

Department for Constitutional Affairs

Resource Accounts

for the year ended 31 March 2007



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Resource Accounts for the year ended 31 March 2007

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Contents

Annual Report	1
Management Commentary	6
Remuneration Report	15
Statement of Accounting Officers' Responsibilities	26
Statement on Internal Control	27
The Certificate and Report of the Comptroller and Auditor General to the House of Commons	34
The Accounting Schedules:	
Statement of Parliamentary Supply	36
Operating Cost Statement	37
Balance Sheet	39
Consolidated Cash flow Statement	40
Consolidated Statement of Operating Costs by Departmental Aims and Objectives	40
Notes to the Accounts	44

Annual Report

These accounts, for the year ended 31 March 2007, relate only to the Department for Constitutional Affairs (DCA). On 9 May 2007, a new department was formed – the Ministry of Justice (MoJ). This new Ministry will take forward the work of DCA, together with some additional responsibilities from the Home Office including the National Offender Management Service, which covers the Prison and Probation Services. The new Ministry will also host the trilateral Office for Criminal Justice Reform.

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

A new executive agency, the Tribunals Service, was created on 1 April 2006. The new agency brings together the administration of the largest central government tribunals.

Principal Activities

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

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

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

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

For the purposes of the Department's Resource Accounts, the 'Consolidated' figures represent those for the central Department as defined above plus those of the Scotland and Wales Offices, while the 'Core' Department figures exclude the three executive agencies. This accords with HM Treasury requirements.

Entities within the accounting boundary of the Department

Central Department

- **Department for Constitutional Affairs Headquarters**

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

Executive Agencies:

- **Her Majesty's Courts Service (HMCS)**

Central to the delivery of justice, it is responsible for the administration of the court system (including magistrates' courts) in England and Wales.

- **The Tribunals Service (TS)**

Provides common administrative support to the main central government tribunals.

- **Public Guardianship Office (PGO)**
Assists in the protection and administration of the financial affairs of individuals with mental incapacity.

Associated Offices:

- Office of the Official Solicitor and Public Trustee
- Office of the Legal Services Ombudsman
- Office of the Legal Services Complaints Commissioner
- HM Inspectorate of Court Administration
- Law Commission
- Council on Tribunals
- Office of the Judge Advocate General
- Judicial Appointments and Conduct Ombudsman
- Office for Judicial Complaints
- Directorate of Judicial Offices for England and Wales (incorporating the Judicial Office, the Judicial Communications Office and the Judicial Studies Board)

Scotland Office

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

Advisory non-departmental public bodies:

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

boundaries for Westminster and Scottish Parliament constituencies.

Wales Office

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

Executive non-departmental public bodies outside the accounting boundary

- **Legal Services Commission**
Oversees the administration of legal aid in England and Wales.
- **Information Commissioner's Office**
Reports to Parliament on aspects of data protection and freedom of information.
- **Judicial Appointments Commission**
Selects judicial office holders on merit and independently of government through fair and open competition.

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

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

Ministers, Senior Officials and report on operation of the Boards

Ministers

The Secretary of State and Lord Chancellor was the Rt Hon Lord Falconer of Thoroton. He was supported during 2006-07 by a Minister of State, the RT Hon Harriet Harman QC, MP and three Parliamentary Under Secretaries, Baroness Ashton of Upholland, Bridget Prentice, MP and Vera Baird QC MP. Vera Baird QC MP was appointed as an additional Parliamentary Under Secretary on 5 May 2006.

Whilst the administrative functions of the Scotland Office and the Wales Office lay with DCA, responsibility for the relationship between Westminster and the devolved administrations in Edinburgh and Cardiff remained with, respectively, the Secretary of State for Scotland (the Rt Hon Douglas Alexander MP from 5 May 2006), and the Secretary of State for Wales (the Rt Hon Peter Hain MP).

The Parliamentary Under Secretary for Scotland (David Cairns MP) and the Parliamentary Under Secretary for Wales (Nick Ainger MP) are Ministers of the Department, but report to the Secretary of State for Scotland and Wales respectively. The Advocate General for Scotland (Neil Davidson QC) is also a Minister of the Department.

Changes since the end of the financial year

On 9 May 2007, with the creation of the Ministry of Justice, a second Minister of State, David Hanson MP, was appointed. Jack Straw was appointed as Secretary of State and Lord Chancellor on 28 June 2007. On the same date, Des Browne was appointed Secretary of State for Scotland. On 29 June 2007 Michael Wills MP replaced Harriet Harman QC MP as Minister of State and Lord Philip Hunt OBE and Maria Eagle MP replaced Baroness Ashton of Upholland and Vera Baird QC MP as Parliamentary Under Secretaries. Finally, Huw Irranca-Davies MP was appointed Parliamentary Under Secretary for Wales.

The Departmental Boards

For the period 1 April 2006 to 31 March 2007, Ministers were supported by a Ministerial Executive Board and a Departmental Management Board.

Ministerial Executive Board

Membership of the board

Ministerial membership of the Ministerial Executive Board comprised: the Secretary of State and Lord Chancellor, Lord Falconer of

Thoroton; the Rt Hon Harriet Harman, QC, MP; Baroness Ashton of Upholland; Bridget Prentice, MP and Vera Baird QC MP (from 5 May 2006). Official level membership of the Ministerial Executive Board was: Alex Allan, Permanent Secretary; Barbara Moorhouse, Director General Finance and Commercial; John Lyon, CB, Director General, Legal and Judicial Services; Rod Clark, Director General, Strategy; Sir Ronald De Witt, KB, Chief Executive of Her Majesty's Courts Service; Lucian Hudson, Director of Communications (until 31 October 2006); Carolyn Regan, Chief Executive, Legal Services Commission (from 25 September 2006); and Ursula Brennan, Chief Executive, Office of Criminal Justice Reform (from 15 May 2006). Carolyn Regan replaced Brian Harvey and Ursula Brennan replaced Jane Furniss.

Independent non executive membership of the Ministerial Executive Board comprised: Sir Peter Bonfield, CBE; the Rt Hon Lord Justice Leveson (from 1 December 2006) and Professor Georges Selim, Head of the Faculty of Management and Director of the Centre for Research in Corporate Governance at Cass Business School, City University. The Rt Hon Lord Justice Leveson replaced the Rt Hon Lord Justice Thomas, Senior Presiding Judge of England and Wales. The Hon Barbara Thomas and Trevor Hall CBE resigned from the Board on 31 December 2006.

Responsibilities of the Board

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

Changes since the end of the financial year

Barbara Moorhouse, Director General, Finance and Commercial joins the Department for

Transport as Director General, Corporate Services with effect from 30 July 2007.

The Audit Committee

Membership: membership of the Audit Committee comprised: Professor Georges Selim (Chairman of the Committee and non executive member of the Ministerial Executive Board) and three independent non executives; Maria Stafford, James Turner and Jane Tozer MBE (from 1 June 2006).

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

The Departmental Management Board

Membership of the Board

Membership of the Departmental Management Board comprised: Alex Allan, Permanent Secretary; Barbara Moorhouse, Director General, Finance and Commercial; John Lyon, CB, Director General, Legal and Judicial Services; Rod Clark, Director General, Strategy; Lucian Hudson, Director of Communications (until 31 October 2006); Sir Ronald De Witt, KB, Chief Executive, Her Majesty's Courts Service; Beverley Shears, Director, Human Resources (from 5 February 2007); Yvonne Gallagher, Chief Information Officer (from 26 June 2006); Peter Handcock, CBE, Chief Executive of the Tribunals Service; Carolyn Regan, Chief Executive, Legal Services Commission (from 25 September 2006) and Ursula Brennan, Chief Executive, Office of Criminal Justice Reform (from 15 May 2006). 2006-07 saw a number of changes to Board membership with Beverley Shears replacing

Malcolm Dawson who had been acting as Interim Director following the departure of Helen Dudley, CBE. In addition, Yvonne Gallagher replaced Annette Vernon, Carolyn Regan replaced Brian Harvey and Ursula Brennan replaced Jane Furniss.

Responsibilities of the Board

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

Changes since the end of the financial year

Barbara Moorhouse, Director General, Finance and Commercial joins the Department for Transport as Director General, Corporate Services with effect from 30 July 2007.

Senior Management

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

The Scotland Office and the Wales Office

The Scotland Office and the Wales Office retained their own separate Heads of Department and Accounting Officers throughout 2006-07. Jim Wildgoose held the

post at the Scotland Office, with Alan Cogbill in post at the Wales Office. Both reported directly to their respective Ministers.

The Department's Relationship with its Non Departmental Public Bodies

Throughout 2006-07, the Department sponsored three executive non-departmental public bodies (NDPBs): the Legal Services Commission, the Information Commissioner's Office and the Judicial Appointments Commission. The Department is committed to the maintenance of sound working relationships with all three bodies.

The Legal Services Commission

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

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

The Information Commissioner's Office

The Information Commissioner's Office (ICO) is an independent body created by statute. The Commissioner does not report to Ministers but to Parliament. The ICO is funded by (1) fees payable under the Data Protection Act which it collects and retains, and (2) grant in aid for freedom of information work. The Freedom of

Information grant in aid forms part of DCA's Departmental Expenditure Limit. The relationship between the Department and the ICO is regulated by a framework document and financial memorandum.

The Secretary of State and the Permanent Secretary met the Information Commissioner on a regular basis throughout 2006-07, usually every two months. The Constitution Director (responsible for the sponsorship division) also had regular and frequent meetings with the Commissioner. The head of the sponsorship division met or spoke to the Information Commissioner fortnightly and there was frequent contact between senior members of the division and senior officials in the ICO, in particular the Deputy Commissioners, the Chief Operating Officer, the Finance Manager and the HR Director.

Judicial Appointments Commission

The Chairman and the Commissioners are appointed by Her Majesty on the recommendation of the Lord Chancellor. The Commission's grant in aid forms part of DCA's Departmental Expenditure Limit. The relationship between the Department and the Commission is regulated by a framework document which includes a financial memorandum.

The Chairman meets the Lord Chancellor on a monthly basis and the Lord Chancellor together with the Lord Chief Justice on a quarterly basis. The Chief Executive of the Commission together with her senior officials meet the Director General, Legal and Judicial Services Group bi-annually.

The Head of the Sponsorship Branch and her team meet Commission officials quarterly to discuss performance against the Commission's Corporate and business plans. The Branch advises ministers and the Permanent Secretary (in his role as Accounting Officer) on these plans as well as the Commission's Annual Report. The Legal and Judicial Services Group Secretariat monitor the Commission's finance and risk.

Management Commentary

In December 2004 the DCA published *Delivering Justice, Rights and Democracy: DCA Strategy 2004-09* (www.dca.gov.uk/dept/strategy/index.htm) based around the top priorities of: reducing crime; speeding up asylum and immigration appeals; protecting the vulnerable; faster and more effective dispute resolution; and strengthening democracy, rights and responsibilities.

In parallel to this, the Spending Review in 2004 set DCA's Public Service Agreement (PSA) for the period 2005-06 to 2007-08. The PSA for this period covers the delivery of justice, increasing public confidence in the criminal justice system, reducing unfounded asylum claims, completion of care cases and achieving earlier and proportionate dispute resolution. There are five targets that support the PSA. These, and the four objectives, are explored briefly here and in more detail in the *Departmental Report 2006-07 (Cm 7097)*. The central Department was responsible for approximately £3.7bn of public spending in the financial year. The use of these resources is reported in the Consolidated Statement of Operating Costs by Departmental Aims and Objectives on page 40 of these accounts.

The aim of the Scotland Office is to support the Secretary of State for Scotland in promoting the devolution settlement and Scottish interests in Parliament. A brief review of performance is shown in the Consolidated Statement of Operating Cost by Departmental Aims and Objectives. Further detailed information, in respect of performance against PSA targets is provided in the *Scotland Office and Office of the Advocate General Annual Report 2007 (Cm 7109)*. Likewise, the Wales Office's aim is to support the Secretary of State for Wales in promoting Welsh interests and ensuring the smooth implementation of the devolution settlement in Wales. The *Wales Office Annual Report 2007 (Cm 7110)* details its key achievements and performance by objective. Expenditure for the Scotland and

Wales Offices is summarised by objective on pages 41 and 42.

The Department as a whole was responsible for approximately £37bn of public spending in the financial year.

Review of activities and performance highlights for 2006-07:

Objective 1: to provide criminal, civil, family and administrative justice systems that command public respect and confidence

As part of the wider Criminal Justice System (CJS), DCA continues to ensure the fair, efficient and effective delivery of justice through the courts. DCA is currently contributing to several programmes designed to improve the court system. These focus on different areas of that system, from streamlining the pre-trial process to improving the service victims and witnesses receive before and during their time in court.

• Target 1

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

Figures for December 2006 show that 1.399m¹ offences were brought to justice.

¹ This includes an estimate for missing data

• Target 2

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

According to the British Crime Survey², at the end of March 2006, 44% of the public believed the criminal justice system was effective in bringing people who commit crimes to justice. The latest outturn (year to December 2006) is 42%. This represents a 3% increase from the March 2003 baseline.

² The British Crime Survey reports annually and the results for 2006-07 are expected to be published before the end of July 2007. Updated performance information will be included in the Ministry of Justice *Autumn Performance Report*.

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

According to the British Crime Survey, at the end of March 2006, 59% of victims and witnesses are satisfied with the criminal justice system. The latest outturn (year to December 2006) is 60%. This represents a 2% increase from the (six months to) March 2004 baseline.

- Target 3

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

This target will have been achieved if the number of unfounded asylum cases in 2007-08 is less than in the baseline year. In the latest outturn (2005-06) the number of unfounded asylum cases was 38,800, against a baseline (2002-03) of 70,200.

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

- Target 4

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

This target will be met if by 2009-10 the county courts (care centres) achieve 48% and the magistrates' courts (Family Proceedings Courts) achieve 56%. In 2006-07 (to February 2007) the county courts (care centres) achieved 41.7% and the magistrates' courts (Family Proceedings Courts) achieved 53.1%.

- Target 5

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

This target will be achieved if 49.9% of people with justiciable problems have received suitable advice and assistance, if only 38.5% of disputed claims in courts require a hearing and if 81.5% of Small Claim hearings take place within target time. The first element is measured by the English and Welsh Civil and Social Justice Survey and has been assessed at 44.5% at February 2007. The latest outturn (to January 2007) for the second element is 40.7% and (to February 2007) for the third is 80.5%.

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

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

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

DCA is achieving these objectives by:

- ensuring that public services protect and respect individuals' human rights and incorporate key human rights principles into service delivery
- making the law fairer and simpler
- ensuring people can effectively exercise their information access rights through the Freedom of Information and Data Protection Acts
- strengthening engagement with the democratic process and ensuring the electoral process is more open and accessible
- establishing the Supreme Court for the UK
- completing reform of the House of Lords

- maintaining an independent judiciary
- developing a diverse judiciary which is more reflective of the people it serves
- maintaining the devolution settlement and managing the constitutional settlement as it relates to the Crown, the Church and between the UK and Crown Dependencies.

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

Her Majesty's Courts Service (HMCS): HMCS has a number of initiatives in place to transform the way in which courts do business. The HMCS Change Programme governs all these, ensuring they are aligned with HMCS business strategy, deliver better services for lower cost, make savings, and lead to standardised and modernised processes, to deliver sustainable change.

A reduction in the number of administrative areas from 42 to 25 with effect from 1 April 2007 has allowed HMCS to streamline and rationalise its management structure and build a solid foundation for delivering the rest of the strategy.

Tribunals Service: Since its creation in April 2006, the Tribunals Service has undertaken a challenging agenda of reform in addition to fulfilling its objectives of maintaining and improving standards of service.

Capability Review: The Capability Review, published in July 2006, recognised the considerable progress DCA had made since it was created in June 2003, especially the strong commitment to improve the services it provides for the public. The review also identified some areas for improvement and a two-year development plan was drawn up. The first formal six-monthly stocktake took place in January 2007 and concluded that good progress had been made. A further review will take place in summer, assessing progress one year after the Capability Review was published.

Efficiency: At the end of December 2006, the Department has made £244m of savings against a target of £292m by 2007-08. Of this, £85m is cashable, against a target of £57m. These are savings that produce a tangible cash benefit that can be reinvested elsewhere.

Of the £244m, nearly half came from legal aid, a further fifth from HMCS and the rest from various initiatives, including the corporate restructuring following the creation of the Tribunals Service.

In addition, DCA has made 929 full-time equivalent reductions by the end of December 2006 against its headcount reduction target of 1,100.

Other priorities

Constitutional and judicial reform

Most of the provisions in the Constitutional Reform Act 2005 were commenced in April 2006, apart from the powers to create the Supreme Court which will officially open for business in 2009. The Act meant that, from April 2006, the process of selecting judges was removed from the exclusive hand of the Lord Chancellor and placed with the Judicial Appointments Commission (JAC). The JAC is an independent body that selects candidates solely on merit, but also has a statutory duty to encourage a wider pool from which judicial office-holders are selected. The JAC published its framework document in October 2006.

