-	(1)	(1)
Cost at 31 March 2008	12	38	50
Depreciation at 1 April 2007	2	18	20
Charged in year	2	7	9
Disposals	-	(1)	(1)
Depreciation at 31 March 2008	4	24	28
Net book value at 31 March 2008	8	14	22
Net book value at 31 March 2007	10	21	31

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

For the year ended 31 March 2008

Note 4 - Fixed assets (*continued*)

Criminal Defence Service

	Assets under construction £000	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2007	141	934	117	211	1,403
Transfers	(141)	-	-	141	-
Cost at 31 March 2008	-	934	117	352	1,403
Depreciation at 1 April 2007	-	711	66	148	925
Charged in year	-	168	32	52	252
Depreciation at 31 March 2008	-	879	98	200	1,177
Net book value at 31 March 2008	-	55	19	152	226
Net book value at 31 March 2007	141	223	51	63	478

All CDS assets relate to the Public Defender Service.

Note 5 - Operating deficit

	2008 CLS £000	2008 CDS £000	2008 Total £000	2007 CLS £000	2007 CDS £000	2007 Total £000
Operating deficit is stated after charging the following:						
Operating leases	-	336	336	-	493	493

The administration costs of the Community Legal Service Fund and of the Criminal Defence Service are funded by a separate grant-in-aid. The grant-in-aid and the revenue expenditure of the Commission for the administration of the Community Legal Service Fund and Criminal Defence Service, including charges for non-PDS leases and auditor's remuneration, are accounted for in the Legal Services Commission financial statements.

Note 6 - Interest receivable

	2008 CLS £000	2008 CDS £000	2008 Total £000	2007 CLS £000	2007 CDS £000	2007 Total £000
Interest arising on statutory charges	14,763	-	14,763	12,194	-	12,194

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

For the year ended 31 March 2008

Note 7 - Other finance costs

	2008 CLS £000	2008 CDS £000	2008 Total £000	2007 CLS £000	2007 CDS £000	2007 Total £000
Discount on provisions	-	19	19	-	(13)	(13)

Note 8 - Analysis of net debt

	CLS £000	CDS £000	Total £000
Cash at bank and in hand			
At 1 April 2007	3,140	1,678	4,818
Cash flows	(109)	(671)	(780)
At 31 March 2008	3,031	1,007	4,038

Note 9 - Debtors

	2008 CLS £000	2008 CDS £000	2008 Total £000	2007 CLS £000	2007 CDS £000	2007 Total £000
Contributions due from funded clients	28,971	-	28,971	21,690	-	21,690
Costs to be recovered	18,465	-	18,465	18,155	-	18,155
Statutory charge	253,818	-	253,818	256,526	-	256,526
Damages	13,815	-	13,815	12,459	-	12,459
Amounts due from service providers	90,102	6,114	96,216	79,729	502	80,231
Recovery of defence costs orders	-	5,062	5,062	-	4,970	4,970
Amounts due from the Legal Services Commission	-	-	-	28	6	34
	405,171	11,176	416,347	388,587	5,478	394,065
Provision for doubtful debts (note 10)	(184,599)	(8,337)	(192,936)	(176,209)	(3,013)	(179,222)
	220,572	2,839	223,411	212,378	2,465	214,843

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

For the year ended 31 March 2008

Note 9 - Debtors (*continued*)

Under the Legal Aid Act 1974, the Legal Aid Act 1988 and the Access to Justice Act 1999, where funded clients have recovered or preserved property rather than obtaining damages, recoverable costs may be secured by a charge against the property. Simple interest of 12% was introduced in the year ended 31 March 1991 and was reduced to 10.5% with effect from 1 January 1992 and further reduced to 8% from 1 September 1993. With effect from 1 April 2002 to 30 September 2005 the interest rate was set annually by reference to the Bank of England's official rate at the time. Under the Community Legal Service (Financial) Regulations 2000 as amended by the Community Legal Service (Financial) (Amendment) Regulations 2005 the interest rate was set at 8% from 1 October 2005. A table of applicable Bank and interest rates is below.

	Bank of England rate	Interest rate
1 April 2002	4.00%	5.00%
1 April 2003	3.75%	5.00%
1 April 2004	4.00%	5.00%
1 April 2005 to 30 September 2005	4.75%	5.00%
1 October 2005	n/a	8.00%

The gross amounts secured by a charge against property were:

	2008 CLS £000	2008 CDS £000	2008 Total £000	2007 CLS £000	2007 CDS £000	2007 Total £000
Statutory charge on damages	195,124	-	195,124	204,836	-	204,836
Accrued interest to date	58,694	-	58,694	51,690	-	51,690
	253,818	-	253,818	256,526	-	256,526

Debts secured by a charge may be deferred until the property has been sold. Most of the debts are most likely to be paid after one year however it is not possible to state what value is due for repayment in more than one year.

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

For the year ended 31 March 2008

Note 10 - Doubtful debt provision

	2008 CLS £000	2008 CDS £000	2008 Total £000	2007 CLS £000	2007 CDS £000	2007 Total £000
At 1 April 2007	176,209	3,013	179,222	151,037	8,105	159,142
Debts written off	(14,757)	(90)	(14,847)	(15,195)	(379)	(15,574)
Irrecoverable contributions from funded clients	10,876	136	11,012	11,034	2,295	13,329
Irrecoverable costs	1,806	-	1,806	2,504	-	2,504
Other provision movements	10,465	5,278	15,743	26,829	(7,008)	19,821
Charge to income and expenditure account	23,147	5,414	28,561	40,367	(4,713)	35,654
At 31 March 2008	184,599	8,337	192,936	176,209	3,013	179,222

Note 11 - Creditors

	2008 CLS £000	2008 CDS £000	2008 Total £000	2007 CLS £000	2007 CDS £000	2007 Total £000
Amounts falling due within one year						
Other creditors						
Amounts due to solicitors, counsel and advice agencies	79,322	46,458	125,780	82,538	17,063	99,601
Amounts due to the Legal Services Commission	157	381	538	244	20	264
Accruals and deferred income	827	-	827	976	83	1,059
Other creditors	-	-	-	33	-	33
	80,306	46,839	127,145	83,791	17,166	100,957