Re-engineering criminal justice I: courts and the community

The Community Justice Centre in North Liverpool celebrated its first anniversary in October 2006 and the Salford Community Justice Initiative followed with theirs in November 2006. The Liverpool Centre brings a courtroom, the criminal justice agencies and voluntary services together in one building, working with local people to tackle problems. Salford is the first project to bring the concept into the mainstream magistrates' courts system.

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

The initiative encompasses a range of practical measures to improve the speed and effectiveness of the courts-based Criminal Justice System (CJS). The aim is to deliver a CJS that is:

- simple: dealing with some cases by way of warning, caution or some other effective remedy to prevent re-offending with the court process
- speedy: those cases that need the court process will be dealt with fairly, but as quickly as possible
- summary: a much more proportionate approach still involving due process – an example being dealing with appropriate cases the day after charge or during the same week.

DCA is working with its criminal justice partners to improve the service by eliminating unnecessary hearings and reducing the time taken to conclude cases in the magistrates' and Crown Courts. Significant progress has been made in the magistrates' courts during 2006 through four pilot projects. For example the average time taken from charge to conclusion is now 23 days, down from 48 days, and 60% of guilty pleas that were entered at first hearing were dealt with on the day.

Re-balancing legal aid

The Government set out its proposal, in *Legal Aid Reform: the Way Ahead*, in November 2006. This followed a period of public consultation on Lord Carter's recommendation in his final report and the proposals in the joint DCA/Legal Services Commission (LSC) consultation paper *Legal Aid: a Sustainable Future*, which was published in July 2006. The proposals further develop the Government's longer-term strategy for legal aid originally set out in *A Fairer Deal for Legal Aid* published in July 2005, including the need to re-balance spending between civil and criminal legal aid.

Re-shaping legal services

In November 2006 the Government introduced to the House of Lords legislation to reform the regulatory structure of legal services and delivery. The proposals:

- set out the objectives of the regulatory framework and principles of the legal professions, and require authorised regulators to have appropriate separation between their representative and regulatory functions
- create a new Legal Services Board to provide independent oversight of designated legal regulatory bodies
- create an Office for Legal Complaints to ensure consistent high standards in the sector and enhance consumer confidence by establishing a single, independent redress service.

Subject to parliamentary approval, DCA expects implementation to take between two and three years from Royal Assent, including a period of shadow running.

Human rights

In July 2006, the Lord Chancellor published his Review of the Implementation of the Human Rights Act. In response to the report's conclusion that the Human Rights Act had been widely misunderstood by the public, and sometimes misapplied, DCA put in place a programme of initiatives both to improve training, guidance and advice within central government and the wider public sector, and also to improve wider public understanding of the Act itself.

Electoral reform and administration

The Electoral Administration Act was given Royal Assent in July 2006 and the bulk of it has now been implemented. The Act supports a healthy democracy by promoting better and equal access to elections for all, improving security and introducing deterrents against

fraud and introducing a number of measures to simplify electoral law and improve the way elections are conducted. The Government responded to concerns about political funding by including in the Act new measures to improve the transparency of political loans. The Prime Minister also asked Sir Hayden Phillips to conduct a review of party funding, which reported in March 2007.

Financial performance

At the start of the year the central Department (Request for Resources 1) had secured funding through its Main Estimate of £3.787bn. During the year additional funding of £52m was approved by Parliament through the Supplementary Estimates. Included in this amount were £72m take up of End Year Flexibility, £50m transfer from Community Legal Service non-cash for staff restructuring and Central Fund provisions. This was offset by additional income of £45m in relation to fine enforcement and a transfer out of £24m to Her Majesty's Revenue and Customs in relation to the funding of the Appeals Service from the National Insurance Fund.

Scotland Office and Wales Office secured their initial funding, £22.660bn for the Scotland Office and £12.184bn for the Wales Office, through the Main Estimate. During 2006-07, the Scotland Office requested an additional £237m and the Wales Office requested an additional £1,163m to cover expected increased funding of the devolved administrations.

The Department's Net Resource Outturn in 2006-07 was £37.109bn, which was within the Estimate limit. The Department also remained within its administration costs limit. HM Treasury's end year flexibility scheme enabled the Department to carry forward its underspend into 2007-08.

The variance between Estimate and net resource outturn on Request for Resources 1 was £169m. This was principally due to:

- £50m unused non-cash resource;
- £50m near-cash contingency;
- £20m saving on HMCS to cover a deficit in the Judicial Salaries paid from the Consolidated Fund;
- £10m ring-fenced underspend on electoral modernisation activities;
- £40m grant-in-aid underspend on the Legal Services Commission, mainly through active management of cashflow; and
- £16m overspend on Costs from Central Funds, arising from an additional provision to recognise the full extent of costs awarded not yet paid.

The underspend in relation to the grants payable to the Scottish Consolidated Fund (SCF) and the National Assembly for Wales are ring-fenced for these entities and will either be paid over to them in the subsequent period or forwarded to the Consolidated Fund. However the grant payable to the National Assembly for Wales in the DCA 2006-07 Spring Supplementary Estimate was overstated by £949m and this amount was not available to be paid over.

Note 2 (on page 51) also indicates that of the allocation of funding available to the Department, £22.897bn (57%) went to Scottish affairs, £13.347bn (33%) to Welsh interests and £3.839bn (10%) toward funding the interests of the core Department.

Of the core Department's funding, £2.897bn (79%) was spent on the court system and access to justice. This is represented by £2.092bn (57%) to the Legal Services Commission and £805m (22%) to Her Majesty's Court Service.

Reconciliation of resource expenditure between Estimates, Accounts and Budgets

	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>
Net Resource Outturn (Estimates)	37,109,074	35,083,757
Adjustments to additionally include:		
Non-voted expenditure in the OCS	146,715	197,278
Consolidated Fund Extra Receipts in the OCS	(8,833)	(2,129)
Other adjustments: Machinery of Government changes	–	143,670
Net Operating Cost (Accounts)	37,246,956	35,422,576
Adjustments to remove:		
Capital grants to local authorities	(654)	(441)
Voted expenditure outside the budget	(33,428,000)	(31,496,479)
Adjustments to additionally include:		
Resource consumption of non departmental public bodies	(320,028)	(441,012)
Other adjustments		
Resource Budget Outturn (Budget)	3,498,274	3,484,644
Of which		
Departmental Expenditure Limits (DEL)	3,498,274	3,484,644
Annually Managed Expenditure (AME)	–	–

The Department's capital outturn net of disposals for 2006-07 amounted to £115m, against a budget of £164m. Outturn was principally on the existing HMCS estate, on which there is a maintenance backlog due to past funding pressures. About £22m was spent on basic capital maintenance projects; an additional £29m was spent on priority backlog maintenance as part of the Rationalisation and Modernisation Programme (RAMP) for which special funding was obtained from HM Treasury. The outturn also included £10.3m for the on-balance sheet PFI building project at Worle. The principal disposals in the year were of sites in Clerkenwell, London (£4m) and Exeter (£2.5m). The underspend on capital outturn arose mainly from the timing of completion of the Bristol PFI scheme. This property is now due to come on balance sheet in 2007-08 at a capital value of £27m.

The 2005-06 comparatives have been restated to recognise the creation of the Tribunals Service and the Judicial Appointments Commission. Restatement has resulted in an increase in net operating costs of £143m and a decrease in net assets of £6m. Notes 1.21 and 34 to the accounts refer.

These accounts have been prepared on a going concern basis.

Looking forward

On the 29 March 2007, the Prime Minister announced machinery of government changes that saw the creation of a new department, the Ministry of Justice, with effect from 9 May 2007. The core components of the new Ministry of Justice are:

- the National Offender Management Service – administration of correctional services in England and Wales through Her Majesty's Prison Service and the Probation Service, under the umbrella of the National Offender Management Service
- youth justice and sponsorship of the Youth Justice Board
- sponsorship of the Parole Board, Her Majesty's Inspectorates of Prison and Probation, Independent Monitoring Boards and the Prison and Probation Ombudsmen

- criminal, civil, family and administrative law – criminal law and sentencing policy, including sponsorship of the Sentencing Guidelines Council and the Sentencing Advisory Panel and the Law Commission
- the Office for Criminal Justice Reform – hosted by the Ministry of Justice but working trilaterally with the three CJS departments, the Ministry of Justice, Home Office, Attorney General’s Office
- Her Majesty’s Courts Service – administration of the civil, family and criminal courts in England and Wales
- the Tribunals Service – administration of tribunals across the UK
- Legal Aid and the wider Community Legal Service through the Legal Services Commission
- support for the judiciary – judicial appointments via the newly created Judicial Appointments Commission, the Judicial Office and Judicial Communications Office
- the Privy Council Secretariat and Office of the Judicial Committee of the Privy Council
- constitutional affairs – electoral reform and democratic engagement, civil and human rights, freedom of information, management of the UK’s constitutional arrangements and relationships including with the devolved administrations and the Crown Dependencies
- Ministry of Justice corporate centre – focussed corporate centre to shape overall strategy and drive performance and delivery.

On 9 May 2007, the Ministry of Justice (MoJ) published *Justice – a new approach*, which set out the purpose and objectives of the new department. The purpose of the MoJ is to improve the justice system for the public. Its objectives are to:

- reduce re-offending and protect the public – by ensuring that the punishment fits the crime; through ensuring that violent and dangerous offenders remain in prison for as

long as they remain dangerous; by breaking the cycle of re-offending through increased use of effective community penalties and rehabilitation; by bringing more offences to justice and enforcing the orders of the court

- promote justice – by ensuring that there are fair, effective and proportionate ways of resolving disputes, and for fighting crime, reducing re-offending and tackling anti-social behaviour; by ensuring that respect for the rule of law underpins society, the courts and institutions
- provide access to justice for all – by making help, advice and financial support available at the point of need and at the earliest stage, especially for the most vulnerable; by helping people to find their own solutions wherever possible, but where court interventions are necessary, ensuring that the court processes are simpler and more transparent
- increase confidence in the justice system – by improving understanding of justice; by giving communities a greater role in the delivery of justice; by making the justice system more effective, accessible and accountable; by providing greater support for people going through the system and by encouraging diversity
- uphold people’s human, information and democratic rights – by improving understanding of rights; by demonstrating that rights are not just for lawyers or minority groups but for everyone; by ensuring that government departments and public authorities apply the Human Rights Act with common sense, balancing the rights of individuals with the needs of wider society; by ensuring that government and public authorities adopt a culture of openness through the Freedom of Information Act
- safeguard and modernise the constitution – by ensuring that it is fit for today’s society.

Equal opportunities

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

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

Payment to suppliers

DCA has adopted the British Standard for Achieving Good Payment Performances in Commercial Transactions (BS 7890). DCA policy is to pay bills in accordance with contractual conditions or, where no such conditions exist, within 30 days of the receipt of the goods and services or the presentation of a valid invoice, whichever is the later. For the financial year 2006-07 94.9 % (2005-06 88%) of invoices were paid within payment terms based on date of receipt at Liberata, which provides the payment function for DCA. Interest paid under the Late Payment of Commercial Debts (Interest) Act 1988 was £71,756 (2005-06 £15,742).

Audit

These accounts have been audited by the Comptroller and Auditor General. The cost of the audit for 2006-07 is £838,000 (2005-06 £929,000 restated). This includes £358,000 for Her Majesty's Courts Service (including £58,000 for Funds in Court Part A), £110,000 for the Tribunals Service, £59,500 for the Public Guardianship Office, £10,000 for the Office of the Legal Services Ombudsman, £10,500 for the Office of the Legal Services Complaints Commissioner, £20,000 for Funds in Court

Part C, £25,000 for Returning Officers Expenses, England and Wales, £6,000 for the Scottish Electoral accounts and £47,000 for the Judicial Pension Scheme. The National Audit Office also undertook some non-audit work during the year. No charge was made for this work.

The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Department's auditors are aware of that information. So far as he is aware, there is no relevant audit information of which DCA's auditors are unaware.

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

Provision of information and consultation with employees

The Department attaches considerable importance to ensuring the fullest involvement of employees in delivering its aims and objectives. Staff involvement is actively encouraged as part of the day-to-day process of line management and we regularly consult and inform our constituent Unions (PCS, FDA & Prospect) at all levels of the organisation.

We are currently advertising for a Director of Communications, who will be a member of the Ministerial Executive Board. The Department has made the strategic development of its communications a key priority and aims to be proactive and open, working to engage more effectively with stakeholders, staff, the public and the media in the development and delivery of its services.

The Department is fully committed to the principle of equality of opportunity and values the diversity of all its staff. As a key part of this commitment, we take action to ensure that people with disabilities are supported and encouraged to apply for employment and to

develop and progress in the organisation. We are a Disability Symbol User, a member of the Employers' Forum on Disability, and ensure that reasonable adjustments and positive developmental opportunities are provided to enable individuals to fulfil their potential.

Directorships and other significant interests

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

Alex Allan
Accounting Officer
18th July 2007

Remuneration Report

Auditable Sections

In accordance with the requirements of Schedule 7A of the Companies Act 1985 (as amended), only certain sections of the Remuneration Report have been subject to full external audit. These comprise the paragraphs on salary and pension entitlements.

Remuneration Policy

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

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

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

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

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

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

Board members and senior civil servants remuneration

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

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

Service Contracts

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

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

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

Salary and pension entitlements

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

Remuneration

Ministers	2006-07		2005-06	
	Salary	Benefits in kind (rounded to the nearest £100)	Salary	Benefits in kind (rounded to the nearest £100)
	£	£	£	£
Lord Falconer of Thoroton Secretary of State and Lord Chancellor	103,108	8,800	103,607	–
Baroness Catherine Ashton of Upholland Parliamentary Under Secretary	104,932	–	102,798	–
Harriet Harman QC MP Minister of State	39,405	–	32,378 (36,141 full-year equivalent)	–
Bridget Prentice MP Parliamentary Under Secretary	29,909	–	24,841 (27,728 full-year equivalent)	–
Vera Baird QC MP Parliamentary Under Secretary (from 5 May 2006)	27,026 (29,909 full-year equivalent)	–	–	–
Lord Davidson of Glen Clova Advocate General for Scotland	128,629	–	2,782 (92,326 full-year equivalent)	–
David Cairns MP Parliamentary Under Secretary for Scotland	29,909	–	26,320 (29,491 full-year equivalent)	–
Nick Ainger MP Parliamentary Under Secretary for Wales	29,909	–	26,373 (29,491 full-year equivalent)	–

Pension Benefits

Ministers	Accrued pension at age 65 as at 31 March 2007 £000	Real increase in pension at age 65 £000	CETV at 31 March 2007 £000	CETV at 31 March 2006 £000	Real increase in CETV £000
Baroness Catherine Ashton of Upholland Parliamentary Under Secretary	5 – 10	0 – 2.5	98	77	9
Harriet Harman QC MP Minister of State	10 – 15	0 – 2.5	118	105	5
Bridget Prentice MP Parliamentary Under Secretary	0 – 5	0 – 2.5	35	27	4
Vera Baird QC MP Parliamentary Under Secretary (from 5 May 2006)	0 – 5	0 – 2.5	7	–	4
Lord Davidson of Glen Clova Advocate General for Scotland	0 – 5	0 – 2.5	23	1	13
David Cairns MP ³ Parliamentary Under Secretary for Scotland	–	–	–	5	–
Nick Ainger MP Parliamentary Under Secretary for Wales	0 – 5	0 – 2.5	44	35	5

³ David Cairns entered and subsequently opted out of the supplementary section of the PCPF. Figure shown for 05-06 was based upon his service in the supplementary scheme for last year.

Notes to the table:

The salary and pension entitlements and the value of any taxable benefits in kind for the Secretary of State for Scotland, Douglas Alexander MP, are disclosed in the accounts of the Department for Transport. Those of the Secretary of State for Wales, Peter Hain MP, are reported in the accounts of the Northern Ireland Office

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

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

Those Ministers who are Members of Parliament are also entitled to an MP's pension under the PCPF (details of which are not included in this report). The arrangements for Ministers provide benefits on an 'average salary' basis with either a 1/50th or 1/40th accrual rate, taking account of all service as a Minister. (The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change) but Ministers, in common with all other members of the PCPF, can opt to increase their accrual rate from 5 July 2001, or retain the former 1/50th accrual rate and the lower rate of employee contribution.)

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate. Those members who have opted for the 1/40th accrual rate are required to pay an increased contribution. The rate was increased from 9% to 10% from 1 April 2004. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 26.8% of the ministerial salary.

The accrued quote is the pension the minister is entitled to receive when they reach 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

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

This presentation is based on payments made by the Department and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration. The salary cost for their services as MPs was £60,277 from 1 November 2006 and had been £59,686 from 1 April 2006 (2005-06 £59,095) which was borne centrally. However, the arrangement for Ministers of the House of Lords is different in that they do not receive a salary but rather an additional remuneration which cannot be quantified separately from their ministerial salaries. This remuneration is paid by the Department and is therefore shown in full in the figures above.

The Lord Chancellor has pension and CETV balances but as holder of one of the 'three great offices of state', it is not required by Cabinet Office regulations to disclose pension information in the Department's Resource Accounts.

Remuneration

Senior Managers	2006-07		2005-06	
	Salary	Benefits in kind (rounded to the nearest £100)	Salary	Benefits in kind (rounded to the nearest £100)
	£000	£	£000	£
Alex Allan Permanent Secretary	155 – 160	9,000	155 – 160	12,400
Barbara Moorhouse Director General, Finance and Commercial	170 – 175	–	150 – 155	–
John Lyon Director General, Legal and Judicial Services	140 – 145	–	135 – 140	–
Peter Handcock CBE Chief Executive, Tribunals Service	130 – 135	900	30 – 35 (110 – 115 full-year equivalent)	–
Rod Clark Director General, Strategy	120 – 125	–	95 – 100	–
Sir Ron De Witt Chief Executive, HMCS	155 – 160	–	150 – 155	–
Lucian Hudson Director, Communications (to 31 October 2006)	65 – 70 (100 – 105 full year equivalent)	–	115 – 120	–
Helen Dudley CBE Director, Human Resources (to 18 July 2006)	35 – 40 (90 – 95 full year equivalent)	–	90 – 95 (95 – 100 full-year equivalent)	–
Malcolm Dawson Interim Director, Human Resources (from 19 July 2006 to 4 February 2007)	40 – 45 (80 – 85 full year equivalent)	–	–	–
Beverley Shears Director, Human Resources (from 5 February 2007)	20 – 25 (140 – 145 full-year equivalent)	–	–	–
Annette Vernon Chief Information Officer (to 31 May 2006)	25 – 30 (100 – 105 full year equivalent)	–	50 – 55 (145 – 150 full-year equivalent) ⁴	–
Yvonne Gallagher Chief Information Officer (from 26 June 2006)	100 – 105 (135 – 140 full-year equivalent)	–	–	–
Alan Cogbill Head of the Wales Office	90 – 95	–	50 – 55 (95 – 100 full-year equivalent)	–
Jim Wildgoose Head of the Scotland Office	120 – 125	–	105 – 110 (115 – 120 full-year equivalent)	–

⁴ Includes grossing up for detached duty

Non-Executive Directors	2006-07		2005-06	
	Salary	Benefits in kind (rounded to the nearest £100)	Salary	Benefits in kind (rounded to the nearest £100)
	£000	£	£000	£
Trevor Hall CBE ⁵ Non-executive Director Equality & Diversity Director (to 31 December 2006)	5 – 10 (10-15 full-year equivalent)	–	10 – 15	–
Sir Peter Bonfield CBE Non-executive Director	5 – 10	–	5 – 10	–
Hon Barbara Thomas Non-executive Director (to 31 December 2006)	5 – 10 (10-15 full-year equivalent)	–	5 – 10	–
Professor Georges Selim Non-executive Director	10 – 15	–	0 – 5 (0 – 5 full-year equivalent)	–
David Crawley Chair Audit Committee (Wales Office)	5 - 10	–	–	–

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

Service Contracts

Senior Managers	Contract start date ⁶	Unexpired term ⁷	Notice Period
		years	months
Alex Allan Permanent Secretary	1 August 2004	4	3
Barbara Moorhouse Director General, Finance	7 March 2005	1	3
John Lyon Director General, Legal and Judicial Services	25 August 1969	6	3
Peter Handcock CBE Chief Executive, Tribunals Service	4 January 1971	9	3
Rod Clark Director General, Strategy	1 May 2005	19	3
Sir Ron De Witt Chief Executive, HMCS	23 February 2004	2	6
Lucian Hudson Director, Communications (to 31 October 2006)	–	Left DCA	–
Helen Dudley CBE Director, Human Resources (to 18 July 2006)	–	Left DCA	–
Malcolm Dawson Interim Director, Human Resources (from 19 July 2006 to 4 February 2007)	1 April 1982	19	3
Beverley Shears Director, Human Resources (from 5 February 2007)	5 February 2007	15	3
Annette Vernon CBE Chief Information Officer (to 31 May 2006)	–	Left DCA	–
Yvonne Gallagher Chief Information Officer (from 26 June 2006)	20 January 2003	4	3
Alan Cogbill Head of the Wales Office	16 September 1974	10	3
Jim Wildgoose Head of the Scotland Office	6 January 1975	2	1
Trevor Hall CBE Non-executive Director Equality & Diversity Advisor (to 31 December 2006)	19 July 1999	–	–
Sir Peter Bonfield CBE Non-executive Director	25 March 2004	–	–
Hon Barbara Thomas Non – executive Director (to 31 December 2006)	25 March 2004	–	–
Professor Georges Selim Non-executive Director	2 November 2005	2	1

⁶ Contracts for Senior Civil Servants were not issued until 1996; where people joined before contracts were introduced the table shows their joining date

⁷ Unexpired term is either remaining contract period on fixed term contracts or when an individual is 65 for all other cases (2005-06 60). All dates incorporate the additional 5 years added to the retirement age; this does not affect those on fixed term contracts. Unexpired term now reflects the legislation increasing retirement age from 60 to 65.

Pension Benefits

Senior Managers	Accrued pension and related lump sum at age 60 31 March 2007	Real increase in pension and related lump sum at age 60 at 31 March 2007	CETV at 31 March 2007	CETV at 31 March 2006 (recalculated)	CETV at March 2006 (published)	Real increase/ (decrease) in CETV
	£000	£000	£000	£000	£000	£000
Alex Allan Permanent Secretary	50 – 55 plus 0 – 5 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	988	926	54	22
Barbara Moorhouse Director General, Finance	0 – 5 plus 0 – 5 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	55	28	28	22
John Lyon CB Director General, Legal and Judicial Services	50 – 55 plus 150 – 155 lump sum	0 – 2.5 plus 2.5 – 5 lump sum	1,183	1,110	1,331	21
Peter Handcock CBE Chief Executive Tribunals Service	60 – 65 plus 0 – 5 lump sum	5 – 7.5 plus 0 – 2.5 lump sum	1,030	875	933	121
Rod Clark Director General, Strategy	25 – 30 plus 85 – 90 lump sum	2.5 – 5 plus 7.5 – 10 lump sum	452	401	439	43
Sir Ron De Witt Chief Executive, HMCS	40 – 45 plus 0 – 5 lump sum	2.5 – 5 plus 0 – 2.5 lump sum	855	135	153	97
Lucian Hudson Director, Communications (to 31 October 2006)	20 – 25 plus 60 – 65 lump sum	0 – 2.5 plus 2.5 – 5 lump sum	308	295	305	12
Helen Dudley CBE Director, Human Resources (to 18 July 2006)	30 – 35 plus 100 – 105 lump sum	2.5 – 5 plus 7.5 – 10 lump sum	587	580	553	46
Malcolm Dawson Interim Director, Human Resources (from 19 July 2006 to 4 February 2007)	20 – 25 plus 65 – 70 lump sum	0 – 2.5 plus 2.5 – 5 lump sum	333	304	N/a	23
Beverley Shears Director, Human Resources (from 5 February 2007)	0 – 5 plus 0 – 5 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	4	–	N/a	4
Annette Vernon CBE Chief Information Officer (to 31 May 2006)	25 – 30 plus 80 – 85 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	382	405	385	5
Yvonne Gallagher Chief Information Officer (from 26 June 2006)	0 – 5 plus 0 – 5 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	24	–	N/a	22
Alan Cogbill Head of the Wales Office	35 – 40 plus 110 – 115 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	759	735	711	(2)

Senior Managers	Accrued pension and related lump sum at age 60	Real increase in pension and related lump sum at age 60	CETV at 31 March 2007	CETV at 31 March 2006 (recalculated)	CETV at March 2006 (published)	Real increase/ (decrease) in CETV
	31 March 2007	at 31 March 2007	2007	March 2006	March 2006	(decrease) in CETV
	£000	£000	£000	£000	£000	£000
Jim Wildgoose	35 – 40	0 – 2.5	851	800	790	25
Head of the Scotland Office	plus 105 – 110 lump sum	plus 2.5 – 5 lump sum				
Trevor Hall CBE	0 – 5	0 – 2.5	17	15	13	2
Non-Executive Director	0 – 5	0 – 2.5				
Equality & Diversity Director (to 31 December 2006)	lump sum	lump sum				

Notes to the table:

None of the other Non-executive Directors have pension entitlements with the Department. The CETV at 31 March 2006 balances have been recalculated in the light of further information.

Sir Ron De Witt transferred an amount from another pension scheme into the Principal Civil Service Pension Scheme during 2006-07.

Malcolm Dawson was a DCA employee for the full year. His CETV balances are therefore disclosed at 31 March 2006 and at 31 March 2007. He was a member of the Board from 19 July 2006 to 4 February 2007.

Salary

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

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

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

Jane Furniss and Ursula Brennan had no salary, benefits in kind or pension entitlements attributable to the Department. As employees of the Home Office, their salary and pension entitlements are disclosed in the Home Office's 2006-07 Resource Accounts.

Carolyn Regan and Brian Harvey had no salary, benefits in kind or pension entitlements attributable to the Department. As Chief Executive and Acting Chief Executive of the Legal Services Commission, their salary and pension entitlements are disclosed in the Legal Services Commission Annual Report and Accounts.

The Rt Hon Lord Justice Thomas, Senior Presiding Judge of England and Wales and Dr Mark Taylor, Chair of Audit Committee for the Scotland Office, received no additional remuneration for their role on the board. Lord Justice Leveson started attending the Departmental Management Board, on 1 December 2006, as a Judicial Representative. He too receives no additional remuneration for this role.

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

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. Both Alex Allan and Peter Handcock had the use of a car provided by the Government Car Service, with the taxable benefits assessed at £9,000 and £900 respectively (to the nearest £100). Lord Falconer made use of 'associated services' in respect of private use of his official residence in Admiralty Arch, assessed at £8,800 (to the nearest £100).⁸

⁸ This is an estimate, as the final value is yet to be agreed between Secretary of State and Her Majesty's Revenue and Customs.

Pension

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

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium,

benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement). No contributions were made to the partnership pension account during 2006-07 in respect of Senior Managers (2005-06 nil).

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the

individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Civil Superannuation Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

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

Alex Allan

Accounting Officer

18th July 2007

Statement of Accounting Officers' Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Department for Constitutional Affairs to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

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

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

HM Treasury has appointed the Permanent Head of the Department as principal Accounting Officer of the Department. In addition, HM Treasury has appointed additional Accounting Officers to be accountable for those parts of the Department's accounts relating to specified requests for resources and the associated assets, liabilities and cash flows. These

appointments do not detract from the Head of Department's overall responsibility as Accounting Officer for the Department's accounts.

The allocation of Accounting Officer responsibilities in the Department is as follows:

Request for resources 1: Alex Allan, Permanent Secretary

Request for resources 2: Jim Wildgoose, Head of the Scotland Office

Request for resources 3: Alan Cogbill, Head of the Wales Office

The Head of the Scotland Office is responsible for paying grants to the Scottish Consolidated Fund to fund the operation of the Scottish Executive and Scottish Parliament. Upon transmission, the accountability for this money passes to the Scottish Parliament. Similarly, the Head of the Wales Office is responsible for the funding of the National Assembly for Wales. Under his terms of appointment the Accounting Officer for the Assembly is accountable for the use, including the regularity and propriety, of the monies received. A Memorandum of Understanding sets out how the Accounting Officer for the Assembly provides assurance to the Head of the Wales Office as to how he has discharged his responsibilities.

Statement on Internal Control

1. Scope of responsibility

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

The Department has undergone a period of significant change from 1 April 2006, following Machinery of Government changes and specifically the work undertaken to establish:

- **The Tribunals Service**

The DCA's existing responsibility for tribunals was extended to include The Employment Tribunals, The Special Educational Needs and Disability Tribunal, Social Security and Child Support Appeals, The Mental Health Review Tribunal, The Criminal Injuries Compensation Appeals Panel, and The Employment Appeals Tribunal.

- **The Ministry of Justice (MoJ)**

The MoJ was established on 9 May 2007 and brings together the Department for Constitutional Affairs, including Her Majesty's Courts Service and the Tribunals Service with the National Offender Management Service (NOMS) and The Office for Criminal Justice Reform (OCJR).

- **The Judicial Appointments Commission (JAC)**

The JAC was established on 3 April 2006 as an independent Non Departmental Public Body (NDPB). The JAC is responsible for the transparent selection of candidates for judicial office in England and Wales.

I recognise the challenge of re-articulating the Department's governance arrangements and risk management processes to take account of these changes and I continue to work with my senior management team to communicate the evolving risk management strategy and further embed sound governance arrangements across the reshaped organisation.

The scope of this statement does not incorporate NOMS or OCJR, which for the 2006-07 accounting/financial year came under the responsibility of the Home Office.

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

The system of internal control operating in Department headquarters includes sponsorship units that monitor the performance of our agencies, non-departmental public bodies (NDPB) and associated offices. To the extent that those documents delegate control to the organisations, I place reliance upon their Statements on Internal Control, as published in their annual reports and accounts.

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

of success, and exploring areas which require additional action. Chief Executives and relevant Directors from other areas of the business will also meet with the sub-committee where performance issues are raised.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives: it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Department's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department for Constitutional Affairs for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. Capacity to handle risk

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

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

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

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

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

4. The risk and control framework

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

- (a) A Risk Management Policy and Framework document, which sets out formal processes for identifying, evaluating, managing and reporting risk. Risks that threaten the achievement of the Department's objectives are identified and analysed in terms of impact and likelihood and are reported regularly in Risk Registers at Board, Directorate and Group level for each of the Departmental business areas. Ownership for each risk is assigned to a named individual and risk co-ordinators have been appointed in each of the Department's business areas to manage the reporting process;
- (b) An annual Assurance Statement by Senior Budget Holders, Agency and Additional Accounting Officers, NDPBs, and Associated Offices on the development and effectiveness of risk management in their business areas;

- (c) A quarterly review by the Board of the Overview and Exception Report on performance and risk in the key programmes and projects that deliver the Department's Manifesto. The Department has a centre of excellence for programme and project management, which is established in accordance with Office of Government Commerce requirements, and incorporates procedures for management of risk; and
- (d) Risk identification, evaluation and management as an integral part of the Department's planning process for its Public Service Agreement (PSA) delivery plans.

Further elements in the Department's control system include:

- Regular and accurate financial and non-financial management information;
- A Departmental Operating Plan (developed this year) which brought together an articulation of the key drivers of cost, performance and financial risk to enable the Board to make informed decisions on the Department's position. This has enabled business areas and financial planners across the Department, to integrate financial planning with financial risk assessment and management and it underpinned the Department's work on the Comprehensive Spending Review (CSR);
- Comprehensive budgeting systems with an annual budget which is approved by the Secretary of State (SoS); regular reviews by the Board of periodic and annual financial reports; and a system of delegation and accountability;
- The Departmental Fraud Policy and "whistle blowing" policy for confidential reporting of staff concerns;
- Business Continuity arrangements to manage the risk of disruption to business are continually developed and tested. The Business Continuity Board oversees the development of the plans and has a standing agenda item to review emerging threats (primarily to adapt protective security and continuity plans accordingly) and is supported by a Board level champion. The plans are owned by business areas, which are required to identify needs and risks, and are predicated on a regime of protective security, property maintenance, and IT service arrangements that aim to avoid disruption to the business. In the event of disruption, the plans focus on maintaining key service delivery. A regime of plan testing has been instituted. Changes in threat levels and the status alert are communicated across the Department to local security officers and business areas have built upon central guidance to ensure local staff input into plans;
- The Service Management Organisation (SMO) was established in July 2006 to manage performance and improve delivery of services provided by Liberata. An annual Statement of Assurance from Liberata UK Ltd to the Department confirms that the services provided by the company have been delivered in compliance with the assurance and control requirements of their contract with the Department. The Statement of Assurance also includes areas in which action to improve is required/underway; and
- Involvement of public stakeholders in the management of risks through: a departmental-monitoring group; wide consultation in line with the criteria set out in the government's Code of Practice; Regulatory Impact Assessments where required; a checklist for policy makers supported by "Risk to the Public – A Framework for Identifying and Managing Risks Resulting from or Requiring Government Intervention".