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

For the year ended 31 March 2008

Note 12 - Provisions for liabilities and charges

	CLS £000	CDS £000	Total £000
Provision for amounts outstanding on funded cases			
At 1 April 2007	941,170	547,934	1,489,104
Additions and increases to provision	997,168	1,140,179	2,137,347
Amounts used in the period	(1,011,717)	(1,192,617)	(2,204,334)
Unused amounts reversed in the period	(350,000)	-	(350,000)
At 31 March 2008	576,621	495,496	1,072,117
Provision for dilapidations			
At 1 April 2007	-	404	404
Additions and increases to provision	-	17	17
Unused amounts reversed in the period	-	(94)	(94)
Finance charges	-	19	19
At 31 March 2008	-	346	346
Provision for restructuring			
At 1 April 2007	-	527	527
Amounts used in the period	-	(527)	(527)
At 31 March 2008	-	-	-
Provision for onerous contracts			
At 1 April 2007	-	-	-
Additions and increases to provision	69	278	347
At 31 March 2008	69	278	347
At 31 March 2008	576,690	496,120	1,072,810
At 31 March 2007	941,170	548,865	1,490,035

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

For the year ended 31 March 2008

Note 12 - Provisions for liabilities and charges (*continued*)

The Legal Services Commission estimates the value of unbilled live cases each year to arrive at the amounts disclosed within the accounts as a provision. The amount is an estimate of the expenditure required to settle any obligation at the balance sheet date following the requirements of FRS 12 *Provisions, contingent liabilities and contingent assets*. In estimating the provision, the Commission has adopted prudent measurement techniques based on the latest data available. Improved data capture techniques have been utilised in the Commission's estimate for the current year. No income is anticipated for cases that may successfully recover costs.

The dilapidations provision relates to leasehold premises occupied by the PDS. The costs are expected to be incurred between 2008 and 2019 as the leases expire.

The provision for restructuring related to the closure of PDS offices announced on 21 March 2007. The costs were incurred between April 2007 and March 2008.

Where the Commission has offices that it no longer operates from but is tied into a rental agreement a provision is made for the full future costs of those agreements for the shortfall in rent if no alternative occupier can be identified.

Note 13 - Income and expenditure reserve

	CLS £000	CDS £000	Total £000
At 1 April 2007	(809,412)	(561,410)	(1,370,822)
Retained deficit for the year	(467,929)	(1,155,748)	(1,623,677)
Grants received	843,970	1,178,271	2,022,241
At 31 March 2008	(433,371)	(538,887)	(972,258)

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

For the year ended 31 March 2008

Note 14 - Financial investment

	2008	2008	2008	2007	2007	2007
	CLS	CDS	Total	CLS	CDS	Total
	£000	£000	£000	£000	£000	£000
Interest received	7,760	-	7,760	9,451	-	9,451

Note 15 - Reconciliation of operating deficit to net operating cash flows

	2008	2008	2008	2007	2007	2007
	CLS	CDS	Total	CLS	CDS	Total
	£000	£000	£000	£000	£000	£000
Operating deficit	(482,692)	(1,155,729)	(1,638,421)	(490,272)	(1,190,299)	(1,680,571)
Depreciation charges and profit and loss on disposals	8	252	260	7	123	130
(Increase)/decrease in debtors	(1,191)	(374)	(1,565)	(5,299)	42	(5,257)
(Decrease)/increase in creditors	(3,485)	29,673	26,188	18,497	14,240	32,737
(Decrease)/increase in provisions	(364,480)	(52,764)	(417,244)	(339,615)	4,853	(334,762)
Net cash outflow from operating activities	(851,840)	(1,178,942)	(2,030,782)	(816,682)	(1,171,041)	(1,987,723)

Note 16 - Going concern

The balance sheet at 31 March 2008 shows an excess of liabilities over assets of £972m.

The Chief Executive knows of no review of the Commission's operations or intention to suspend its activities or merge it with other bodies. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Note 17 - Contingent liabilities

A provision is made for amounts outstanding on funded cases at the balance sheet date. The Commission recognises that there is a continuing obligation to fund cases past the balance sheet date but the amount of the liability is dependent on the future outcome of each case. It is estimated that this liability is in the order of £1,072m (31 March 2007: £1,486m).

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

For the year ended 31 March 2008

Note 18 - Commitments under operating leases

The Commission has annual commitments under non-cancellable operating leases as follows:

	2008 CLS £000	2008 CDS £000	2008 Total £000	2007 CLS £000	2007 CDS £000	2007 Total £000
Operating leases which expire:						
Within one year - land and buildings	-	-	-	-	-	-
Within one year - other	-	4	4	-	2	2
Between two to five years - land and buildings	-	51	51	-	35	35
Between two to five years - other	-	16	16	-	20	20
Over five years - land and buildings	-	252	252	-	259	259
	-	323	323	-	316	316

Operating leases shown in this note relate to the PDS.

Note 19 - Related party transactions

The Legal Services Commission is a non-departmental public body sponsored by the Ministry of Justice (until May 2007 the Department for Constitutional Affairs). The Ministry of Justice is regarded as a related party. During the year, the Commission had various material transactions with the Ministry of Justice. The Commission has also had various material transactions with Her Majesty's Courts Service, an agency of the Ministry of Justice, relating to work provided by the Courts Service on behalf of the Commission.

The Commission has declared below any immediate connection between the Community Legal Service Fund or the Criminal Defence Service and Ministry of Justice ministers or their close family, or the organisations with which the ministers or their close family are associated. During 2007/08, the Commission entered into a number of material transactions with some Commissioners, other related parties or their close family members. These transactions are also detailed below.

Unless otherwise stated, the disclosures relate to transactions in respect of funded work and do not reflect an individual's earnings. The figures include payments on account and disbursements which may be payable to third parties and are stated inclusive of VAT, as this is a cost to the Commission. All transactions are for the period 1 April 2007 to 31 March 2008 unless otherwise stated. The transactions do not include payments received indirectly (e.g. counsel fees claimed by the solicitors which they then pay to counsel). The transactions do not reflect annual earnings as they might include fees for work carried out in previous years but not billed until this financial year; they may also exclude fees for work carried out in 2007/08 but not yet billed.