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 Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the board and the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The key elements of the system of internal control (set out in Section 4 above) and the following mechanisms and responsible bodies/officers inform my review of the system's effectiveness:

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

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

Other explicit review/assurance mechanisms

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

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

- Departmental Risk Report to HM Treasury (annual);
- Stewardship reporting in support of Statements on Internal Control (in-year);
- Corporate governance updates to Corporate Audit Committee (periodic);
- DCA Autumn Performance Reports (Annual);
- DMB/MEB Performance Reports and Corporate Risks Reports (monthly);
- Head of Security's Annual Security Assurance Certificate;
- Sponsored bodies Annual Reports and Accounts including Statements on Internal Control;
- HM Inspectorate of Courts Administration publications and annual report; and
- Assurance and quality reviews of programmes and projects by: (Internal) The Departmental Change Assurance and Support team (DCAST)/The Change Group; and (External) OGC Gateway Reviews for medium and high risk programmes and projects; and
- The Capability Review (July 2006), and the first formal six-monthly stocktake (January 2007).

6. Significant Control Issues

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

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

Her Majesty's Courts Service

HMCS (established 1 April 2005) is still a relatively new executive agency that has inherited many systems, processes, and procedures. In addition, 2006-07 brought new challenges including Area re-structuring and the formation of the Ministry of Justice. Internal reviews of HMCS arrangements for risk management; control and governance in addition to internal audit's annual findings have identified the need for continued improvement in the adequacy of arrangements in these areas.

I, together with the senior management within HMCS, will continue to work toward further embedding sound governance, risk management, and assurance processes.

Libra

The Libra project has provided standard IT infrastructure including basic Microsoft Office products into all magistrates' courts. The project has been subject to delays following a number of external factors, including supplier delay and a pause to deployment in order to re-write aspects of the resulting functionality. This has created significant problems at some sites, causing backlogs of work and requiring an improvement to training provision and local deployment planning.

The operational impact of these delays has been mitigated by the continued use of legacy systems and practical workarounds, which Libra was designed to replace. HMCS Internal Audit has reported improvement in the reliability and stability of Libra since its installation at court level but acknowledges accounting functionality and the impact upon performance of the number of workarounds as continuing issues. The Management Information System (MIS) requirements have developed and changed during the lifetime of the project, and further work is being taken to ensure the new system adequately supports the business needs. National roll out of Libra is on target for completion by the end of 2008.

Public Accounts Committee (PAC) – Fines Collection

The PAC published a report on Fines Collection at the end of January 2007. The report made recommendations on several themes already highlighted in the National Audit Office's report on Fines Collection, published in May 2006, which acknowledged the wide-ranging programme of legislative and procedural change already introduced to improve the collection and enforcement of fines. The PAC report encouraged DCA to focus on:

- replacing the current performance indicator with a number of new performance measures;
- setting fines at the correct level at the point of sentence; and
- increasing the number of fines that are paid immediately.

Work is underway to take these recommendations forward and is linked to the successful implementation of Libra, Modernizing Money Handling projects, and the Courts Act. The PAC report can be found at:

<http://www.parliament.the-stationery-office.co.uk/pa/cm200607/cmselect/cmpubacc/245/245.pdf>

Court Funds Office (CFO) – Children's Fund Accounts

Up until 31 March 2007 the CFO formed part of the Supreme Court Group within HMCS. In managing cases relating to Children's Funds, the funds are held in either a Special Account, that pays a competitive rate of interest, or in the DCA Equity Index Tracker Fund.

A review of this area during 2006-07 identified a system weakness that has resulted in funds not being invested in accordance with the instructions of the court. An exercise has been undertaken to identify all affected accounts and, where the consequence has been a lower rate of return, a corrective payment will be made. The Department has created a £12.5m

provision to cover its expected future liability. From 1 April 2007, responsibility for the management of these payments will fall to the Offices of Court Funds, Official Solicitor, and Public Trustee, an associated office of the Core Department.

An annual review of accounts will now take place to ensure that funds are invested correctly.

Public Service Agreement targets

DCA key aims and objectives are set out in its five Public Service Agreement (PSA) targets. Two PSA targets have reported slippage against projected progress; these are:

PSA 4. Increasing the proportion of care cases being completed in the courts within 40 weeks by 10% by 2009-10.

Projected progress against this target has not been achieved. This is due to a number of factors, including an increase in the volume/complexity of cases; the requirement for adoption and care cases to run in parallel; and continuing unnecessary delays caused by a complex set of drivers such as inadequately prepared applications to court, expert advice that takes a long time to commission or is requested late in proceedings, and alternate carers emerging late in proceedings. A detailed programme is underway to deliver this PSA target through implementation of the Review of the Child care Proceedings System in England and Wales and other initiatives to reduce unnecessary delay. This will result in revised statutory guidance to local authorities and a new Public Law Outline to replace the current Protocol for Judicial Case Management in Public Law Children Cases. In addition, other initiatives such as the use of case progression officers to assist the judiciary in their case management function and judicial led initiatives to ensure cases are heard at the appropriate level of court are already delivering benefits at a local level.

PSA 5. To achieve earlier and more proportionate resolution of legal problems and disputes by increasing advice and assistance to help people resolve their disputes earlier and more effectively.

The number of problems and disputes reported in the Legal Services Research Centre survey has outstripped the increase in advice and assistance provided. The survey and other indicators, such as the volume of County Court and mortgage possession cases, confirmed a rise in problems and disputes since 2004. While there is no single cause of the reported rise in problem incidence, a significant proportion relate to services such as housing benefit and council tax benefit, which are administered by local authorities and which the Department has no control over. The Department will however look to improve and better target advice provision through the co-ordination of alternative methods of advice such as web sites and telephone advice lines and through continuing to deliver more acts of advice under the LSC New Matter Starts scheme.

Alex Allan

Accounting Officer

18th July 2007

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

I certify that I have audited the financial statements of the Department for Constitutional Affairs for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the

Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Management Commentary and the Remuneration 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 Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

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

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

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis,

of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2007, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cashflows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information given within the Annual Report, which comprises the Management Commentary and the Remuneration Report, is consistent with the financial statements.

Audit Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London SW1W 9SP

24th July 2007

Statement of Parliamentary Supply

Summary of Resource Outturn 2006-07

Request for Resources	Note	2006-07 Estimate			2006-07 Outturn			Net total Outturn compared with Estimate saving/ (excess)	2005-06 Outturn
		Gross Expenditure	A in A	Net total	Gross Expenditure	A in A	Net Total		
		£000	£000	£000	£000	£000	£000		
1	2	4,501,269	661,933	3,839,336	4,318,927	648,098	3,670,829	168,507	3,577,211
2	2	22,898,146	1,299	22,896,847	21,759,042	1,164	21,757,878	1,138,969	20,871,749
3	2	13,347,471	9	13,347,462	11,680,376	9	11,680,367	1,667,095	10,634,797
Total Resources		40,746,886	663,241	40,083,645	37,758,345	649,271	37,109,074	2,974,571	35,083,757
Non-operating cost in A in A				10,500			10,500		11,663

Net cash requirement 2006-07

	Note	2006-07 Net total Outturn compared with Estimate saving/ (excess)			2005-06 Outturn
		Estimate	Outturn	Net total	
		£000	£000	£000	£000
Net cash requirement	4	40,002,278	36,997,936	3,004,342	34,912,800

Summary of income payable to the Consolidated Fund

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

	Note	2006-07 Income	Forecast Receipts	2006-07 Income	Outturn Receipts
		£000	£000	£000	£000
Payable to the Consolidated Fund	5	244,353	244,353	241,463	241,956

Explanation of variation between Estimate and Outturn are given in the Management commentary on pages 6 to 14

The notes on pages 44 to 85 form part of these accounts.

Operating Cost Statement for the year ended 31 March 2007

Note	2006-07 Core Department			2006-07 Consolidated			2005-06 Core Consolidated Department (restated)	
	Staff costs	Other Costs	Income	Staff costs	Other Costs	Income	(restated)	
	£000	£000	£000	£000	£000	£000	£000	£000
Administration Costs								
Staff Costs	8(a)	112,954		158,778			121,312	174,839
Judicial Salaries	8(b)			25,191			–	25,823
Other Administration Costs	9		143,301		233,994		176,311	281,377
Operating Income	11(a)		(12,247)			(12,908)	(7,224)	(10,043)
Programme Costs								
Request for Resources 1								
Staff Costs	8(a)	11,311		604,366			–	576,835
Judicial Salaries	8(b)	2,182		369,444			2,541	361,526
Programme Costs	10		2,255,909		3,066,141		2,343,589	3,102,199
Income	11(a)		(5,197)			(645,194)	(5,215)	(586,762)
Request for Resources 2								
Programme Costs	10		21,771,119		21,771,119		20,866,266	20,866,266
Request for Resources 3								
Programme Costs	10		11,676,027		11,676,027		10,630,516	10,630,516
Income	11(a)		(2)			(2)		
NLF interest payable			57,414		57,414		58,215	58,215
NLF Interest receivable			(57,414)		(57,414)		(58,215)	(58,215)
Totals		126,447	35,846,356	(17,446)	1,157,779	36,747,281	(658,104)	
Net Operating Cost			35,955,357			37,246,956	34,128,096	35,422,576

All income and expenditure are derived from continuing operations.

The notes on pages 44 to 85 form part of these accounts.

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

	Note	2006-07		2005-06	
		Core		Core	
		Department	Consolidated	Department (restated)	Consolidated (restated)
		<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Net gain on revaluation of tangible fixed assets	20	833	176,365	514	298,795
Recognised gains and losses for the financial year		<u>833</u>	<u>176,365</u>	<u>514</u>	<u>298,795</u>

The notes on pages 44 to 85 form part of these accounts

Balance Sheet

As at 31 March 2007

Note	2006-07 Core Department		2006-07 Consolidated		2005-06 Core Department (restated)		2005-06 Consolidated (restated)	
	£000	£000	£000	£000	£000	£000	£000	£000
Fixed Assets:								
Tangible assets	13	52,809	3,537,622		42,054		2,873,348	
Investments	14	<u>801,731</u>	<u>801,731</u>		<u>821,868</u>		<u>821,868</u>	
		854,540	4,339,353		863,922		3,695,216	
Debtors falling due after more than one year	15(a)	–	154		1,419		1,982	
Current assets:								
Debtors	15(a)	440,563	483,785		436,987		515,467	
Cash at bank and in hand	16	96,553	247,385		29,778		96,816	
		<u>537,116</u>	<u>731,170</u>		<u>466,765</u>		<u>612,283</u>	
Creditors falling due within one year	17(a)	<u>(583,756)</u>	<u>(856,285)</u>		<u>(937,656)</u>		<u>(750,271)</u>	
Net Current liabilities		<u>(46,640)</u>	<u>(125,115)</u>		<u>(470,891)</u>		<u>(137,988)</u>	
Total assets less current liabilities		807,900	4,214,392		394,450		3,559,210	
Creditors falling due after more than one year	17(a)	(805,540)	(1,034,511)		(826,406)		(999,333)	
Provisions for liabilities and charges	18	(124,434)	(463,000)		(78,118)		(421,414)	
		<u>(929,974)</u>	<u>(1,497,511)</u>		<u>(904,524)</u>		<u>(1,420,747)</u>	
		<u>(122,074)</u>	<u>2,716,881</u>		<u>(510,074)</u>		<u>2,138,463</u>	
Taxpayers' equity								
General Fund	19	(125,981)	2,250,789		(513,160)		1,835,163	
Revaluation Reserve	20	3,907	466,092		3,086		303,300	
		<u>(122,074)</u>	<u>2,716,881</u>		<u>(510,074)</u>		<u>2,138,463</u>	

Alex Allan
Accounting Officer
18th July 2007

The notes on pages 44 to 85 form part of these accounts

Consolidated Cashflow Statement for the year ended 31 March 2007

		2006-07	2005-06 (restated)
	Note	<u>£000</u>	<u>£000</u>
Net cash outflow from operating activities	21a	(36,892,110)	(34,969,611)
Capital expenditure and financial investment	21b	(44,772)	(56,132)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		228,195	288,060
Increase in third party balances		26,082	5,792
Payment of amounts due to the Consolidated fund		(242,854)	(284,668)
Financing	21d	<u>37,076,028</u>	<u>35,055,547</u>
Increase in cash in the period		<u>150,569</u>	<u>38,988</u>

The notes on pages 44 to 85 form part of these accounts

Consolidated Statement of Operating Costs by Departmental Aims and Objectives for the year ended 31 March 2007

Request for Resources 1

Aim: Upholding justice, rights and democracy.

	2006-07			2005-06 (restated)		
	<u>Gross</u>	<u>Income</u>	<u>Net</u>	<u>Gross</u>	<u>Income</u>	<u>Net</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
1. To provide criminal, civil, family and administrative justice systems that command public respect and confidence.	3,384,078	(601,835)	2,782,243	3,579,953	(547,768)	3,032,185
2. To ensure that the public, especially the socially excluded and vulnerable, have access to excellent services, which enable them to exercise their rights in law.	857,180	(38,890)	818,290	602,762	(43,385)	559,377
3. To develop democratic institutions of Government that command public confidence.	25,833	(421)	25,412	94,762	(196)	94,566
4. To create a modern, efficient and effective Department that can deliver excellent public services.	179,551	(15,780)	163,771	234,394	(4,487)	229,907
	<u>4,446,642</u>	<u>(656,926)</u>	<u>3,789,716</u>	<u>4,511,871</u>	<u>(595,836)</u>	<u>3,916,035</u>

Request for Resources 2

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

	2006-07			2005-06		
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
1. To ensure that Scotland's interests in relation to reserved areas are known and represented within the UK Government.	1,510	–	1,510	1,003	–	1,003
2. To fulfil all requirements in relation to UK Government and Parliamentary activities concerning Scotland and in relation to constitutional functions under the Scotland Act.	1,514	–	1,514	1,695	(238)	1,457
3. To handle all financial matters timeously and with propriety – including payments to the Scottish Consolidated Fund.	21,772,314	(395)	21,771,919	20,867,294	–	20,867,294
4. Providing legal advice and services relating to Scots law and the Scottish devolution settlement to UK Government Departments and supporting the Advocate General for Scotland in his statutory functions under the Scotland Act and in relation to his functions as a UK law officer	2,704	(769)	1,935	2,712	(717)	1,995
	<u>21,778,042</u>	<u>(1,164)</u>	<u>21,776,878</u>	<u>20,872,704</u>	<u>(955)</u>	<u>20,871,749</u>

Request for Resources 3

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

	Gross	2006-07 Income	Net	Gross	2005-06 Income	Net
	£000	£000	£000	£000	£000	£000
1A. To work with the Welsh Assembly Government, National Assembly for Wales and UK Government Departments to secure: the passage through Parliament of Wales specific bills and England and Wales Bills with Wales specific provisions and other legislation, in particular the Government of Wales Bill, and measures and administrative arrangement for Assembly elections and the implementation of changes to the Welsh devolution settlement, which flow from the Government of Wales Bill, once enacted.	1,957	(6)	1,951	1,502	(5)	1,497
1B. To enable the Secretary of State and his Minister in the House of Commons, and Government spokespeople in the House of Lords, to respond to Parliamentary interests in Welsh affairs.						
1C. Consider with Cabinet colleagues whether changes should be made to the Welsh devolution settlement and implement any which are agreed						
2. To maintain and improve the devolution settlement through: Fostering partnership working between the devolved administration in Wales and the United Kingdom Government, and with the other devolved administrations; advising UK Departments and other devolved administrations about distinctive Welsh interests in relation to reserved matters; promoting effective communication for Welsh opinion and effective co-ordination of policy; and promoting the economic, social, political and cultural interests of Wales in other contexts than Parliament and Government and contributing to informed public discussion.	1,522	(4)	1,518	1,501	(5)	1,496

	<u>Gross</u>	<u>2006-07</u>	<u>Net</u>	<u>Gross</u>	<u>2005-06</u>	<u>Net</u>
	<u>£000</u>	<u>Income</u>	<u>£000</u>	<u>£000</u>	<u>Income</u>	<u>£000</u>
		<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
3. Keep under review, with Treasury and the Assembly Government, the operation of the funding policy for the devolved administrations; engage in the preparations for the Comprehensive Spending Review 2007	435	(1)	434	429	(2)	427
4. To secure, develop and manage effectively and efficiently the resources needed to deliver these objectives.	435	(1)	434	429	(1)	428
5. Keep under review, with Treasury and the Assembly Government, the operation of the funding policy for the devolved administration.	–	–	–	429	(1)	428
Grant to the National Assembly for Wales and other programme expenditure	11,676,027	(2)	11,676,025	10,630,516	–	10,630,516
	<u>11,680,376</u>	<u>(14)</u>	<u>11,680,362</u>	<u>10,634,806</u>	<u>(14)</u>	<u>10,634,792</u>
Net Operating Costs	<u>37,905,060</u>	<u>(658,104)</u>	<u>37,246,956</u>	<u>36,019,381</u>	<u>(596,805)</u>	<u>35,422,576</u>

Notes to the accounts for the year ended 31 March 2007

1 Statement of accounting policies

The financial statements have been prepared in accordance with the 2006-07 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FReM also requires the Department to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The consolidated Statement of Operating Cost by Departmental Aim and Objectives and supporting notes analyse the Department's income and expenditure by the objectives agreed by Ministers.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

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

1.2 Basis of consolidation

These accounts comprise a consolidation of the non-agency parts of the Department (the core Department) and those entities which fall within the departmental boundary as defined in the FReM (chapter 1.5). Transactions between entities included in the consolidation are eliminated.

A list of all those entities within the departmental boundary is given at Note 33.

1.3 Tangible fixed assets

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

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

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

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

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

1.4 Depreciation

Depreciation is provided at rates calculated to write off the valuation of freehold buildings or current replacement cost of other tangible fixed assets, less the estimated residual value, spread evenly over their estimated useful lives, or for leased assets, over the life of the lease. Depreciation of land and buildings is based on opening balance sheet values, while all other assets are depreciated on closing balance sheet values. Asset lives are within the following ranges:

Freehold land	Not depreciated
Freehold buildings	Shorter of: remaining life, or 60 years
Leasehold buildings	Shorter of: remaining life, remaining lease period or 50 years
Leasehold land	Remaining lease period, except for leases with more than 125 years remaining, which are not depreciated
Assets under construction	Not depreciated
Plant, equipment, computers and software	5 to 7 years
Furniture	20 years
Vehicles	3 to 4 years
Finance leases	Lease period
Operational antiques	50 years

1.5 Investments

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

National Loans Fund (NLF)

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

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

Shares in limited companies/special shares

Investments are included at market value at the balance sheet date, unless this cannot be readily ascertained, in which case they are stated at historical costs.

For further details on shares held, see Note 14.

1.6 Stock

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

1.7 Pensions

Most past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), or the Local Government Pension Scheme (LGPS). The defined benefit schemes are unfunded and contributory. The Department recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from the employees' services by payment of charges calculated on an accruing basis. Liability for payment of future benefits is a charge on the various schemes.

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

The Department also administers the Judicial Pension Scheme which provides for the pensions of judicial office holders of five participating Departments across Government. A percentage of the accruing superannuation liability charge paid by these Departments is appropriated in aid in DCA's own accounts, as reimbursement of the costs it incurs in administering the scheme.

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

1.8 Early departure costs

The Department is required to pay the additional cost of benefits beyond the normal PCSPS and LGPS benefits in respect of employees who retire early, unless the retirement is on approved medical grounds. The total cost is provided in full when the early departure programme has been announced and is binding on the Department. The estimated cash flow is discounted using HM Treasury's discount rate of 2.2% in real terms.

The Scottish Executive provides for any additional early departure costs for Scotland Office staff. Any such amounts are not included in these accounts.

1.9 Research and Development

Expenditure on research is charged to the Operating Cost Statement as it is incurred. Development expenditure is capitalised if it meets the criteria specified in the *FReM*. Expenditure which does not meet the criteria for capitalisation is charged to the Operating Cost Statement as it is incurred.

1.10 Operating income

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

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

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

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

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

Note 11(a) highlights the income which, under the administration cost control regime, is allowed to be offset against gross administration costs to determine the outturn against the administration cost limit.

An analysis of fees and charges to customers inside and outside the public sector is found in Note 11(b). It shows income, full cost and surplus or deficit as required by HM Treasury's Fees and Charges Guide.

1.11 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme costs. The classification of expenditure as administration or programme follows the definition of administration costs set out in the Spending Review by HM Treasury. Broadly, administration expenditure reflects the costs of running the Department while programme costs relate to service delivery activities.

1.12 Grants payable and paid

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

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

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

1.13 Operating leases

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

1.14 Finance leases

Where assets are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the fair value of the leased assets. The corresponding leasing commitments are shown as obligations to the lessor.

1.15 Payments to PFI suppliers

Private Finance Initiative (PFI) transactions have been accounted for in accordance with HM Treasury's Technical Note No1 (revised).

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

Where the Department bears the responsibility the asset is recognised on the Balance Sheet, with the liability to pay for it accounted for as a finance lease. Where the Department has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract by a charge to the Operating Cost Statement. See Notes 15 and 25 for further information.

1.16 Non-cash costs

Capital Charge

A charge reflecting the cost of capital utilised by the Department is included in operating costs. The charge is calculated at the Government's standard rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities, except for:

- a. tangible and intangible fixed assets where the cost of capital is based on opening values, adjusted pro-rata for in-year:
 - additions at cost
 - disposals at their opening balance sheet values (plus any subsequent capital expenditure prior to disposal)
 - impairment at the amount of the reduction of the opening balance sheet value (plus any subsequent capital expenditure)
 - depreciation of tangible and amortisation of intangible fixed assets;
- b. donated assets, and cash balances with the Office of the Paymaster General, where the charge is nil;
- c. amounts due to or from the Consolidated Fund, and liabilities in respect of advances from the Contingencies Fund; and

d. NLF, where the charge equates to the interest due from the body, calculated using the National Loans Fund rate of interest appropriate to a loan with the same date of issue and same repayment terms. The charge applies to both the investment and the associated liability.

Other

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

1.17 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department discloses, for Parliamentary reporting and accountability purposes, certain statutory and non-statutory contingent liabilities where the likelihood of transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of *Government Accounting*.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be reported under FRS 12 are stated at the amount reported to Parliament.

1.18 Value Added Tax

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

1.19 Third party assets

The Department and its executive agencies hold, as custodian or trustee, certain assets belonging to third parties. These assets are not recognised on Balance Sheet and are disclosed within Note 30 since neither the Department nor Government has a direct beneficial interest in them.

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

1.20 Consolidated Fund Extra Receipts (CFERs)

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

Magistrates' courts fines

Magistrates' courts are responsible for collecting financial penalties imposed by the criminal justice system. These comprise fines, confiscation orders, prosecutors' costs and compensation to victims imposed by the Magistrates' and Crown Courts. Fines and ancillary receipts are remitted to the Consolidated Fund via the Department. Receipts of confiscation orders, prosecution costs and compensation orders are remitted to appropriate third parties, including government departments and the victims of crime.

As the Department has no beneficial interest in the impositions, they are not processed through the income and expenditure accounts, but are instead accounted for through the balance sheet.

Magistrates' courts impositions are recognised as a debtor as they are imposed. At the same time, a corresponding creditor is raised to recognise the obligation of onward transmission.

As fines imposed are not always successfully collected, the Department recognises a provision for uncollectable impositions. This allows for full provision to be made for fines uncollected that are more than six months old. The provision serves to reduce the debtor in the balance sheet, but also reduces the creditor for onward transmission. The creation of this provision and any subsequent movement does not score in the Operating Cost Statement.

See also Notes 15 and 17.

Scotland Office CFERs

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

Wales Office CFERs

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

National non-domestic rates (NNDR)

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

1.21 Comparatives

The Department accounts for Machinery of Government changes and other transfers of function using merger accounting. The prior year comparatives are restated as appropriate.

Note 34 gives the financial impact of the restatement of comparatives necessary to recognise the creation of the Tribunals Service and the Judicial Appointments Commission with effect from 1 April 2006.

2. Analysis of net resource outturn by section

					Outturn	Estimate	2006-07	2005-06	
	Admin	Other	Gross Resource		A in A	Net Total	Net Total	Net Total	
	£000	current	Grants	Expenditure	£000	£000	£000	£000	
		£000	£000	£000			Estimate	Prior year	
							compared	Outturn	
							with	Estimate	
							saving/	£000	
							(excess)	£000	
							£000	£000	
Request for Resources 1:									
Headquarters and Associated Offices	324,214	67,045	7,464	398,723	(6,846)	391,877	487,915	96,038	613,022
Judicial Pensions Administration	400	–	–	400	(400)	–	1	1	1
Her Majesty's Court Service	36,731	1,362,331	1,584	1,400,646	(595,930)	804,716	839,647	34,931	783,719
Public Guardianship Office	17,517	198	–	17,715	(16,753)	962	2,143	1,181	(359)
Costs from Central Funds	–	91,208	–	91,208	–	91,208	74,660	(16,548)	69,201
Tribunals Service	94,630	211,328	–	305,958	(28,169)	277,789	281,476	3,687	–
Legal Services Commission:									
- Administration	–	–	112,810	112,810	–	112,810	102,000	(10,810)	105,480
- Criminal Defence Service	–	–	1,171,844	1,171,844	–	1,171,844	1,206,000	34,156	1,204,631
- Community Legal Service	–	–	807,315	807,315	–	807,315	823,035	15,720	795,975
Office of the Information Commissioner	–	–	5,550	5,550	–	5,550	5,555	5	5,100
Judicial Appointment Commission	–	–	6,104	6,104	–	6,104	6,104	–	–
CORE Capital Grants to Local Authorities	–	–	654	654	–	654	10,800	10,146	441
Net Resource Outturn	473,492	1,732,110	2,113,325	4,318,927	(648,098)	3,670,829	3,839,336	168,507	3,577,211
Request for Resources 2:									
Scotland Office	4,219	–	–	4,219	(395)	3,824	4,445	621	3,638
Office of the Advocate General	2,704	–	–	2,704	(769)	1,935	2,100	165	1,845
Boundary Commission for Scotland	–	119	–	119	–	119	300	181	141
Commission on Boundary Differences & Voting Systems in Scotland	–	–	–	–	–	–	–	–	135
Grant payable to the Scottish Consolidation Fund	–	–	21,752,000	21,752,000	–	21,752,000	22,890,002	1,138,002	20,865,990
Net Resource Outturn	6,923	119	21,752,000	21,759,042	(1,164)	21,757,878	22,896,847	1,138,969	20,871,749
Request for Resources 3:									
Wales Office	4,349	27	–	4,376	(9)	4,367	5,142	775	4,308
Grants Payable to the National Assembly for Wales	–	–	11,676,000	11,676,000	–	11,676,000	13,342,320	1,666,320	10,630,489
Net Resource Outturn	4,349	27	11,676,000	11,680,376	(9)	11,680,367	13,347,462	1,667,095	10,634,797
Total Net Resource Outturn	484,764	1,732,256	35,541,325	37,758,345	(649,271)	37,109,074	40,083,645	2,974,571	35,083,757

Notes to the table:

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

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

Explanation of variation between Estimate and outturn are given in the Management Commentary on pages 6 to 14.

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

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

	Note	Outturn £000	Supply Estimate £000	2006-07 Outturn compared with Estimate £000	2005-06 (restated) Outturn £000
Net resource outturn	2	37,109,074	40,083,645	2,974,571	35,083,757
Non-supply income (CFERs)	5	(8,833)	–	8,833	(2,129)
Non-supply expenditure		146,715	107,000	(39,715)	197,278
Machinery of Government change – net transfer		–	–	–	143,670
Net operating cost		37,246,956	40,190,645	2,943,689	35,422,576

3(b) Outturn against final Administration Budget

	Budget £000	2006-07 Outturn £000	2005-06 Outturn £000
Gross Administration Budget	542,618	484,764	432,370
Income Allowable against Administration Budget	(11,212)	(12,908)	(10,043)
Net outturn against final Administration Budget	531,406	471,856	422,327

4. Reconciliation of resources to cash requirement

	Note	Estimate £000	Outturn £000	Net total Outturn compared with Estimate Saving/ (excess) Net £000
Resource Outturn	2	40,083,645	37,109,074	2,974,571
Capital				
Acquisition of Fixed Assets	13	174,964	124,281	50,683
Non operating in A in A				
Proceeds of fixed asset disposals	7	(10,500)	(10,500)	–
Accruals adjustments				
Non-cash items		(295,704)	(269,634)	(26,070)
Changes in working capital other than cash		12,626	10,999	1,627
Use of provision	18 & 21(a)	37,247	36,739	508
Less utilisation of provision settled with cash from the Consolidated Fund		–	(3,023)	3,023
Net cash requirement		40,002,278	36,997,936	3,004,342

The analysis of non-cash costs excludes those costs that fall directly to the Consolidated Fund.

5. Analysis of income payable to the Consolidated Fund

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

	Note	Forecast 2006-07		Outturn 2006-07	
		Income	<i>Receipts</i>	Income	<i>Receipts</i>
		£000	£000	£000	£000
Operating income and receipts – excess A in A		–	–	5	5
Other operating income and receipts not classified as A in A		–	–	8,828	8,828
	6	–	–	8,833	8,833
Non-operating income and receipts – excess A in A	7	–	–	4,928	4,928
Other non-operating income and receipts not classified as A in A		–	–	–	–
Other amounts collectable on behalf of the Consolidated Fund		244,353	244,353	227,702	228,195
Excess cash surrenderable to the Consolidated Fund		–	–	–	–
Total Income payable to the Consolidated Fund		244,353	244,353	241,463	241,956

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

	Note	2006-07	2005-06
		£000	(restated) £000
Operating Income	11(a)	658,104	596,805
Adjustments for transactions between RfRs		–	–
Gross Income		658,104	596,805
Income authorised to be appropriated-in-aid		649,271	594,676
Operating income payable to the consolidated fund	5	8,833	2,129

7. Non-operating income – excess A in A

	2006-07	2005-06
	£000	£000
Disposal of fixed assets	15,428	19,367
Less: Income authorised to be appropriated-in-aid	(10,500)	(11,663)
Excess A in A	4,928	7,704

8. Staff and Judiciary numbers and related costs

8(a) Staff Numbers and Related Costs

The aggregate payroll costs of these persons were as follows:

					2006-07	2005-06 (restated)
	Permanently Employed			Special	Total	Total
	staff	Others	Ministers	Advisors	£000	£000
	£000	£000	£000	£000	£000	£000
Wages and Salaries	567,862	53,423	493	367	622,145	619,391
Social security costs	42,543	174	54	44	42,815	41,526
Other pension costs	102,868	411	32	24	103,335	94,162
Sub Total	713,273	54,008	579	435	768,295	755,079
Less recoveries in respect of outward secondments	(5,151)	–	–	–	(5,151)	(3,405)
Total net costs	708,122	54,008	579	435	763,144	751,674
Of which						
Core Department	94,453	28,798	579	435	124,265	121,312

8(b) Payroll costs of the Judiciary

	2006-07			2005-06 (restated)		
	Paid from voted resources	Paid from Consolidated fund	Total	Paid from voted resources	Paid from Consolidated fund	Total
	£000	£000	£000	£000	£000	£000
Wages and Salaries	184,710	114,129	298,839	187,036	113,202	300,238
Social Security Costs	19,651	13,470	33,121	16,412	13,076	29,488
Other Pension Costs	62,675	–	62,675	57,623	–	57,623
Total	267,036	127,599	394,635	261,071	126,278	387,349
Of which:						
Core Department	2,182	–	2,182	2,426	115	2,541

Under the Ministerial and Other Salaries Act, the salary and social security costs of the Lord Chancellor are paid from the Consolidated Fund. However, from 2006-07 these figures are disclosed within Note 8(a), Ministers, rather than Note 8(b), Paid from Consolidated Fund. In 2006-07, the Lord Chancellor's salary was £103,108 and the associated social security costs were £11,532.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Department for Constitutional Affairs is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2006-07, employers' contributions of £103,237,821 were payable to the PCSPS at one of four rates in the range 17.1 to 25.5 per cent (2005-06: 16.2 to 24.6 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following

a full scheme valuation. From 2007-08, the salary bands will be revised but the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2006-07 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £31,122 were paid to a panel of 3 appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent (2005-06: 3 to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay.

In addition, employer contributions of £66,057, 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £0. Contributions prepaid at that date were £0.

The Judicial Pension Scheme (JPS) is an unfunded multi-employer defined benefit scheme, which prepares its own accounts, but for which the Department is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2005. Details can be found in the Resource Accounts of the JPS at www.official-documents.co.uk.