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

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

For the year ended 31 March 2008

Note 19 - Related party transactions (*continued*)

Ministry of Justice ministers and related parties

Lord Falconer (until June 2007)	Marianna Hildyard is a barrister who receives payments in respect of legal aid casework. Ms Hildyard is married to Lord Falconer, who was Lord Chancellor and Secretary of State at the Department for Constitutional Affairs/Ministry of Justice.	£161,267 1 April to 27 June 2007
Jack Straw (from June 2007)	Adam Straw is a barrister who receives payments in respect of legal aid casework. Adam Straw is the nephew of Jack Straw, the Lord Chancellor and Secretary of State for Justice.	£4,567 28 June 2007 to 31 March 2008

Commissioners and related parties

Jane Hickman (from June 2007)	Hickman and Rose is a legal services contracted firm of solicitors in which Commissioner Jane Hickman is the Managing Partner.	£1,243,102 1 June 2007 to 31 March 2008
Tom Jones OBE	Geldards LLP is a legal services contracted firm of solicitors. Tom Jones' son Owain Jones is a trainee lawyer at Geldards LLP. The negative balance arose as repayable payments on account exceeded the total payments made to Geldards LLP in the period. The LSC is pursuing the balance through its routine account balancing activities.	(£2,106) 3 September 2007 to 31 March 2008
Dr David Wolfe	David Wolfe is a barrister who receives payments in respect of legal aid casework.	£190,921

Chief Executive and related parties

Carolyn Regan	Hickman and Rose is a legal services contracted firm of solicitors in which Commissioner Jane Hickman is the Managing Partner and Gillian Self is an HR Manager. Gillian Self is a sister of Carolyn Regan.	£1,395,243
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Note 20 - Financial instruments

FRS 13 *Derivatives and other financial instruments: disclosures* requires disclosure of the role that financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. The Commission has limited exposure to risk in relation to its activities but it does utilise financial instruments to manage interest rate movements for damages held on deposit for third parties. Details explaining the risks and how they are managed are provided below under 'interest rate risk'. As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from this disclosure note.

Liquidity risk

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

Interest rate risk

Money received by the Community Legal Service Fund on behalf of funded clients is held on deposit until the case is concluded. Interest is paid to funded clients by reference to the London Inter Bank Offered Rate (LIBOR). To offset the interest payable, £30.6m of the total deposit account balance is held with Barclays Bank Plc and managed under the

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

For the year ended 31 March 2008

Note 20 - Financial instruments (*continued*)

'Liquidity Plus Fund' and 'Libor Plus Fund' and the balance held as cash. Funds are available at 24 hours' notice. The rate earned by these instruments may fluctuate and differ from the rate paid out which is based on LIBOR. However, the short maturity period of the instruments limits any risk arising from adverse rates earned.

The Commission is not exposed to other significant interest rate risks.

Foreign currency risk

Foreign currency would not usually form part of the Commission's assets or liabilities and as such the Commission is not exposed to any significant foreign currency risks.

Financial assets

Currency	Fixed rate financial assets £000	Floating rate financial assets £000	Total £000	Weighted average interest rate
Sterling	-	4,038	4,038	5.2%
At 31 March 2008	-	4,038	4,038	5.2%
Sterling	-	4,818	4,818	4.1%
At 31 March 2007	-	4,818	4,818	4.1%

Financial liabilities

Currency	Fixed rate financial liabilities £000	Financial liabilities on which no interest is paid £000	Total £000	Weighted average interest rate
Sterling	346	1,072,117	1,072,463	2.2%
At 31 March 2008	346	1,072,117	1,072,463	2.2%
Sterling	248	1,824,562	1,824,810	2.2%
At 31 March 2007	248	1,824,562	1,824,810	2.2%

Fair values

The fair value of financial assets and financial liabilities is the same as the book value.

Cash at bank and in hand

Book value approximates to fair value either because of the short maturity of the instruments or because the interest rate on investments is reset after periods not greater than 12 months.

Provisions for liabilities and charges

Book value approximates to fair value. Where the provision is made against work in progress on unbilled cases the case values were an estimate of the expenditure required to settle any obligation at the balance sheet date.

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

For the year ended 31 March 2008

Note 21 - Third party assets

The Commission holds third party assets as explained in note 1 I).

	31 March 2007 £000	Gross inflows £000	Gross outflows £000	31 March 2008 £000
Third party assets	32,384	12,219	(15,003)	29,600

The Commission receives awarded damages awaiting the final settlement of a case. The assets held at the balance sheet date comprise pooled investment funds and cash and building society deposits as follows:

	31 March 2008 £000	31 March 2007 £000
Cash	848	1,746
Building Society deposits	10,415	-
Pooled investment funds	18,337	30,638
	29,600	32,384

Note 22 - Accountability notes

Losses statement

There were 5,849 (2007: 10,780) cases involving losses totalling £14.8m (2007: £15.6m) (see note 10). In accordance with *Managing Public Money* losses over £250,000 are separately disclosed. The debts of two solicitors to the amount of £728,478 and £427,440 were written off in the year.

Note 23 - Post balance sheet events

In accordance with the requirements of FRS 21, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

On 6 May 2008 Sir Michael Bichard announced that he will be standing down as Chair of the Legal Services Commission at the end of August. It is not anticipated that this change will materially affect the funding or the operations of the Legal Services Commission for the year ending 31 March 2009.

An agreement was reached with the Law Society on 2 April 2008 following judicial review proceedings over the unified contract that had been introduced in April 2007. One component of this agreement offered concessions to solicitors in the form of a waiver of outstanding payments on account made on historic cases dating back to before April 2002. It is estimated that there are currently in excess of £50 million of outstanding payments on account on such cases. In offering these concessions the Commission estimates that potential net recoveries in excess of £10m will be forgone. The accounting approach adopted by the Commission on outstanding payments on account has ensured that the financial impact of these concessions has already been recognized in the financial statements.

A statement of the responsibilities of the Accounting Officer and of the Commission

Under the paragraph 16 (1) of Schedule 1 to the Access to Justice Act 1999, the Secretary of State for Justice with the approval of the Treasury has directed the Legal Services Commission (LSC) to prepare, for each financial year, a statement of accounts for the administration of the LSC. The accounts are prepared on an accruals basis and must give a true and fair view of its state of affairs at the year-end and of the LSC's income and expenditure and cash flows for the financial year.