8(c) Average number of persons employed

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

	Total	2006-07			Special Advisors	2005-06
		Permanent staff	Others	Ministers		(restated) Total
Request for Resource 1						
Objective 1	20,285.0	19,433	846	4.0	2	20,368
Objective 2	3,951.0	3,785	165	1.0	–	3,611
Objective 3	659.0	631	28	–	–	611
Objective 4	1,448.0	1,388	60	–	–	1,474
	<u>26,343.0</u>	<u>25,237</u>	<u>1,099</u>	<u>5.0</u>	<u>2</u>	<u>26,064</u>
Request for Resource 2						
Objective 1	21.4	10	10	0.4	1	15
Objective 2	18.3	9	9	0.3	–	21
Objective 3	10.3	1	9	0.3	–	14
Objective 4	31.0	2	28	1.0	–	32
	<u>81.0</u>	<u>22</u>	<u>56</u>	<u>2.0</u>	<u>1</u>	<u>82</u>
Request for Resource 3						
Objective 1	25.0	11	12	1.0	1	19
Objective 2	22.0	10	11	–	1	19
Objective 3	6.0	3	3	–	–	6
Objective 4	6.0	3	3	–	–	3
Objective 5	–	–	–	–	–	6
	<u>59.0</u>	<u>27</u>	<u>29</u>	<u>1.0</u>	<u>2</u>	<u>53</u>
	<u>26,483.0</u>	<u>25,286</u>	<u>1,184</u>	<u>8.0</u>	<u>5</u>	<u>26,199</u>
Core Department	<u>2,711</u>	<u>2,127</u>	<u>571</u>	<u>8</u>	<u>5</u>	<u>2,943</u>

8(d) Retirement due to ill health

During 2006-07 33 (2005-06, 42) persons retired early on ill health grounds. The total additional accrued pension liabilities in the year amounted to £115,011 (2005-06, £190,311).

9. Other Administration costs

	2006-07		2005-06 (restated)	
	Core		Core	
	Department	Consolidated	Department	Consolidated
	£000	£000	£000	£000
Rentals under operating leases				
Property rents	29,990	34,676	28,901	49,759
Hire of plant and machinery	518	891	98	1,143
Other operating leases	187	198	348	367
Interest charges	–	–	8	35
PFI services charges	115,726	117,269	165,135	168,859
Research and development expenditure	1,045	1,026	1,289	1,968
Staff training and development costs	5,178	5,310	5,631	6,305
Travel, subsistence and hospitality	4,037	6,426	4,330	8,329
Judicial admin costs	–	1,969	–	3,443
Accommodation, maintenance and utilities	18,584	34,395	21,102	36,625
Non-cash items				
Depreciation	4,437	6,306	2,984	6,395
Downward revaluation of assets below depreciated historic cost	955	1,244	2,110	2,377
(Profit)/loss on disposal of fixed asset	1,371	1,371	73	315
PFI contracts deferred benefit	25	220	1,911	2,171
Increase in provisions	2,077	2,347	756	175
Increase in bad debt provision	55	55	(3)	26
Cost of capital charges	(3,520)	(2,795)	(9,331)	(8,652)
External auditors	311	480	324	929
Allocation of overheads	(118,666)	(85,235)	(111,441)	(72,430)
Losses written off	68	111	35	108
Other expenditure	80,923	107,730	62,051	73,130
Total	143,301	233,994	176,311	281,377

10. Programme Costs

	2006-07		2005-06 (restated)	
	Core		Core	
	Department	Consolidated	Department	Consolidated
	£000	£000	£000	£000
Request for Resources 1				
Rentals under operating leases				
Property rents	–	52,795	–	34,548
Hire of plant and machinery	–	2,176	–	1,928
Other operating leases	8	157	–	1,215
Interest charges	–	10,008	–	1
PFI services charges	522	30,933	–	44,412
Research and development expenditure	–	273	–	4
Staff training and development costs	14	1,577	–	1,270
Travel, subsistence and hospitality	625	10,538	–	9,935
Accommodation, maintenance and utilities	–	216,298	–	203,971
Judicial costs	8,719	46,049	8,623	39,832
Juror costs	–	40,495	–	39,580
Court reporting	12	6,315	2	7,731
Cost from Central Funds	52,516	52,517	69,201	69,201
Current grants				
Grants to Legal Services Commission in respect of CLS and CDS	1,979,159	1,979,159	2,000,606	2,000,606
Grants to local authorities in respect of magistrates' courts	–	–	–	7,354
Grants to Legal Services Commission Administration	109,810	109,810	102,480	102,480
Other Grants in Aid	19,772	21,354	13,411	14,836
Capital Grants				
Grants to Legal Services Commission	3,000	3,000	3,000	3,000
Other expenditure	32,428	137,157	3,566	119,706
Non-cash costs				
Depreciation	24	98,891	–	82,723
Downward revaluation of assets below depreciated historic cost	8	13,198	–	22,898
(Profit)/Loss on disposal of fixed assets	–	(7,462)	–	(3,143)
PFI contracts deferred benefit	–	23	–	45
Increase in pension provisions	–	97	–	350
Increase in Costs from Central Funds provision	38,692	38,692	–	–
Increase in other provision	10,600	37,185	71,700	78,777
Decrease in bad debt provision	–	772	–	(148)
Cost of capital charges	–	77,104	–	71,024
Allocation of overheads	–	83,995	–	74,567
Notional rent	–	2,300	–	2,301
Losses written off	–	377	–	195
Election expenses	–	–	71,000	71,000
External audit	–	358	–	–
	<u>2,255,909</u>	<u>3,066,141</u>	<u>2,343,589</u>	<u>3,102,199</u>

	2006-07		2005-06	
	Core		Core	
	Department	Consolidated	Department	Consolidated
	£000	£000	£000	£000
Request for Resources 2				
Funding to the Scottish Executive	21,752,000	21,752,000	20,865,990	20,865,990
Other Expenditure	119	119	276	276
Non cash costs				
Election expenses	19,000	19,000	–	–
	<u>21,771,119</u>	<u>21,771,119</u>	<u>20,866,266</u>	<u>20,866,266</u>
Request for Resources 3				
Funding of the National Assembly for Wales	11,676,000	11,676,000	10,630,489	10,630,489
Other Expenditure	27	27	27	27
	<u>11,676,027</u>	<u>11,676,027</u>	<u>10,630,516</u>	<u>10,630,516</u>
Total	<u>35,703,055</u>	<u>36,513,287</u>	<u>33,840,371</u>	<u>34,598,981</u>

Services provided to the Judicial Appointments Commission, a non-departmental public body, totalled £1.955m (2005-06, £2.226m). These costs are not classified as Grant in Aid, and are therefore not included in the Other Grants in Aid total above.

11. Income

11(a) Analysis of operating income

	2006-07			2005-06	
	Request for	Request for	Request for	(restated)	
	Resource 1	Resources 2	Resources 3	Total	Total
	£000	£000	£000	£000	£000
Her Majesty's Courts Service	595,930	–	–	595,930	537,897
Tribunals Service	28,169	–	–	28,169	30,704
Public Guardianship Office	16,753	–	–	16,753	16,109
Official Solicitor and Public Trustee	4,833	–	–	4,833	5,024
Other	11,241	1,164	14	12,419	7,071
	<u>656,926</u>	<u>1,164</u>	<u>14</u>	<u>658,104</u>	<u>596,805</u>
				<u>2006-07</u>	<u>2005-06</u>
				£000	(restated) £000
Administration				12,908	10,043
Programme				645,196	586,762
				<u>658,104</u>	<u>596,805</u>

11(b) Fees and charges

The Department is required, in accordance with HM Treasury's *Fees and Charges Guide*, to disclose results for the areas of its activities where fees and charges were made. The following analysis is not intended to meet the requirements of Statement of Standard Accounting Practice 25 *Segmental Reporting*, which is not applicable to the Department under the *Government Financial Reporting Manual*.

	2006-07			2005-06		
	Income	Full cost	Deficit	Income	Full costs	Deficit
	£000	£000	£000	£000	£000	£000
Her Majesty's Courts Service						
Civil Business	448,244	626,381	(178,137)	407,954	555,911	(147,957)
Court Funds Office	13,500	26,000	(12,500)	15,000	15,000	–
Lands Tribunal	393	782	(389)	262	625	(363)
Public Guardianship Office	17,147	19,737	(2,590)	16,029	19,252	(3,223)
Official Solicitor and Public Trustee						
Litigation	572	5,422	(4,850)	653	5,389	(4,736)
Trust and Estates	4,261	4,989	(728)	4,375	7,319	(2,944)
	484,117	683,311	(199,194)	444,273	603,496	(159,223)

PGO excludes the cost of fee remissions from its calculation of cost recovery by grossing up income. Fees totalling £1.266m are included as Income above.

12. Analysis of net operating cost by spending body

	2006-07		2005-06
	Budget	Outturn	(restated)
	£000	£000	£000
Spending body:			
Department HQ	562,576	475,722	610,413
Scotland Office	22,915,847	21,776,878	20,871,749
Wales Office	13,347,462	11,680,363	10,634,797
Her Majesty's Courts Service	927,647	932,315	909,882
Tribunals Service	281,476	277,789	279,129
Public Guardianship Office	2,143	(688)	(359)
Non Departmental Public Bodies	2,142,694	2,103,923	2,116,524
Local Authorities	10,800	654	441
	40,190,645	37,246,956	35,422,576

13. Tangible fixed assets

	Land & Buildings excluding Dwellings	Dwellings	Information Technology	Plant & Machinery	Furniture & Fittings	Payments on Account & Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
At 1 April 2006 (restated)	2,666,305	22,944	121,033	7,349	28,313	72,790	2,918,734
Introduced on formation of HMCS	492,604	–	–	–	–	–	492,604
Additions	12,749	–	17,683	2,918	925	90,006	124,281
Disposals	(8,908)	–	(767)	(1,038)	(4,069)	(936)	(15,718)
Revaluations	83,643	2,204	(2,845)	(705)	(347)	–	81,950
Reclassifications	29,917	–	(21,707)	919	171	(9,300)	–
At 31 March 2007	3,276,310	25,148	113,397	9,443	24,993	152,560	3,601,851
Depreciation							
At 1 April 2006 (restated)	9,441	–	25,626	4,082	6,237	–	45,386
Charged in Year	82,123	274	17,368	2,409	3,023	–	105,197
Disposals	(482)	–	(2,109)	(889)	(2,901)	–	(6,381)
Revaluations	(80,720)	(274)	1,574	(87)	(466)	–	(79,973)
Reclassifications	–	–	139	(229)	90	–	–
At 31 March 2007	10,362	–	42,598	5,286	5,983	–	64,229
Net Book Value:							
At 31 March 2007	3,265,948	25,148	70,799	4,157	19,010	152,560	3,537,622
At 31 March 2006 (restated)	2,656,864	22,944	95,407	3,267	22,076	72,790	2,873,348
Asset Financing:							
Owned	2,877,048	19,748	60,938	4,157	19,010	152,560	3,133,461
Finance Leased	186,300	5,400	64	–	–	–	191,764
On-balance sheet PFI contracts	202,600	–	9,797	–	–	–	212,397
	3,265,948	25,148	70,799	4,157	19,010	152,560	3,537,622
Analysis of tangible fixed assets							
The net book value of tangible fixed asset comprises:							
Core Department 2007	7,172	–	5,579	126	6,234	33,698	52,809
Agencies 2007	3,258,776	25,148	65,220	4,031	12,776	118,862	3,484,813
Total 2007	3,265,948	25,148	70,799	4,157	19,010	152,560	3,537,622
Core Department 2006	8,161	–	20,199	192	11,358	2,144	42,054
Agencies 2006	2,648,703	22,944	75,208	3,075	10,718	70,646	2,831,294
Total 2006 (restated)	2,656,864	22,944	95,407	3,267	22,076	72,790	2,873,348

Notes to the table:

Included under land and buildings excluding dwellings are assets with a net book value of £521.0m (2005-06 £89.0m) and depreciation charged in the year of £3.4m (2005-06 £2.1m) for which the Department via HMCS holds the risks and rewards of ownership but does not hold legal title; these have arisen as a result of the property transfer scheme below.

The assets introduced on formation of HMCS, shown within land and buildings excluding dwellings, are those properties that did not transfer to HMCS in 2005 as a result of the property transfer scheme (PTS) "The Transfer of Property (Abolition of Magistrates' Courts Committees) Scheme 2005". These properties have been included within fixed assets during the year as a result of either the actual transfer of legal title or in order to reflect the substance of the status of these properties whereby the risks and rewards of ownership rests with HMCS.

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

14. Investments

	National Loans Fund £000	Shares in Nationalised Industries £000	Total £000
Balance at 1 April 2006	821,867	1	821,868
Loans repayable within 12 months transferred to debtors	(20,137)	–	(20,137)
Balance at 31 March 2007	<u>801,730</u>	<u>1</u>	<u>801,731</u>

All of these investments are held by the Core Department.

British Energy plc

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

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

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

Further details can be found in the annual report and accounts of British Energy.

15. Debtors

15(a) Analysis by type

Amounts falling due within one year:

	2006-07		2005-06 (restated)	
	Core		Core	
	Department	Consolidated	Department	Consolidated
	£000	£000	£000	£000
Trade debtors	608	11,742	814	15,459
VAT	16,409	27,629	16,987	24,202
Deposits and advances	940	2,598	814	3,316
Prepayments and accrued income	22,538	48,665	13,901	45,300
Prepayments – PFI contracts deferred benefit	–	–	19	41
Amounts due to the Consolidated Fund as CFERs	–	–	494	494
Amounts due from the Consolidated Fund in respect of Supply	–	–	3,446	3,446
Amounts due to the National Loans Fund				
– interest payable	10,911	10,911	10,984	10,984
– capital	20,137	20,137	35,138	35,138
Other debtors	8,703	17,790	3,352	26,049
Interdepartmental debtors	16,004	–	–	–
Impositions outstanding	344,313	344,313	351,038	351,038
	440,563	483,785	436,987	515,467

Amounts falling due after more than one year:

	2006-07		2005-06 (restated)	
	Core		Core	
	Department	Consolidated	Department	Consolidated
	£000	£000	£000	£000
Deposits and advances	–	44	–	62
Prepayments	–	110	1,413	1,691
Prepayments-PFI contracts deferred benefit	–	–	6	201
Other debtors	–	–	–	28
	–	154	1,419	1,982

Trade debtors are shown net of a provision for doubtful debts of £0.971m (2005-06 £0.173m). Other debtors are shown net of a provision for doubtful debts of £0.123m (2005-06 £0.094m).

Other debtors include an amount of £2.236m due from the Consolidated Fund in respect of a repayment of a Confiscation Order.

15(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2006-07	2005-06	2006-07	2005-06
	£000	£000	£000	£000
Balances with other central government bodies	63,189	103,575	–	195
Balances with local authorities	(91)	3,028	–	–
Balance with public corporations and trading funds	–	–	–	–
Balance with bodies external to government	420,687	405,794	154	1,759
	483,785	512,397	154	1,954

Notes to the table:

2005-06 comparatives have not been restated. The information is not available for the incoming tribunals.

15(c) Courts' impositions outstanding

	Crown					2006-07	2005-06
	Fines	Prosecutors' Costs	Prosecutors' Costs	Compensation	Confiscation Costs	Total	Total
	£000	£000	£000	£000	£000	£000	£000
At 1 April	155,400	20,245	25,034	34,826	115,533	351,038	349,384
Imposed in year	247,851	41,102	44,229	38,023	189,845	561,050	691,925
Collections	(165,795)	(30,854)	(31,938)	(27,900)	(87,057)	(343,544)	(291,438)
Judicial remissions	(54,444)	(4,990)	(5,417)	(7,085)	(32,973)	(104,909)	(224,527)
Cancellations	(21,404)	(2,534)	(4,725)	(1,927)	(10,456)	(41,046)	(5,390)
Provision for uncollectable impositions	3,556	(205)	(1,028)	(766)	(79,833)	(78,276)	(168,916)
At 31 March	165,164	22,764	26,155	35,171	95,059	344,313	351,038

Magistrates' courts are responsible for collecting financial penalties imposed by the criminal justice system. These comprise fines, prosecutors' costs, compensation to victims, and confiscation order imposed by the Magistrates' and Crown Courts. The balances outstanding, net of provisions for uncollectable impositions, at the start and end of the period, and movements in the period are set out in the table above.

The provision for uncollectable impositions currently stands at £647m (2005-06 £569m).

Certain of the HMCS magistrates' courts legacy systems only report administrative cancellations, legal cancellations and transfers out in aggregate to other courts. In order to attribute these discharges to imposition type it is necessary to prorate the aggregate values by reference to the related movements for each imposition type. Administrative cancellations pro rated in accordance with the above for the year ended 31 March 2007 amounted to £19.322m.

16. Cash at bank and in hand

	2006-07		2005-06 (restated)	
	Core		Core	
	Department	Consolidated	Department	Consolidated
	£000	£000	£000	£000
Balance at 1 April	29,778	96,816	28,548	57,828
Net change in cash balances	66,775	150,569	1,230	38,988
Balance at 31 March	96,553	247,385	29,778	96,816
The following balances at 31 March were held at:				
Office of HM Paymaster General	96,467	231,772	29,706	87,577
Commercial banks and cash in hand	86	15,613	72	9,239
Balance at 31 March	96,553	247,385	29,778	96,816

The balances of cash at bank and in hand include £37.008m (2005-06 £10.926m restated) held by the Department and its agencies on behalf of third parties. This amount is also disclosed as a creditor.