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

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

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

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

Carolyn Regan

Chief Executive and Accounting Officer
8 July 2008

Certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Legal Services Commission for the year ended 31 March 2008 under the Access to Justice Act 1999. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the remuneration report that is described in that report as having been audited.

Respective responsibilities of the Commission, Accounting Officer and auditor

The Commission and Chief Executive as Accounting Officer are responsible for preparing the annual report, the remuneration report and the financial statements in accordance with the Access to Justice Act 1999 and directions made there under by the Secretary of State and Lord Chancellor with the approval of the Treasury and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Responsibilities of the Accounting Officer and of the Commission.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Access to Justice Act 1999 and directions made there under by the Secretary of State and the Lord Chancellor with the approval of the Treasury. I report to you whether, in my opinion, the information, which comprises the management commentary, included in the annual report is consistent with the financial statements. I also report whether in all material respects

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

In addition, I report to you if the Commission 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 the Treasury regarding remuneration and other transactions is not disclosed.

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

I read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

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

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

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 Access to Justice Act 1999 and directions made there under by the Secretary of State and the Lord Chancellor with the approval of the Treasury, of the state of the Commission's affairs as at 31 March 2008 and of its deficit 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 the Access to Justice Act 1999 and directions made there under by the Secretary of State and the Lord Chancellor with the approval of the Treasury
- information, which comprises the management commentary, included within the annual report, is consistent with the financial statements.

Opinion on regularity

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

Report

I have no observations to make on these financial statements.

T J Burr

Comptroller and Auditor General

National Audit Office

151 Buckingham Palace Road
Victoria
London
SW1W 9SS

11 July 2008

Legal Services Commission Income and expenditure account

For the year ended 31 March 2008

	Note	2008 £000	2007 £000
Other operating income		257	212
Employment costs	2, 3	(62,131)	(56,690)
Depreciation	5	(2,938)	(2,723)
Other operating charges	6	(51,381)	(43,229)
Operating deficit	7	(116,193)	(102,430)
Interest receivable and similar income	8	1,649	1,292
Interest payable and similar charges	9	(1,427)	(551)
Other finance costs	10	587	(336)
Non operating income	11	1,920	-
Cost of capital charge	1 f)	250	474
Deficit for the year		(113,214)	(101,551)
Reversal of cost of capital charge	1 f)	(250)	(474)
Retained deficit for the year	16	(113,464)	(102,025)

The notes on pages 98 to 117 form part of these financial statements.

Legal Services Commission

Statement of recognised gains and losses

For the year ended 31 March 2008

	Note	2008 £000	2007 £000
Actuarial gain/(loss) recognised in the pension scheme	3, 16	12,451	(26,975)
Recognised gains and losses for the financial year		12,451	(26,975)

The notes on pages 98 to 117 form part of these financial statements.

Legal Services Commission Balance sheet

At 31 March 2008

	Note	2008 £000	2007 £000
Fixed assets	5	10,943	8,458
Current assets			
Debtors	14	3,937	4,463
Cash at bank and in hand	13	5,997	8,533
		9,934	12,996
Creditors: amounts falling due within one year	15	(7,935)	(9,749)
Net current assets		1,999	3,247
Total assets less current liabilities		12,942	11,705
Provision for liabilities and charges	20	(4,023)	(4,329)
Net assets excluding pension liability		8,919	7,376
Pension liability	3	(1,568)	(29,008)
Net assets/(liabilities) including pension liability		7,351	(21,632)
Capital and reserves			
Income and expenditure reserve	16	7,351	(21,632)
		7,351	(21,632)

Carolyn Regan

Chief Executive and Accounting Officer

8 July 2008

The notes on pages 98 to 117 form part of these financial statements.

Legal Services Commission

Cash flow statement

For the year ended 31 March 2008

	Note	2008 £000	2007 £000
Net cash outflow from operating activities	12	(129,245)	(103,144)
Non operating income	12	1,920	-
Returns on investments and servicing of finance	12	222	706
Capital expenditure	12	(5,429)	(4,478)
Financing - grant-in-aid capital	16	5,429	4,478
Financing - grant-in-aid revenue	16	124,567	108,332
(Decrease)/increase in cash	13	(2,536)	5,894

The notes on pages 98 to 117 form part of these financial statements.

Legal Services Commission

Notes to the financial statements

For the year ended 31 March 2008

Note 1 - Statement of accounting policies

These financial statements are prepared in accordance with the Treasury's *Government Financial Reporting Manual* and applicable accounting standards. They are in a form as directed by the Secretary of State for Justice with the approval of the Treasury.

a) Accounting convention

The accounts are prepared under the historical cost convention. This complies with Treasury guidance. Assets are carried at valuation in use; depreciated historical costs are used as a proxy for current value of non-property assets because the assets have short economic useful lives. Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Act and accounting standards issued by the Accounting Standards Board so far as those requirements are relevant. The accounts are also consistent, where appropriate, with generally accepted accounting practice in the United Kingdom (UK GAAP).

b) Tangible fixed assets

Tangible fixed assets are carried at their original cost less accumulated depreciation. Assets costing more than the prescribed capitalisation level of £1,000 are treated as capital assets. Where an item costs less than the prescribed limit but forms part of an asset or grouped asset whose total value is greater than the capitalisation level, the item is treated as a capital asset. Assets purchased and brought in to service within the same year are disclosed as additions. Where an asset under construction is brought forward from a prior year and capitalised in the current year, it is then disclosed as a transfer from asset under construction.

c) Depreciation

Except for assets under construction depreciation is provided on all fixed assets on a straight line basis to write

off the cost of tangible fixed assets over their estimated useful lives as follows:

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

Assets under construction are not depreciated until they have been completed. On completion assets are transferred to their relevant category and depreciated over their estimated useful lives.

d) Other operating income

Other operating income comprises receipts authorised by the Ministry of Justice to be treated as income.

e) Grant-in-aid

Grant-in-aid receivable for revenue purposes or for the acquisition of general fixed assets is accounted for as financing and credited directly to the income and expenditure reserve.

f) Financing charges

As required by the Treasury a charge is made to the income and expenditure account for the notional cost of capital. The notional capital charge, which reflects the cost of financing capital employed, is calculated at 3.5% (2007: 3.5%) of average net assets employed during the year. In accordance with Treasury guidance the notional charge is reversed out of the income and expenditure account before determining the retained surplus or deficit for the year.

The Commission also receives interest on bank balances and on third party deposit accounts for funded clients. Bank interest is paid over to the Ministry of Justice; excess interest on deposit accounts for funded clients is retained as agreed with the Ministry of Justice. The receipts and payments are shown in 'interest receivable and similar income' and 'interest payable and similar charges' respectively in the income and expenditure account.

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2008

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

g) Operating leases

The costs of operating leases are charged to the income and expenditure account as they fall due.

h) Leased assets

The Commission does not currently hold any assets under finance leases.

i) Provisions

A provision is recognised when an obligation (whether legal or constructive) arises as a result of a past event, and when it is probable that a transfer of economic benefit will be required to settle the obligation and that it can be reliably estimated.

j) Liquid resources

All liquid resources are in the form of cash.

k) Accounting for value added tax

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

l) Pensions

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

The increase in the present value of the liabilities of the Commission's defined benefit pension schemes expected to arise from employee service is charged to the operating surplus. The expected return on the schemes' assets and the increase during the period in the present value of the schemes' liabilities arising from the passage of time are included under 'other finance costs' in the income

and expenditure account. Actuarial gains and losses are recognised in the statement of recognised gains and losses.

m) Going concern

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

The future financing of the Commission's activities is met by grant-in-aid from the Ministry of Justice voted by Parliament annually under the relevant Appropriation Act.

Parliament voted on the funding for 2008/09 on 21 April 2008.

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2008

Note 2 - Employment costs

	Permanently Employed Staff £000	Other £000	2008 £000	Permanently Employed Staff £000	Other £000	2007 £000
Aggregate payroll costs were as follows:						
Salaries and wages	42,871	5,328	48,199	42,405	2,990	45,395
Social security costs	3,812	220	4,032	3,270	132	3,402
Other pension costs	8,399	-	8,399	6,181	-	6,181
	55,082	5,548	60,630	51,856	3,122	54,978
Redundancy	1,119	-	1,119	797	-	797
	56,201	5,548	61,749	52,653	3,122	55,775
Commissioners' costs:						
Remuneration as executives	-	-	-	436	-	436
Fees to non-executives	350	-	350	390	-	390
Social security costs	32	-	32	89	-	89
	382	-	382	915	-	915
	56,583	5,548	62,131	53,568	3,122	56,690

All of the remuneration as executives relates to the former Chief Executive, Clare Dodgson.

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

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

Additional detail about the Executive Team and non-executive Commissioners' remuneration is included in the remuneration report.

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2008

Note 2 - Employment costs (*continued*)

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

	Permanently Employed Staff	Other	2008	Permanently Employed Staff	Other	2007
Change Programme	145	37	182	124	17	141
Service Delivery	1,036	146	1,182	1,114	92	1,206
Corporate Services	196	20	216	207	21	228
Transfer of Grant	19	15	34	9	7	16
	1,396	218	1,614	1,454	137	1,591
Commissioners	10	-	10	11	-	11
	1,406	218	1,624	1,465	137	1,602

Expenditure for the Public Defender Service (PDS) and Criminal Defence Service (CDS) Direct is recorded within the Criminal Defence Service accounts; expenditure of the Community Legal Advice team formerly Community Legal Service Direct, and Other Projects is included in the CLS accounts as part of grants and similar. To fully disclose the Commission's staff costs and numbers, a breakdown of the PDS, CDS Direct, Community Legal Advice and Other Projects staff costs is given below.

PDS and CDS Direct

	Permanently Employed Staff £000	Other £000	2008 £000	Permanently Employed Staff £000	Other £000	2007 £000
Aggregate payroll costs were as follows:						
Salaries and wages	2,164	74	2,238	2,749	143	2,892
Social security costs	197	7	204	247	5	252
Other pension costs	396	-	396	-	-	-
	2,757	81	2,838	2,996	148	3,144

The Commission's policy is now to include the related pension costs in the PDS and CDS Direct employee costs.

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

For the year ended 31 March 2008

Note 2 - Employment costs (*continued*)

The average number of full-time equivalent persons employed within the PDS and CDS Direct during the year was as follows:

	Permanently Employed Staff	Other	2008	Permanently Employed Staff	Other	2007
PDS	59	1	60	79	7	86
CDS Direct	1	1	2	1	-	1
	60	2	62	80	7	87

Community Legal Advice and Other Projects

	Permanently Employed Staff £000	Other £000	2008 £000	Permanently Employed Staff £000	Other £000	2007 £000
Aggregate payroll costs were as follows:						
Salaries and wages	1,003	152	1,155	851	90	941
Social security costs	79	-	79	83	-	83
Other pension costs	184	-	184	-	-	-
	1,266	152	1,418	934	90	1,024

The Commissions policy is now to include the related pension costs in the Community Legal Advice and Other Projects employee costs.

The average number of full-time equivalent persons employed within the Community Legal Advice and Other Projects team during the year was as follows:

	Permanently Employed Staff	Other	2008	Permanently Employed Staff	Other	2007
Community Legal Advice	21	6	27	24	7	31
Other Projects	-	-	-	1	-	1
	21	6	27	25	7	32

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2008

Note 3 - Pension costs

The Legal Services Commission operates two pension schemes, the No. 4 Scheme and the No. 3 Scheme, providing benefits based on final pensionable salary. The assets of the schemes are held separately from those of the Commission, being invested in funds managed by Legal & General Investment Management Limited. Contributions to the schemes are charged to the income and expenditure account so as to spread the cost of the pensions over employees' working lives with the Commission. The contributions are set by the Trustees having taken advice from the Scheme Actuary (Hymans Robertson LLP) on the basis of biennial valuations. The most recent formal valuations were as at 31 March 2006. The assumptions have been updated to ensure the valuation is in line with the requirements of FRS 17 for the current year disclosure.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the rate set by the Government Actuary's Department currently fixed at 2.5% p.a. (2007: 1.8%) in excess of expected future price inflation. The discount rate is lower than the real yield on long-dated corporate bonds, which would be used for FRS 17 in the absence of Treasury guidance.

The Legal Services Commission Staff Pension and Assurance Scheme (No. 4)

A full actuarial valuation of the Scheme was carried out at 31 March 2006 by qualified independent actuaries Hymans Robertson LLP.