17. Creditors

17 (a) Analysis by type

	2006-07		2005-06 (restated)	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Amounts falling due within one year				
Other taxation and social security	4,225	24,406	3,936	20,668
Trade Creditors	2,590	24,969	7,204	11,980
Other Creditors	7,908	84,701	27,535	73,208
Accruals and deferred income	41,531	150,591	77,412	194,291
Creditor for capital value of PFI contracts	–	8,042	–	6,329
Obligations under finance leases	–	114	–	12
Amounts due to the National Loans Fund				
– Interest payable	10,911	10,911	10,984	10,984
– Capital	20,137	20,137	35,138	35,138
Amounts issued from the Consolidated Fund for Supply but not spent	117,903	117,903	–	–
Consolidated Fund extra receipts due to be paid to the Consolidated Fund				
Received	28,257	28,257	23,034	23,034
Receivable	–	–	493	493
Amounts due to the Consolidated Fund for excess appropriation in aid	4,933	4,933	12,170	12,170
Impositions surrenderable once received	344,313	344,313	351,038	351,038
Intradepartmental creditors	919	–	387,765	–
Third party monies	129	37,008	947	10,926
	583,756	856,285	937,656	750,271
Amounts falling due after more than one year:				
Accruals and deferred income	3,810	74,954	4,538	16,050
Obligations under finance leases	–	24	–	136
Control value of PFI contract	–	157,803	–	161,279
Amounts payable to the National Loans Fund	801,730	801,730	821,868	821,868
	805,540	1,034,511	826,406	999,333

Included in the above figure of £344m disclosed as 'Impositions surrenderable once received' are amounts payable on receipt to other Government departments of £309m and amounts payable to Third parties (as compensation to victims) of £35m. See also note 15(c).

17 (b) Intra-Government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2006-07	2005-06	2006-07	2005-06
	£000	£000	£000	£000
Balances with other central government bodies	634,598	529,812	801,731	821,868
Balances with local authorities	6,305	(1,232)	55,843	8,500
Balances with public corporations and trading funds	–	–	–	–
Balance with bodies external to government	215,384	211,585	176,937	168,965
	856,287	740,165	1,034,511	999,333

Notes to the table:

2005-06 comparatives have not been restated. The information is not available for the incoming tribunals.

18. Provisions for liabilities and charges

Core Department	Provision for Judicial Long Service Award	Provision for Early Departure Costs	Provision for Costs from Central Funds	Total
	£000	£000	£000	£000
Balance at 1 April 2006 (restated)	71,700	5,068	1,350	78,118
Provided in year	7,201	2,030	38,692	47,923
Unwinding of discount	3,400	46	–	3,446
Utilised in the year	(3,603)	(1,408)	(42)	(5,053)
Balance at 31 March 2007	78,698	5,736	40,000	124,434

Consolidated	Provision for Pension Transfer Deficit	Provision for Judicial Long Service Award	Provision for Early Departure Costs	Provision for Costs from Central Funds	Provision for by-analogy Pension Scheme	Provisions Other	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2006 (restated)	243,000	71,700	93,537	1,350	3,847	7,980	421,414
Provided in year	–	7,201	7,309	38,692	154	16,223	69,579
Unwinding of discount	–	3,400	5,346	–	–	–	8,746
Utilised in the year	(25,000)	(3,603)	(6,625)	(42)	(229)	(1,240)	(36,739)
Balance at 31 March 2007	218,000	78,698	99,567	40,000	3,772	22,963	463,000

Provision for Pension Transfer Deficit: The provision relates to the liability arising from the transfer of pension arrangements of the former magistrates' courts committees staff from their previous pension providers, the local government pension scheme (LGPS), to the civil service pension scheme (PCSPS). The liability arising due to the shortfall in the funding of the LGPS has been estimated by the Government Actuary's Department. A payment of £25.0m (2005-06 £25.0m) has been made in the year to the PCSPS as part settlement of the estimated deficit.

Judicial Long Service Award: The Judiciary Long-Service Award was created to equalise the tax position of judicial pensions affected by the provisions of the Finance Act 2004. The liability has been estimated by the Government Actuary's Department (GAD), taking into account the number of reckonable years served by the existing judiciary and an estimate of the projected final salaries of existing members. The result was discounted to present value using the rate set by HM Treasury (2.2%).

Early Departure Costs: Provision has been made for the costs of providing for unfunded early retirement benefits of certain magistrates' court staff previously paid for by the local authorities on a cash basis. The provision represents the present value of the costs of the benefit payable to staff on Crombie and on local government early retirement terms.

Also included in early departure costs is a provision for unfunded early retirement costs in respect of staff who are ex-DCA employees in the civil service pension scheme (PCSPS).

By-analogy pension provision: This relates to two small pension schemes that the Department operates for the Law Commissioners and the Immigration Adjudicators which are 'by analogy' or similar to the PCSPS. During the year, payments made to pensioners are set against the provision. At the year-end, the pension liabilities are valued in accordance with HM Treasury's guidelines and the cost of augmenting the provision is charged as a cost to the Operating Cost Statement.

Costs from Central Funds: Under the terms of the Prosecution of Offences Act 1985, acquitted defendants who have privately funded their legal representation, and private prosecutors, may obtain from the Crown Court an order to obtain their costs out of central funds. The Department estimates the value of unbilled costs each year to arrive at the amount disclosed in the accounts as a provision. The amount is an estimate of the expenditure required to settle any obligation at the balance sheet date. In estimating the provision, the Department has adopted prudent measurement techniques based on the latest data available.

Other provisions: These include a provision in respect of legal costs associated with the transfer of ownership of properties originally intended to form part of the Property Transfer Scheme (see also Note 13), a provision for restitution on certain un-invested Children's Accounts and a dilapidation provision against one of the Department's office buildings.

19. General Fund

	2006-07		2005-06 (restated)	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
General fund at 1 April	(513,160)	1,835,163	(95,346)	1,955,778
Net Parliamentary funding:				
drawn down	37,115,839	37,115,839	34,879,053	34,879,053
deemed supply	–	–	30,300	30,300
Machinery of Government financing	–	–	140,736	140,736
Consolidated Fund Standing Services				
Judicial and Lord Chancellor's salaries paid from the Consolidated Fund	115	127,714	115	126,278
Utilisation of Judicial Long Service Award paid from the Consolidated Fund	3,023	3,023	–	–
Election expenses paid from the Consolidated Fund	19,000	19,000	71,000	71,000
Payable to the Consolidated Fund:				
Consolidated Fund debtor/(creditor) for cash unspent	(117,903)	(117,903)	3,446	3,446
Excess appropriations in aid	(4,933)	(4,933)	(8,509)	(8,509)
Net transfer from Operating Activities:				
Net operating cost for the year	(35,955,357)	(37,246,956)	(34,128,096)	(35,422,576)
Income not appropriated in aid payable to the Consolidated Fund	(8,828)	(8,828)	(1,324)	(1,324)
Transfer funding to other operating units	(538,176)	–	(1,327,965)	–
Non-Cash Charges:				
Cost of capital charge	(3,520)	74,309	(9,331)	62,372
External auditors' remuneration and expenses	311	838	324	929
Corporate overhead charge	(118,666)	–	(111,441)	–
Notional rent	–	2,300	–	2,301
Fixed Asset adjustment in respect of prior periods	–	422,237	(23)	(851)
Transferred to general fund in respect of realised element of revaluation reserve	12	13,573	1	5,038
Machinery of Government changes	2,481	15,413	(1,659)	(8,808)
Transfer of net assets	(6,219)	–	45,559	–
General fund at 31 March	(125,981)	2,250,789	(513,160)	1,835,163

20. Revaluation reserve

	2006-07		2005-06 (restated)	
	Core		Core	
	Department	Consolidated	Department	Consolidated
	£000	£000	£000	£000
Balance at 1 April	3,086	303,300	2,573	9,543
Arising on Revaluation during the year (net)	833	176,365	514	298,795
Transferred to general fund in respect of realised element of revaluation reserve	(12)	(13,573)	(1)	(5,038)
Balance at 31 March	3,907	466,092	3,086	303,300

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

21. Notes to the Consolidated Cash Flow Statement

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

	2006-07	2005-06 (restated)
	£000	£000
Net operating cost	37,246,956	35,422,576
Adjustment for non cash transactions	(416,349)	(468,074)
(Decrease)/Increase in debtors	(33,510)	333,580
Less movement in debtors relating to items not passing through the Operating Cost Statement	28,575	26,705
(Increase) in creditors	(141,194)	(497,114)
Less movement in creditors relating to items not passing through the Operating Cost Statement	173,916	109,623
Use of provisions	36,739	42,315
Less utilisation of provision settled with cash from Consolidated Fund	(3,023)	–
Net cash outflow from operating activities	36,892,110	34,969,611

21(b) Analysis of capital expenditure and financial investment

	2006-07	2005-06 (restated)
	£000	£000
Purchase of tangible fixed assets	100,223	106,036
Proceeds of disposal of fixed assets	(20,313)	(39,758)
Loan repayments from other bodies	(35,138)	(10,146)
Net cash outflow from investing activities	44,772	56,132

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

	<u>Capital expenditure</u>	<u>Loans</u>	<u>A in A</u>	<u>Net Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Request for Resources 1	100,223	-	(20,313)	79,910
Request for Resources 2	-	(35,107)	-	(35,107)
Request for Resources 3	-	(31)	-	(31)
Net movement in debtors /creditors	24,058	-	4,885	28,943
Total 2006-07	<u>124,281</u>	<u>(35,138)</u>	<u>(15,428)</u>	<u>73,715</u>
Total 2005-06 (restated)	<u>124,024</u>	<u>(10,146)</u>	<u>(35,767)</u>	<u>78,111</u>

21(d) Analysis of financing

	<u>2006-07</u>	<u>2005-06 (restated)</u>
	<u>£000</u>	<u>£000</u>
Received from the Consolidated Fund (Supply) – current year	37,115,839	34,879,053
Received from the Consolidated Fund (Supply) – prior year	3,446	-
Machinery of Government change	-	140,736
Advances from the Contingencies Fund	515	-
Repayments to the Contingencies Fund	(515)	-
National Loans Fund – principal repayments received	(35,138)	(10,146)
Cash introduced on creation of HMCS	-	53,466
Capital element of payments in respect of finance leases and on balance sheet PFI contracts	(8,119)	(7,562)
Net financing	<u>37,076,028</u>	<u>35,055,547</u>

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

	<u>2006-07</u>	<u>2005-06 (restated)</u>
	<u>£000</u>	<u>£000</u>
Net cash requirement	(36,997,936)	(34,912,800)
From the Consolidated Fund (Supply) – current year	37,115,839	35,055,547
Machinery of Government change	-	(140,736)
Amounts due to the Consolidated Fund received in year not paid over		
- surplus Appropriation in Aid	4,933	8,509
- CFERs	28,257	22,555
Amounts due to the Consolidated Fund received in prior year paid over		
- surplus Appropriation in Aid	(12,170)	(2)
- CFERs	(22,555)	(17,908)
NLF loans – principal payments paid over	(35,138)	-
NLF loans – principal payments received	35,138	10,146
NLF loans – interest received from other bodies	57,414	58,215
NLF loans – interest paid to the NLF	(57,414)	(58,215)
Increase in third party balances	26,082	6,115
Repayment of capital element of finance lease and on balance sheet PFI contracts	8,119	7,562
Increase in cash	<u>150,569</u>	<u>38,988</u>

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

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

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

Programme grants and other current expenditure, as reported in the Operating Cost Statement, have been allocated as follows:

	2006-07	2005-06 (restated)
	<u>£000</u>	<u>£000</u>
Request for Resources 1		
Objective 1	2,556,891	2,718,428
Objective 2	799,611	506,630
Objective 3	13,042	73,637
Objective 4	25,213	155,103
Request for Resources 2		
Objective 3	21,771,119	20,866,266
Request for Resources 3		
Grant	<u>11,676,025</u>	<u>10,630,516</u>
Net Programme Costs	<u>36,841,901</u>	<u>34,950,580</u>

23. Capital commitments

	2006-07		2005-06	
	Core		Core	
	<u>Department</u>	<u>Consolidated</u>	<u>Department</u>	<u>Consolidated</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Contracted capital commitments at 31 March 2007, for which no provision has been made	1,735	38,235	–	62,778

24. Commitments under leases

24(a) Operating leases

At 31 March 2007 the Department was committed to making payments during the year in respect of operating leases expiring within the following periods:

	2006-07		2005-06	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Obligations under operating leases comprise:				
Land and buildings:				
Expiry within one year	179	10,924	–	2,555
Expiry after one year but not more than five years	7,296	18,965	5,009	11,198
Expiry thereafter	20,806	61,170	22,146	45,772
	<u>28,281</u>	<u>91,059</u>	<u>27,155</u>	<u>59,525</u>
Other:				
Expiry within one year	948	1,603	1,154	1,316
Expiry after one year but not more than five	721	1,579	1,256	1,614
Expiry thereafter	–	242	16	17
	<u>1,669</u>	<u>3,424</u>	<u>2,426</u>	<u>2,947</u>

24(b) Finance leases

The Department's obligations under finance leases are as follows:

	2006-07		2005-06	
	Core Department	Consolidated	Core Department	Consolidated
	£000	£000	£000	£000
Rentals due within one year	–	131	–	43
Rentals due after one year but within five years	–	24	–	136
Rentals due thereafter	–	–	–	–
	–	155	–	179
Less interest element	–	(17)	–	(27)
	<u>–</u>	<u>138</u>	<u>–</u>	<u>152</u>

Notes to the table:

The land and buildings (£186m) and Dwellings (£5m) disclosed as finance leases in Note 13 *Tangible Fixed Assets* are all long leases, with rental payments being for nominal amounts.

The Department has entered into 11 private finance initiative arrangements. A summary of each contract is set out below.

Project name	Contract start date	Duration (years)	On/off Balance Sheet under FRSS	Capital value (£m)	Description
Libra	December 1998	9	On	37.5	The PFI contract with Fujitsu Services is for the provision of office automation (OA) and IT infrastructure services to the magistrates' courts (called the Libra OA infrastructure). The contract was renegotiated in July 2002. Under this re-negotiation the contract term was shortened to March 2007 to enable the Department to align the contract with its replacement contract strategy called DISC. At the time of re-negotiation the forecast contract value was £232m. Since 2002 the Department has implemented enhancements to the services and contract value to March 2007 is £265.5m. As at 31 March 2007 some payments relating to this contract remain outstanding.
ARAMIS	January 1998	13	Off	39.5	The ARAMIS PFI Project with Liberata UK Limited provides accounting, management information and corporate IT services to HMCS, Tribunals, Wales Office and DCA Headquarters. The contract commenced in January 1998 and expired on 7 January 2007. Finance and Payroll services were extended for between 2 and 4 years from this date, IT services were extended to July 2008. The capital value of the contract is currently estimated to be £39.5 million, of a total expected contract value of £265 million. At the start of the contract some IT assets owned by the Department transferred to Liberata. This created an initial prepayment of £225,000, which is amortised over the original life of the project.
Probate Records Exeter	July 1999	25	Off	10.9	Provision of storage and retrieval services.
	November 2002	30	On	20.1	Provision of a courthouse comprising four criminal courts, one civil court and four District Judges Hearing rooms and further related administrative space. At the end of the contract term the building will revert to the Department at no cost.
East Anglia	October 2002	25	On	34.5	Provision of Crown Court centres in Ipswich and Cambridge. Ipswich consists of five criminal courtrooms; Cambridge consists of three criminal courtrooms. At the end of the contract term the buildings in Ipswich and Cambridge will revert to the Department at no cost.
Sheffield	November 2002	25	On	7.7	Provision of a Family Hearing Centre in Sheffield consisting of two family courtrooms, two hearing rooms and a training room. At the end of the PFI term the Department has the option of acquiring the under lease at the lower of its open market value, or £2 million.
Derbyshire Magistrates' Courts	August 2001	27	On	29.5	Provision of serviced accommodation for Magistrates' courts at New Mills, Chesterfield and Derby. The length of this PFI contract can be extended (subject to agreement of mutually acceptable terms) by up to five years. No construction at New Mill has taken place to date due to planning permission issues.
Hereford and Worcester Magistrates'	March 2000	25	On	30.6	Provision of serviced accommodation for Magistrates' Courts at Bromsgrove, Kidderminster and Worcester and Redditch. The length of this PFI contract can be extended for another 10 years by giving notice at Courts least twelve months before the date on which the contract would otherwise expire.
Manchester Magistrates' Court	March 2001	25	On	32.9	Provision of an 18-courtroom courthouse as part of an overall complex including retail units and coroner's court in Manchester.