The Commission has contributed 29.1% of pensionable salary since 1 April 2007. The commission made an advanced payment of £13m into the No 4 Scheme in 2008. Under the terms of this special contribution agreement the Commission is not obliged to make further contributions to the scheme for a period expected to be about one year.

The Legal Services Commission Staff Pension and Assurance Scheme (No. 3)

A full actuarial valuation of the Scheme was carried out at 31 March 2006 by qualified independent actuaries Hymans Robertson LLP.

The Scheme is closed to new entrants and there are no active members. The Commission did not contribute to the scheme in the period 1 April 2007 to 31 March 2008 (2007: £183,500).

The major assumptions used by the actuary were (in nominal terms):

	No. 4 Scheme 2008	No. 3 Scheme 2008	No. 4 Scheme 2007	No. 3 Scheme 2007
Discount rate	6.00% p.a.	6.00% p.a.	5.05% p.a.	5.05% p.a.
Rate of increase in salaries	5.00% p.a.	n/a	4.75% p.a.	n/a
Deferred pension increases before retirement	3.50% p.a.	3.50% p.a.	3.25% p.a.	3.25% p.a.
Rate of increase in pensions in payment	3.50% p.a.	3.50% p.a.	3.25% p.a.	3.25% p.a.
Inflation assumption	3.50% p.a.	3.50% p.a.	3.25% p.a.	3.25% p.a.

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

For the year ended 31 March 2008

Note 3 - Pension costs (*continued*)

Future life expectancies

The future life expectancies below are based on the 2008 post retirement mortality assumptions used for both schemes, namely standard actuarial tables PMA92 for males and PFA92 for females with an allowance for long cohort improvement (mortality rates are subject to a 1% underpin for annual improvements).

	Males Years	Females Years
Future life expectancy for a pensioner aged 60 at 31 March 2008	29.1	32.6
Future life expectancy at age 60 for a non-pensioner aged 45 at 31 March 2008	30.8	34.3

The expected rate of return and market values of the assets of the No. 4 Pension Scheme at 31 March 2008 were as follows:

	Expected long-term rate of return at 31 March 2008	Value at 31 March 2008 £000	Expected long-term rate of return at 31 March 2007	Value at 31 March 2007 £000
No. 4 Pension Scheme				
Market value of assets				
Equities	7.5%	99,779	7.5%	92,384
Gilts and cash	4.5%	93,327	4.5%	72,908
Insured pensioners	6.0%	11,380	5.1%	12,200
Total market value of assets		204,486		177,492
Actuarial value of liabilities		(206,054)		(206,500)
Deficit in the Scheme		(1,568)		(29,008)
Related deferred tax liability		n/a		n/a
Net pension liability		(1,568)		(29,008)

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2008

Note 3 - Pension costs (*continued*)

The expected rate of return and market values of the assets of the No. 3 Pension Scheme at 31 March were as follows:

	Expected long-term rate of return at 31 March 2008	Value at 31 March 2008 £000	Expected long-term rate of return at 31 March 2007	Value at 31 March 2007 £000
No. 3 Pension Scheme				
Market value of assets				
Equities	7.5%	986	7.5%	1,429
Gilts and cash	4.5%	2,273	4.5%	1,763
Insured pensioners	6.0%	599	5.1%	870
Total market value of assets		3,858		4,062
Actuarial value of liabilities		(3,748)		(3,782)
Surplus in the Scheme		110		280
Irrecoverable Surplus *		(110)		(280)
Related deferred tax liability		n/a		n/a
Net pension liability		-		-

* The surplus on the scheme is only recoverable to the extent that the Legal Services Commission can benefit from either refunds formally agreed or future contribution reductions.

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2008

Note 3 - Pension costs (*continued*)

Pension scheme costs charged to operating costs include:

	No. 4 Scheme 2008 £000	No. 3 Scheme 2008 £000	No. 4 Scheme 2007 £000	No. 3 Scheme 2007 £000
Current service cost	7,489	-	5,517	-
Past service charge	910	-	664	-
Admin - Operating charge	8,399	-	6,181	-
CLS and PDS - Operating charge	580	-	-	-
	8,979	-	6,181	-

The CLS and PDS operating charge is recognised in the Community Legal Service Fund and Criminal Defence Service accounts.

Pension scheme interest costs

Expected return on Scheme assets	11,090	183	9,629	233
Interest on Scheme liabilities	(10,595)	(183)	(9,721)	(236)
Net return	495	-	(92)	(3)

The following have been recognised in the statement of recognised gains and losses:

Actual return less expected return on Scheme assets	(5,757)	(57)	348	(140)
Experience gains and losses arising on Scheme liabilities	-	-	11,252	643
Changes in assumptions underlying the present value of the Scheme liabilities	18,208	(113)	(38,500)	(298)
Increase/(decrease) in irrecoverable surplus	-	170	-	(280)
Actuarial gain/(loss) included in the statement of recognised gains and losses	12,451	-	(26,900)	(75)

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2008

Note 3 - Pension costs (*continued*)

	No. 4 Scheme 2008 £000	No. 3 Scheme 2008 £000	No. 4 Scheme 2007 £000	No. 3 Scheme 2007 £000
The movement in the deficit during the year arose as follows:				
Deficit in Scheme at beginning of year	(29,008)	-	(10,333)	(106)
Current service cost - Admin	(7,489)	-	(5,517)	-
Current service cost - CLS & PDS	(580)	-	-	-
Commission Contributions	23,473	-	14,498	184
Past service cost	(910)	-	(664)	-
Other finance costs	495	-	(92)	(3)
Actuarial gain/(loss)	12,451	-	(26,900)	(75)
Deficit in Scheme at end of year	(1,568)	-	(29,008)	-

The No. 4 Pension Scheme history of experience gains and losses over the period 1 April 2004 to 31 March 2008 were as follows:

	No. 4 Scheme 2008 £000	No. 4 Scheme 2007 £000	No. 4 Scheme 2006 £000	No. 4 Scheme 2005 £000	No. 4 Scheme 2004 £000
Difference between the expected and actual return on Scheme assets	(5,757)	348	16,930	1,606	8,027
Percentage of Scheme assets	(2.8)%	0.2%	10.9%	1.4%	8.0%
Experience gains and losses on Scheme liabilities	-	11,252	-	2,754	-
Percentage of the present value of Scheme liabilities	-	5.4%	-	1.9%	-
Total amount recognised in the statement of recognised gains and losses	12,451	(26,900)	7,970	(16,471)	(1,392)
Percentage of the present value of Scheme liabilities	6.0%	(13.0)%	4.8%	(11.4)%	(1.2)%

There was one early retirement (2007: one) on ill-health grounds.

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2008

Note 3 - Pension costs (*continued*)

The No. 3 Pension Scheme history of experience gains and losses over the period 1 April 2004 to 31 March 2008 were as follows:

	No. 3 Scheme 2008 £000	No. 3 Scheme 2007 £000	No. 3 Scheme 2006 £000	No. 3 Scheme 2005 £000	No. 3 Scheme 2004 £000
Difference between the expected and actual return on Scheme assets	(57)	(140)	408	(102)	313
Percentage of Scheme assets	(1.5)%	(3.4)%	9.8%	(2.7)%	8.2%
Experience gains and losses on Scheme liabilities	-	643	-	891	-
Percentage of the present value of Scheme liabilities	-	17.0%	-	22.3%	-
Total amount recognised in the statement of recognised gains and losses	-	(75)	(17)	483	(82)
Percentage of the present value of Scheme liabilities	-	(2.0)%	(0.4)%	12.1%	(1.7)%

Liability and insured pension sensitivity at 31 March 2008 to changes in key assumptions

The table below shows the sensitivity of the liability and insured pensions for both schemes as at 31 March 2008 to changes in key assumptions. These figures have been calculated in a consistent manner to the rest of the figures in this report. The changes are considered in isolation.

Changes in assumption	(Increase)/decrease to value of liabilities		Increase /(decrease) to value of insured pensions	
	No. 4 Scheme £000	No. 3 Scheme £000	No. 4 Scheme £000	No. 3 Scheme £000
Discount rate increases by 0.25% p.a.	11,000	82	(200)	(15)
Rate of pay escalation increases by 0.25% p.a.	(4,100)	No change	No change	No change
Pension increases and deferred pension increases increase by 0.25% p.a.	(6,800)	(74)	No change	No change
Life expectancy at age 60 increases by 1 year	(4,700)	(201)	400	31

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2008

Note 4 - Reconciliation of fixed asset additions to capital expenditure

	2008	2007
	£000	£000
Fixed asset additions	5,429	4,478
Payments to acquire tangible fixed assets	5,429	4,478

Note 5 - Fixed assets

	Assets under construction £000	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2007	3,769	4,236	2,070	4,673	14,748
Additions	4,963	362	89	15	5,429
Disposals	-	(5)	-	(92)	(97)
Transfers	(2,100)	1,470	621	9	-
Cost at 31 March 2008	6,632	6,063	2,780	4,605	20,080
Depreciation at 1 April 2007	-	2,230	1,139	2,921	6,290
Charged in year	-	1,469	596	873	2,938
Disposals	-	(1)	-	(90)	(91)
Depreciation at 31 March 2008	-	3,698	1,735	3,704	9,137
Net book value at 31 March 2008	6,632	2,365	1,045	901	10,943
Net book value at 31 March 2007	3,769	2,006	931	1,752	8,458

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2008

Note 6 - Other operating charges

	2008	2007
	£000	£000
Rent, rates and insurance	6,721	6,997
Maintenance, heating, lighting and dilapidation charge	3,452	3,214
Office machinery expenditure and maintenance	2,015	1,605
Office supplies, printing and stationery	1,049	734
Publicity	327	207
Managed facility - outsourced contracts	1,778	1,450
Postage and telephone	2,526	2,668
File assessment and peer review	2,481	1,716
Legal and professional charges	4,499	4,064
Research and development	475	423
Contribution recovery costs	113	74
Audit fee	157	135
Computer contractors	2,713	1,155
Security service and contracts	1,073	606
Staff recruitment and retention expenses	1,332	1,139
Payroll contract	125	131
Travelling, subsistence and committee members' attendance fees	2,669	2,310
Conferences and courses	1,195	1,300
Land Registry charges	250	235
Ex gratia payments and other similar charges	95	96
HMCS Service Charge - Crime Higher	7,520	7,520
HMCS Service Charge - Transfer of Grant	8,810	4,341
Loss on disposal and write down of fixed assets	6	1,109
	51,381	43,229

The HMCS Service Charge is incurred under a Service Level Agreement. The Legal Services Commission compensates HMCS for administrative costs incurred in providing legal aid services in the Higher Criminal Courts and for means assessment work in the Lower Courts.

Ex gratia payments are amounts paid to individuals claiming that mistakes were made by the Commission in dealing with their cases. Further disclosure is found in note 24 to these accounts.

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2008

Note 7 - Operating deficit

	2008 £000	2007 £000
Operating deficit is stated after charging the following:		
Operating leases	5,814	5,954
Auditor remuneration - current year	146	135
Auditor remuneration - prior year	11	-

Auditor remuneration is for statutory audit work only.

Note 8 - Interest receivable and similar income

	2008 £000	2007 £000
Interest receivable and similar income	1,649	1,292

Note 9 - Interest payable and similar charges

	2008 £000	2007 £000
Interest payable and similar charges	1,427	551

Note 10 - Other finance costs

	2008 £000	2007 £000
Discount on provisions (note 20)	(92)	241
Pension Scheme No. 4 (note 3)	(495)	92
Pension Scheme No. 3 (note 3)	-	3
	(587)	336

Note 11 - Non operating income

Statutory compensation of £1,920,000 was received by the Legal Services Commission upon vacation of the Red Lion Street property under Section 37 of the Landlord & Tenants Act 1954.