Project name	Contract start date	Duration (years)	On/off	Capital	Description
			Balance Sheet under FRS5	value (£m)	
Humberside Magistrates' Courts	March 2000	25	On	21.6	Provision of serviced magistrates' courthouses in Hull, Beverley and Bridlington. On expiry, the Department has the option of taking the assets back for a nominal amount of £3 million.
Avon and Somerset Magistrates' Courts	August 2004	27	On	19.6	Provision of serviced accommodation for Magistrates' Courts and offices in Bristol and North Somerset. One remaining site will open in 2007-08 (Bristol Magistrates' Court). The expected capital value of this building is £27m and would increase the total initial capital value of the project to £46.6m.

26. Other financial commitments

Following the variation of the Libra contract with Fujitsu Services, the Department entered into contracts with the Technologies Group Ltd (STL) to provide the Libra case management application software and with Accenture UK Ltd to provide a management information system (MIS) and act as Systems Integrator. The Department has also consolidated a number of contracts through two new suppliers under its Development, Innovation and Support Contracts (DISC) strategy.

STL

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

A variation to the contract was signed in October 2003. The effect of this variation was to move the development from a Microsoft environment using Net and SQL to Java / Oracle and to move from a three phase delivery to six phases. Delays with delivery of the second phase of the application has reduced some of the charges expected to arise under the contract, the value of which is currently forecast to be £34.6m, of which £9.5m is committed for 2007-08.

As the Department has now consolidated its contracts through two new suppliers under its DISC strategy, STL's responsibilities will be passed to the DISC Application supplier as part of the DISC transition programme.

Accenture Ltd

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

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

The contract will run for five years and the Department has the option to extend it by three. Apart from additional work commissioned from Accenture (such as work related to interfaces), delays arising from late delivery of the Libra application from STL have increased charges arising under this contract, the value of which is currently forecast to be £85.5m, of which £16.23m is

committed for 2007-08. Given the Department is consolidating its contracts through two new suppliers under its DISC strategy, Accenture's responsibilities will be passed to the DISC Application supplier as part of the DISC transition programme.

DISC

The DISC contracts signed on 23 October 2006 for the supply of Infrastructure (AtosOrigin) and Application (LogicaCMG) Services is worth an anticipated £500m over the seven year contract period and will support the continued modernisation of the DCA by playing a key role in delivering fewer and simpler systems that best meet customer needs.

The contracts, which will provide integrated infrastructure and application services, are the culmination of a process that commenced with consultation between the DISC programme, the Office of Government Commerce (OGC) and IT industry through the Intellect Concept Viability Forum.

The new infrastructure contract has been awarded to ATOS Origin and will provide a number of benefits including the roll-out of a unified IT infrastructure across the whole Department allowing for more effective and efficient communication and improved service levels. The contract is worth approximately £350m over 7 years, including a commitment of £56m in 2007-08.

The applications contract has been awarded to Logica CMG and will include the support, maintenance and development of existing applications and provide a flexible platform for modernisation. The contract is worth approximately £150m over 7 years, including a commitment of £35m in 2007-08.

Obligations under other Financial Commitments	2006-07 Core	
	Department	Consolidated
	£000	£000
Expiry within one year	9,500	9,500
Expiry after one year but not more than five years	16,230	16,468
Expiry thereafter	91,000	91,000
	<u>116,730</u>	<u>116,968</u>

Notes to the table:

£238,000 relates to a commitment entered into by the Public Guardianship Office.

27. Contingent liabilities and assets

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

The Department is involved in a number of cases before employment tribunals. They involve fee paid judicial office holders claiming retrospective pension rights. The initial case was withdrawn but three new cases were brought before the Tribunal in 2006-07, 2 of which were brought by individuals with the remaining case being a group application. It is not possible to calculate the potential liability to the Department of a negative judgement, as a precedent might be set for up to 5,000 other office holders with potential claims dating back 20 years.

Scottish fee paid Employment Tribunals Service Chairmen are also claiming pension rights, increase in daily fees and general parity in terms and conditions.

In a separate case before an employment tribunal, the Department is being sued in respect of discrimination by a judicial post holder, challenging the mandatory retirement of Recorders at age 65. This case is in its early stages so potential costs are unknown but best estimate is £0.1m.

There is yet another case brought by a judicial post holder in which mediation has failed. The Department has requested that this case is thrown out. Costs are not expected to exceed £0.1m.

A new religion/discrimination case was also brought this year. The Department was successful at an employment tribunal but the case is now proceeding to an employment appeals tribunal and might go further. Any award made is not expected to exceed £0.5m but legal costs could possibly exceed that amount.

There is a further case pending in the European Court of Human Rights which could cost the Department up to £0.3m.

The Department has a legal obligation under the Administration of Justice Act 1982 to make good any default that the Accountant General or manager of the Common Investment Scheme may be guilty of with respect to any money, securities and effects for which they are responsible.

The Department is also involved in a court case relating to dilapidation of a building which has now been vacated. Negotiations are still in progress and the final outcome remains unpredictable. In addition, the Department is currently reviewing its London office estate. It is possible that, should it decide to vacate some of its offices, it might face a future liability for dilapidations. At the balance sheet date, any liability was deemed to be insufficiently certain to warrant recognition in these accounts.

The Department is involved in a number of cases dealing largely with ex-gratia and compensation claims. The estimated cost of settlement in these cases could be up to £1m.

There are possible legal costs resulting from the overturning of a ruling on Mesothelioma cases made by the House of Lords. During the Bill process the Minister agreed to consider the wasted costs of law firms that followed the House of Lords ruling. It is unclear how many cases there might be or how much it will cost but it is not expected to exceed £0.3m.

There are a number of properties that were included in the Transfer of Property (Abolition of Magistrates' Courts Committees) Scheme 2005 for which the transfer of ownership was not affected in 2005. If HMCS is not able to effect the transfer of ownership and control of the properties, it faces potential accommodation obligations of £20m per annum based on current market rental yields with a total maximum contingent liability since 1 April 2005 of £34m.

28. Losses and special payments

	2006-07 number of cases	2006-07 £000	2005-06 number of cases	2005-06 £000
a) Losses	1,106	352	1,001	501
b) Claims abandoned	278,997	41,123	5,211	1,741
c) Fruitless payments	4,501	12,502	–	–
d) Store losses	1	1	–	–
e) Special payments	1,522	874	1,201	652
f) Fee remissions	58,326	6,387	47,914	5,990

The Department also paid out £71,756 (2005-06 £15,742) in interest under the Late Payment of Commercial Debts (Interest) Act 1988.

The large increase in claims abandoned compared to the prior year is due to the lifting in May 2006 of a ministerial policy of not permitting administrative cancellations of fines. Since that time, a backlog of outstanding fines and other impositions that had built up over a number of years has undergone a process of review. Where the fine is deemed uncollectable, it has been written off. The average value of individual fine written off is £147.

The category for fruitless payments includes a provision for corrective payments relating to some Children's funds, administered by the Court Funds Office, not being invested in accordance with appropriate investment instructions. The estimated value of these payments is £12.5m.

There were no individual cases of loss or special payment over £250,000 in the year (2005-06: 2).

29. Related parties

Associated Departments and other central Government bodies

The Department for Constitutional Affairs is the parent of Her Majesty's Court Service, the Public Guardianship Office and the Tribunals Service. It is the sponsor of the Legal Services Commission, the Information Commissioner's Office and the Judicial Appointments Commission. All of these bodies are regarded as related parties with which the Department has had various material transactions during the year.

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

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

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

Private companies

Registry Trust Limited is a private company limited by guarantee with no share capital. It maintains, on behalf of the Secretary of State and Lord Chancellor, the Register of County Court Judgments. In view of its role and its relationship with the Secretary of State and Lord Chancellor, Registry Trust Limited is regarded as a related party. Income received from Registry Trust Limited in the year to 31 March 2007 amounted to £0.4m (2005-06, £0.127m) with a total debtor balance as at 31 March 2007 of £0.4m (2005-06, £0.04m).

Graduated Fees Scheme

It is the Lord Chancellor's role to authorise the rates of payment under the Graduated Fees Scheme. These rates are implemented by the Legal Services Commission, when calculating remuneration of Family Barristers involved in legally aided proceedings. The Lord Chancellor's spouse, Marianna Hildyard QC, is a Family Barrister in receipt of such payments. Payments totalling £157,057 (2005-06, £126,404) have been made to Marianna Hildyard QC for Legal Aid casework.

There have been no changes to this scheme during the 2006-07 financial year.

Salary paid in respect of Recorder fees

It is also the Lord Chancellor's role to authorise changes to the annual salaries of the Judiciary, including Recorders. The Lord Chancellor's spouse, Marianna Hildyard QC, is a Recorder in receipt of such payments. Fees paid directly to her by the Department in respect of performance of duties amounted to £9,756 (2005-06, £6,360).

Legal Aid

Legal Aid payments have been made to Harman & Harman Solicitors totalling £352,266 (2005-06, £475,144) where Harriet Harman's sister, Sarah Harman, is the senior partner.

Legal Aid payments have also been made to Denniss Matthews Solicitors totalling £46,110 (2005-06, £61,900) where Harriet Harman's sister, Virginia Harman, is head of the Family Law Department.

Hickman and Rose is a legal services contracted firm of solicitors, in which Gillian Self is an HR Manager. Gillian Self is a sister of Carolyn Regan, Chief Executive of the Legal Services Commission and DCA Board Member since September 2006. Legal Aid payments totalling £822,678 were made to Hickman and Rose in the period from 25 September 2006 to 31 March 2007.

Legal Services

Payments have been made for legal services to Cripps Harries Hall LLP totalling £129,902 (2005-06, £107,683). Harriet Harman's sister, Janet Higbee, is an employee of the company.

30. Third party assets

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

Court Funds Office

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

The main items, with their market value as at 28 February 2007 are:

- Cash, sterling held and invested on behalf of the Accountant General through the Commissioners for the Reduction of National Debt's Court Funds Investment Account, of £4.74 billion (2005-06: £4.47 billion);
- The Index Tracker Fund (formerly the Common Investment Fund), administered on behalf of the Accountant General by an appointed Fund Manager. The beneficiaries have unit shares in the fund, which consists of a balanced portfolio managed by the Fund Manager in accordance with the investment strategy in force at the time of £75.7m (2005-06: £57.9m); and
- Securities, a combination of units and stock holdings held in the name of the Accountant General with a market valuation of approximately £283m (2005-06: £208m).

Further information is contained in the Funds in Court Part A Accounts which is audited by the Comptroller and Auditor General and laid before Parliament.

Public Guardianship Office (PGO)

The Agency holds as custodian certain assets belonging to third parties. These are not recognised in the Accounts since neither the Agency, nor government more generally, has a direct beneficial interest in them.

The Chief Executive of the Public Guardianship Office has a duty as Receiver of Last Resort (Receiver) to account for clients' financial position in a manner, which ensures accuracy and efficiency and allows for timely recording and reporting. The Chief Executive is therefore responsible for the effective stewardship of clients' assets and monies including the maintenance of proper financial control and accounting systems.

The Chief Executive responsibility remains until another Receiver is appointed and assets transferred or in the event of a client's death, the client's nominated Personal Representative accepts transfer of assets to them. Once a new Receiver or Personal Representative has been appointed the Chief Executive has custodial responsibility of assets until the actual transfer has taken place.

With the advent of the Mental Capacity Act 2005, coming into force on 1 April 2007, the PGO (or the newly created Office of the Public Guardian) was at liberty to transfer all remaining Receivership cases to either new Receivers, or hand jurisdiction over to the office of the Official Solicitor and Public Trustee.

As at 31 March 2007 all clients previously under the Chief Executive's jurisdiction had been transferred, along with all details of property, investments and valuables.

	31 March 2007	31 March 2006
	£000	£000
PGO bank balances	–	476
Court Funds Office	–	2,899
Total cash balance	–	3,375
Listed securities – valued at market values	–	1,627
Total	–	5,002

Official Solicitor and Public Trustee

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

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

	31 March 2007	31 March 2006
	£000	£000
Cash	46,221	40,541
Investments	156,884	177,732
Non cash assets	31,701	31,526
Total	234,806	249,799

Notes to the table:

The stewardship accounts for 2006-07 and 2005-06 have not yet been finalised. The figures in the table above represent the most up-to-date information available.

31. Financial Instruments

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

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

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

Liquidity risk

The Department's net resource requirements are financed by resources voted annually by Parliament, just as its capital expenditure largely is. It is not, therefore, exposed to significant liquidity risks and the Department has no need to maintain commercial borrowing facilities.

Interest rate risk

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

Foreign currency risk

Foreign currency income and expenditure are negligible.

32. Events after the balance sheet date

The Privy Council Secretariat and the Office of the Judicial Committee of the Privy Council became part of the Department for Constitutional Affairs on 2 April 2007. This change followed a Machinery of Government review of the Privy Council Office. Prior to 2 April 2007, the Privy Council was made up of the Secretariat, the Judicial Committee Office and the Private Offices of the Leaders of both Houses of Parliament and the Chief Whips in both Houses. The Private Offices transferred to the Cabinet Office.

On 9 May 2007, a new Ministry of Justice was established. The new Ministry performs the functions and activities of the Department for Constitutional Affairs. In addition, the National Offender Management Service, including the Prison and Probation Services has transferred from the Home Office. The new Ministry also has lead responsibility for criminal law and sentencing policy. The Ministry of Justice will be responsible for policy on the overall criminal, civil, family and administrative justice system, including sentencing policy, as well as the courts, tribunals, legal aid and constitutional reform.

There will continue to be a shared National Criminal Justice Board and an Office for Criminal Justice Reform, hosted by the Ministry of Justice, which will work trilaterally between the Home Office, the Ministry of Justice and the Attorney General's Office.

It is not practicable or appropriate at this time to make an estimate of the financial effect of the transfer of the Privy Council, or the creation of the Ministry of Justice. A Winter Supplementary Estimate will be presented to Parliament, reflecting the funding implications of the Machinery of Government changes.

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 the accounts are laid before Parliament. These accounts will be laid before Parliament on 24 July 2007.

33 Entities within the Departmental boundary

Entities within the Departmental boundary during 2006-07 were as follows:

The Core Department:

Department HQ, including the following associated offices:

Office of the Official Solicitor and Public Trustee;

Office of the Legal Services Ombudsman;

Office of the Legal Services Complaints Commissioner;

HM Inspectorate of Court Administration;

Law Commission;

Council on Tribunals;

Office of the Judge Advocate General;

Judicial Appointments and Conduct Ombudsman;

Office for Judicial Complaints; and

Directorate of Judicial Offices for England and Wales (incorporating the Judicial Office, the Judicial Communications Office and the Judicial Studies Board).

Scotland Office, including the following Non-Departmental Public Bodies:

Boundary Commission for Scotland; and

Commission on Boundary Differences and Voting Systems in Scotland.

Office of the Advocate General for Scotland

Wales Office

Supply financed agencies:

Her Majesty's Courts Service

Tribunals Service

Public Guardianship Office

In addition, there are various advisory and tribunal Non-Departmental Public Bodies within the Departmental boundary, a full listing of which can be found at http://www.civilservice.gov.uk/other/agencies/public_bodies/index.asp

34. Machinery of Government Changes and Transfers of Function.

Two changes took place during 2006-07 that have been accounted for using merger accounting. These were the creation of the Tribunals Service, an executive agency of the DCA, on 1 April 2006, and the creation of the Judicial Appointments Commission (JAC), an executive Non-Departmental Public Body (NDPB), on the same date.

The 2005-06 comparatives have been restated to recognise the transfer of existing DCA tribunals from the Core department to the new agency and the additional income, expenditure, assets and liabilities associated with the tribunals that transferred into DCA on 1 April 2006.

The comparatives have also been restated to recognise the transfer out from both Core and Consolidated accounts of the income and expenditure associated with functions transferred to the new NDPB. That income and expenditure has been replaced by a grant of £5.338m and the net effect of the transfer is nil. Services provided to the JAC by the DCA in 2005-06 totalled £2.226m. These costs are not classified as Grant in Aid.

The effect on balance of net assets transferred with incoming tribunals is stated after adjustments to the value of fixed assets to comply with DCA accounting policy.

The effect of the restatement is set out below:

Operating Cost Statement

	Core Department	Consolidated
	£000	£000
Operating Income		
As previously reported	(15,258)	(568,920)
Transfer of existing Tribunals	2,819	–
Incoming Tribunals	–	(27,885)
As Restated	(12,439)	(596,805)
Operating Expenditure		
As previously reported	34,278,987	35,847,826
Transfer of existing Tribunals	(135,633)	–
Incoming Tribunals	–	171,555
As Restated	34,143,354	36,019,381

Balance Sheet

	Core Department	Consolidated
	£000	£000
Net Assets		
As previously reported	(550,901)	2,144,224
Transfer of existing Tribunals	40,827	–
Incoming Tribunals	–	(5,761)
As Restated	(510,074)	2,138,463

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