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2008

Note 12 - Gross cash flows

	2008 £000	2007 £000
Reconciliation of operating deficit to net operating cash flows		
Operating deficit	(116,193)	(102,430)
Depreciation charges and loss on disposal	2,944	3,831
Decrease in debtors	526	8,210
(Decrease) in creditors	(1,814)	(1,836)
(Decrease) in provisions	(214)	(2,418)
Other finance charges and pension payments	(14,494)	(8,501)
Net cash outflow from operating activities	(129,245)	(103,144)
Non operating income		
Receipt on termination of lease on property	1,920	-
	1,920	-
Returns on investment and servicing of finance		
Interest received	1,649	1,257
Interest paid	(1,427)	(551)
	222	706
Capital expenditure		
Payments to acquire tangible fixed assets (note 5)	(5,429)	(4,478)
	(5,429)	(4,478)

Note 13 - Analysis of changes in net funds

	At 1 April 2007 £000	Cash flows £000	At 31 March 2008 £000
Cash at bank and in hand	8,533	(2,536)	5,997

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2008

Note 14 - Debtors

	2008 £000	2007 £000
Amounts falling due within one year		
Other debtors	201	244
Amounts due from CLS/CDS Fund	538	230
Prepayments and accrued income	3,198	3,989
	3,937	4,463

Note 15 - Creditors

	2008 £000	2007 £000
Amounts falling due within one year		
Other creditors	136	108
Amounts due to HMCS on the Service Level Agreement - Crime Higher	176	-
Amounts due to HMCS on the Service Level Agreement - Transfer of Grant	-	3,786
Other taxation and social security costs	1,374	1,379
Accruals and deferred income	6,249	4,476
	7,935	9,749

Note 16 - Reserves

	Income and expenditure reserve £000	Total reserves £000
Balance as at 1 April 2007	(21,632)	(21,632)
Deficit for the financial year	(113,464)	(113,464)
Actuarial gain recognised	12,451	12,451
Grant-in-aid - capital	5,429	5,429
Grant-in-aid - revenue	124,567	124,567
Balance as at 31 March 2008	7,351	7,351

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2008

Note 17 - Going concern

The balance sheet at 31 March 2008 shows an excess of assets over liabilities of £7.4m.

The Chief Executive knows of no review of the Commission's operations or intention to suspend its activities or merge it with other bodies. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Note 18 - Capital commitments

There are commitments for capital expenditure of £837,079 (2007: £57,214) for which no provision has been made in these accounts.

Note 19 - Commitments under operating leases

	Land and buildings 2008 £000	Other 2008 £000	Total 2008 £000	Land and buildings 2007 £000	Other 2007 £000	Total 2007 £000
Annual commitments under operating leases expiring:						
Within one year	900	344	1,244	508	2	510
Between two to five years	414	67	481	428	414	842
Over five years	2,702	-	2,702	4,134	-	4,134
	4,016	411	4,427	5,070	416	5,486

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2008

Note 20 - Provision for liabilities and charges

	Restructuring £000	Dilapidations £000	Total £000
At 1 April 2007	985	3,344	4,329
Additions and increases to provision	741	173	914
Amounts used in the period	(985)	(51)	(1,036)
Unused amounts reversed in the period	-	(92)	(92)
Finance charges (note 10)	-	(92)	(92)
At 31 March 2008	741	3,282	4,023

Total provisions for liabilities and charges includes provisions for dilapidations and restructuring.

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and discounted at 2.2% (2007: 2.2%). The costs are expected to be incurred between 2008 and 2019 as the leases expire. A dilapidation provision on vacated buildings is maintained until dilapidation negotiations have been finalised.

The restructuring provision relates to additional costs expected to be incurred as a result of the restructuring programme being undertaken by the Legal Services Commission.

Note 21 - Contingent liabilities

There are no contingent liabilities as at 31 March 2008 (2007: Nil).

Note 22 - Related party transactions

The Legal Services Commission is a non-departmental public body sponsored by the Ministry of Justice. The Ministry of Justice is regarded as a related party. During the year the Legal Services Commission had various material transactions with the Ministry of Justice. The Commission has also had various material transactions with Her Majesty's Courts Service, an agency of the Ministry of Justice, relating to work provided by the Courts Service on behalf of the Commission.

During 2007/08 the Legal Services Commission entered into no other material transactions with related parties.

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2008

Note 23 - Financial instruments

FRS 13 *Derivatives and other financial instruments: disclosures* requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. The Commission has limited exposure to risk in relation to its activities. As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from this disclosure note.

Liquidity risk

The Commission is financed by grant-in-aid received from the Ministry of Justice. As such, it is not exposed to significant liquidity risk.

Interest rate risk

The Commission's bank balances carry floating interest rates, and the interest is paid over directly to the Ministry of Justice. All of the Commission's liabilities carry nil or fixed rates of interest and as such are not exposed to significant interest rate risk.

Foreign currency risk

Foreign currency would not usually form part of the Commission's assets or liabilities and as such the Commission is not exposed to any significant foreign currency risk.

Financial assets

	Fixed rate financial assets £000	Floating rate financial assets £000	Financial assets on which no interest is received £000	Total £000	Weighted average interest rate	Weighted average period for which interest rate is fixed Years
Currency						
Sterling	-	5,997	-	5,997	5.2%	-
At 31 March 2008	-	5,997	-	5,997	5.2%	-
Sterling	-	8,533	-	8,533	4.2%	-
At 31 March 2007	-	8,533	-	8,533	4.2%	-

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2008

Note 23 - Financial instruments (*continued*)

Financial liabilities

	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000	Total £000	Weighted average interest rate	Weighted average period for which interest rate is fixed Years
Currency						
Sterling	2,068	-	-	2,068	2.2%	-
At 31 March 2008	2,068	-	-	2,068	2.2%	-
Sterling	2,849	-	-	2,849	2.2%	-
At 31 March 2007	2,849	-	-	2,849	2.2%	-

Fair values

The fair value of financial assets and financial liabilities is the same as book value.

Note 24 - Accountability notes

Losses

There were no incidences of cash reported stolen in the year (2007: Nil).

There were four items of equipment totalling £2,980 reported stolen in the year (2007: nine items of equipment totalling £1,583).

There were no incidents of fraud in the year (2007: Nil).

Special payments

Ex gratia payments are amounts paid to individuals claiming that mistakes were made by the Commission in dealing with their cases.

During the year there were 100 (2007: 67) ex gratia payments totalling £94,844 (2007: £96,204).

The Commission made special payments of £325,000 to two staff as part of their termination agreements. No single payment was above £250,000.

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

For the year ended 31 March 2008

Note 25 - Post balance sheet events

In accordance with the requirements of FRS 21, post balance sheet events are considered up to the date on which accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

On 6 May 2008 Sir Michael Bichard announced that he will be standing down as Chair of the Legal Services Commission at the end of August. It is not anticipated that this change will materially affect the funding or the operations of the Legal Services Commission for the year ending 31 March 2009.